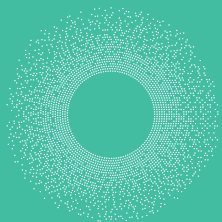




Global  
Landscapes  
Forum

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## White Paper



Breakthroughs in  
Sustainable Finance

## Central America

### Developing a Region of Opportunities for Investments in Landscape Restoration

This White Paper was produced by Deutsche Gesellschaft für Internationale Zusammenarbeit (**GIZ**).  
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Image by Mario Peraza from Pixabay

## Forest and Landscape Restoration: a regional priority in Central America

Central America covers only 0.5% of the Earth's surface, but it is home to approximately 8% of the world's biodiversity. Additionally, it is highly vulnerable to the effects of climate change and natural disasters. The high population growth in the region, combined with poverty and weak political structures, exerts high pressure on natural resources leading to high deforestation rates. Given the mountainous terrain and distinct coast lines, the sustainable management of forests, including mangroves, is a core element in enhancing the countries' resilience to climate change and natural disasters. The importance of sustainable management of forests and trees is reaffirmed in the Nationally Determined Contributions (NDCs) to the Paris Agreement of all Central American countries that identified forestry as a key sector. The Central American Commission on Environment and Development (CCAD), which is part of the Central American Integration System (SICA), and its member ministries developed a *Regional Strategic Policy Framework for Environment and Climate Change*, which established restoration as a political priority in the region as a nature-based solution to climate change (Ecosystem-based Adaptation, EbA). Correspondingly, Central American Governments are strong supporters of the Bonn Challenge, the international flagship initiative for forest and landscape restoration, and are committed to restore nearly 9 Mio hectares of degraded landscapes.

Recently, CCAD, with funding from the European Union and the Federal Ministry of the Environment, Nature Conservation and Nuclear Safety of the Federal Republic of Germany (BMU) introduced the investment mechanism of the *Green Development Fund* for SICA countries.

Implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the Fund's local investment component provides a blended finance mechanism (public-private) for ecosystem restoration projects in prioritized landscapes as designated by each country.

For enhancing FLR in Central America and everywhere in the world, it is important to bring together and understand public and private sector perspectives when developing the enabling environment, business models and appropriate vehicles for both, impact and mainstream, landscape investments at scale. Insights into the perspectives of public and private investors currently engaged in landscape restoration in Central America reveal the potential for further public-private cooperation and increased regional integration and upscaling of investment strategies.

## Is sustainable land-use in Central America ready for mainstream finance?

There are good examples in Central America of public and private sector players already investing in FLR, such as private equity funds, green credit lines or value chain investors operating in El Salvador and elsewhere in Central America. For upscaling landscape investments on a regional scale in Central America, however, a greater coordination across various levels and sectors is needed, from regional policy platforms or national environmental funds to impact investment funds and mainstream investors.

For combining public with private funding, coordination and backing by the government is key for securing sustainable and long-term finance for restoration. So far, grant-based finance drawing on public capital and technological support for monitoring impact are well established throughout the region. To attract additional private sector investments, that typically require a certain risk return profile and a sufficient pipeline of investable projects, the combination of public and private finance, maintaining and guaranteeing the impact level, will leverage and seize new opportunities.

Through combined public-private finance mechanisms, the region is moving towards a regional financing structure (*Green Development Fund for the SICA Region*). Such regionally coordinated approach provides strategic advantages like peer learning, knowledge exchange, scalability of regional financing programs and cross-border and regional impacts.

## Current Challenges

- 1. Closing the financial gap is only possible with private capital:** Given the high vulnerability and advanced ecological degradation of many Central American landscapes, a huge volume of investments, well beyond public funding sources, is needed to reverse the process of degradation and to restore resilient landscapes that provide essential ecosystem services.
- 2. Accreditation to international public funds needed to harness full potential:** There is a much higher awareness and willingness in international community today to address the climate financing needs as, for instance, seen with the establishment of the Green Climate Fund, that will provide up to 100 billion US dollars annually as of 2020.<sup>1</sup> For FLR in the region to harness the full funding potential, institutions not only need to qualify for accreditation to the international funds. Also private capital needs to be integrated as to leverage the volume needed. Both, the accreditation and the integration of private investments need upfront investment.

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<sup>1</sup> <https://www.greenclimate.fund/how-we-work/resource-mobilization>

- 3. Investment Readiness:** National financing mechanisms and impact investment funds play a key role in preparing for the investment case and in managing the process. The challenge is to match investors with suitable risk-return expectations with financing intermediaries capable of scaling efforts on national level. Capacity building in terms of risk management, pipeline development, establishing distribution channels and impact monitoring for financial mechanisms as well as support for the beneficiaries in Central American fincas is much needed.

## How to tap the potential in Central America

Central America has taken on a pioneering role for the Bonn Challenge. Nearly nine million hectares of forest are to be restored in the region. National strategies and mechanisms for implementation and financing have emerged in all eight member states of the CCAD. However, there is a lack of financial resources to implement measures on a large scale. Therefore, countries are building their financial mechanisms to mobilize public and private investments in landscapes. Through the collaboration of various national and regional entities, Central America is preparing the necessary structure to tap the potential to open up FLR investments in the region to international climate funds and private investment. There are several examples of public, private and public-private financing entities that are already involved in that task:

- The **Green Development Fund** : Financed by EU and integrated into CCADs programme, provides project funds for FLR and national financing mechanisms for pilot projects based on land use and management plans on municipal and local levels. To develop an investment model and integrate investment opportunities the projects raise supplementary funds from additional public and private sources. Establishing a knowledge exchange platform of the designated national financial mechanisms, CCAD leverages the development of financial intermediaries on regional level. National success stories and experiences can be used to scale financial instruments in other countries.



- The **Environmental Investment Fund of El Salvador (FIAES)**, established in 1993 as a result of a “Dept for Nature” swap between the Government of El Salvador and the Government of the United States of America will present their activities to scale up public and private investments in landscape restoration. Their programs are focused on improvement of land productivity and value chains as crucial pre-condition to investment.
- The **Environmental Bank Foundation (FUNBAM)** in Costa Rica was established in 2008. In addition to the successful National Forest Fund (FONAFIFO) and its (public) program for payments for ecosystem services in Costa Rica, there was a growing need to build a more flexible public-private finance mechanism. The Green Business Fund in Biocorredors, as one of FUNBAMs programs, supports rural SMEs in greening their value chains. Currently, FUNBAM is in the design phase for a financial vehicle that will establish a credit structure with extended finance options and thus opportunities for impact investors.
- The **Forestry and Climate Change Fund (FCCF)** is an impact investment fund and has the objective to invest directly or indirectly in a diversified portfolio of forestry companies, community forestry entities and owners of smaller forests, who focus on the management of secondary and degraded forests. FCCF seeks to demonstrate that the sustainable management of forests by community, smallholder and local enterprises is economically viable and produces ecological and social value, while contributing to land restoration and climate change mitigation. Investors tend to “cherry pick” their investments according to convenient risk-return-profiles, cash-flow and ticket size. A regional strategy allows for “regional cherry picking”, risk diversification and the establishment of regional value chains, e.g. for processed high value timber from sustainably managed secondary forests. The Forestry and Climate Change Fund follows a regional value chain investment strategy focused on forest management and value chain development for products from forests in need of restoration ([www.fccf.lu](http://www.fccf.lu)). FCCF proves that restoration can be profitable, when the investment strategy integrates the value chain, too.

## Continuing Challenges and open questions

There are numerous challenges, missing links and pertaining gaps that Central American stakeholders and international climate and landscape investors have to overcome for achieving the “perfect synergy” between public investments in “green infrastructure” for providing (“pre-profitable”) basic ecosystem services and private investments in profitable sustainable value chains within shared landscapes.

While there is not a clear-cut answer for every open question on how to scale investments in FLR, there are concrete ideas evolving for how the way forward may take shape.

### Could degradation of landscapes be reversed while bringing local landusers to investment-readiness?

In degraded (and poverty-struck) landscapes, restoration and (public) restoration finance is a pre-condition for profitable (and bankable) business cases. Public, grant-based funding and concessional capital can finance small green businesses on their way to commercial upscaling and allow cooperating with private sector investors (local banks, investment funds e.g. FCCF or EcoBusiness Fund). Compatibility between public incentives and private finance is crucial for effective long-term restoration.

### Which process helps preparing responsible finance vehicles for diversified business models covering multiple needs and opportunities within complex landscapes?

Most importantly, such process needs to work with the landowners on the ground (contact, confidence, impact knowledge and monitoring structure, distribution channels in terms of cash flow). Furthermore, an appropriate entity is required to manage the investors’ expectations about the financial instruments, risk management and track record. Today many investors lend to producers via banks, often missing the technical and impact components. Apart from capacity building for landowners and producers in FLR investments, impact monitoring or linking to agricultural extension, financial intermediaries also need to consider landowners as “credit-worthy”, which currently excludes large parts of the forestry sector.

### How to integrate the more profitable business models higher up the value chain?

Within the FLR investment spectrum, only some segments are interesting for private investors, such as timber production and business models around commercial species that create cash flow. A key aspect for restoration business models will be the willingness of the market to pay for goods coming from practices aligned with restoration objectives. Public entities can provide enabling policies and incentives for such systems.

## How to open opportunities for private investors (impact and mainstream) and public-private co-investments?

The highest positive environmental impact ranges within FLR often clash with financial return expectations. The question is how then positive impacts and financial return expectations can be balanced. Upfront investments are the most critical challenge for landowner's readiness to invest into production that is both economically and environmentally sustainable. Especially mainstream investors are to be expected to enter at a later stage. With long-term investments and understanding of the market, opportunities for private investors will open up. Climate impact aspects may change the game and drive decisions of investors from cash flow considerations to economic benefits.

FLR investments are likely to remain marginal from an overall mainstream investment portfolio perspective. However, in search for diversification and a broader pressure from stakeholders sustainable and climate investment portfolios become more attractive.

## How to capitalize on regional leadership for mobilizing finance at regional scales?

Common climate risks and shared natural resources ask for a regional approach to financing strategies within an already existing regional policy framework. International financing institutions (bilateral, multilateral) are reviewing the cost structure of their funds. Considering fund distribution and processing capacities for smaller volumes, finance efficiency is an important issue. Therefore, it is necessary to enhance the coordination, cooperation and co-investment across different national environmental funds, regional (development) banks and private (impact) funds at regional level. While avoiding falling back to isolated national solutions the approach allows bundling capacities across the whole region and accessing bigger funds and ticket sizes.



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