PROPOSAL FOR REVIEW

Project Title:	**Biodiversity Enterprise Fund for Latin America**
GEF Focal Area:	Biodiversity
Total Project Costs:	$ 30 million
GEF Financing:	$ 5 million
GEF Implementing Agency:	IFC/World Bank
Executing Agency:	FMC
Estimated Approval Date:	March 1996
Project Duration:	10 years
GEF Preparation Costs:	None

AUGUST 31, 1995

GEF PROJECT PROPOSAL

BIODIVERSITY ENTERPRISE FUND FOR LATIN AMERICA

REGIONAL/SECTOR BACKGROUND/CONTEXT

Biodiversity is threatened by some forms of development but also protected or used sustainably by others. Forests and other natural habitats are under threat from increased population, logging, pollution, and expansion of cropland and urban settlement. Responses to the threat culminated in the signing of the Convention on Biological Diversity (the Convention). However, the problems recognized by the Convention will not be solved unless economic reasons for protecting biodiversity are found and unless the private sector contributes its vast technical, managerial, and financial resources and expertise. The Convention challenges signatory countries to seek and encourage new financial resources, including private sector resources, to implement the objectives of the Convention. The private sector can help prevent biodiversity loss by creating new value from intact ecosystems and genetic resources, diverting pressure from critical biodiversity resources, and practicing low impact methods for sustainable yields. Conservation activities, government policies, and consumer demands for products certified as "sustainable" by third party certifiers are expanding "biodiversity-linked markets" for businesses that sustainably use biological resources in agriculture, forestry, nontimber products from forests (NTFP) and wildlands, ecotourism, and other activities that restore or take development pressure off of biodiversity resource. These fast growing markets for biodiversity-linked products give the private sector an incentive to invest in sustainable uses of biodiversity.

The International Finance Corporation (IFC) conducted a market assessment of these biodiversity-linked sectors and a review of illustrative projects (the "deal flow"). The study indicated that numerous projects exist in South America in the sustainable agriculture and forestry sectors, and several in NTFPs and ecotourism. These businesses are selling goods and services into growing markets (15% average annually across all the biodiversity market sectors). While the volume of biodiversity products is still very small relative to the overall size of these markets, the production of these products is increasing rapidly. Demand for biodiversity products is driven primarily by consumer demands to convert markets from environmentally damaging to sustainably produced products. Biodiversity products are sold into segments of large, established markets. For example, sustainably harvested timber is sold into the US and European tropical lumber market which is valued at US$1.3 billion annually, certified organic agricultural sales totaled US$1.9 billion in the US and US$4 billion in Europe in 1993, and NTFPs such as essential and edible oils are part of the natural products industry which reached US$6.2 billion in sales in the US in 1993. Another factor is the transition in the US$200 billion nature tourism market toward ecotourism.

IFC, the private sector affiliate of the World Bank Group, is the largest source of multilateral finance for the private sector in developing countries. IFC plays an active role in developing local financial institutions and capital markets and in mobilizing local savings and external investment flows. In this regard, IFC provides debt and equity finance to banks, leasing and insurance companies, and venture capital, emerging markets, and pension funds. IFC invests in venture capital to channel financing to small and medium sized projects that are too small for direct IFC financing.

PROJECT OBJECTIVES

Global Environment Objectives and Benefits

The Biodiversity Enterprise Fund for Latin America (the Fund) will respond to the challenge of the Convention to engage the private sector in financing biodiversity conservation. The Convention signatories and the Secretariat of the Convention are seeking new financial resources, including private sector resources, to implement the objectives of the Convention. The Fund will demonstrate a new financing method for sustainable uses of biodiversity. The Fund's projects will generate global environmental benefits by investing in sustainable uses or protection of biological resources.

Specific Project Objectives and Benefits

The Fund's objective is to realize long-term capital appreciation through investments in companies and enterprises in Latin America that sustainably use or protect biodiversity in countries that are signatories to the Convention. The Fund will catalyze and encourage biodiversity-linked business opportunities by bringing together investment management expertise, advanced sector know-how, and both local and foreign investment capital and make these resources available to small and medium sized businesses that sustainably use, protect, or restore biodiversity. The investors in the Fund are unlikely to invest directly in projects of this size. The Fund will be the first institutional effort at investing in private sector biodiversity projects in the region. The success of this project will have an important demonstration effect with respect to the economic viability of such projects and is expected to be a catalyst for further investment in biodiversity-linked businesses.

PROJECT DESCRIPTION

Introduction/Rationale for the Fund

The Fund will be a venture capital fund to invest in sustainable uses of biological diversity in Latin America. The Fund, with a capitalization of up to US$30 million, will receive investment funds from IFC (up to 20% of the investment in the Fund) and several potential local and foreign private sector investors, foundations, and institutions. The Fund will invest in projects with a total capitalization of about US $100 million. The Fund will not be launched and the GEF funds will not be allocated unless a minimum of US$15 million in capital is raised for the Fund. If the first US$20-30 million is successfully invested, it is the intention of the Fund to raise significant additional investment to expand the size of the Fund.

The rationale for the Fund includes the following:

- Business opportunity: There are biodiversity business opportunities in Latin America and Latin American and other investors recognize these opportunities and have begun to invest in these projects.
- Need for capital/leverage: These ventures are seeking capital but funds available to finance these projects are inadequate because the projects are too small for standard IFC and other institutional financing, local bank debt is scarce and often at prohibitively high rates, bilateral agencies and foundations focus on NGOs and microenterprises, and project development costs and transaction risks are high. Capital from the Fund is needed to help these businesses obtain bank debt and equity investment.

  Investors/Sponsors: Private sector sponsors are interested in investing in the Fund.
- Timing: There are several reasons for creating the Fund now including a) the market transformatic underway in forestry and other biodiversity-linked sectors are likely to accelerate and the Fund will

invest in companies that will lead these markets; and b) threatened biological resources are in danger of being lost and private capital is urgently needed to help protect and sustainably use them.

Latin America is proposed for the Fund because of the large number of medium-sized biodiversity projects in the region, the size and diversity of the Brazilian and neighboring country economies, and the interests of potential investors.

Types of Investments

Examples of projects:

1. ***Sustainable and organic agriculture, aquaculture, preservation of crop varieties, and development of underused species or agricultural products***

Production and marketing of organically produced fruits, vegetables, coffee, and other produce, cottons, natural dyes, and other products; underutilized agricultural plant and animals species such as the oca Andean tuber), amaranth, palm oils, salt tolerant halophytes, and legume cover crops; integr management; and culture of species using sustainable practices that are endangered in the wild or to ease overfishing of wild stock.

2. *Timber from sustainable forest management*

Companies undertaking selective logging and plantations of local mixed tropical hardwoods and marketing and certification companies are candidate investments for the Fund.

3. *Non-timber products from forests and wildlands*

Several enterprises and local communities in Latin America are extracting nuts, fruits, rubber, and oils from forest lands. Several products are transformed into value added food, clothing, and other products.

4. *Ecotourism*

Some nature oriented tourism businesses follow ecotourism best practices linking travel in relatively pristine areas to low impact use, conservation of the areas' natural resources, and benefits to local communities. Projects are in development all over Latin America.

Fund Structure

The Fund will have a term of ten years and make 15-20 investments. The operations of the fund will be contracted to a new fund Management Company (FMC). The Fund will have a Board of Directors designated by the principal shareholders. The Board, or its Investment Committee, will approve investments recommended by the FMC. The size of the Fund and number of investments will be expanded if the first US$20-30 million is successfully invested. The interests of the GEF will be represented on the board of the Fund.

Investment Guidelines

The Fund will operate under financial and biodiversity investment guidelines to be established by the founding shareholders. The financial guidelines will include general exposure guidelines such as limitations on individual investment size and sectoral and country concentration. Eligible projects will include existing operations or start-up operations with experienced sponsors in the US$300,000 to US$10 million cost range. The Fund will limit its investment to about 25-40% of a project's costs and leverage its resources with other co-investors including local partners, banks and strategic, technology, or marketing partners. The Fund will exit its investments via share repurchase or put agreements with the investee company, initial public stock offerings, or sale to another company/investor.

Biodiversity and Environmental Guidelines

Investments will be subject to biodiversity criteria to be established by the FMC, IFC, and the Fund's Advisory Board. These criteria will include for example, international standards or best practices for sustainable forestry, organic agriculture, and ecotourism and the World Bank's environmental policies and guidelines, including wildlands and forest policies. The biodiversity screening of projects and related project development work will include consultation or participation of local communities and stakeholders and review of local intellectual property rights, indigenous rights, and technology cooperation issues. Contractual covenants regarding environmental and biodiversity issues will be included in the investment agreements between the Fund and the Fund's portfolio companies. An Advisory Board of representatives of scientific research, broad-based and local NGOs, and business organizations and a member of the GEF Science and Technology Advisory Panel (STAP) will advise the Fund on biodiversity issues and screening of projects. The FMC will set up (with the advice of the Advisory Board) an environmental and biodiversity impact review procedure satisfactory to IFC to screen projects. The Fund will also be subject to the World Bank Group's environmental review requirements. IFC will assess the Fund's capability to carry out environmental and biodiversity reviews on each investee company and periodically review the Fund's activities as part of the supervision work that is undertaken for all IFC investments.

Monitoring and Evaluation

The FMC (with the assistance of technical experts) will monitor and evaluate the financial, environmental, and biodiversity aspects of the Fund's investment projects and provide an annual report to shareholders (including IFC) and the GEF on biodiversity issues/benefits. Monitoring and evaluation criteria and methods will be established in consultation with the Fund's Advisory Board and IFC.

GEF Grant Funds

US$5 million in grant funds are requested from GEF because the risks and costs of satisfying both financial and biodiversity objectives will be higher than for a typical venture capital fund. These risks and costs include the unusual biodiversity-specific project development and supervision costs; the relatively small size, regional scope, and innovative nature of the Fund; and the uncertainties inherent in investing in new biodiversity-linked market sectors. Once projects are developed and screened, the Fund's investments will be made on commercial terms. The grant funds will not be part of or mingled with the Fund's investment funds, nor will the grant funds be used to make direct investments in companies or investment projects. Criteria for use of and the budget for the grant funds will be spelled out by IFC in the Fund's contract with the FMC. The FMC will keep a separate accounting of the uses of the GEF grant funds and provide suitable reports to IFC and GEF. See Project Financing and Budget section below for an explanation of the uses of the GEF funds.

Investors

The Fund has been primarily developed by IFC with the advice and support of several potential investors. IFC is expected to provide up to 20% of the investment in the Fund. Other potential investors who have expressed a serious interest include Latin American and foreign investors and companies and several foundations. Bilateral government and multilateral investment agencies have also expressed an interest. During late 1995, IFC and the FMC will approach potential investors to obtain investment commitments. Once the initial private sector investment is committed to the Fund, the Fund could consider a GEF equity investment in the Fund.

The Management Company

The Fund is expected to be managed by a new company to be established by a Brazilian investment fund management group and IFC. The office of the FMC will be located in Brazil. The staff will include individuals with investment fund, venture capital, and environmental NGO experience. IFC will be represented on the FMC's board of directors to take part in policy decisions. The fee arrangements for the FMC are still to be decided.

Project Documents

A draft feasibility study document is available from IFC's Environment Division. Contact: Michael Rubino; phone 202-473-2891; fax 202-334-8705.

RATIONALE FOR GEF FINANCING

Financial: Without the GEF grant funds, the proposed Fund will not be created nor will it attract sufficient investor interest because of project development costs and risks that are higher than for a typical commercial fund. GEF grant funds will be used to cover the portion of operating costs that are over and above those of a normal or typical venture capital fund related to biodiversity screening, project review, monitoring and evaluation. The GEF grant will also be used to strengthen the biodiversity aspects of the projects that receive an investment from the Fund (e.g., by adding biodiversity considerations to project design, conducting monitoring and evaluation, providing technical assistance, including stakeholders and indigenous groups in project implementation, and drafting contracts to reflect indigenous rights, intellectual property, and technology cooperation issues).

The Convention: The Fund will respond to the challenge of the Convention and the guidance of the Conference of the Parties to engage the private sector in financing biodiversity conservation and to find new financial resources to implement the objectives of the Convention, and to support innovative measures to conserve and sustainably use biodiversity including economic incentives.

The GEF Instrument: The restructured GEF anticipated an active role for the private sector in the GEF. The Instrument spells out in paragraph 28 that GEF project execution by private sector entities may be supported.

GEF operational strategy: Several paragraphs of the draft strategy call for "leveraging additional finance through creative and innovative approaches to working with the private sector and activities which address biodiversity management within the productive sectors of an economy likely to lead to long term sustainability including non-timber forest products, wild relatives of domesticated species, agro-biodiversity, sustainable harvesting techniques, and sustainable wildlife-based tourism."

Innovation, demonstration effect, replicability and sustainability: The Fund will be the first institutional effort at investing in private sector biodiversity projects in the region. The success of this project will have an important demonstration effect with respect to the economic viability of such projects and funds and is expected to be a catalyst for further investment in biodiversity-linked businesses. The project will also establish one of the few venture capital management companies in the region--and a company with the capability to screen projects for both investment and biodiversity objectives.

GEF and the private sector: The GEF Secretariat is preparing a paper for consideration by the GEF Council at its October 1995 meeting. The paper outlines options for greater involvement of the private sector in the GEF, different types of financing mechanisms (grants, concessional finance, participation in funds), and ways to define incremental cost in a private sector context (private sector projects face "financial" rather than the "economic" incremental costs faced by public sector projects; and, incremental costs can include incremental risks). The proposed Fund contains examples of and will be a demonstration of private sector approaches that might be used by the GEF in other future projects.

Financial leverage: US$5 million in GEF grant funds will leverage US$20-30 million in investment in the Fund. The Fund, in turn, will invest in projects with a total investment cost of US$70-100 million leveraging the investment of entrepreneurs and co-investors in the projects. (The Fund's participation in any one project will average about 25-30% of project costs). If the first US $20-30 million is successfully invested, it is the intention of the Fund to raise additional investment funds for the Fund up to about US$100 million, further increasing the leverage.

PARTICIPATION

The Fund will engage in a variety of communications, participation, outreach, and consultation activities:

- The Fund will engage small and medium sized enterprises by investing in their projects.
- Sponsors/investors include investment and business groups with interest in finding environmentally sensitive investment projects and private sector solutions to biodiversity challenges. The Fund will bring together local and foreign private sector investors, companies, banks, foundations, bilateral and multilateral agencies to invest in the Fund or to co-invest in projects.
- The Advisory Board will include representation from STAP and the scientific and NGO communities.
- Project reviews and implementation will include consultation of local communities and other stakeholders when appropriate.
  The design of the fund and the feasibility study conducted by IFC included consultations with the private sector, local and international NGOs, foundations, scientific and research organizations, agencies of local and GEF donor governments, and multilateral institutions.
- The status of the Fund's investments and a summary of the monitoring and evaluation activities will be described in an annual report of the Fund available to the interested public.
- The FMC, IFC, and the potential Fund sponsors have a well-established project referral network for biodiversity business projects that includes investors and companies, banks, NGOs, international and government agencies, and industry associations.

LESSONS LEARNED AND TECHNICAL REVIEW

IFC's experience with GEF-eligible biodiversity projects during the Pilot Phase indicated that most such projects are too small for direct investment by IFC (less than US$10 million in investment costs). IFC has been seeking ways to invest in SMEs through financial intermediaries such as banks, venture capital and investment companies, and NGOs. The IFC/GEF Small and Medium Scale Enterprise Program, approved by GEF during the pilot phase, is an example of this approach. The proposed Fund will co-finance projects (with total investment cost per project in the US $300,000-US $10 million size) that are larger than those targeted by the SME program (less than US $300,000 in size). The lessons learned from IFC's extensive participation in venture capital and investment companies during the past 20 years will be incorporated in the design and supervision of the proposed Fund.

The Independent Technical Review of the proposed Fund is attached.

PROJECT FINANCING AND BUDGET

The total annual operating or management budget of the FMC is expected to be up to US$1 million (or up to 4-5% of the invested capital in the Fund). About half of these costs will be covered by the investors in the Fund in the form of the management fee charged to the Fund by the FMC. Therefore, about 2.0-2.5% per year (subject to final negotiation with the FMC and lead investors) of the US$20-30 million fund will be used for the normal or typical management costs. The balance of the invested capital will be invested in portfolio companies. Staff, office/overhead, travel, legal, and other costs of managing and supervising the financial aspects of a Fund and investee companies within one region of a country would be in the range of US$400,000 to US$500,000 per year or about US$5 million over the life of the Fund.

The other portion of the annual operating costs will be covered by the US$5 million GEF grant (or about US$500,000 per year). GEF grant funds will be used to cover that portion of the Fund's operating or management costs that are over and above those of a normal or typical commercial venture capital fund. Specifically the grant will cover the additional staff, consultant, travel, and other expense costs directly related to the biodiversity aspects of project review, technical assistance, monitoring, evaluation and reporting; and the Advisory Board. Undertaken to fulfill the biodiversity objectives of the Fund, these are activities that fund managers would not normally support from their administrative budget. The biodiversity-specific activities may include biological, risk, social, and legal assessments; additional technical review; preparation of special innovative contracts to address biodiversity, indigenous rights, and intellectual property issues; and stakeholder consultation. These are activities or transaction costs required to get projects and sponsors to the point where an investment decision can be taken using both financial and biodiversity objectives. Once the investment is made by the Fund, biodiversity-specific costs will include technical assistance provided to recipient companies to enhance the biodiversity benefits of the project and project supervision and evaluation.

Grant funds will be advanced to the FMC in annual installments over the life of the Fund from the World Bank GEF trust fund. IFC will closely monitor and approve the FMC's annual budget for biodiversity-related activities covered by the GEF grant.

The preparation of the Fund was conducted largely by IFC. IFC conducted a sectoral feasibility study, vetted prospective fund managers, and established contacts with potential lead investors. These preparatory costs were funded by IFC, the GEF, and a grant from the Heinz Endowments. The World Bank contributed advice during the Fund development.

INCREMENTAL COSTS

A baseline or business-as-usual scenario is as follows: These ventures are seeking capital but investment funds available to finance these projects are inadequate because the projects are too small for standard IFC and other institutional financing, local bank debt is scarce and often at prohibitively high rates, bilateral agencies and foundations focus on NGOs and microenterprises, and project development costs are high. There are numerous commercial banks and a few investment funds in Latin America but these financial institutions do not consider biodiversity criteria in investment decisions. Therefore, capital from the Fund (combined with the entrepreneur's equity), is needed to help these businesses obtain needed bank debt and additional equity investment. And the Fund will not attract sufficient investment unless GEF grant funds are available to cover the higher than normal fund management costs and investor risks related to meeting the biodiversity objective of the Fund. The GEF grant funds will leverage approximately US$100 million in projects with biodiversity benefits, projects that would likely not have been financed or not financed until several years later.

The incremental costs for this project consist of the portion of the Fund's project preparation/development, technical assistance, stakeholder consultation, monitoring, and evaluation costs required to meet the biodiversity objectives of the Fund that are over and above those of a normal or typical commercial venture capital fund. These costs are further described in the Project Financing and Budget section above and are considered incremental costs by the GEF.

RISKS

Mobilization Risk: While more than ten investors have indicated a serious interest in investing in the Fund, there is a risk that the amount raised from investors will be lower than the targeted amount. The Fund will require a minimum of US$15 million to close. This risk is mitigated by the number and seriousness of investor interest, IFC's participation, and the potential availability of grant funds to reduce project development risks and management costs.

Deal Flow Risk: There is a risk that the number of projects in the US$300,000 to US$10 million size may be fewer than anticipated which could slow disbursements from the Fund and put pressure on the Fund to make lower quality investments.

Management Risk: Few fund management companies in Latin America have venture capital/equity fund management experience or biodiversity screening experience. However, the management team selected will have investment fund, banking, venture capital, and environmental NGO experience. IFC, though its seats on the Board of Directors of the Fund and the FMC will supervise the biodiversity and environmental screening, monitoring, and evaluation activities of the FMC.

Public Relations Risk: Many NGOs and donor governments are seeking private sector participation in biodiversity conservation. Within these circles, the proposed Fund will be a highly visible demonstration of a private sector initiative. Definitions of what constitutes an appropriate biodiversity investment and views on biodiversity impacts may differ from one group to another. Stakeholders, investors, and donors should keep in mind that the proposed Fund will be a demonstration, first of its kind, effort. Lessons learned from the experiences of the Fund will help the international community to define best practices, impacts, and sustainable uses.

Biodiversity Risk: There is a risk that investee/portfolio companies may engage in actions with funds received from the Fund that are harmful to biodiversity resources. As a risk mitigation strategy, the Fund will have potential investments reviewed by the Advisory Board and require that the investment projects follow international best practice and World Bank environmental policies and guidelines. Fund investments will be monitored and evaluated. Investments in companies that fail to meet the environmental and biodiversity covenants of the investment agreements will be terminated if corrective actions are not taken.

INSTITUTIONAL FRAMEWORK AND PROJECT IMPLEMENTATION

The proposed GEF grant will be administered by IFC (within the World Bank Group). The monitoring and evaluation activities of the FMC and of IFC are described in previous sections.

APPENDIX

PROJECT FINANCING AND BUDGET

BIODIVERSITY ENTERPRISE FUND FOR LATIN AMERICA (BEF)

Fund Capitalization:

US$20-30 million from IFC, private sector investors, foundations, and possibly other international financial institutions.

Uses of the Fund's Capital:

1. Management fee or operating budget of the fund management company (FMC). This fee is typically 2% to 2.5% annually of the capital in the fund, in this case, about US$450,000 to US$500,000 per year. This budget is for staff, office and travel expenses, and other costs of managing the fund (including project identification, screening, selection, structuring, supervision, technical assistance, and exit).

2. The balance is available to invest in up to a total of 15 to 20 projects.

GEF Grant:

The US$5 million in GEF grant funds will be specifically for and restricted to the costs to the Fund of addressing the biodiversity aspects of project review, screening, supervision, and technical assistance and to fulfill the evaluation and reporting interests/requirements of the GEF. These are costs over and above the normal or typical costs of managing a fund (and included in the FMC's management fee) undertaken to meet the biodiversity objectives of the Fund. These are activities that a fund manager would not normally incur. The biodiversity-specific activities may include biological, social, legal, and risk assessment; additional technical review; preparation of special contracts to address biodiversity; indigenous rights, and intellectual property issues; and stakeholder consultations. These are all transaction cost activities required to get projects and sponsors to the point where an investment decision can be taken using both financial and biodiversity criteria. Once the investment is made by the Fund, biodiversity-specific costs will include technical assistance provided to recipient companies to enhance the biodiversity benefits of the project and project supervision and evaluation. Thus, the GEF funds will be used for the additional FMC staff, consultant, travel, and other expenses directly related to the biodiversity aspects of project review, monitoring, evaluation, technical assistance and reporting; and the Advisory Board. Grant funds will be advanced to the FMC in annual installments of US$500,000 (approved annually by IFC) over the life of the Fund.

Leverage:

US$5 million in GEF grant funds will leverage US$20-30 million in investment in the Fund. The Fund, in turn, will invest in projects with a total investment cost of US$70-100 million leveraging the investment of entrepreneurs and co-investors in the projects. (The Fund's participation in any one project will average about 25-30% of project costs). If the first US $20-30 million is successfully invested, it is the intention of the Fund to raise additional investment funds for the Fund up to about US$100 million, further increasing the leverage.

RE: Independent technical review of Biodiversity Enterprise Fund Proposal

Date: August 31, 1995

I have served on several GEF Review Panels over the course of the past three years. In my estimation, the proposal for the establishment of the Biodiversity Enterprise Fund is the best project that I have seen submitted to the GEF. Let me explain why.

Most of the projects I have either seen or heard about represent traditional approaches to conservation: set up a protected area and manage it. This type of conservation does not represent new paradigms that GEF could develop and implement. That is why I'm so supportive of the Biodiversity Enterprise Fund. Like any other movement, international conservation has its phases: endangered species, parks and protected areas, megadiversity, sustainable development, etc., etc. There has been much talk of late of using "the magic of the marketplace" for conservation, but this has not been tried on any scale approaching what is necessary to truly make a difference. Efforts have been haphazard and undercapitalized. The Biodiversity Enterprise Fund has been designed to change that.

Make no mistake - I do not see the BEF or any other private sector investment as the ultimate savior of the rain forest or the panacea for the problems inherent in economic development in the humid tropics. I strongly disagree with the belief (both widespread and fashionable in Washington) that conservation activities by the public sector have been a dismal failure and the private sector holds all the answers. At the same time, however, I feel that the private sector <u>should</u> play a bigger role in these activities. Yet I worry that some of these market-related conservation activities now being launched may have a disastrous impact on the species they are supposed to save because of the lack of adequate project design and/or long term monitoring.

This is where BEF comes in. I can see no higher priority right now than the establishment of this fund under the aegis of a major multilateral like IFC. The project design seems more than adequate, and the proposal clearly addresses the Convention on Biodiversity's call for the support of innovative measures to conserve and sustainably utilize biodiversity. The proposal is also right in line with the Convention's stated need to find additional resources (from the private sector, in this case) to finance biodiversity conservation. As described in the proposal, BEF appears to have adequate project screening, monitoring, evaluation, and reporting capabilities and requirements to address GEF biodiversity concerns and objectives.

Clearly, the size of the fund - $30 million - is not that large, especially given the enormity of the problems the fund is supposed to address (but worth bearing in mind is that this kind of money does dwarf the budget of many NGO's working in this field). What is infinitely more important than the size of the fund itself is that the multilateral community gives its imprimatur to this type of approach to conservation by establishing the fund in the first place.

There is a sea change now underway in most South American countries as the old statist models are being swept away. This has had a very negative impact on the natural resources of some of the countries because, in the rush to the global marketplace, these resources are being sold at a mere fraction of their value. Yet in Costa Rica, the value of ecotourism exceeds that of timber, cattle, and coffee. The world needs more examples like this. There is no reason that countries like Peru and Brazil, both richer in terms of both biological and cultural diversity, should not be able to outpace Costa Rica. With the establishment of BEF, these countries now have somewhere to go to receive the funding necessary to build their own successful models.

I believe that the project is well-designed but I have three particular concerns. The first is that of locating the Fund within the region. If the headquarters are in Rio, will applicants from non-Brazilian countries face a level playing field, or will we end up seeing all the money spent within Brazil? (Perhaps it might be worth stating at the outset that no more than half the funds could be spent on projects within Brazil). Secondly, the fund needs to be monitored very carefully to ensure that these monies are not used by predatory companies claiming to be conservationists but employing the funds to carry out business as usual (I'm particularly concerned with big ecotourism efforts). Finally, if projects can be as large as $10 million, is BEF really ready to fund only three projects? I would suggest an upper ceiling of projects in the $3 million range in order to launch enough different projects to get a feel for what does (and doesn't) work.

I am favorably impressed with the chosen areas of focus: alternate agriculture, sustainable forestry, non-timber forest products, ecotourism, and bioprospecting. Of course, $30 million could be put into any one of these areas and still not fund all the good ideas that are out there. Nonetheless, I want to reiterate my warning that care must be taken that the money not go solely to the big players that are already in these fields and will use the monies to carry out activities which they will label as "sustainable" solely to have access to these funds. One of the best ways to avoid falling into this trap is to explicitly plan sponsor projects by small and medium scale enterprises (as the BEF proposes) and by community groups as well as NGOs, in addition to the larger companies that will (more than likely) be the most numerous applicants for these funds.

I'd also like to comment on two of these areas which are my special areas of expertise: NTFPs and bioprospecting. In terms of the NTFPs, most recent efforts have tended to fall into two camps: working with products which are already commodities in the international marketplace (e.g., rubber and Brazil nuts) or with products which are little known outside indigenous communities. Furthermore, the major thrust of many of these efforts has been to focus on international markets. I would strongly recommend focusing on NTFPs with strong local markets with an orientation on expanding these local markets into regional ones.

In terms of bioprospecting, the Fund has to proceed as cautiously as possible. This is a highly contentious, rapidly evolving field which can result in all sorts of negative repercussions if not managed extremely carefully. (I have just been told that the Venezuelans are so anti-bioprospecting that they are passing legislation forbidding all plant collection within their borders - even by local botanists who are engaged in taxonomic studies!). The difficulties of bringing a new pharmaceutical drug to the global marketplace are staggering. Once again, I would encourage the submission of proposals for developing new pharmaceuticals for regional markets which will prove much easier in the short term. This is not intended to give the impression that I don't believe that new drugs for western markets cannot be developed by local firms, just that this type of regional approach has seldom been tried and is well worthy of support as a complementary effort.

I hope that these comments prove useful. Please do not hesitate to contact me if I can provide additional information.