

# Case study

## Investment of EcoEnterprises Fund 2: Ecotourism in Peru

Funding from public sources and non-profit donors is nowhere near enough to stop deforestation and conserve ecosystems. The mobilization of private capital is often seen as a possible means of financing nature conservation. "Impact Investment", a concept which has been widely promoted internationally, aims to combine positive social and ecological impacts with earning a financial return.

Against this background, OroVerde - Tropical Forest Foundation and Global Nature Fund carried out an analysis of the structure of Impact Investment schemes and their contribution to the conservation of biodiversity.

For this purpose, local case studies were conducted of five existing Impact Investment schemes in Latin America.

The social and ecological impact was analyzed against a set of criteria developed in collaboration with experts.



**This publication is the résumé of one of five case studies. The results are based on an on-site visit in May 2016, interviews, observations and a review of documents.**

**Detailed information about the project is available on the internet at:**

[www.oroverde.de](http://www.oroverde.de)

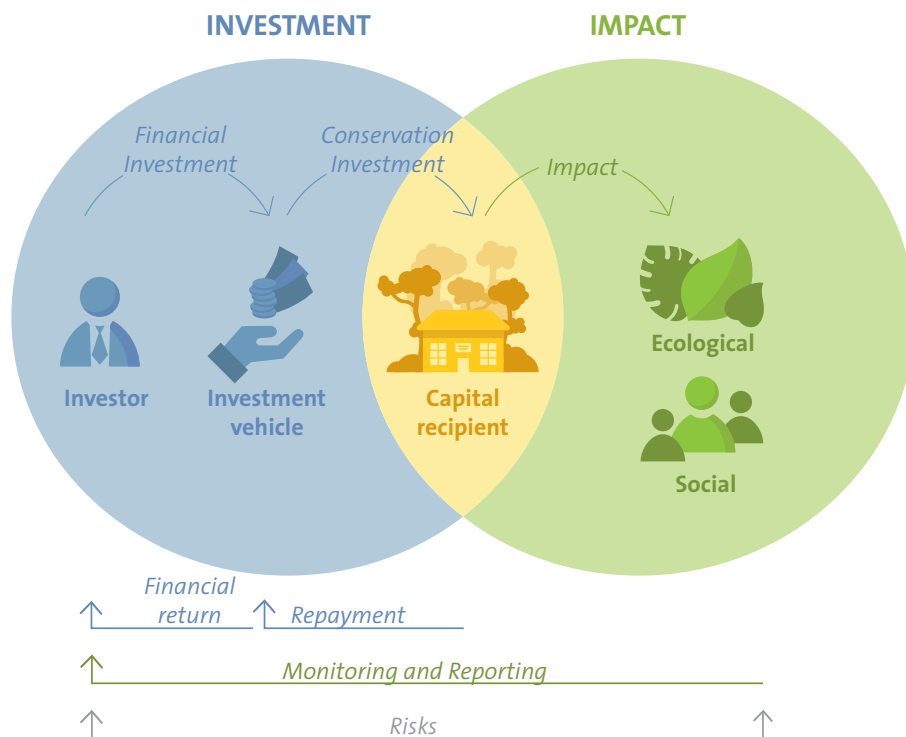
[www.globalnature.org](http://www.globalnature.org)



Federal Ministry for the  
Environment, Nature Conservation,  
Building and Nuclear Safety



# WHAT ARE IMPACT INVESTMENTS?



## INVESTMENT ANALYSIS

### Investor

#### Structure of investors

Both public and private investors invest in EcoEnterprises Fund 2.

#### Investors

##### Public

Global Environment Facility  
Multilateral Investment Fund of the Inter-American Development Bank Group  
European Investment Bank

##### Private

Impact Assets  
Blue Moon Fund  
JPMorgan Chase & Co.  
Talgra  
Common Fund for Commodities

FMO Investment Management  
Hivos-Triodos Fund  
Oikocredit  
Calvert Foundation

#### Investment period

Payback period is 10 years and the repayment to investors starts from year 6. Exit of investors is always possible.

#### Financial return

11% over investment period

#### Risks for the investors

The investments risks are associated with the management and the portfolio (tax, country risks, and lack of liquidity) of EcoEnterprises Fund 2.





## Investment vehicle

### Issuer of the investment

The Nature Conservancy initiated the founding of the EcoEnterprises Fund. EcoEnterprises Fund 2 is managed by Grupo EcoEmpresas Capital in Costa Rica

### Short description

EcoEnterprises Partners II invests in small and medium sized companies in unique business niches such as organic agriculture, non-timber forest products, sustainable forestry, ecotourism, sustainable apiculture and sustainable aquaculture in Latin-America.

### Investment vehicle

EcoEnterprises Fund 2 works as a credit fund that offers companies long-term financing in the form of mezzanine finance' such as loans that can be turned into equity (convertible debt) or subordinated debt with warrants to purchase stock (equity kickers).

### Start of the investment

2012

### Investment volume

The investment portfolio of EcoEnterprises Fund 2 is approximately USD 20 million for a total of 8 companies.

### Min - Max total lending for conservation

Between USD 500.000 and USD 5 million.

### Risk protection

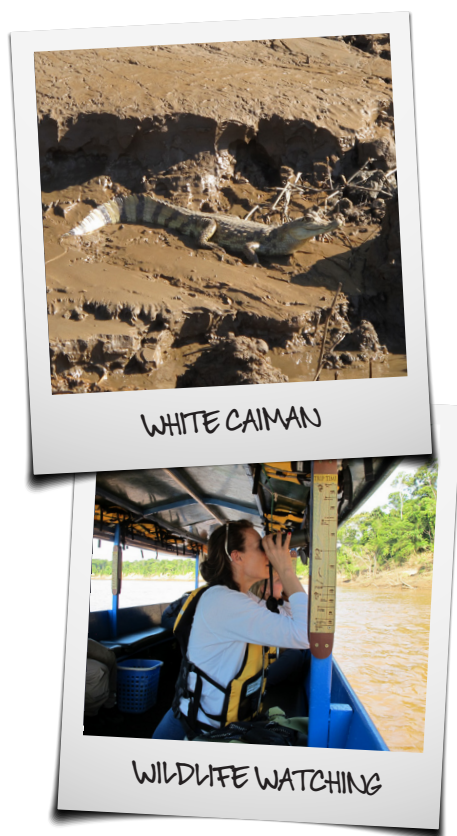
Risk minimization of EcoEnterprises Fund 2 is achieved through diversification of the portfolio with regards to sector, country and size of the investment. The fund mostly finances existing projects and businesses with minimum turnover of USD 5 million and with minimum „Earnings Before Interest and Taxes“ (EBIT) of USD 1 million.

### Due Diligence

The capital recipients apply for funding themselves or are selected through the network of EcoEnterprises Fund 2. The screening process includes integrating specific environmental and social standards for each target business area, such as criteria relating to biodiversity conservation, sustainable resource use, and community involvement.

### Monitoring

EcoEnterprises Fund 2 is rated by both ImpactAssets 50 and GIIRS (Global Impact Investing Rating System) Ratings. Specific company indicators are designed and included in a Monitoring and Evaluation Tool that includes environmental and social indicators. Investors are provided with: quarterly investment reports, annual audited financial reports, quarterly financial statements (not audited).







## Capital recipient

Rainforest Expeditions SAC

### Interest rate on loans

Interest rate of 8.5% plus 1% commission fee.

### Payment conditions

Currently the loan to RFE corresponds to USD 300.000 and the total investment volume sought is USD 3 million by 2018. Loan period is 5 years and repayments are made every 6 months with a fixed mortgage rate. The security for the mortgage includes two real estate properties belonging to Rainforest Expeditions: Refugio Amazonas and the offices in Puerto Maldonado.

### Project area

The ecotourism project Rainforest Expedition is situated in Peru, in the Madre de Dios region located in the southeast of the country. The project area is located along the Tambopata river and can be reached only by boat. The Tambopata River watershed is one of the world's richest ecosystems in terms of biodiversity and is home to a wide diversity of plant life typical of the southwest Amazon Basin, including exploited forest species. In Madre de Dios the largest economic sector is mining, often illegal, representing about 50 percent of the economy. Tourism represents no more than 5 percent of the economy.

Rainforest Expeditions SAC, founded in 1992, started with the Tambopata Research Center. With the aim of finding a location to build a lodge that could serve as a stopover, a joint venture with "Asociación Ke'eway de Ecoturismo" of the Native Community of Infierno (NCI) was established in 1996. Half of the community are settlers and mestizos from the Andean region and other rural areas in Peru or Bolivia. The other – indigenous – half is made up of members of the Ese'jea ethnic group.

### Return generation

The income of Rainforest Expeditions SAC (RFE) is 100 percent generated by ecotourism activities, including the sale of tour packages, tourist services, handicrafts, etc. The first loan of EcoEnterprises Fund 2 was provided in 2015 and supports the renovation of the ecolodge Posada Amazonas, the Refugio Amazonas and Tambopata Research Centre and the new construction of a fourth ecotourism site, the Nape Centre for Baawaja Expeditions, entirely owned by NCI (table 1). The loan is used to upgrade NCI and RFE infrastructure, e.g. purchase of machinery, equipment, and vehicles, and improvements to existing facilities such as LED lighting, bio-digesters and the expansion of communal areas.

ecotourism site	Year	Owner of land	Use rights	Distance airport (hours)	Tambopata National Reserve
High End Bungalows	2018	RFE	Rainforest Expeditions	NA	NA
Posada Amazonas	1997	NCI	Joint venture between RFE & NCI	2	Outside buffer zone
Refugio Amazonas	2005	RFE	RFE	4	Middle of buffer zone
Tambopata Research Center	1989	Peruvian Government	Ecotourism concessions of 20 years	8.5	Border of the reserve
Nape Center Baawaja Expeditions	2016	NCI	NCI	1.5	Outside buffer zone



POSADA AMAZONAS

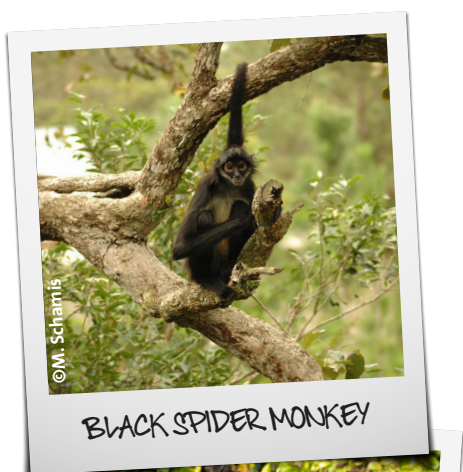


TOURISTS ARRIVAL

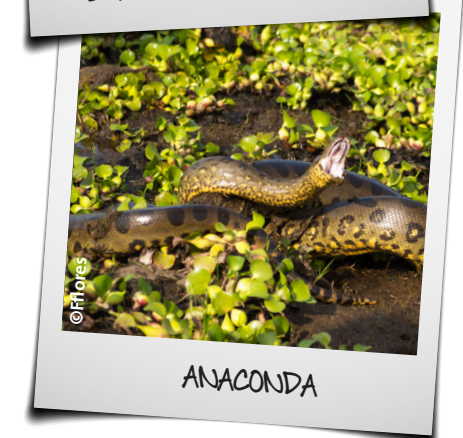


TAMBOPATA AREA

“The project area includes four out of 200 endangered species in Peru.”



BLACK SPIDER MONKEY



ANACONDA

## Ecological

### Management of the project area

Posada Amazonas and the Nape Center for Baawaja Expeditions are located on land belonging to the Native Community of Infierno. The property of NCI is composed of 10,000 ha of land and additional use rights over 2,000 ha of water bodies. Forest products (timber, firewood, non-timber forest products etc.) are harvested for subsistence only. The Tambopata Research Center is located at the entrance to the Tambopata Reserve which is entirely covered with virgin rainforest. The project has caused land use change in the construction area (less than two hectares in total). Land use changes are occurring inside the national reserve, mostly due to illegal mining sites- the closest are located 40km from the project area. Slash and burn is applied by NCI members. Slash and burn was the main factor responsible for a deforestation rate of 0,2 percent inside the INC land between 2011 and 2014, compared to the average of 0,1 percent for the entire Madre de Dios region during the same period (Global Forest Watch data for 2001-2014). Apart from this, the area is not subject to fires, pest, diseases or other hazards.

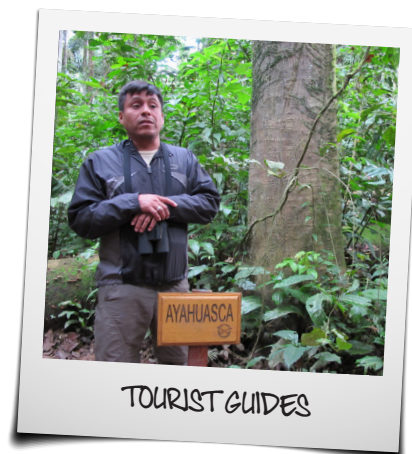
### Biodiversity and conservation

The project area includes 4 out of 200 endangered species in Peru. According to the FSC Forest Management standard, High Conservation Value Forests 1,2,3 and 5 are present- this refers to forest areas containing significant concentrations of biodiversity values; large landscape-level forests; rare, threatened or endangered ecosystems, and forests which meet the basic needs of local communities. Researchers have found 91 species of mammals, 570 birds, 127 reptiles and amphibians and 94 fish, among others. The area is home to large numbers of giant river otters (*Pteronura brasiliensis*), an endangered species, as well as vulnerable species such as the giant armadillo (*Priodontes maximus*), black spider monkey (*Ateles paniscus*), the jaguar (*Panthera onca*), the yellow-headed river turtle (*Podocnemis unifilis*) and the anaconda (*Eunectes murinus*).

RFE have a strong incentive to protect and control the forest habitat, animal populations and trail systems needed for operations, either now or as expected in the future. The organisation is adopting the following practices in order to maintain ecosystem services: bio-digesters; waste recycling; use of only 4-stroke 75 HP engines for river tourist transport to limit emissions, reduce fuel consumption and reduce fossil fuel release into the water; use of only ECOLAB certified products (meant to be biodegradable); use of paddle boats instead of engines on lakes. Lodge owners in Tambopata have used court actions and direct patrols to evict illegal loggers and gold miners from their concessions. About 3,000 ha of land owned by NCI are designated as conservation areas by the Peruvian government (no hunting, no fishing, no harvesting of timber and wild forest products, etc. ).

### Biodiversity monitoring

Every RFE guide has to complete a species monitoring at the end of each guided tour. The monitoring of species abundance -32 key species for every ecolodge- is documented on the web page. Besides this, RFE gives access to a list of 5.000 research articles about studies carried out on the Tambopata areas.<sup>2</sup>



TOURIST GUIDES





## Social

### Local development

The Native Community of Infierno was formally established in 1979 and today is composed of about 900 people divided into 185 families. As of today more than 200 community member have served in the tourist facilities- they are hired as staff on a rotational basis (24 months' employment each). Currently 25 community members are full-time staff in RFE and it is expected that an additional 12 will be employed. Additional income for the community is generated by the profit of the ecolodge "Posada Amazonas". Since 2016 the profit is shared with 30 percent going to RFE and 70 percent to the NCI Community Fund (before 2016 the proportion was 40 percent to RFE and 60 percent to NCI). 10 percent of the resources of the community fund are re-invested in Posada Amazonas, 20 percent are spent on community education, social insurance and building/infrastructure, 70 percent are spent on direct payments to the Community Committee and community family receiving approximately 900-1.800 USD/yr. The Community Committee is involved in all decisions regarding Posada Amazonas and membership rotates every two years. All profits generated by Refugio Amazonas and the Tambopata Research Centre are received by RFE and future profit of Nape Center for Baawaja Expeditions will go to NCI.

### Working conditions

Rainforest expeditions provide employment for a total of 90 workers, 60 permanent staff - including 25 community members for 24 months at a time- and 30 seasonal staff for periods of 6 months. Occasionally contractors are employed for construction and renovation of buildings. Full time workers earn a living wage and part time workers have to find other activities during the low season. Few of the interviewed workers have more than 3 years of experience with the company, which has been working for more than 25 years in the region. Though 85 percent of the workers are male, women nevertheless hold key positions as manager of the entire structure (Refugio Amazonas) or operation managers in the office.

### Capacity building

RFE provides capacity-building to both staff, seasonal guides of the Infierno Community. Furthermore the organisation informs workers about health and safety through panels, and provides safety equipment for boats and buildings, safety boots for guides, fire extinguishing systems for buildings, etc. The tourist sector in Peru is not unionised, but there is an association of environmental guides.



NATIVE COMMUNITY INFIERNO



POSADA AMAZONAS



POSADA AMAZONAS PROJECT

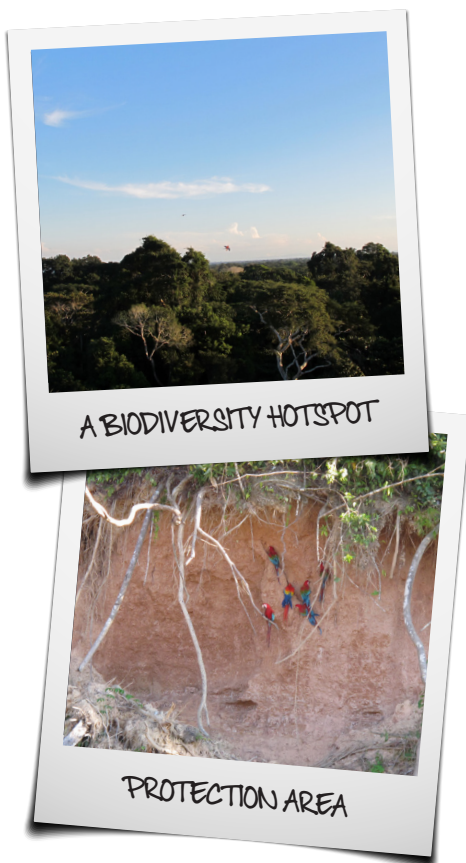


SEASONAL GUIDES

# CONCLUSION



*“The ecotourism sector is the only counterpart to the mining sector.”*



## Investment vehicle

Due to the fact that EcoEnterprises Fund 2 provides mostly growth capital to projects with minimum lending of USD 500.000, requires a minimum turnover of USD 5 million, pays loans in USD, and the fact that half of the companies receiving loans are based in the US or EU, minimizes several risks in comparison with other impact investment funds. Nevertheless, this leads to the situation where only 8 companies instead of several small scale companies (with a turnover of less than USD 5 million) receive funds and currency risk is carried by Latin-American companies. Without supporting cooperatives, local development depends mainly on the initiative of each supported company involving local communities and ensuring that they benefit from lending.

EcoEnterprises does not use intermediaries, however it operates with a complex structure with several limited partnership agreements at an international level - including the fund manager and the registered office in Delaware, U.S., the management team in San Jose, Costa Rica, and the investment committee in the UK. Besides the fact that the EcoEnterprises Fund has a track record and a platform having started the first fund (Fondo EcoEmpresas) in 2000, it can already show returns to private investors, and several private investors are participants in the fund.

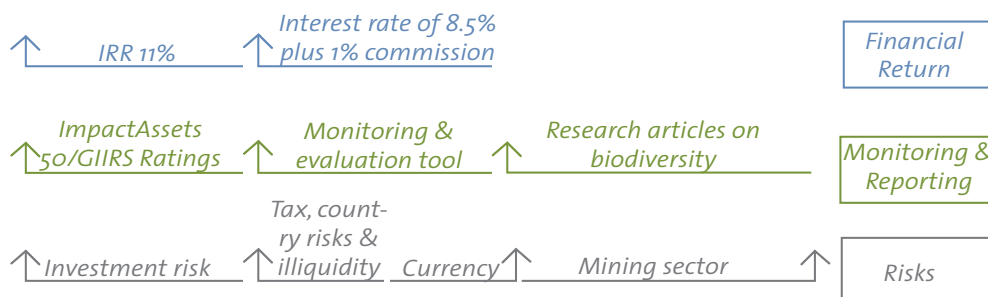
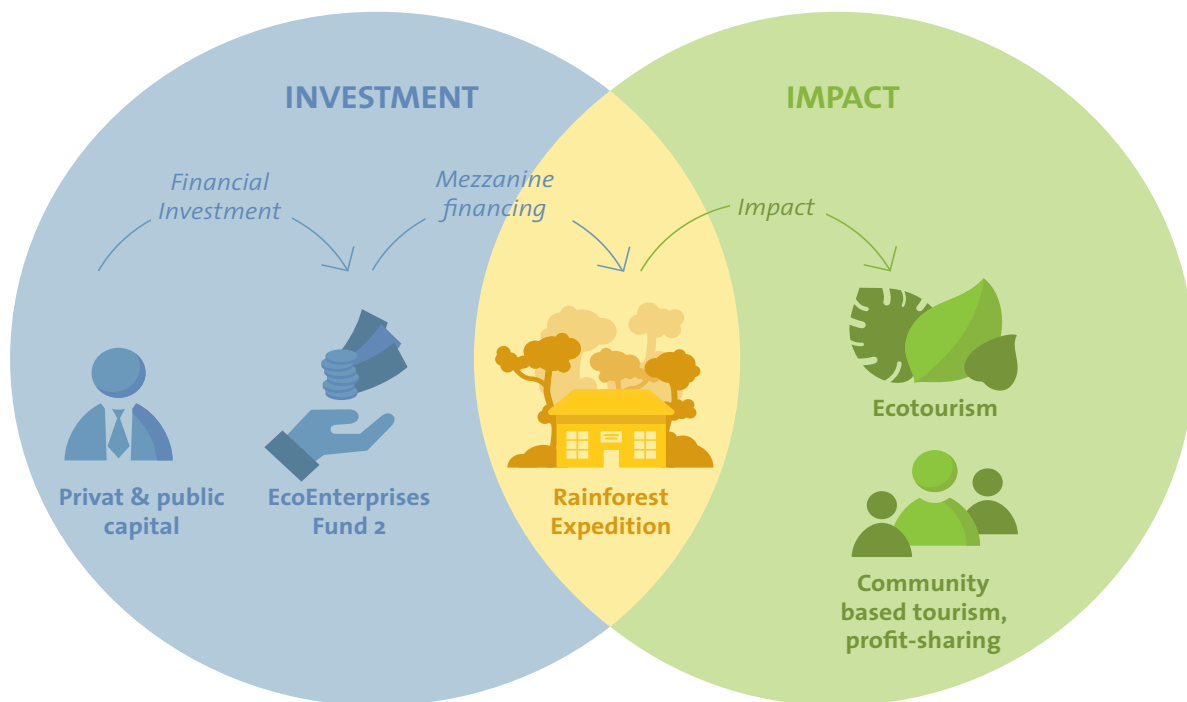
Given the high interest rates of national banks in most Latin American countries, EcoEnterprises 2 offers better loan conditions and supports companies, that, based on interviews with the RFE management, have difficulties in obtaining local loans.

## Impact

The investment in the renovation and construction of the ecolodges supports ecotourism in a biodiversity hotspot and is positively impacting an area of 12.000 ha of Amazon forest. One might critically question the ecological footprint of international tourists travelling for an average of two days to the Amazon basin, but, the ecotourism sector is the only counterpart to the mining sector. Several studies and research carried out in the Tambopata area generate important information and therefore arguments which serve to protect this area. Involving the community as tourist guides creates important local knowledge and enhances the awareness of environmental issues of the community members.

The joint venture between RFE and NCI has been working for more than 20 years and is an interesting example of community-based tourism (CBT). This cooperative relationship was an advantage which enabled RFE to acquire low-interest loans and grants to defray the higher costs of setting up and managing a venture with a community and culture that had little previous experience of service-sector employment.<sup>3</sup> For NCI the joint venture has shown strong profitability and households have experienced an average income increase of 70 percent.<sup>4</sup> With regard to the investment of EcoEnterprises Fund 2, the construction of an ecolodge entirely owned by NCI will be financed. Due to the rotational process more than 25 percent of the community members have received capacity training. However, this rotation hinders long term employment and an insufficient number of people from among the community has applied for jobs, which made it necessary to recruit external staff.

# CONCLUSION



## Disclaimer

Please read this information carefully: Investments are associated with risks, which could result in an extreme case in a total loss of equity. The information provided by us are no economic valuation and do not represent a purchase request or investment recommendation. Any and all liability is excluded, also consequential damages such as financial losses. Our texts do not in any case make individual advice and careful consideration of the offered investments dispensable.

Since the case study has been carried out, changes may have been occurred which could not be taken into consideration in the final publications.

For the sake of readability we have avoided the use of both masculine and feminine pronouns. We consider the use of the masculine pronoun to be gender-neutral and intend it to be inclusive of both genders.

## Further Information

<sup>1</sup> Mezzanine financing includes both equity and debt financing.

<sup>2</sup> [www.perunature.com/amazon-rainforest-research.html](http://www.perunature.com/amazon-rainforest-research.html)

<sup>3</sup> Kirkby et al. 2011.

<sup>4</sup> Häusler, 2007.



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