

Investing in Deforestation-Free Production in the Peruvian Amazon

Blended Finance Approaches in Support of Smallholder Producers and Indigenous Communities

SPONSORED BY: 

The Rainforest Alliance works to conserve biodiversity and secure sustainable livelihoods by transforming land use practices, business practices and consumer behavior.

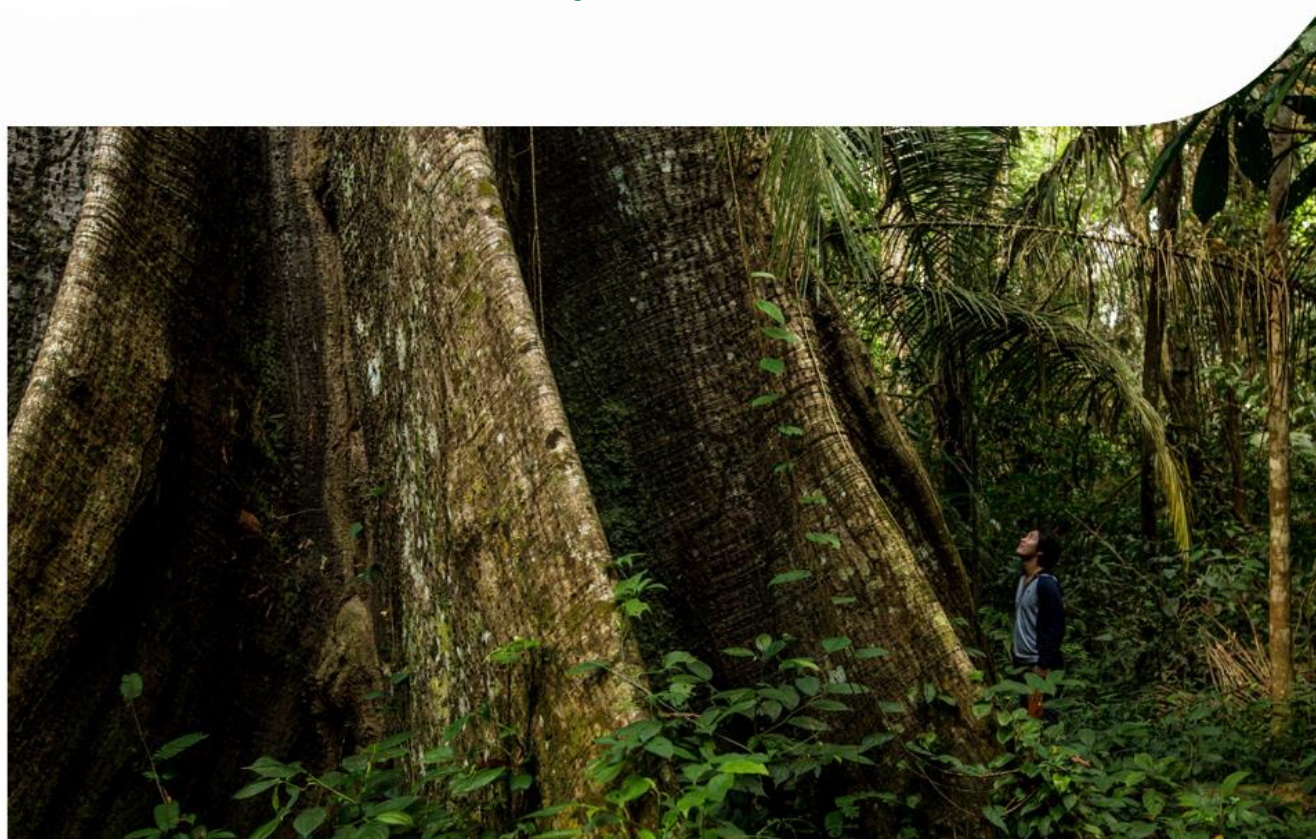
233 Broadway, 28th Floor

New York, NY
10279-2899

tel: +1.212.677.1900

fax: +1.212.677.2187

rainforest-alliance.org



EXECUTIVE SUMMARY

Deforestation is one of the most significant environmental challenges of our time. In Peru, agricultural activities, including cocoa, coffee, palm oil and cattle production, are responsible for 90 percent of deforestation in the Amazon. Deforestation, however, is highly fragmented and generally occurs in scattered land units of areas smaller than five hectares managed by small- and medium-sized producers. Deforestation is also high in forests to which no rights have been allocated compared to those which rights have been allocated, including those managed by indigenous communities.

As the Peruvian government, civil society and private sector actors are moving toward a common deforestation-free agenda, coordinated efforts are required to promote sustainable land management and sustainable production systems by smallholders and indigenous communities in order to reduce deforestation.

Switching to sustainable land management and production systems requires considerable investments in technical and financial assistance as well as improved access to finance for smallholder and indigenous communities. Without access to finance, smallholders who live on the outskirts of the Amazon cannot access the technology they need to sustainably improve productivity and end up relying on agricultural extension for their living. Without access to finance, indigenous communities who live in the Amazon are unable to access vertically integrated value chains to sell products that are sustainably produced within the forest.

However, transaction costs and risks associated with smallholder and agriculture finance make it almost impossible for traditional investors to make such investments. By strategically leveraging funds from development finance institutions and philanthropic donors, blended finance can facilitate investments in support of support of smallholder producers and indigenous communities.

There is no single structure for mixed financial models; the combination of public and private funds can take different forms. The Rainforest Alliance is working with partners and exploring some blended finance models including the development of green credit lines for forest community enterprises, the design of a revolving technical assistance facility, and the establishment of guarantee mechanisms leveraging value-chain players.

CONTENT

EXECUTIVE SUMMARY	2
CONTENT	3
INTRODUCTION	4
1. PERU DEFORESTATION CHALLENGE AND NATIONAL STRATEGY	4
1.1. THE STATE OF DEFORESTATION IN PERU	4
1.2. PERU NATIONAL FOREST STRATEGY	6
2. OPPORTUNITIES FOR INVESTMENTS	6
2.1. INVESTING IN SMALLHOLDER COMMODITY PRODUCTION	6
2.2. INVESTING IN INDIGENOUS COMMUNITIES	8
3. BLENDED FINANCE APPROACHES	9
3.1. WHY BLENDED FINANCE?	9
3.2. THE WORK OF THE RAINFOREST ALLIANCE IN THAT SPACE	10
3.2.1. GREEN CREDITS	10
3.2.2. REVOLVING TECHNICAL ASSISTANCE FACILITY	10
3.2.3. GUARANTEE MECHANISMS AND COLLATERAL	11
4. NEXT STEPS AND CONCLUDING REMARKS	11
5. ACKNOWLEDGEMENTS	12
6. CONTACTS	12
7. APPENDICES	13
7.1. WORKSHOP AGENDA	13
7.2. RESULTS OF WORKING GROUP DISCUSSIONS	14
7.3. LIST OF OCTOBER WORKSHOP PARTICIPANTS	15

INTRODUCTION

Deforestation is one of the most significant environmental challenges of our time, with large tropical forests like the Amazon under continued pressure from human activities, including expansion of communication infrastructure, extractive and agricultural activities, illegal mining and logging.

In Peru, agricultural activities, including cattle production, are responsible for 90 percent of deforestation in the Amazon forests^{1,2} (thereafter “the Amazon”). Through the logging and burning of forests and subsequent land use changes, patches of the Amazon are progressively replaced by livestock farming and cash crops including coffee, cocoa, bananas, corn and, more recently, oil palm.

Deforestation, however, is highly fragmented and generally occurs in scattered land units of areas smaller than five hectares³ managed by small-l and medium-sized producers (thereafter “smallholders”). Deforestation is also high in forests to which no rights have been allocated compared to those which rights have been allocated, including those managed by indigenous communities.

As the Peruvian government, civil society, and private sector actors move toward a common deforestation-free agenda, coordinated efforts are required to promote sustainable land management and sustainable production systems by smallholders and indigenous communities and to reduce deforestation.

Switching to sustainable land management and production systems requires considerable investments in technical and financial assistance as well as improved access to finance for smallholder and indigenous communities. Without access to finance, smallholders who live on the outskirts of the Amazon cannot access the technology they need to sustainably improve productivity and end up relying on agricultural extension for their living. Without access to finance, indigenous communities who live in the Amazon are unable to access vertically integrated value chains to sell products that are sustainably produced within the forest.

Building upon the Rainforest Alliance’s work with smallholders and indigenous communities in Peru and inputs from a multi-stakeholder workshop hosted by the Rainforest Alliance and Citi in Lima, Peru, in October 2016, this report aims to:

- 1) Define Peru’s deforestation challenges;
- 2) Demonstrate how investments in smallholders and indigenous communities can drive change and;
- 3) Present blended-finance approaches, including those explored by the Rainforest Alliance, in support of smallholder producers and indigenous communities.

1. PERU DEFORESTATION CHALLENGE AND NATIONAL STRATEGY

1.1. THE STATE OF DEFORESTATION IN PERU

The Amazon covers 53.06 percent of Peru’s national territory or 68.18 million hectares⁴ (Table 1). To date, the Peruvian government estimates that 7.3 million hectares of forest have been lost due to human activities. Between 2001 to 2014, the average annual deforestation rate was around 118,000 ha/year⁵. If

¹ Other direct and indirect causes of deforestation in Amazonian forests include illegal mining, expansion of communication infrastructure and extractive industries, coca crops and illegal logging. Source: National Strategy on Forests and Climate Change - ENBCC. MINAM - Ministry of the Environment Peru. 2016. http://www.bosques.gob.pe/archivo/ff3f54 ESTRATEGIACAMBIOCLIMATICO2016_ok.pdf

² Ibid. Ministry of the Environment of Peru. 2016.

³ Ibid. Ministry of the Environment of Peru. 2016.

⁴ Descriptive memory – National Vegetable Coverage Map (MINAM, 2015b)

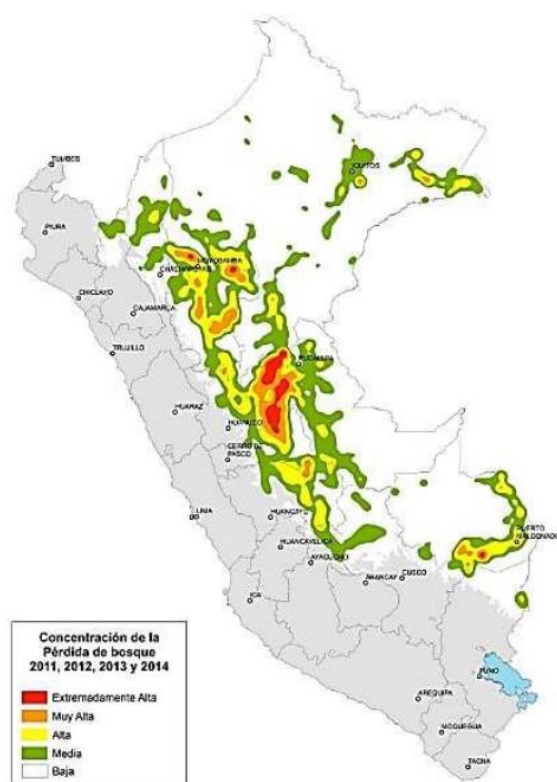
⁵ Peru 2016. National strategy on forests and climate changes. MINAM – Ministry of the Environment (Assessment during the period between 2001 and 2014)

adequate measures are not implemented, cumulative deforestation of more than 3.5 million hectares is estimated by 2030⁶.

Table 1: Percentage distribution by type of forest in Peru⁷:

Type of forest	Forest area (ha)	% of total forest area	% of national territory
Amazon rainforest	68,188,726	94.60%	53.06%
Andean forest	220,173	0.31%	0.17%
Seasonally dry costal forest	3,674,364	5.10%	2.86%

Figure 1: Deforestation Concentration in the Amazon Rainforest. Period 2011-2014



Agricultural expansion, through successive logging, burning of forests, and land-use change, is the main source of deforestation in Peru⁸. Between 2001 and 2013, the Peruvian agricultural sector contributed to 51.6 percent of the deforestation in the Amazon, while cattle ranching was responsible for 39.9 percent.

Deforestation, however, proved to be highly fragmented. Between 2001 and 2014, 77 percent of deforestation occurred in scattered land units of less than five ha, while 20 percent of deforestation occurred in land units between five and 50 ha⁹. Deforestation in small land units was often related to smallholder cash crop production, including low-intensive cocoa and coffee production. Deforestation in land units superior to 50 ha was related to the growth of urban infrastructures and extensive agriculture such as cattle ranching, palm oil, and some permanent crops such as coffee and cocoa managed with low and medium technology.

Deforestation is also high in forests to which no rights have been allocated compared to those managed by indigenous communities who have rights of their land. Between 2001 and 2014, 45.31 percent of total forest loss occurred on land without categorization while only 16.54 percent

occurred on land managed by indigenous communities. Within current socially enforced constructs, property rights regime is one of the most important factor influencing deforestation.

⁶ Deforestation reduction (mainly in the Amazon) in the context of climate change and a focus on Green growth (MINAM, Gustavo Suarez 2016)

⁷ Source: Descriptive Memory – National Vegetable Coverage Map (MINAM, 2015b)

⁸ Other direct and indirect causes of deforestation of the Amazon forests include illegal mining, the expansion of communication infrastructure and extractive industries, coca crops and illegal logging of forests. Source: National strategy on forests and climate change - ENBCC. MINAM – Ministry of the Environment Peru 2016.

⁹ Peru 2016. National strategy on forests and climate change - ENBCC. MINAM – Ministry of the Environment

1.2. PERU NATIONAL FOREST STRATEGY

Governments and private sector players are gradually moving in the same direction on the issue of deforestation. Governments are developing policies and regulations aimed at encouraging behaviors that reduce deforestation and penalize those that increase it. Companies are making voluntary supply chain commitments to ensure that their products originate from deforestation-free sources. Last but not least, the New York Declaration on Forests and other deforestation commitments have aroused the interest of the finance sector to unlock funds to stop deforestation and to restore landscapes.

Deforestation and forest degradation are very important topics in Peru:

- In 2008, the Peruvian government announced a goal of reducing Peru's deforestation rate to zero in 54 million hectares of primary forest by 2021.
- With the support of the Ministry of Agriculture and the 20x20 Initiative, Peru also committed to restoring 3.2 million hectares of forest by 2020 by taking measures to support the economic integration of producers as a way to renounce illegal activities and prevent deforestation in the Amazon.
- In July 2015, the Peruvian government approved the Law on Ecosystem Services Retribution Mechanisms, with the purpose of promoting, regulating, and supervising the design and implementation of Ecosystem Services Remuneration Mechanisms (known as MRSE, the Spanish acronym), voluntary agreements that establish conservation, recovery and sustainable land use, in order to ensure the permanence of ecosystems.
- The Peruvian government initiated the readiness process for the implementation of the five eligible activities of REDD+ (reduction of emissions from deforestation and degradation of more forests) considered in the United Nations Framework Convention on Climate Change (UNFCCC) to reduce GHG emissions through a set of national and regional actions, policies, and interventions. This process involved the vision of different levels of government, civil society stakeholders, and indigenous peoples to facilitate the process. The effective implementation of these actions will allow access to financing linked to payment per results.

2. OPPORTUNITIES FOR INVESTMENTS

2.1. INVESTING IN SMALLHOLDER COMMODITY PRODUCTION

Recent national laws and policies encourages increasing agricultural production through the adoption of yield improvement practices and the recovery of degraded soils on small- and medium-sized farms; this, instead of promoting the expansion of large-scale agro-industrial plantations.

In fact, smallholder farming is predominant in most agriculture value chains in Peru. 85 percent of the 600,000 ha of land dedicated to coffee, cocoa, and oil palm, for instance, is managed by smallholders cultivating areas of less than 50 ha. Most of these

Table 2: Crops with greater coverage¹¹

Crop	% of area cultivated	Hectares
Coffee	25.4	378,622
Cultivated pastures	25.2	375,976
Cocoa	8.7	129,906
Banana	8.2	122,093
Hard yellow corn	8.2	116,084
Rice	5.5	82,719
Oil palm	5.2	77,538 ¹⁰
Total area cultivated	100	1,490,497

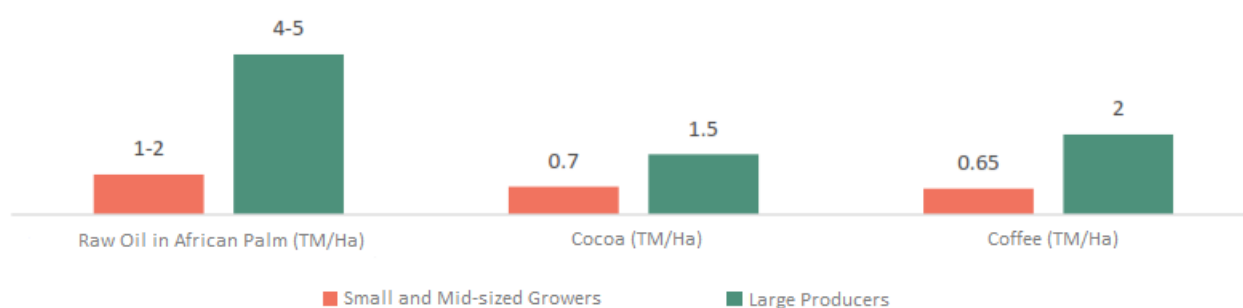
¹⁰ Source: National strategy on forests and climate change - ENBCC. MINAM – Ministry of the Environment. Peru 2016. Data from MINAGRI.

¹¹ Source: National Institute of Statistics and Information Technology (INEI). National Agricultural Census, 2012

smallholders work independently without formal marketing agreements or technical assistance provided by the government of value chain buyers.

The Rainforest Alliance's experience in Peru, as in many other countries, has shown that the average productivity of smallholders is lower than that of large producers (Figure 2). This difference is mainly explained by poor agronomic practices, poor land use management, and the inability for smallholders to access the financing they needed to invest in their farms or the inadequate management of funds, when funds are present.

Figure 2¹²: Average productivity (in metric tons/hectares) of small- and medium-sized farmers vs. large producers



The promotion of systemic changes in the production of crops such as coffee, cocoa and oil palm require considerable investments in technical and financial assistance, improved access to markets and businesses, as well as processes that improve the value chain of smallholders and generate greater added value.

While individual smallholders are often difficult for investors and financial institutions to reach, such investments can be made in farmer groups, such as cooperatives, or value-chain intermediaries. The two case studies below illustrate investments made by social lenders OikoCredit and Root Capital in coffee cooperatives and palm oil extractor in Peru.

CASE STUDY 1 – INVESTING IN COOPERATIVES AND VALUE-CHAIN INTERMEDIARIES

In Peru, cooperatives play a key role in the country's agricultural development. By grouping several small farmers, cooperatives help to boost productivity and improve access to more profitable markets. Similarly, cooperatives serve to facilitate access to financial resources for small farmers.

Oikocredit finances different agricultural cooperatives in Peru seeking to boost their growth and consolidation. In the Peruvian Amazon, it supports cooperatives that have positive social, environmental, and economic impacts. According to public information, in recent years Oikocredit has awarded nearly \$3 million dollars in loans to support sustainable production in the Amazon.

For example, it has awarded more than \$500,000 dollars in pre-finance harvesting loans to a cooperative located in the province of Junín in the Peruvian Amazon. This cooperative seeks fairer market conditions for its more than 200 coffee producers, many of whom have fair trade and organic production certifications. In addition, Oikocredit granted a loan of more than \$1 million dollars to an oil palm extractor in order to support the mitigation of the environmental impact that its operations

¹² Source: Internal Information from Rainforest Alliance

generate. This loan was used to set up a wastewater treatment lagoon to avoid contamination of water sources near the extractor. Source: www.oikocredit.coop/what-we-do/partners

CASE STUDY 2 - SUSTAINABLE COFFEE THAT PROMOTES CONSERVATION

Coffee cultivation can be done under sun or shade conditions. Under shade conditions, peasants and small farmers can increase their economic development while preventing deforestation and contributing to biodiversity conservation. With the help of Root Capital, this agricultural model is being expanded in certain mountainous areas of Peru. Specifically, Root Capital disburses funds to support farmers' financial requirements for crop renewal, fixed assets acquisition, and working capital. Disbursements are made through cooperatives that bring coffee producers together and encourage the production of organic and sustainable coffee. Source: Linking Economic Opportunities to Conservation in Peru - <https://www.rootcapital.org/portfolio/stories/linking-economic-opportunities-conservation-Peru>

2.2. INVESTING IN INDIGENOUS COMMUNITIES

In Peru, about 2,000 indigenous communities are assigned, by means of titling, natural protected areas or territorial reserves that correspond to about 18 million hectares of forests (14 percent of the national territory), much of which has a high ecosystemic value. In the coming years, the government is expected to allocate rights to at least six million additional hectares. Improving the capacity of indigenous communities to defend their forests is crucial. However, land tenure alone is not enough to ensure the protection and conservation of forests.

The Rainforest Alliance's experience in indigenous forest landscapes has shown that one of the most efficient ways to achieve reduction in deforestation rates is through the development of local sustainable management of natural resources¹³. Through proper forest management and access to markets and businesses, indigenous communities can effectively prevent deforestation while improving their economic situation. To ensure this, a culturally relevant approach is needed to improve local governance, support good management practices, and coordinate scalable, sustainable and accessible financing chains that enable the whole value chain (community, buyer, distributor) to secure the means to develop the enterprise.

In the Peruvian Amazon this requires scalable intervention models that drive value chains for non-timber forest products and facilitate the integration of indigenous communities toward local and regional economies.

The below case study illustrates how the Rainforest Alliance and the Peruvian bank Agrobanco support indigenous communities with access to finance for brazil nuts production.

CASE STUDY 3 - INVESTING IN DEFORESTATION-FREE BRAZIL NUTS

Indigenous communities require operating capital for harvesting and transporting brazil nuts during the harvest months of December and January. In Madre de Dios, working capital needs are estimated at about \$12 million soles (\$3,6 millions) during that harvest period.

To support indigenous communities and bridge this financing gap, Agrobanco and the Rainforest Alliance work on the development of a credit mechanism adapted to the financing requirements of brazil nut production. The model involves the participation of a brazil nut buying company, CANDOR,

¹³ More information of the specific projects is available at <http://www.rainforest-alliance.org/lang/es/publications/community-forestry-case-studies>

that provide buying contracts as guarantees, thus reducing transaction and credit risks for Agrobanco as indigenous communities are not able to provide collaterals (machinery, property, real estate, etc.). The model also involves the guarantee fund AGRO PERU to cover for eventual losses due to non-repayment.

The first loans were provided to brazil nut producing communities in 2014. A 7 percent interest rate payable semiannually was charged, taking into consideration that brazil nut is harvested and sold within a period of six months. The four native communities that received the first tranche of loans paid 100 percent of their debt at the end of the brazil nut harvest season.

3. BLENDED FINANCE APPROACHES

3.1. WHY BLENDED FINANCE?

Investing in smallholders and native communities is imperative to prevent further deforestation and support deforestation-free production inside and outside of the Amazon. However, transaction costs and risks (see Appendix 2) associated with smallholder and community finance make it almost impossible for traditional investors to invest and generate market-based returns.

Investment risk and barriers prevalent in Peru were discussed during the Rainforest Alliance/Citi workshop of 2016 and are presented in the Appendix

By strategically leveraging funds from development finance and philanthropic donors, blended finance enables private capital flows in sectors otherwise considered too risky and low-performing¹. Generally, development finance or philanthropic funds serve as catalyzers by investing in building the enabling conditions necessary to mobilize funds from investors seeking financial returns; thus, aligning various risk and return profiles.

In the case of smallholder and community-based agroforestry in Peru, enabling conditions include providing technical assistance, training, and support services to transform traditional production systems into higher-productivity and lower-environmental impacts systems. Such upfront investments are critical to unlocking smallholder and community finance through local financial institutions and/or commercial intermediaries such as agroforestry buyers, processors, or exporters.

Expected returns may look like (i) increases in supply of timber and non-timber forest products or agricultural commodities such as coffee, cocoa, palm, etc.; (ii) repayments for financial products and services provided for sustainable productivity improvements, and (iii) payments for environmental services or other pay-for-performance schemes.

There is no single structure for mixed financial models; the combination of public and private funds can take different forms. Here are five examples of how such combinations of funds can work.

Table 3¹⁴: Examples of mixed financing schemes

Scheme	Capital Structure	Description
Grant		Public or philanthropic funds support the design and preparation of the investment
Junior Equity		Public or philanthropic funds take subordinate position and absorb highest risk

¹⁴ Table adapted from OECD's report "Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders" from September 2015 and from the Blended Finance definition on part of the Convergence Platform.

	<table><tr><td colspan="2">Equity</td></tr><tr><td colspan="2">Junior Equity</td></tr></table>	Equity		Junior Equity		
Equity						
Junior Equity						
Technical Assistance Fund	<table><tr><td>Debt</td><td rowspan="2">Technical assistance fund</td></tr><tr><td>Equity</td></tr></table>	Debt	Technical assistance fund	Equity	Public or philanthropic funds are used to provide technical assistance and capacity building	
Debt	Technical assistance fund					
Equity						
Parallel Capital Structure	<table><tr><td>Debt</td><td>Debt</td></tr><tr><td>Equity</td><td>Equity</td></tr></table>	Debt	Debt	Equity	Equity	Public or philanthropic funds equate investment conditions to provide greater security to the investor
Debt	Debt					
Equity	Equity					
Guarantee	<table><tr><td rowspan="2">Guarantee</td><td>Debt</td></tr><tr><td>Equity</td></tr></table>	Guarantee	Debt	Equity	Public or philanthropic funds are used as guarantees to protect investors against capital losses or provide credit enhancement	
Guarantee	Debt					
	Equity					

Presently the Rainforest Alliance is working with partners in Peru on the development of green credits for forest community enterprises. The Rainforest Alliance is exploring the deployment of these credits lines to smallholders in the agricultural space. The Rainforest Alliance is interested in exploring complementary blended finance mechanisms that would support scaling up green credits by building capacity of borrowers and creating the necessary conditions for financial institutions to lend.

3.2. THE WORK OF THE RAINFOREST ALLIANCE IN THAT SPACE

3.2.1. GREEN CREDITS

Presently the Rainforest Alliance is supporting the development of green credits for forest community enterprises in Peru. Green credits are nontraditional credit lines which terms are tailored to the needs of forest community enterprises and the adoption of concrete, simple, and verifiable environmental metrics. For example, the duration, disbursement, and repayment terms align with harvest cycles to match enterprises' cash flows; and interest rates are tied to environmental performances, achievement of certification, or participation in capacity-building activities.

Green credits have two objectives: first, to promote ecosystem resilience, prevent further deforestation and reduce CO₂ emissions; second to promote higher levels of productivity and crop yields. The design of these green credit lines, which associate good practices in forest management and use with more favorable terms, contributes significantly to the ecosystem's resilience and to a reduction in CO₂ emissions, while promoting productive practices that lead to increased productivity and crop yields.

Similar lines of credit could be developed for smallholder producers in Peru, linking capacity building, environmental performance and access to credit. While limited to a few pilot projects and institutions these credit lines could be scaled up, assuming improved capacity of borrowers to receive finance and improved conditions for financial institutions to lend to smallholders and communities while mitigating risks.

3.2.2. REVOLVING TECHNICAL ASSISTANCE FACILITY

As alluded to earlier in this document, technical assistance is critical to strengthen the productive and financial capacities of smallholders and indigenous communities. Primarily, it is necessary to strengthen management practices in most crop systems to improve productivity and resiliency to threats such as climate change. Subsequent, it is necessary to strengthen business and financial skills among producers, producer groups, and communities to achieve better financial planning and cashflow management.

Technical assistance is beneficial not only to the smallholders or communities receiving training, but also to lenders who can expect lower risks and higher rates of repayment; and to off-takers who can expect secured supply and improved quality in their supply chains.

In Peru, as in many other countries, these trainings are privately funded by corporate social responsibility (CSR) programs or supported by philanthropic donation. Per design, these trainings are limited in time, tied to the timeline of a development project and a specific window of funding. Consequently, these trainings are often insufficient to achieve the long-term improvements that are necessary to improve access to finance.

To palliate the short-term nature of trainings and build long-term capacity among smallholders and indigenous communities, the Rainforest Alliance is exploring the idea of establishing a revolving technical assistance fund that can sustain itself over the long term with the growth of the businesses it supports.

It is proposed that the fund be structured as follows. First, the fund is established with initial capital obtained from philanthropic investors. As the beneficiaries of the fund increase their productivities, part of the financial flows associated with that increase are returned to the fund seeking to guarantee flows to future projects. As the number of beneficiaries increases, the proportion of the fund that depends on philanthropic investment decreases, ensuring its sustainability in the long term.

3.2.3. GUARANTEE MECHANISMS AND COLLATERAL

Credit guarantee mechanisms are considered one of the most important financial instruments to unlock smallholder and community finance while minimizing investment risks associated with small-scale farming in agroforestry systems¹⁵. A few institutions provide guarantees to financial institutions in Peru, including Peru's own development bank, COFIDE, USAID's Development Credit Authority (DCA) program, and the Collateral Fund for Latin America. These third-party guarantees allow financial institutions to manage risk in their agricultural portfolio and to offer credit at more flexible terms.

Other mechanisms can be deployed when lending to smallholders and communities with limited or no form of guarantees or collateral. Smallholders may use land title, productive assets (such as machinery and equipment), or their production as collateral. Community forest enterprises can now use the forest they manage as a real estate asset for collateral (this mechanism, called *el vuelo forestal* in Spanish, became effective in 2015¹⁶). Other mechanisms include guarantee schemes involving off-takers of commodities produced by smallholders and communities, such as cocoa, coffee, or timber companies.

The Rainforest Alliance has experience working with financial institutions and value-chain players in securing guarantees and collaterals for smallholder producer groups and communities in need of credit. Recent work with Agrobanco involved a partnership with the company CANDOR to facilitate access to credit for brazil nut-producing indigenous communities (see Case Study 3).

4. NEXT STEPS AND CONCLUDING REMARKS

The Rainforest Alliance seeks to promote discussion and explore partnerships to replicate and scale up existing experiences and leverage complementary blended finance approaches in support of smallholder and indigenous communities.

Given the potential blended finance mechanisms described above, the steps following this publication may include:

¹⁵ Source: *Credit Guarantee Systems for Agricultural and Rural Enterprise Development*. FAO, 2013. Taken from <http://www.fao.org/docrep/017/i3123e/i3123e00.pdf>

¹⁶ Article 190 of Supreme Decree N° 018-2015-MINAGRI. Referenced from <http://www.minagri.gob.pe/portal/decreto-supremo/ds-2015/13917-decreto-supremo-n-018-2015-minagri>

- Analyze interests and incentives among local and international stakeholders to participate in the development of blended finance models. This includes consultation with local, regional, and national stakeholders as well as conversations with international investors;
- Work with local financial institutions on the design and roll-out of green credit lines including the development of credit risk management tool, the design of guarantee and technical assistance mechanisms to support beneficiaries and mitigate repayment risk;
- Work with the national and local governments on the development of landscape-level financial mechanisms, for example leveraging REDD+ programs;
- Involve companies purchasing agricultural and forestry products produced inside or outside the forest as a link to local and international commodities markets.

5. ACKNOWLEDGEMENTS

A special acknowledgment and thanks to the Citi Foundation, for its financial contribution to the organization of the October 2016 workshop, and to the workshop advisory committee which includes Courtney Lawrence, Frazer Lanier and Hui Chan (Citi Group), Sid Embree (consultant), Cesar Chiappe and Torsten Boettcher (Agrobanco), Roberto Espinoza (COICA and AIDSEP advisor), Luis Navarro (Peruvian Coffee and Cocoa Association), Rene Gómez García (CAF) and Daniel Rivera (Root Capital), for their valuable contributions to the planning of the workshop and the revision of this document. In addition, special thanks to the Rainforest Alliance's team, especially Mark Moroge, David Llanos, Javier Martínez, and Gerardo Medina. Finally, to Mauricio Child (Columbia University) for his help in the structuring and final editing of the document.

6. CONTACTS

Helene Roy	Senior Manager, Sustainable Finance	hroy@ra.org
Mark Moroge	Director, Latin America	mmoroge@ra.org
Javier Martínez	Forestry Manager, Peru	jmartinez@ra.org

7. APPENDICES

7.1. WORKSHOP AGENDA

Workshop: Investing in Deforestation-Free Productive Landscapes of the Peruvian Amazon Friday, October 28, 2016

Welcome & Introduction

- Mark Moroge, Director Latin America, Rainforest Alliance

Opening remarks

- Nigel Sizer, President, Rainforest Alliance
- María Eugenia González, Director, Corporate and Investment Banking, Citibank Peru
- Jesús Ruitón Cabanillas, Director, Public Investment Projects, Ministry of Economy and Finance

Panel Discussion:

Current investment models for deforestation-free production in the Peruvian Amazon

- Manuel Glave, Grupo de Análisis para el Desarrollo (GRADE)
- Juan Carlos González Aybar, Director, Latin America, Althelia
- Torsten Boettcher, Product Manager Sustainable Forestry, Agrobanco
- Daniel Rivera, General Manager, Root Capital

Presentation:

Designing an investment facility for deforestation-free production in the Peruvian Amazon *What are key questions to be addressed to start working on the design of an investment facility?*

- Manuel Glave, Grupo de Análisis para el Desarrollo (GRADE)
- David Llanos, Director Peru, Rainforest Alliance

Group work sessions

- Group 1: Investment opportunities, cash flows, and value creation
- Group 2: Enabling conditions to unlock private sector investments
- Group 3: Risk-sharing mechanisms for private sector investments

Presentation:

**Financing the restoration of 20 million hectares of degraded land in Latin America and the Caribbean:
Approach and financing mechanisms of Initiative 20x20**

- María Franco Chuaire, 20x20 Initiative, World Resources Institute

Sharing Results and Defining Next Steps

- Manuel Glave and group moderators

Closing remarks

- Nigel Sizer, President, Rainforest Alliance

7.2. RESULTS OF WORKING GROUP DISCUSSIONS

Table 4: Business risks

	Type of risk	Specific risks	Examples of mitigating strategies
Exogenous	Country	Social conflicts Political stability Corruption	Guarantee or insurance mechanisms
	Economic	Foreign exchange Interest rate fluctuations	Using tools (future or options) to guarantee stability Ensuring constant interest rates (when applicable) during the lifetime of the loans
	Market and commercial	Commercial policy	Constantly monitoring possible changes or entries of new trade agreements (applies for export products)
	Regulation	Development of laws with greater environmental regulation	Making sure to comply with environmental standards
	Climate, natural disasters, pests	Reduction in precipitation Increase in temperatures and natural disasters	Establishing access to aquifer reserves - underground wells or reservoirs Guarantee or insurance mechanisms Applying smart farming practices
Endogenous	Product and productivity	Risk of product damage	Searching for goods insurance (for shipments of relevant sizes)
	Administration	Risk of bad faith	Establishing internal audit and control processes

Table 5: Barriers to business

Exogenous Barriers to Business

	Macro Barriers	Required action
Governance	Lack of coordination between state agents and NGOs	Promoting mechanisms of coordination and mutual trust among the different stakeholders
	Lack of coordination between central and local governments	Developing public policies that support productive activities
	Lack of definition of property rights	Promoting mechanisms for management and control of lands property rights
	Increase in illegal land tenure	Implementing a national cadaster on land rights and natural resources
	Little presence of the state in certain regions	Seeking involvement and support of public entities in projects
Marketing	Limited access to markets	Promoting access to markets - searching for integration mechanisms between producers and consumers
	Lack of incentives for new products and business models	Working with defined niches and marketing products Seeking support from the Government to promote innovative products Seeking the private sector's involvement when relevant
	Incentives focused on developing export business	Encouraging the trade of products for the national market
	Lack of access to financing and lack of financial risk management mechanism	Developing credits adapted according to production cycle and developing collateral mechanisms
	Lack of insurance to cover production losses	Promoting an agricultural insurance program Seeking to increase collateral mechanisms by producers - e.g. Placing land as collateral

Endogenous Barriers to Business

	Technical Barriers	Required action
Production	Non-profitable productivity	Adding and associating small and medium-sized producers, and native communities to achieve scale Implementing good practice packages and encouraging non-deforestation Providing technical training to the producer
	Unprotected communal and collective property rights	Involving international mechanisms (Inter-American Commission on Human Rights when rights are violated)
Capabilities	Lack of efficient governance mechanisms	Supporting the construction of robust governance structures
	Lack of general management	Promoting training in business management
	High dependence on success in knowledge and little leadership	Facilitating access to information on the leading fruits and business leaders Facilitate leadership succession plans
Other	Lack of public infrastructure to take the product to markets	Putting pressure on the Government and local entities for the development of key infrastructure in the region
	Low support of financial entities to projects	Defining mechanisms and instances of periodic support by financial institutions

7.3. LIST OF OCTOBER WORKSHOP PARTICIPANTS

INTERNATIONAL COOPERATION AGENCY OF JAPAN - JICA - Alejandra de la Jara, interpreter Mr. Sergio Shinechiro Tsuji

INTERNATIONAL COOPERATION AGENCY OF JAPAN - JICA - Sergio Shinechiro Tsuji, senior advisor for the Forests Conservation Capacity Development and REDD+ Mechanisms Project

AGROBANCO - Torsten Boettcher, forestry business expert

AGROBANCO - Norbil Reyes, specialist

AIDER - Paul Ramírez, manager of the Redd+ Tambopata-Bahuaja Project

AMAZON ANDES FUND - Margarita Medina, national coordinator

INTER-AMERICAN DEVELOPMENT BANK - IDB/MIF - Dieter Wittkowski, leading specialist Financing Access Unit

BBVA - Banco Continental - Luis Alfredo Manrique Farfán, Santa Cruz corporate and business banking executive

BBVA - Banco Continental - Fernando Manrique Hermoza, Santa Cruz corporate and business banking executive

BCP (Banco de Crédito of Peru) - Carlos Duffoo

Esquivel, business banking group manager

BCR - BANCO CENTRAL DE RESERVA DEL PERÚ - Jorge Ibérico, senior supervisor

CAFETALERA AMAZÓNICA - ECOM Peru - Javier

Sánchez, representative

CITIGROUP - María Eugenia González, managing director of corporate and investment banking

COCEPU Pucallpa Peru - Max Víctor Gamarra

Guerra, representative

COMERCIO Y CIA SAC - Reiles Zapata, family program

COMERCIO Y CIA SAC - David Segura, family Program

COOPERATIVA ABACO - Jorge Iglesias, institutional banking officer

COOPERATIVA ABACO - María Kathia Kanashiro, business manager

COOPERATIVA ACOPAGRO - Alexander Becerra Solano, environment manager

ANDEAN DEVELOPMENT CORPORATION (CAF) - Octavio Carrasquilla, chief executive, Environment and Climate Change Directorate

DERECHO, AMBIENTE, Y RECURSOS NATURALES (DAR) - Isabel Gonzales Icaza, consultant

DERECHO, AMBIENTE, Y RECURSOS NATURALES (DAR) - Claudia Zúñiga Carrillo, consultant

FEDERACIÓN REGIONAL DE PALMA ACEITERA SAN MARTÍN - Fernando Salazar, president

FONDO DE GARANTÍA LATINOAMERICANA - FOGAL - Wilfredo Necochea Tello, manager

FOREST TRENDS - Luis Miguel Ormeño, senior advisor, Public-Private Co-Finance Initiative

GIZ - DEUTSCHE GESELLSCHAFT FÜR INTERNATIONALE ZUSAMMENARBEIT - Estela Marjorie Espíritu Tello, technical advisor for Sustainable Forest Management - "Contribution to Peru's Environmental Goals" Program (ProAmbiente)

REGIONAL GOVERNMENT OF SAN MARTIN - GORESAM - José Enrique Delgado Mesia, economic development manager

GRADE - Analysis for Development Group - Manuel Glave Testino, main researcher

GRADE - Analysis for Development Group - Elena Borasino Deustua, researcher

ICRAF - International Center for Agroforestry Research - Trent Blare, social scientist and value chain specialist

ICRAF - International Center for Agroforestry Research - Jonathan Cornelius, regional director for Latin America

ICRAF - International Center for Agroforestry Research - Marta Suber, carbon specialist

JUNGLE EX PERU - Silvana Rotondo, owner and operator

JUNTA NACIONAL DE PALMA ACEITERA - Ledgard Arévalo, president

JUNTA NACIONAL DEL CAFÉ - Lorenzo Castillo, manager

MACARTHUR FOUNDATION - Amy Rosenthal, program officer, Conservation & Sustainable Development

MADERERA BOZOVICH - Diana Belmont

ALTERNATE DEVELOPMENT MECHANISMS - MDA PERU - Víctor Galarreta, chairman of the board of directors on Alternate Development Mechanisms - Alternate Development Mechanisms

MINAGRI (Ministry of Agriculture and Irrigation of Peru) - SERFOR - Sara Yalle, director of Sustainable Management of Forest Heritage

MINISTRY OF AGRICULTURE AND IRRIGATION OF PERU - SERFOR - Dennis Armas Chávez, specialist in Forestry Business and Market - Promotion and Competitiveness Division

MINISTRY OF AGRICULTURE AND IRRIGATION OF PERU - SERFOR - Mirbel Alberto Epiqueñ Rivera, general director of Sustainable Management of Forestry and Wildlife

MINISTRY OF ECONOMY AND FINANCE - Jesús Ruitón Cabanillas, director of public investment projects - General Directorate of Public Investment (DGIP)

MINISTRY OF THE ENVIRONMENT (MINAM) - César Calmet Delgado, director of the Forest Conservation Program

MINISTRY OF THE ENVIRONMENT (MINAM) - Fernando Canchaya Ceopa, coordinator responsible for the Promotion of Productive Systems Unit

MINISTRY OF THE ENVIRONMENT (MINAM) - Mariana Cerna Rondinel, National Forest Conservation Program, Sustainable Productive Systems Unit, forestry management specialist

OIKOCREDIT - Frank Rubio, global head agriculture

OLAM - Rohit Chandwani, general manager

OLAM AGRO PERU SAC - Franco Diaz, chief of certifications and sustainable development - OLAM Peru

INDIVIDUAL - Hugo Che Piu

INDIVIDUAL - Lawrence Szott

INDIVIDUAL - Rath Bron, director

PRFONANPE - Fund for the Promotion of Protected Natural Areas of Peru - Alberto Paniagua, executive director

UNITED NATIONS DEVELOPMENT PROGRAM UNDP - Carlos Díaz Vargas, national coordinator of the Green Commodities Program - UNDP

UNITED NATIONS DEVELOPMENT PROGRAM UNDP - James Leslie, technical advisor, Ecosystems and Climate Change

UNITED NATIONS DEVELOPMENT PROGRAM UNDP - Manuel Mavila, planning coordinator GEF Project, Sustainable Productive Landscapes in the Peruvian Amazon

UNITED NATIONS DEVELOPMENT PROGRAM UNDP - Lucia Ballesteros, MA specialist

RAINFOREST ALLIANCE - Nigel Sizer, president

RAINFOREST ALLIANCE - Mark Moroge, director Latin America

RAINFOREST ALLIANCE - Hélène Roy, sustainable finance global manager

RAINFOREST ALLIANCE - David Llanos, director Peru

RAINFOREST ALLIANCE - Javier Martínez, forestry manager

RAINFOREST ALLIANCE - Gerardo Medina, senior associate

RAINFOREST ALLIANCE - Jorge del Barco, finance manager

ROMEX (GRUPO ROMERO) - Jose Joaquín San Martín Tudela, general manager

ROOT CAPITAL - Elsa Cortijo, ROOT CAPITAL business development officer - Daniel Rivera, general manager

SIERRA/SELVA EXPORTADORA - Miguel Cordano, general manager

SIERRA/SELVA EXPORTADORA - Renan Alfaro Q, head of the Cuzco branch

THE NATURE CONSERVANCY - Luis Dávalos, indigenous projects specialist

USAID - Marisel Allende Barchi, natural resource specialist - Office of Environment and Sustainable Growth (ESG)

USAID - Eric Naranjo, investment officer in the field - USAID/Peru

USAID - Monica Romo, regional environment specialist for the Amazon USAID/South America Region

USAID - Beatriz Torres, specialist

WORLD RESOURCES INSTITUTE - WRI - María Franco Chuaire, Global Restoration Initiative of the Food, Forest, and Water Program

WWF Peru - Jessica Villanueva, director of conservation finance



233 Broadway, 28th Floor New York, NY
10279-2899 tel: 212.677.1900

fax: 212.677.2187

rainforest-alliance.org