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FINAL REPORT

Brazil-U.S. Dialogue on Sustainability and Climate Change

Acknowledgements

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First Session: The Road to COP26

Minister Izabella Teixeira, Co-Chair of the International Resource Panel and former Minister of the Environment for the Federative Republic of Brazil

Thomas Lovejoy, Professor in the department of environmental science and policy at George Mason University and a senior fellow at the United Nations Foundation for Science, Economics, and the Environment

Second Session: Sustainable Investment

Minister Joaquim Levy, Academic Fellow at Stanford University's Steyer-Taylor Center for Energy Policy and Finance and former Minister of Finance for the Federative Republic of Brazil

Nigel Purvis, Founding President and CEO of Climate Advisors

Frances Seymour, Distinguished Senior Fellow at World Resources Institute

Third Session: Sustainable Agriculture

Maria Netto, Specialist Director in Financial Markets/Connectivity, Markets and Finance Division, Inter-American Development Bank (IDB)

Judson Ferreira Valentim, Researcher at Embrapa Acre, and President of the Management Committee for the Amazon Portfolio/Embrapa

Fourth Session: Partnerships with Indigenous Communities

Valéria Paye, Executive Director of the Podáali Fund and Political Advisor of COIAB (Coordination of Indigenous Organizations of the Brazilian Amazon)

Carla F. Fredericks, Chief Executive Officer at The Christensen Fund

We especially thank **Dr. Thomas Lovejoy**, who passed away in December of 2021. Dr. Lovejoy left a body of work that deepened the world's understanding of the rainforest and the importance of preserving the Amazon Basin. He is sincerely missed by all at the Wilson Center.

Executive Summary

With the 26th UN Climate Change Conference of the Parties (COP26) as the backdrop, 2021 saw a clear reinvigoration of global climate change discussions. And the Biden administration's re-prioritization of climate diplomacy has become a particularly important driving factor in Brazil-U.S. relations given the Amazon's critical role in limiting global warming to 1.5 degrees Celsius per the 2015 Paris Climate Accords.¹ Indeed, the urgency of bringing sustainable forms of development to scale in the Amazon in partnership with a variety of local actors has perhaps never seemed more clear amid recent Brazilian government data indicating that 2021 Amazon deforestation rates reached their highest levels in 15 years—a fact the Bolsonaro administration allegedly hid until after the conclusion of COP26.²

Given the urgency of the challenge and these evolving geo-political dynamics, the Wilson Center launched the Brazil-U.S. Dialogue on Sustainability and Climate Change in July 2021 in partnership with Uma Concertação pela Amazônia to discuss the potential for Brazil-U.S. cooperation in four key areas: (1) Carbon emissions reductions; (2) Financing tropical forest protection; (3) Sustainable agriculture; and (4) Indigenous partnerships. Drawing on experts from across the Brazilian and U.S. academic, public, private, non-profit, philanthropic, and advocacy sectors, the Dialogue served as an opportune forum to exchange perspectives as the international community continues to seek ways to galvanize collective climate action in 2022 and beyond.

Throughout the Dialogue's four sessions, it was particularly clear that the climate crisis in Brazil cannot be adequately managed without tackling the socio-economic root causes that drive deforestation. Policies focused on remedying environmental setbacks through enhanced legal enforcement will continue to prove inadequate if not complemented by new socio-economic approaches that protect biodiversity by facilitating inclusive modes of production. In a region where poverty rates are nearly double the national average at over 40 percent,³ it is only by catalyzing sustainable development that Amazonian forest

¹ Pooja Makhijani, "A world without the Amazon? Safeguarding the Earth's largest rainforest is focus of Princeton conference," October 23rd, 2019, <https://www.princeton.edu/news/2019/10/23/world-without-amazon-safeguarding-earths-largest-rainforest-focus-princeton>

² Débora Alves, "Sources: Brazil withheld deforestation data 'til COP26's end," November 19th, 2021, <https://apnews.com/article/climate-caribbean-environment-brazil-jair-bolsonaro-064dbb71f958ed42aac8ad1c932272fb>

³ Amazônia Legal em Dados, n.d., Accessed on December 20th, 2021, https://amazonialegalemdados.info/dashboard/perfil.php?regiao=Amaz%C3%B4nia%20Legal&area=Desenvolvim%20Social__89&indicador=TX_PNAD_POP_POBRES_UF__89&primeiro

In a region where poverty rates are nearly double the national average at over 40 percent, it is only by catalyzing sustainable development that Amazonian forest economies will evolve in ways that advance preservation instead of degradation.

financing that has thus far been brought to bear in the field to address it. Although there is much interest in investing in sustainable development in the Amazon, the project development pipeline is too sparse to meet the supply-side interest, particularly outside the energy sector. Furthermore, ensuring accountability for the financing that has been delivered continues to be a major challenge.

The international community writ large and Brazilian federal government also need to improve their approach to partnerships with local Amazonian stakeholders. Taking into account Brazil's federative structure, engagement with local communities, civil society organizations, and sub-national government officials needs to be prioritized throughout any and all project development phases. Initiatives like the Interstate Consortium of the Legal Amazon, for example, that seek to coordinate sustainability projects across Brazil's nine Amazon states not only have potential to better empower local voices and identify promising on-the-ground partnerships, but also to create new regulatory frameworks of international cooperation, as well as between Brazilian federal and state authorities. Capacity-building is also particularly important to better equip local actors to apply for project funding, effectively oversee project implementation, conduct impact evaluation, and gain the necessary expertise to leverage relevant technology in, for example, carbon sequestration. This is perhaps nowhere more true than with local Indigenous organizations, which continue to seek new and expanded spaces to engage in multilateral climate negotiations and major climate funding initiatives as leaders of some of the most knowledgeable and climate-affected communities in the Amazon Basin.

economies will evolve in ways that advance preservation instead of degradation. Put differently, deforestation will continue without providing the people of the Amazon with efficient social services and sustainable modes of employment. The situation lays bare how good governance, gainful employment, and quality-of-life public service delivery—or rather, the lack thereof—are core drivers of both the global democracy and climate crises.

Another key thematic that emerged was the profound disconnect between the scale of the deforestation problem and the

COP26 provided a platform for governments, businesses, and civil society organizations from around the world to discuss the state of the global climate and debate the path forward. Although the summit reached important agreements, it was also clear that collectively we are not yet doing enough to stave off the worst impacts of climate change. COP26 was a point for reflection, but now action must prevail. Towards this end, in each of the Dialogue's sessions, a series of policy recommendations crystallized. These recommendations do not claim to be comprehensive, but they identify some of the main barriers to combating deforestation and degradation in the Amazon Basin. As such, they offer valuable guidance for the path forward.





Policy Recommendations

Session 1: Carbon Emissions Reductions

1. **Long-term sustainable development of the Amazon requires dedicated partnership and meaningful investment instead of mere philanthropy.** Forest conservation is contingent upon improved livelihoods, but transitioning towards self-sustaining and profitable nature-based solutions in Brazil will be costly. The U.S. government should prioritize taking on a coordination and validator role to help guide private sector capital in this effort, particularly in the context of small-scale or introductory pilot projects.
2. **The Brazilian federal government should not be the international community's only interlocutor on matters of carbon emissions reductions in the Amazon.** Stronger collaboration with civil society, the private sector, and subnational governments in the Amazon states should be a priority. Although there exist real issues of capacity and corruption at the sub-national government level that will demand stringent oversight and impact evaluation, the potential for emissions reduction with such engagement could be significant if non-federal actors can help buttress efforts to improve on-the-ground transparency, monitoring, and data reporting. As previously mentioned, one noteworthy effort along these lines that merits international engagement is the Interstate Consortium of the Legal Amazon.

Interstate Consortium of the Legal Amazon

Founded in 2019 by the governors of Brazil's nine Amazonian states, the Interstate Consortium of the Legal Amazon is a multi-partisan and innovative sub-national initiative that recognizes the urgent need for sustainable socio-economic development in the Brazilian Amazon. By coordinating project proposals between the nine states, the governors seek to promote a comprehensive plan with local political buy-in that can attract national, international, and multilateral financing.

The Consortium launched a Green Recovery Plan (GRP) in July 2021 with four principal goals: (1) reducing illegal deforestation to zero by 2030; (2) addressing inequalities in income, race, and gender, as well as in access to public services and basic infrastructure; (3) generating job growth in forests, rural areas, and urban centers; and (4) transitioning to a green economy through enhanced technological capacity and export potential. This ambitious initiative will rely on a collaborative relationship between federal and state government, civil society, academics, and the private sector to attract substantial national and international investment while embracing a more carbon-neutral and well-preserved Amazon. In the first phase alone, the GRP envisions a total of 43 projects totaling R\$1.5 billion.

If successful, the Consortium's coordinated approach could reap substantial benefits over the long-term as a new framework for how international actors can support sustainable development initiatives in the Brazilian Amazon at the sub-national level. The ultimate outcome of the first phase of projects will be an important proof of concept as some studies suggest that the initial proposals could generate nearly R\$2 billion and over 200,000 jobs while simultaneously facilitating the transition toward a low-carbon economy.

- 3. The pipeline for sustainable development projects at scale in the Amazon is wholly inadequate.** There is significant demand among U.S. and other foreign investors for a verified pipeline of large-scale emissions reductions projects in Brazil—similar to what investors already find in the logistics and energy sectors—but the local supply-side infrastructure to efficiently absorb such demand for sustainable development projects does not currently exist. The pipeline challenge is not merely one of identifying scalable projects, but also stems from a lack of clarity about how the Amazon will be integrated into Brazil's broader climate ambition to achieve net-zero emissions by 2050, as well as a lack of sophisticated governance and accountability frameworks in the region to facilitate market-based emissions reduction mechanisms. These factors all drive investor hesitancy, but capacity-building assistance from U.S. stakeholders and others can help overcome some of the credibility gaps involved to facilitate increased private investment.



- 4. Integrating project-based initiatives with subnational/jurisdictional approaches for emissions reduction is critical to climate ambition.** While carbon markets have tended to focus on specific projects due to their relative agility, there is a clear need for interventions at all scales to be better integrated to maximize the diverse range of funders available and address concerns over additionality, leakage, double-counting and more. Investments in individual projects can help drive on-the-ground capacity and financing to support larger, jurisdictional programs. Similarly, technical support at the jurisdictional level to forge international and private partnerships—such as the global Lowering Emissions by Accelerating Forest financing (LEAF) coalition—can incentivize projects that use more robust measurement, reporting, and verification (MRV) systems and thereby better contribute to national emissions accounting.

LEAF

In April 2021, the United States, United Kingdom, and Norway—along with a number of major corporations—launched the LEAF Coalition, a results-based initiative that will provide funding for projects that reduce emissions from deforestation and degradation (REDD+).

To be eligible to receive part of the US\$ 1 billion initially pledged through the LEAF Coalition, jurisdictions—entire countries or large states and provinces—must demonstrate that they are focused on REDD+, as well as ensure the “full and effective” participation of traditional communities. As such, LEAF provides a promising framework for global collaboration with subnational jurisdictions. Payments will be based on emissions reductions linked to programs that reduce deforestation and degradation from 2022-2026. Jurisdictions must show that deforestation has fallen across the entire territory to receive financing.

Reductions at the jurisdictional level, through national or subnational forest protection programs, will be verified by the Architecture for REDD+ Transactions (ART) international initiative under the UN-backed REDD+ Environmental Excellence Standard (TREES), which includes comprehensive environmental and social safeguards. The resulting high-quality credits can be sold to participating companies to help offset their emissions.

LEAF is characterized by high standards both in measuring emissions reductions and in how it governs the manner in which companies can supplement their own internal emissions cuts by investing in tropical forest conservation projects. The initiative requires companies to commit to science-based methods to measure carbon emissions and help avoid greenwashing via carbon markets—something that should be of concern to both Brazil and the United States. The LEAF initiative also requires participating companies to have a clear plan for lowering their internal emissions. In other words, companies must reduce as well as offset—with external reporting and auditing requirements to verify compliance.



Session 2: Financing Tropical Forest Protection

1. **Forest finance has never been more critical to the broader climate fight. Fully 25 percent of the Nationally Determine Contributions (NDCs) enshrined at COP26 will depend on forest conservation or restoration, but a mere 3 percent of overall climate mitigation finance has been spent on forest protection.**⁴ One key problem is that forest financing has evolved in two separate vacuums with little overlap. Breaking down barriers to better merge private and public capital is essential to attracting finance at the needed scale. Policymakers should permit national and subnational governments to access private credit through voluntary carbon markets for results-based payments based on emission reductions or carbon removal in forests. Finally, given its market share capacity, Brazil is also well-positioned to benefit from regulated international carbon markets and the United States could help Brazil take advantage of its potential through investment, technical cooperation, and capacity-building.
2. **International funding for forests requires an integrated, layered approach that combines multiple types of capital with innovative tools and new mechanisms to evaluate and aggregate small projects into “large-enough” investment opportunities.** Small farmers and Indigenous communities in the Amazon struggle to attract investment because international investors generally are looking for scale, which can limit the available capital for forest projects. One promising solution is to

⁴ David Giggs, Nancy Harris, and Frances Seymour, “By the Numbers: The Value of Tropical Forests in the Climate Change Equation,” October 4th, 2018, <https://www.wri.org/insights/numbers-value-tropical-forests-climate-change-equation>



empower and support companies specializing in forest carbon investment projects such as the Amazon Biodiversity Fund, which is a blended finance impact fund that invests in sustainable Amazonian businesses and was created in partnership with the United States Agency for International Development (USAID). Initiatives like the Amazon Biodiversity Fund can assess and aggregate local investment possibilities and therefore serve as an important link to international capital.

- 3. Expanding mechanisms to channel forest financing will be insufficient if funding remains inaccessible to the local governments and communities in the Basin.** There needs to be significant attention given to “last-mile” readiness to ensure that those most impacted by forest degradation have access to financing and credit. As international investment initiatives move forward, one key recommendation is to provide specific funding to local organizations for project development and evaluation, as well as technical and legal advice. If funding mechanisms such as the LEAF coalition continue to not provide technical assistance and capacity building support, one solution is to create a permanent third party to bridge the gap. Such a third party could take any number of forms, including a revitalized Amazon Fund.

Amazon Biodiversity Fund

The Amazon Biodiversity Fund (ABF) is an impact investment fund supported by Mirova Natural Capital as investment advisor and Vox Capital as fund administrator. Established in 2019, ABF was designed in partnership with USAID Brazil, Alliance of Bioersivity-CIAT, and other members of the Partnership Platform for the Amazon (PPA). ABF’s term is 11 years, with the initial five years serving as an investment period.

ABF’s expectation is to overcome some of the traditional funding challenges faced by sustainable development initiatives in the Brazilian Amazon. It offers lower-risk long-term, patient, and flexible impact funding for sustainably managed agroforestry, farming, protected areas, and biodiversity-friendly service providers. In just a few years, ABF’s unique approach helped lay the groundwork for a promising proof of concept with real potential for replication and expansion.

In 2021, the fund signed contracts with three Amazon impact businesses totaling investments to about \$3.2 million: INOCAS, an environment solutions company that applies a new concept to the use of pastures by small producers, Manioca, a business that promotes Amazon food products, and Horta da Terra, a producer of dehydrated non-conventional food plants.

The Amazon Biodiversity Fund was awarded the impact investment fund of the year in 2020 by the Environmental Science website.



Session 3: Sustainable Agriculture

1. With food systems currently accounting for roughly 80 percent of global biodiversity loss, and research showing that agriculture and cattle ranching are the biggest causes of Amazonian forest conversion, **sustainable agriculture and an end to illegal grabbing of public lands must be core elements of any approach that targets scalable and inclusive economic alternatives to the current primary drivers of deforestation.** Considering that the Amazon sub-region ranks at the bottom of global and national human development indexes, reducing deforestation is intrinsically linked to economic development and therefore demands the effective involvement of the private sector as part of the solution. Promising initiatives in this area include the intensification of sustainable production among small-scale farmers, restoration of formerly degraded pastureland, and greater traceability in product supply chains.
2. **Providing technical and managerial capacity-building to local communities to aid implementation of more sustainable and innovative agricultural, cattle raising, and forestry practices is critical.** Key areas of expanded focus should include education, technical training programs, extension services, and participatory research, as well as programs to facilitate information-sharing among farmers. The potential for Brazil-U.S. cooperation is particularly ripe in this space and can build further upon existing cooperation between the Brazilian public agricultural research corporation (Embrapa), the U.S. Department of Agriculture, USAID, the Inter-American Development Bank (IADB), and the International Bank for Reconstruction and Development (IBRD).



3. Funders and policymakers need to address the limited funding streams available to small-scale entrepreneurs and farmers to change their behaviors.

One recommendation is to expand and simplify access to rural credit and small business loans. Reform of Brazil's rural credit program could also serve as a conduit for attracting private capital to finance sustainable agricultural practices, particularly if Brazilian financial institutions assume a coordination role in terms of capital flows and assistance with small-scale lending risk mitigation.



Session 4: Indigenous Partnerships

- 1. The right of Indigenous peoples to self-determination—particularly in terms of support for their own decision-making—must become a top priority in all discussions regarding sustainability policy and financing instruments.** Although roughly a quarter of the Brazilian Amazon comprises Indigenous land—and Indigenous communities have managed the forest sustainably for centuries—Indigenous representatives have long been excluded from relevant stakeholder discussions. One particularly important recommendation to ensure Indigenous self-determination and inclusion is through the mutual development of robust governance structures that meet the joint project needs of Indigenous communities and international funders instead of merely the latter.
- 2. In conjunction with the right to self-determination, funders and international organizations also need to ensure that sustainable development financing actually reaches Indigenous organizations and Indigenous-led projects.** This will require addressing the cascade of interlocutors that have typically served as a barrier to sustainability investments in the Amazon Basin becoming accessible to Indigenous communities, even in instances of past successful programs like the Amazon Fund. Another solution is to support the creation of Indigenous-owned investment mechanisms and resources such as the Fundo Podáali, which was created through workshops between the Indigenous communities in the Amazon and government and non-governmental partners and donors to create a governance structure reflective of Indigenous forms of decision-making.



Podáali Fund

Podáali means “to donate without wanting anything in exchange” in the Arawak language of the Baniwa people of Northern Brazil. The Podáali Fund supports Indigenous self-determination and seeks to empower the local communities who have been managing Brazilian lands sustainably for thousands of years to continue to do so. The Coordination of the Indigenous Organizations of the Brazilian Amazon (COIAB) had the initial idea for such a Fund, which took over six years of planning and negotiating until its official inauguration in 2017.

Podáali was established through a series of workshops between the Indigenous people of the Amazon and governmental and non-governmental partner institutions and donors. These consultations led to the creation of a governance structure that reflected Indigenous forms of organization and decision-making while also facilitating the funding of many smaller rural grassroots Indigenous projects, which would not have been reached by larger international funds.

Current donors include the government of Norway, The Ford Foundation, Conservation International, and the Pawanka Fund, among others. A larger list of Indigenous-led funds can be found at the website of the International Funders for Indigenous Peoples (IFIP). The IFIP is the only global donor affinity group dedicated solely to Indigenous peoples around the world.

- 3. The U.S. government and international community also has an important role to play in helping to address non-financial hurdles to greater Indigenous participation in sustainability and climate negotiations** by making it clear that the empowerment of Indigenous voices in spaces of power is non-negotiable—whether those spaces are UN convenings or funder deliberations on sustainability program requirements. The Local Communities and Indigenous Peoples Platform (LCIPP) is a noteworthy model for how to increase Indigenous involvement in international climate debates.

About the Brazil-U.S. Dialogue on Sustainability and Climate Change

The Brazil-U.S. Dialogue is a multi-year initiative to foster stronger society-to-society collaboration between Brazil and the United States on Amazon deforestation and sustainable development. This includes the creation of a neutral forum for constructive dialogue that brings together many sectors of society and the facilitation of a discussion focused on what is possible and what will be effective in terms of low-carbon development and conservation in Brazil.




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