Unlocking Forest Finance in San Martin
Leveraging private, public and climate finance to invest in sustainable land use

What is the goal of the Unlocking Forest Finance project?

The Unlocking Forest Finance (UFF) project seeks to design a financial mechanism that combines public and/or private, national and international resources to catalyse the transition to sustainable landscapes.

The UFF project aims to implement sustainable production models for the main regional supply chains, restore degraded land, conserve forests and improve rural livelihoods. These activities are part of an investment portfolio designed to generate positive social, environmental and financial impacts.

The UFF project in San Martin

UFF is a project led by the Global Canopy Programme (GCP). In San Martin, we have the Regional Government as a strategic ally, CEDISA (a Peruvian based non-profit working with rural communities) as an implementing partner and the National Agrarian University – La Molina (UNALM) as a consultant supporting various elements of the project. We also have a broad range of international technical partners contributing from Europe and Brazil.

What are we doing?

• Consultations with local, regional and national actors: Through CEDISA, the project has conducted consultations with various local stakeholders, including representatives of cooperatives and producer associations of seven priority supply chains, regional government officials, NGOs and technical assistance and training providers. We have also held talks with local banks, trust funds and environmental officials from Ministry of Agriculture (MINAGRI), Ministry of Environment (MINAM), COFIDE and Agrobanco. These actors play a key role in channelling funds, implementing the investment portfolio and monitoring the transition to sustainable land use.

• Discussions with international investors: The project team has held regular meetings with our advisory group, receiving strategic advice from international financial institutions, private banks, insurance and guarantee providers and specialist investment consultants.

• Investment portfolio and business proposal: Simultaneously, UFF has been developing the business proposition for the supply chains that make up the portfolio of investments in San Martin. These investments will increase productivity in a sustainable way in seven supply chains (six agricultural and one aquaculture), support conservation in four protected areas and contribute to a sustainable livelihood plan for the Awajun, Kechwa and Shawi communities. The portfolio of investments for the supply chains was selected considering criteria that allowed the assessment of the environmental, social and economic benefits and the political priority given by the Regional Government. Examples of specific criteria can be seen in Figure 1. The investment opportunities correspond to the supply chains of cocoa, coffee, palm oil, palm hearts, rice, sacha inchi and aquaculture (tilapia) and conservation of protected areas and sustainable livelihoods of indigenous peoples.
Unlocking Forest Finance

POSITIVE NPVs AND ATTRACTIVE IRRS
THE RISKS ARE NEGligible OR MANAGEABLE
THE TRANSACTION COSTS ARE ACCEPTABLE

FINANCIAL CRITERIA

INCREASE IN ACCESS TO TECHNICAL ASSISTANCE
IMPROVEMENT OF FOREST COVER

SOCIAL CRITERIA

IMPROVEMENTS IN INCOME AND EMPLOYMENT
PRESERVATION OF LOCAL CULTURE

ENVIRONMENTAL CRITERIA

Figure 1: Selection of Criteria Used for Portfolio Selection

The investment portfolio is the basis for the business proposition in San Martin. This portfolio includes analysis of costs, revenues and investments required for the transition in the region as well as the potential return. Preliminary estimates of the capital requirements for the investment portfolio in these supply chains in San Martin amount to USD89 million*, including technical assistance and capacity building of producers.

The investment proposal identifies key activities to implement the transition, the target population and the expected productivity and benefits. For example, in the cacao supply chain, UFF will support 12,650 small farmers, providing training and improved management systems for a period of ten years. It is estimated that productivity will increase from 750 kilograms per hectare to 2,200 kilograms per hectare through the implementation of agroforestry systems. The transition to the production of sustainable cacao could generate over 6,500 new jobs and additional income of over USD21 million. Improvements in management systems will also have a positive effect for surrounding ecosystem services, since agroforestry systems improve carbon capture, increase soil fertility and reduce pesticide use.

• The financial mechanism: The project team has used the results of consultation with stakeholders, advice from international investors and the selected investment portfolio to build a financial mechanism for San Martin. The proposal includes the institutional structure and the financial instruments needed to channel investment to the portfolio, and, finally, to the producers. It also includes funding sources (e.g. capital markets, climate funds), financial intermediaries (local banks) and financial instruments (e.g. credit lines). A detailed structure of the financial mechanism is shown in Annex 1. Some aspects of the mechanism in San Martin are described below:

- Credit Guarantees: The use of collateral reduces risk for the investor, providing the opportunity to attract investment with relatively lower interest rates. We have had discussions with international cooperation organizations which have expressed interest in providing international and local guarantees that help producers to access credit.

- Blending public and Private investment: The UFF project is involving potential private investors including Peruvian development banks. Agrobanco is interested in investing an estimated amount of PEN 50 million (USD 15 million) that will

* Numbers are an undiscounted estimate and are subject to change.
be channelled to producers through an innovative credit line to be designed jointly by UFF and Agrobanco.

- **Leveraging climate finance:** UFF was invited to submit a proposal for the Private Sector Fund from the GEF. The proposal to the GEF includes USD 15 million in concessional loans that could leverage up to USD 60 million in market rate loans from the private sector.

- **Safeguards and environmental and social benefits:** The UFF project has analysed the ecosystem services which will be generated and enhanced as a result of the transition to sustainable development in San Martin. UFF has also carried out an environmental risk mitigation analysis and has developed a framework of safeguards to understand potential negative impacts and ensure social and environmental benefits of the transition to sustainable development. These analyses and associated implementation strategies ensure that all aspects of a landscape approach are covered.

- **Importance of the role of government:** The Regional Government of San Martin has recently adopted a development vision focused on moving towards a green region, with a sustainable economy and low-carbon emissions that is inclusive and supportive. As a result, San Martin has designed a set of policies and programs providing a framework to support the transition to sustainability and the creation of a sustainable San Martin Brand. In accordance with the agreement between GCP and Regional Environmental Authority (ARA), UFF targets are aligned with the main sectoral policies and policy management instruments, contributing to the efforts to reduce impacts of economic and productive activities on deforestation and degradation of ecosystem services at the landscape scale. Thanks to the political support and the provision of information by the Regional Office of Economic Development (GRDE), the Regional Directorate of Agriculture (DRASAM), the Regional Directorate of Production (DIREPRO) and ARA, UFF has built the main instruments for managing the transition to more productive and sustainable supply chains. This includes transition plans and the estimated capital requirements to implement them, assessment of socioeconomic and environmental impact and plans for capacity building for producers and their organizations.

- **Implementation timeline:** The project is currently working with relevant stakeholder institutions to finalise the design of the business proposal and the financial mechanism. Alongside this, UFF is working with Agrobanco to design an innovative credit line to channel the necessary credits to producers. The credit line will be directed at producers of all commodities considered in San Martin and it will be operationalised as soon as possible.

- UFF is working to ensure that sustainable transition occurs in San Martin across the 7 supply chains outlined in the project business proposal. At the same time, we are actively considering opportunities to replicate our approach in other regions of Peru.
Unlocking Forest Finance

Donor governments, climate finance and international cooperation

Concessional credit
Credit guarantees
Grants
Result based payments

National financial entity

Innovative credit line
Credit component for technical assistance
Innovative credit line

Microfinance Institutions

Credit guarantees
Innovative credit line

Cooperatives and processors

Innovative credit line

Technical assistance and monitoring (NGOs, TA institutions)

Training services
Monitoring

Producer credits
Cacao
Coffee
Sacha inchi
Rice
Palm hearts
Fish
Palm oil


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