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# Project Structures and Returns

## “Mapping” a Deal



## Coming Together Around a Sustainable World

### Foundations for Planning

#### Funding order:

The common model is to respond to Requests for Proposals (RFPs) for already funded project concepts. *Money first, design second.*

Our model is the opposite. This is because money is being set aside already and is looking for projects. *Design first, money second.*

#### Budget structure:

The common model provides project budgets that include all costs and numerous soft targets, such as training and community organizing. *All activities are audited frequently.*

Our model applies the International Financing Facility for Immunization (“IFFIm”) approach: cost per tree and pay for performance. *Only visible inventory related to trees is audited.*

### Capitalization Structure

The structure supports a spectrum of investors including government, development finance institutions, philanthropic organizations, corporations, high-net worth individuals, private equity, venture capital, bonds, etc.

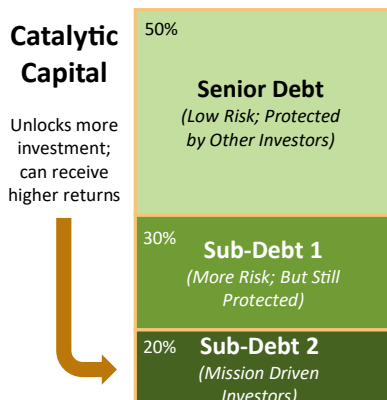
#### B-Corp:

Spades SBC (“Specific Benefit Corporation”) is a USA based B-Corp. Dedicating half its profits to its mission, it is a mix of a nonprofit and for-profit. Its mission is benefitted by engaging investors.

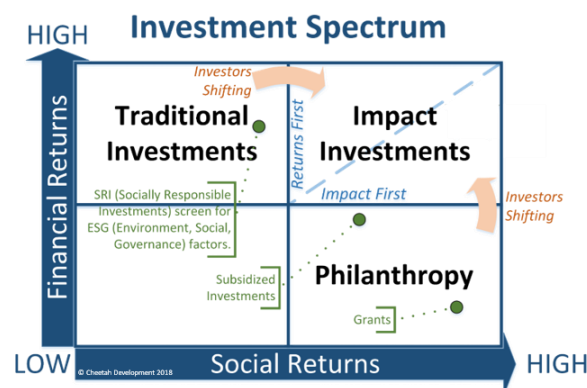
#### Nonprofits:

For donors requiring a public non-profit for donations, Spades is affiliated with Cheetah Development Inc., which is on its board. Spades also engages with nonprofits across the world.

#### Blended Capital:



Investors and donors have been shifting towards impact-oriented opportunities (see graph). Donors shift for more accountability and participation. Investors seek more impact. Blended capital is a hybrid where they operate together, perhaps from the same funder. For more than a decade, Spades’ management team has implemented impact investments and blended capital, merging equity, debt, and donors even within single funds.



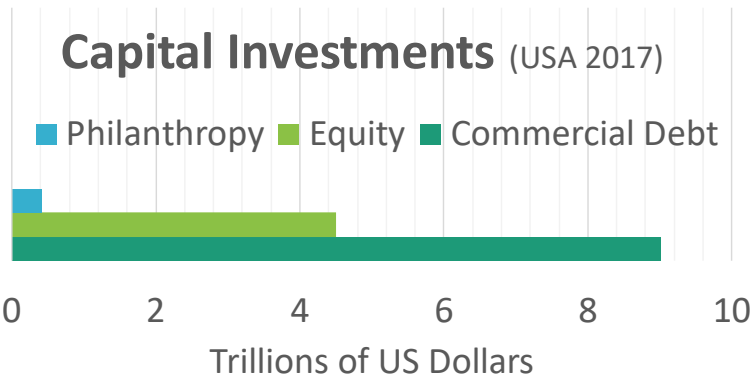
In such a model, donors do not ever provide profits to investors. Instead, increased impact and returns can be created for both donors and investors. For example, catalytic first loss capital can draw more investors into a project, expanding the impact of donor funds.

Alternatively, donors can support parts of a project that do not have financial returns. Foundations may seek to invest either out of their endowment corpus or their annual payouts, with investments that may be eligible for returns.

**IFFIm Approach:**

The fund will be modeled after the pioneering IFFIm:

- Funding for outcomes not expenses (payments for visible tree inventory).
- Proven across many impact uses. Trusted model – initially secured \$4B.\*
- Solves grower problems by lack of multiyear funding and cash flow.
- Governments can fund projects without tax revenue.
- Publicly raised bonds can engage in impact projects.



Blended  
capital  
accesses  
larger  
funding  
pool





## Three Legs of Regreening

The world urgently needs reforestation. There is sufficient land, implementation capacity, and money. The challenge is uniting them. Any deal will be subject to the actual agreements signed and local laws.

### SPV

Each project may have a special purpose vehicle ("SPV"). This is a registered company that raises financial support, owns the assets created, and distributes the implementation payments and assets as agreed upon. The SPV may have mechanisms to help manage and mitigate risk for stakeholders. Spades serves the SPV and all its stakeholders. With the leadership of the three areas below, projects are co-developed and marketed.

### Land

It is expensive and disenfranchises local people to acquire land for reforestation. Trees can be regrown with landowner cooperation, increasing opportunity for all by sharing returns and eliminating the need to purchase land. This trend is expanding in the timber industry. Stakeholders include landowners, their communities, and governments. Contracts are required for access to land, protection of trees, and any work or finance. Contracting may be led by a local government, which would be the group advisor to the SPV.

### Implementation

Depending upon the project design, contractors with differing service sets may be needed. Local businesses will be preferred, especially to sustain a long-term presence and serve markets created by the reforestation. Most will be subcontractors to one or two lead



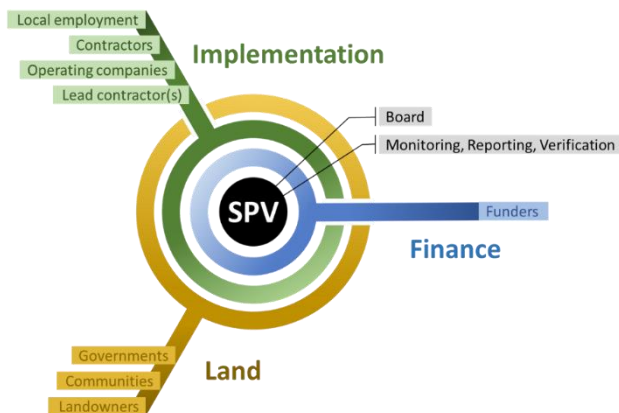
organizations, which will be the group link and advisor to the SPV.

Payment for services will generally be performance based, usually per-tree. Cash advances may be available for establishing or increasing presence locally. Progress payments are made for 'visible inventory', such as seeds, seedlings, and plantings at each stage. Organizations should receive sufficient profit or cash-flow to sustain scale for massive reforestation.

There will be contracts between leads and subs representing roles, responsibilities, and terms. Most workers will be sourced locally and be paid a premium above local wages for similar work. They will be provided benefits as required by local law, including healthcare insurance for temporary or year-round employment, depending upon seasonality of planting. There will be suitable contracts between workers and employers.

### Finance

Funds may be obtained from several sources, including investors, donors, institutions, banks, governments, etc. They will lead control of the SPV via any mechanism that they prefer to structure. Financiers will have agreements with the SPV, which will likely have performance requirements and limitations.



### An Investment Like Many Others

Investing in trees has much in common with other major investments. Consider a factory:

- The company seeks outside investors to fund the project.
- Governments may provide infrastructure, incentives, and tax advantages.
- Local companies participate in construction.
- Local people receive jobs.
- Businesses that supply the factory spring up.
- If the factory processes agricultural goods, farmers shift production.

This example helps inform how reforestation can occur.

*Participants already have expectations, structures, and systems to engage for the success of the factory.* Though all have stakes in the factory's future success, few expect to become its owner or control its profits.

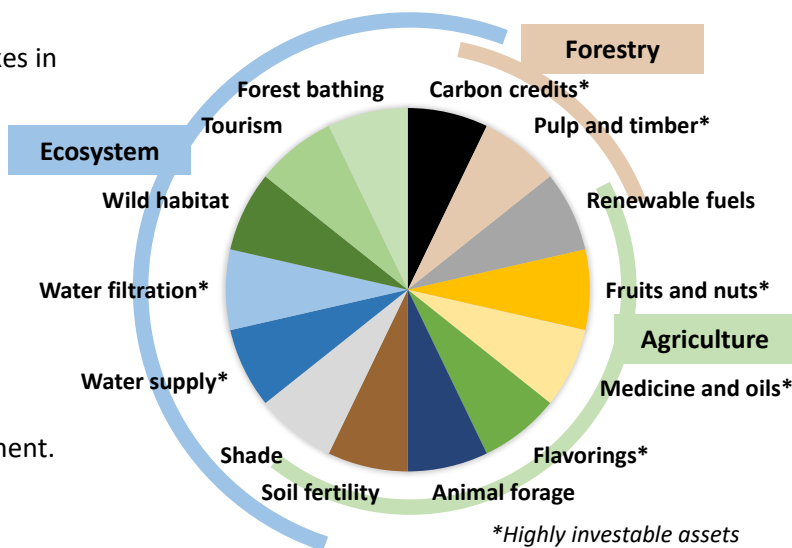
### Tree Derived Assets

Trees are critical to all life on earth and no other plant is as necessary to the climate. They create numerous tangible assets, all investable and some highly so. Any one of these assets can justify the needed investment.

By combining them, risk adjusted returns can become extremely attractive. This is fortunate because it can attract serious investment to reforesting the world and thereby saving the planet. Without significant investment, necessary and sustainable scale cannot be achieved.

Stakeholders need tree derived incentives to keep trees alive and end deforestation. This creates genuine ecosystem and economic sustainability:

1. We need to save ecosystems. The loss of habitat and species is dire. Plus, native habitats have bigger impacts on carbon sequestration, climate, and water systems.
2. Half of the arable land on the planet is used in agriculture, so most trees will be adjacent to or used for agricultural benefit. Sadly, 70% of the land has been depleted by industrial monoculture practices, driving farmers to new areas causing further deforestation. Trees can both add soil fertility and provide food security, mitigating this pressure.
3. Trees supply building materials and fuel, especially in developing nations, causing massive deforestation. Sustainability requires addressing these needs, too.



*"It is time to recognize that food security, agriculture and forestry can no longer be treated in isolation."*  
A key message of "The State of the World's Forests, 2018 FAO Report

### Dividing the Pie

All stakeholders, including investors, asset contributors, and supply chains expect reliable and meaningful returns. The significant assets created by trees allow for all participants to benefit.

Dividing the pie in such a way that all have an incentive to act – without overreaching – is key.

When dividing the assets of the pie, returns need to be correlated to the actual value and effort delivered by participants. For example, investors are better positioned to understand and manage long-term, intangible assets. Local communities should have incentives to apply their labor, which is employment income. Farmers need to see increased productivity of their land.



### Benefits

#### Investors & Donors

Long-term IRR | Diversified Portfolios | Social and Environmental Impact | Public/Private Partnerships | Enhanced Reputations

#### Communities & Landowners

Food and Water Security | Improved Soil Fertility | Economic Development | Employment | Local Climate Change Mitigation

#### Governments

Economic Development | Tax Revenues | Local Climate Change Mitigation | Water Supply Stabilization | Wild Resource Preservation | Constituent Happiness



#### Project Implementers

Payment for Actual Trees Planted | Increased Opportunities in Fast Growing Industry | Rewarding Work

#### Commercial Businesses

Triple Bottom Line | New Markets | Advantageous Finance | Positive Market Perception | Diversified Supply Against Climate Risk



Every project is different in terms of assets created, participants, and risks.

There is no fixed formula for exactly how the pie is divided. However, Spades targets reasonable returns for all investors. In a developing economy, this may be less than a typical risk-adjusted return but represents true value creation. Spades can work with investors to mitigate their risk through various financial mechanisms.

Government and donor money is not enough. Investors are needed because they bring the needed cash to achieve scale. The existing financial models have succeeded in creating economic development for all.

Balanced Finance

Carbon underpins the regreening investment, but trees deliver expanded opportunity. Carbon plus tree-derived assets like timber and food unlock balanced financial returns.

Enlarged return opportunity delivers critical investment expansion. Trees cannot survive without integrating outcomes for the environment, people, and economics.

**A sustainable world can support the environment, people, and economics.**

It is time to align these needs instead of pitting them against each other. This integrated vision is the foundation of Spades' SmartTree™ approach to regreening.

**It requires all three dimensions to tap the Power of Trees™.**

