

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

Background to the investment case

Peru is still a country with **high forest cover**, low deforestation rates and is a net exporter of agricultural products. On the other hand, 77% of timber products had to be imported to meet domestic demand.

Low commercial interest rates make private investments for Forest Landscape Restoration (FLR) attractive for equity investors.

The vast majority of agricultural producers are **small family farms with much potential to increase production efficiency**. FLR investments are most promising in shade coffee, tree-based products and silvopastoral systems.

Baseline situation and need for FLR

Agricultural output of all export crops is expected to increase, especially for cash crops such as coffee, cocoa and palm oil.

Despite the current low deforestation rate, forecasted agricultural growth could result in the de-forestation of 18 to 20 million hectares in the next ten years.

Agricultural growth without deforestation is feasible if either non-forested or degraded land is used or sustainable intensification measures are adopted.

Expected increase in cultivated area for selected commodities (2018-2028)



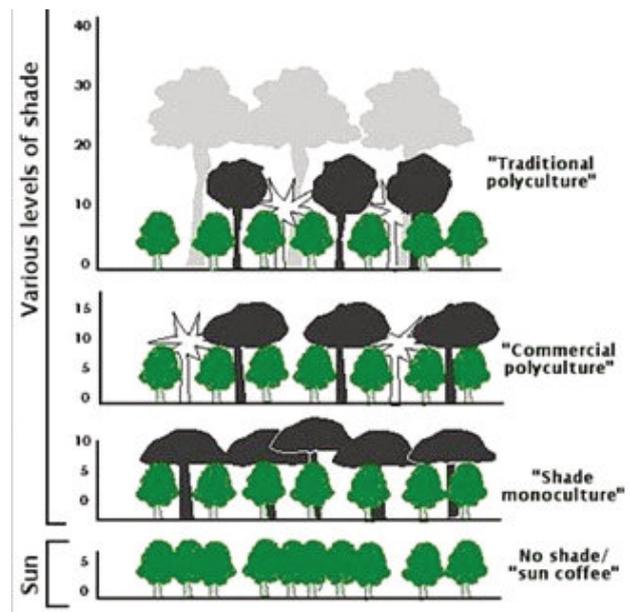
FLR investment opportunities in agriculture ...

Shade coffee - an attractive FLR opportunity

Peru is the world's 10th largest coffee producer and second largest in organic coffee, earning USD 1,200 million in exports annually.

Coffee was responsible for 26% of total deforestation between 2001 and 2016, making proper monitoring and deforestation risk management necessary. Land deforested after 2010 should be excluded.

Sustainably grown in shade systems is a promising FLR green field investment on non-forest land or if trees are introduced into existing no-shade systems to increase climate risk-adjusted returns.



... and forestry

There is an increasing demand for wood products from the construction and food packaging industries, as well as for higher value added timber products.

Despite the growing demand, timber production has continuously decreased since 2008. The forestry sector remains underdeveloped, with natural forests as the main source of timber. Replacing unsustainable wood supply from deforestation with a sustainably managed supply from plantations and well-managed natural forests is a major FLR investment opportunity.

A few private reforestation companies act as service providers for landowners to establish pure plantations or systems where trees are planted together with agricultural crops or livestock. Exotic species prevail so far, but fast growing natives like Bolaina could gain ground with injection from investors and the development of a processing industry. San Martín and Ucayali are small plantation hotspots already, while Cajamarca is suitable for pine or high altitude local species.

FLR investors face a diverse sector

A diverse entrepreneurial pool in the industrialized coastal agriculture zone serves mostly overseas export markets. These well-capitalized companies could diversify into promising FLR businesses opportunities, using their product development and international marketing knowledge.

Small-scale agriculture prevails in the rest of the country, with few companies and cooperatives operating at commercial scale in coffee and in niche markets such as health foods and cosmetics derived from tree oils. Investments in digital platforms can improve access to markets and finance.

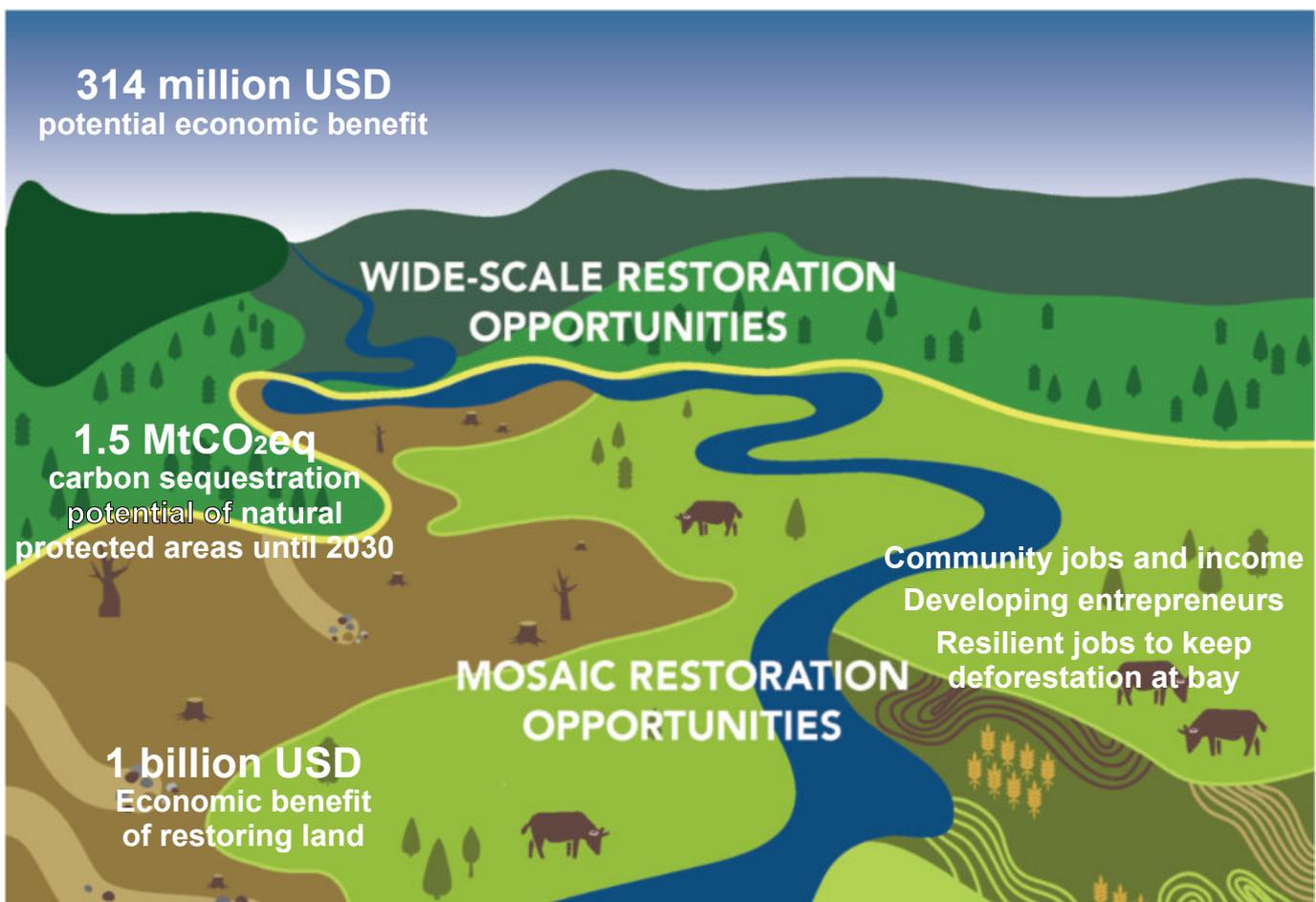
There are an estimated 10 million ha of degraded land, out of which 3-4 million ha are suitable for the establishment of agroforestry systems.

Land is mostly community owned. This can be a challenge for project developers but also offers the possibility for processors and exporters to establish FLR outgrower schemes and increase social impact through income and job creation without land conflict.

Opportunities for scaling private sector FLR investments

Positive policy environment	Potential FLR partners	Investments
<ul style="list-style-type: none"> Peru committed to restore 3.2 million hectares of degraded land under the Bonn Challenge and the country's Nationally Determined Contribution to the Paris Agreement until 2030 (see below). Peru's ease of doing business score is slightly above the regional average with 69 out of 100, compared to 59 out of 100. 	<ul style="list-style-type: none"> Peru has plenty of public funds available to support FLR investments. The National Fund for Protected Areas (Profananpe) for example provides grants to project developers in sustainable forestry and conservation. IKI is a major supporting partner of FLR in Peru. The FLILA project provides technical assistance to make projects bankable and attract investors. 	<ul style="list-style-type: none"> Credit to the private sector has increased since the 1990s and was 44% of GDP in 2018. The Althelia Climate Fund has invested in several FLR projects across Peru, focusing on restoration of degraded lands in national park buffer zones with shade coffee and cocoa systems. Root Capital is an active investor in shade coffee restoration and other FLR projects.

The triple bottom line of FLR investment in Peru



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