

EL SALVADOR

75% Agricultural land
11% GDP contribution
82% Smallholders

Adapted from: U.S. Central Intelligence Agency

INTERNATIONAL CLIMATE INITIATIVE (IKI) Upscaling private Forest landscape restoration investments in latin America

Background to the investment case

El Salvador has implemented structural reforms and stable macro-economic policies, creating a tiny, but attractive investment environment.

Lending through local banks is a viable form of reaching smallholders. Sustainable production needs to be incentivized by concessional terms and targeted technical assistance to lenders and farmers.

Companies can make their environmental offsets, required by law since 2014, with FIAES, the government environmental compensation fund. FLR lenders can count on a risk buffer if their borrowers receive FIAES payments for green impact.

The agricultural production area is increasing for staple crops such as maize, sugar and beans, as well as cash crops sugar cane and oil palm. Some of these production systems can be diversified to include Forest Landscape Restoration (FLR): shade coffee and cocoa, trees in agricultural landscapes, combining trees and cattle, as well as forest plantations.

Coffee is an important traditional cash crop in higher altitudes. Establishing and maintaining shade tree cover on existing farms is a viable forest landscape investment once global coffee prices recover.

Households are investing - through remittances

Remittance flows have steadily grown and reached an all-time high in December 2018.

The GDP contribution of remittances is roughly 17%.

The payments averaged annual 231 million USD from 1990 to 2019 - a potential source of FLR investment at household level. Financial intermediaries could bundle payments into FLR funds or offer remittance recipients credit products for FLR investments at farm level.

Baseline situation and need for FLR

El Salvador urgently needs trees. It is the country with the lowest percentage of remaining forest cover in Latin America.

The country is highly vulnerable to climate change. Water stress is prevalent and extreme weather events are looming.

65% of small scale farming takes place on slopes vulnerable to erosion and landslides.

45% of the country or around 945,000 ha are suitable for reforestation, but only 6,000 ha of commercial plantations have been established so far..

Market demand for FLR products expected to rise

Population density and migration is high, an estimated 20% of El Salvadorians live abroad.

Due to labor constraints, of-ten only 1/4 of farm area is under cultivation at any given time.

This indicates potential for land use efficiency improve-ments and freeing up areas for FLR.

Less seasonal, tree based production systems create long term cash flows and re-store land at the same time.

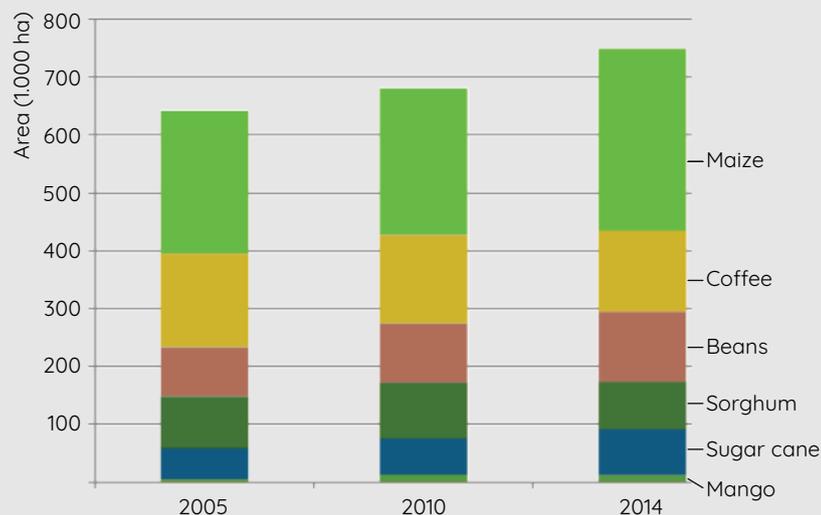
Future economic growth in the country will create demand for value added timber products.

Reasons to invest in FLR

- Shade coffee and cocoa, trees in agricultural landscapes, combining trees and cattle, as well as forest plantations are the most promising investments in El Salvador to upgrade deforested and degraded land, and to make use of underutilized farms.
- Traditionally, trees play an important role in agricultural smallholder landscapes in El Salvador as food and fodder sources. SME lenders can build on this tradition and incentivize farmers to maintain or enhance tree cover by providing targeted loans. Direct investors can find economically attractive case in establishing larger scale diversified production systems on degraded land.
- FAO has identified a number of sustainable agricultural practices, including agroforestry and silvopastoral systems, to promote at scale and has received a 38 million USD GCF grant to do so. The public program is operational since 2019 and may support a number of smallholder producers to scale up sustainable production to commercial levels.
- There are about 900 agricultural and 370 fishing cooperatives in the country – potential borrowers/multipliers of FLR specific credit lines and potential partners for technical assistance interventions.

The following main crops and investments in coffee renovation and timber plantations could be attractive:

Area of main crops in El Salvador 2005-2015



The maintenance and renovation of shade coffee agroforestry systems contributes to

- additional sources of income from timber and other tree products
- soil fertility enhancement and agricultural productivity increase in the long term
- conservation of soil fertility and reduction of soil degradation and erosion
- increased climate resilience and climate change mitigation
- habitat for wildlife and biodiversity

Timber plantations as viable FLR investments

- El Salvador has very little remaining forest and the last patches face deforestation risk due to agricultural expansion.
- The main commercial species are teak and cypress. In 2018, wood exports reached a value of 5 million USD, with India as the destination country for Central American exports that has grown the most in the last few years (2012-2018).
- In 2012, El Salvador had a timber consumption of 250,000 – 300,000 m³. 98% of this demand had to be covered by imports, as the domestic sawmill industry is underdeveloped. There is huge potential for investment in processing.
- There is a gap between domestic supply and demand of timber, which could be satisfied through investments in the establishment of tree plantations.

Loans vs. equity

Tree plantations are challenging to finance through loans due to long payback periods, but they increasingly attract equity investors.

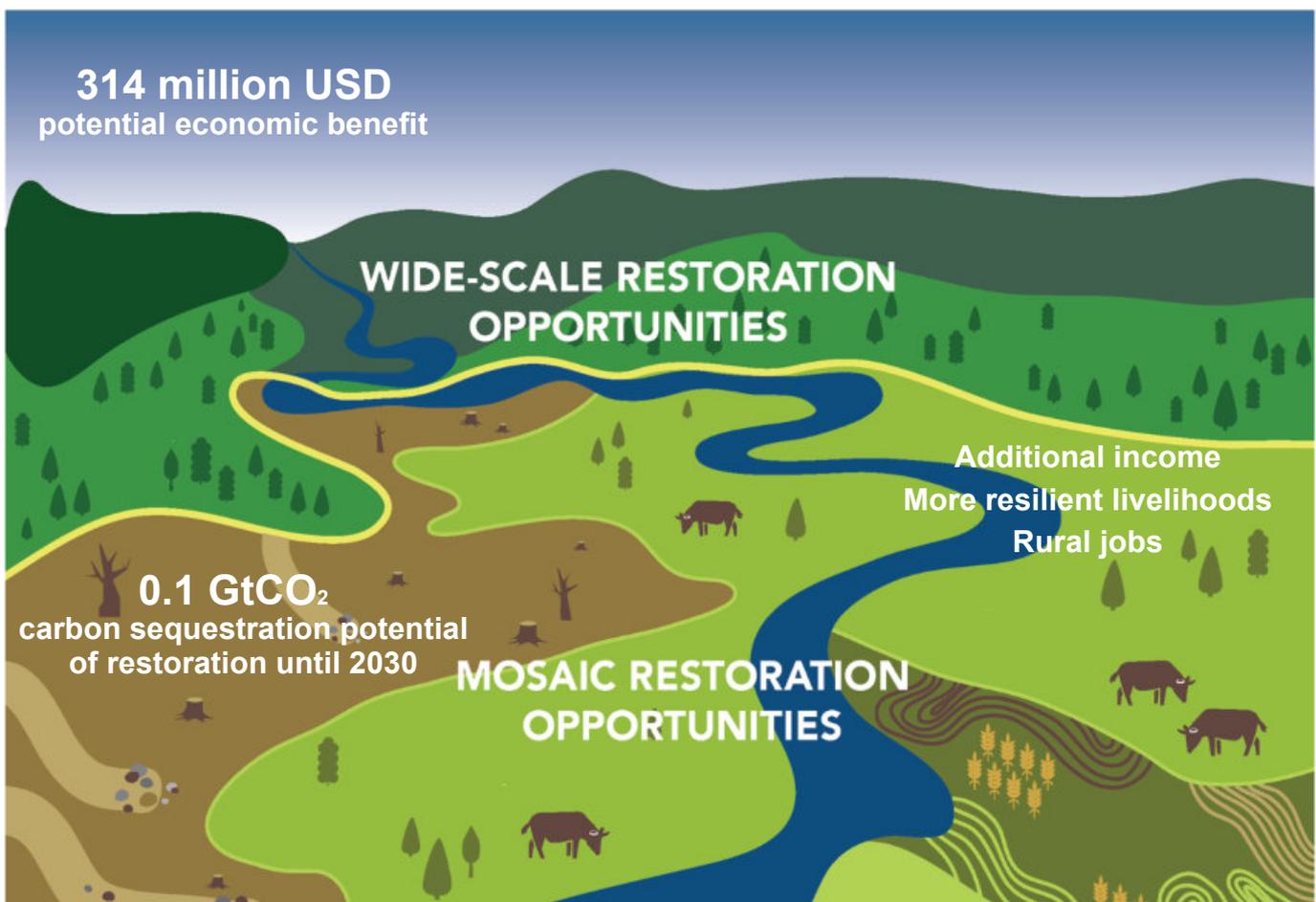
Diversified systems such as agroforestry increase the options for lenders and borrowers based on various income streams.

Credit to the private sector as a whole grew by 6.4% in 2018 and could further increase in new areas such as FLR.

Opportunities for scaling private sector FLR investments

Ongoing investments	Positive policy environment	Potential FLR partners
<ul style="list-style-type: none"> Eco.business fund successfully lends to local partner banks for sustainable land use. Their end borrowers in turn receive credits for sustainable practices such as restoration with climate resilient varieties, composting and renewable energy. FCCF invests the restoration and management of degraded forests in Central America. Investments in neighboring countries suggest a future potential in El Salvador. 	<ul style="list-style-type: none"> El Salvador pledged to restore 1 million hectares of degraded land under the Bonn challenge. The country's Nationally Determined Contribution to the Paris Agreement set the goal of increasing forest cover from now 5% to 25% by 2030. El Salvador's ease of doing business score is slightly above the regional average with 65 out of 100. 	<ul style="list-style-type: none"> FAO has launched a GCF supported grant program for smallholders; IKI supports FLILA and nature based solutions. Investors and lenders can receive technical assistance for bankable projects. GIZ supports FLR activities in the country and is seeking private sector partners to scale investments. FIAES offers grants to land owners and land users.

The triple bottom line of FLR investment in El Salvador



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