



## Blended finance facility for climate resilience in coffee and cacao value chains: CC-Blend

### Part I: Project Information

**GEF ID**

10434

**Project Type**

MSP

**Type of Trust Fund**

SCCF

**CBIT/NGI**

CBIT

NGI

**Project Title**

Blended finance facility for climate resilience in coffee and cacao value chains: CC-Blend

**Countries**

Regional

**Agency(ies)**

UNEP

**Other Executing Partner(s)****Executing Partner Type**

**Other Executing Partner(s)**

Banco de Fomento Agropecuario (BFA)

**Executing Partner Type**

Private Sector

**GEF Focal Area**

Climate Change

**Taxonomy**

Climate Change, Focal Areas, Climate Change Adaptation, Private sector, Climate finance, Innovation, Livelihoods, Ecosystem-based Adaptation, Climate resilience, Influencing models, Demonstrate innovative approach, Deploy innovative financial instruments, Stakeholders, Type of Engagement, Information Dissemination, Partnership, Participation, Beneficiaries, Local Communities, Private Sector, Financial intermediaries and market facilitators, Individuals/Entrepreneurs, SMEs, Civil Society, Non-Governmental Organization, Community Based Organization, Communications, Behavior change, Strategic Communications, Awareness Raising, Gender Equality, Gender results areas, Knowledge Generation and Exchange, Participation and leadership, Capacity Development, Gender Mainstreaming, Women groups, Sex-disaggregated indicators, Gender-sensitive indicators, Capacity, Knowledge and Research, Knowledge Generation, Training, Workshop, Learning, Indicators to measure change, Knowledge Exchange, Field Visit, South-South, Conference, Peer-to-Peer

**Rio Markers****Climate Change Mitigation**

Climate Change Mitigation 0

**Climate Change Adaptation**

Climate Change Adaptation 2

**Duration**

18 In Months

**Agency Fee(\$)**

103,697

**Submission Date**

11/11/2019

**A. Indicative Focal/Non-Focal Area Elements**

<b>Programming Directions</b>	<b>Trust Fund</b>	<b>GEF Amount(\$)</b>	<b>Co-Fin Amount(\$)</b>
CCA-1	SCCF	682,000	6,250,000
CCA-3	SCCF	409,552	750,000
	<b>Total Project Cost (\$)</b>	<b>1,091,552</b>	<b>7,000,000</b>

## B. Indicative Project description summary

### Project Objective

To strengthen the climate resilience of coffee and cacao producers in El Salvador through a blended-finance and technical-assistance facility for nature-based adaptation solutions and catalyze regional innovation in investment

Project Component	Financing Type	Project Outcomes	Project Outputs	Trust Fund	GEF Amount(\$)	Co-Fin Amount(\$)
Establishing a blended finance facility for nature-based adaptation investments	Investment	Outcome 1 Improved uptake of financing for increased climate resilience of cacao and coffee value chains in El Salvador	<p>Output 1.1 Training provided to up to 6 BFA rural branches to disburse loans for nature-based adaptation solutions, including on credit methodology, product development, risk and information management and monitoring.</p> <p>Output 1.2 Dedicated credit line for private investment in nature-based adaptation solutions designed and accessed by up to 4,000 farmers.</p> <p>Output 1.3 Adaptation impact of the credit line assessed and a strategy developed for a long-term financial mechanism aimed at sustainable and climate-adapted investments.</p>	SCCF	320,000	5,000,000

<b>Project Component</b>	<b>Financing Type</b>	<b>Project Outcomes</b>	<b>Project Outputs</b>	<b>Trust Fund</b>	<b>GEF Amount(\$)</b>	<b>Co-Fin Amount(\$)</b>
Promoting climate-resilient production practices	Technical Assistance	Outcome 2 Strengthened capacities in micro, small and medium agricultural businesses to enhance climate resilience of coffee and cacao value chains	<p>Output 2.1 A community of practice with local technical institutions and agricultural service and input providers established and training of trainers on nature-based adaptation solution packages delivered.</p> <p>Output 2.2 Technical support and training delivered to farmers to access and interpret climate and phenological data and to implement nature-based adaptation solutions, including through peer-to-peer demonstration plots.</p> <p>Output 2.3 Training delivered to coffee and cacao farmers and associations on financial literacy, business management skills, and certification processes to access specialized markets.</p>	SCCF	350,000	700,000

Project Component	Financing Type	Project Outcomes	Project Outputs	Trust Fund	GEF Amount(\$)	Co-Fin Amount(\$)
Sharing knowledge to increase regional access to sustainable finance	Technical Assistance	Outcome 3 Enhanced regional engagement and exchange among financial institutions for increased investment in climate resilience in agriculture	<p>Output 3.1 Knowledge products on lessons learnt from the project published and shared regionally (e.g. policy briefs for decision makers and a manual on nature-based adaptation solutions for cocoa and coffee chains).</p> <p>Output 3.2 Regional community of practice for financial institutions (e.g. DFIs, IIMs and MFIs) established and operationalised for knowledge sharing, exchange, training and partnership building on finance for climate resilience in agriculture.</p> <p>Output 3.3 Training on climate-resilient credit methodologies for replication provided at the regional scale to financial intermediaries (e.g. Adopem, Fundecooperación or other MEbA partners and/or members of REDCAMIF).</p> <p>Output 3.4 High-level dialogue between national, regional and global DFIs (national agricultural development banks, CABEI, CAF, IDB, AFD), IIMs and MFIs established through targeted events to catalyze second-tier investments (e.g. dedicated credit lines) for climate-resilient agriculture.</p>	SCCF	322,320	800,000

Project Component	Financing Type	Project Outcomes	Project Outputs	Trust Fund	GEF Amount(\$)	Co-Fin Amount(\$)
				<b>Sub Total (\$)</b>	<b>992,320</b>	<b>6,500,000</b>
<b>Project Management Cost (PMC)</b>						
				SCCF	99,232	500,000
				<b>Sub Total(\$)</b>	<b>99,232</b>	<b>500,000</b>
				<b>Total Project Cost(\$)</b>	<b>1,091,552</b>	<b>7,000,000</b>

**C. Indicative sources of Co-financing for the Project by name and by type**

<b>Sources of Co-financing</b>	<b>Name of Co-financier</b>	<b>Type of Co-financing</b>	<b>Investment Mobilized</b>	<b>Amount(\$)</b>
Private Sector	BFA	Loans	Investment mobilized	5,000,000
GEF Agency	UNEP	Grant	Investment mobilized	1,500,000
Donor Agency	USAID	Grant	Investment mobilized	500,000
			<b>Total Project Cost(\$)</b>	<b>7,000,000</b>

**Describe how any "Investment Mobilized" was identified**

Banco de Fomento Agropecuario (BFA) will develop a dedicated USD 5 million credit line for nature-based solutions using a specific credit methodology and monitoring tools transferred via the MEbA project to BFA, which will be scaled up with SCCF funds to characterize and publish the credit line and assess its impact. This credit line will be additional to current BFA investments in the agriculture sector since it will have clear emphasis on sustainable adaptation practices. The improved conditions of the credit line will be a result of blending SCCF funds with the Bank's own funds and the technical assistance provided (also with SCCF funds). Without SCCF funds, the scaling up of the methodology, the monitoring of credits, the technical assistance and the improved rate conditions would not be feasible. It is therefore considered investment mobilized.



**D. Indicative Trust Fund Resources Requested by Agency(ies), Country(ies), Focal Area and the Programming of Funds**

<b>Agency</b>	<b>Trust Fund</b>	<b>Country</b>	<b>Focal Area</b>	<b>Programming of Funds</b>	<b>Amount(\$)</b>	<b>Fee(\$)</b>	<b>Total(\$)</b>
UNEP	SCCF	Regional	Climate Change	NA	1,091,552	103,697	1,195,249
<b>Total GEF Resources(\$)</b>					<b>1,091,552</b>	<b>103,697</b>	<b>1,195,249</b>

**E. Project Preparation Grant (PPG)**

**PPG Amount (\$)**

50,000

**PPG Agency Fee (\$)**

4,750

<b>Agency</b>	<b>Trust Fund</b>	<b>Country</b>	<b>Focal Area</b>	<b>Programming of Funds</b>	<b>Amount(\$)</b>	<b>Fee(\$)</b>	<b>Total(\$)</b>
UNEP	SCCF	Regional	Climate Change	NA	50,000	4,750	<b>54,750</b>
<b>Total Project Costs(\$)</b>					<b>50,000</b>	<b>4,750</b>	<b>54,750</b>

## Core Indicators

### Indicator 4 Area of landscapes under improved practices (hectares; excluding protected areas)

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
0.00	0.00	0.00	0.00

### Indicator 4.1 Area of landscapes under improved management to benefit biodiversity (hectares, qualitative assessment, non-certified)

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)
0.00			

### Indicator 4.2 Area of landscapes that meets national or international third party certification that incorporates biodiversity considerations (hectares)

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)

### Type/Name of Third Party Certification

### Indicator 4.3 Area of landscapes under sustainable land management in production systems

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)

### Indicator 4.4 Area of High Conservation Value Forest (HCVF) loss avoided

Ha (Expected at PIF)	Ha (Expected at CEO Endorsement)	Ha (Achieved at MTR)	Ha (Achieved at TE)

## Documents (Please upload document(s) that justifies the HCVF)

Title Submitted

### Indicator 11 Number of direct beneficiaries disaggregated by gender as co-benefit of GEF investment

	Number (Expected at PIF)	Number (Expected at CEO Endorsement)	Number (Achieved at MTR)	Number (Achieved at TE)
Female	0			

	Number (Expected at PIF)	Number (Expected at CEO Endorsement)	Number (Achieved at MTR)	Number (Achieved at TE)
<b>Male</b>	0			
<b>Total</b>	0	0	0	0

## Part II. Project Justification

### 1a. Project Description

#### *A1.1. The project problem, root causes and barriers that need to be addressed*

Central American[1]<sup>1</sup> communities and ecosystems are particularly vulnerable to the adverse effects of climate change. The region is repeatedly affected by drought, intense rains, cyclones and El Niño Southern Oscillation. Central America has an important forest cover and is home to highly diverse ecosystems (approximately 7% of the world's biodiversity[2]<sup>2</sup>), which are facing not only degradation and deforestation, but also the effects of increasing temperature and hydro-meteorological extremes. In the region in general and in El Salvador in particular, population growth and expansion of the agricultural frontier have led to widespread deforestation, soil erosion, and pollution from agrochemicals. In El Salvador, for example, 90% of groundwater is contaminated and not suitable for direct human consumption. El Salvador is one of the most deforested countries in the region: between 1990 and 2015, 30% of the forest area was lost[3]<sup>3</sup>. The main causes of deforestation and degradation of forests and soils in El Salvador are attributed to: the expansion of agricultural activities and the use of unsustainable practices; urban growth and infrastructure construction; livestock production; wood and wood extraction, wildfires and agricultural burning[4]<sup>4</sup>, among others.

The degradation of ecosystems coupled with the impacts of climate change increase the vulnerability of rural populations in El Salvador and the Central American region, who depend on ecosystem services and favourable weather conditions for their livelihoods.

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Latin America and the Caribbean has experienced warming of 0.3 °C to 1.5 °C since the early 1980s, with the highest increases recorded for Central American and Caribbean countries. It is expected that Central America will become distinctly drier in the future, and will also experience an increase in extreme precipitation during tropical cyclones[5]<sup>5</sup> and a decrease in the amount of rainfall during the wet season because the canicular (dry period) will be longer and drier[6]<sup>6</sup>.

An assessment of the risk of experiencing impacts of extreme weather-related events (droughts, forest fires, cyclones, severe storms, floods or storm surges) shows that El Salvador has an "extreme risk" of exposure to such impacts[7]<sup>7</sup>. It is ranked as the third most sensitive country in the entire Latin American and Caribbean region. Annual economic losses of 3.6% of GDP were recorded due to extreme weather events in 2010, which affected more than 100,000 people[8]<sup>8</sup>. It is also estimated that the losses associated with these impacts will increase in the coming years, reaching costs of 7.2% of GDP by the year 2030.

The agricultural sector is particularly important for Central American countries. It accounted for 5.4% of the GDP of El Salvador in 2018[9]<sup>9</sup> and employed 30% of its working population. Within the sector, subsistence farmers represent almost 60% of the farmers of the region, yet they own only 6.5% of arable surface. This fact shows that farming both for subsistence and cash crop agriculture is usually done at small scale, with typical plots ranging from 1 to 5 ha with an average of 1.6 ha for the western part of El Salvador.

The impacts of climate change are particularly damaging to small-scale farmers due to their dependence on rainfed agriculture, their socio-economic characteristics and the technologies and practices they use. It has been documented that in response to climate variability, families are being forced to seek alternative livelihoods in cities and abroad. Projections of the number of climate migrants for Mexico and Central America are expected to reach an average of 1.4 – 2.1 million by 2050[10]<sup>10</sup>.

Coffee and cacao are important sources of income for small-scale farmers in El Salvador. In 2017, 128,035 hectares of coffee and 800 hectares of cacao were harvested, producing 39,460 tons of coffee and 357 tons of cacao[11]<sup>11</sup>. In El Salvador, 86% of coffee producers are small-scale farmers (less than 7 ha). The activity generated about 150,000 direct

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jobs and accounted for 7.5% of the country's exports between 1995 and 2012[12]<sup>12</sup>. However, during the last decade, coffee production and yields have declined substantially. In El Salvador, exports have fallen by more than half; more than 80,000 jobs have been lost and producers are cultivating without almost any profit. In 2010, 112,636 tons of coffee were produced with a yield of 7,394 tons per hectare, in 2017 the production fell to 39,460 tons with a yield of 3,082 tons per hectare[13]<sup>13</sup>.

Multiple interrelated causes are behind this phenomenon, including the plague of coffee leaf rust, aging coffee plants and lack of renewal, use of seeds that are non-resilient to drought or temperature increase, falling prices in the global market and low investment in crop improvement. Climate change is now exacerbating the problem. Rising temperatures and longer dry periods render coffee trees weaker and therefore more susceptible to coffee leaf rust and other diseases. Additionally, higher temperatures speed up the ripening of coffee berries, leading to poorer cup quality. Changes in rainfall patterns cause premature dehiscence in coffee flowers and fruits, which results in smaller fruits, low-quality beans and therefore lower selling prices. Furthermore, a study suggests that by 2050, 42% of the area potentially suitable for coffee production in Central America will be lost due to climate change[14]<sup>14</sup>. Especially locations at low altitudes (0 to 680 masl) may have to transform to other crops or make substantial changes to the production system.

One alternative crop option to coffee at lower altitudes is cacao farming. Both coffee and cacao may be grown under agroforestry management; both have potential benefits in terms of forest cover, carbon sequestration, habitat for fauna (specially birds and small mammals) and aquifer recharge. However, cacao, unlike coffee, may have a more positive future in the face of the expected changes in climatic conditions in Central America. It has been estimated that half of the current coffee plantations that are vulnerable to global warming in the future could be replaced by cacao[15]<sup>15</sup>; in fact, farmers in El Salvador are currently replacing parts of their coffee plantations for cacao crops. Agricultural producers have found it more profitable to grow cacao because it needs fewer workers and around 40 percent less investment in inputs than coffee, while international prices are buoyant. In recent years, cacao production in El Salvador has grown from 190 tons in 2010 to 357 tons in 2017[16]<sup>16</sup>. This does not mean that cacao crops do not have risks associated with climate change, but rather that there is an opportunity to foster a resilient management of cacao plantations with great potential to generate social, environmental and economic benefits that strengthen the livelihoods of the country's small-scale producers.

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Ecosystem degradation due to unsustainable production practices greatly exacerbates the vulnerability of small-scale farmers in El Salvador to the impacts of climate change. Small-scale farmers continue to replicate conventional and often unsustainable practices that lead to a deterioration of ecosystems and the services that support the farmers' livelihoods. Coffee and cacao production practices negatively impact ecosystems, biodiversity and their services. The most notorious among these negative impacts are soil erosion, compaction, salinization and pollution from the intensive use of pesticides and fertilizers; pollution of water bodies from nutrient-rich runoff and acidic leachate from coffee milling, or from the use of insecticides and nematicides. Although slash and burn has been significantly reduced, the burning of crop residue is commonplace, depriving topsoil of its most nutrient-and-microorganism-rich layer and increasing the need and demand for chemical fertilizers, perpetuating a cycle of high production costs, negative ecosystem impacts and low productivity. In general, soil degradation processes are severe. Every year, 59 million metric tons of fertile soil in the national territory are lost through erosion. 40% of Salvadoran soil has high erodibility, especially in the steepest areas<sup>[17]</sup><sup>17</sup>. Changes in unsustainable conventional agricultural practices do not take place mainly either because farmers do not have adequate knowledge of alternative methods and technologies to develop their activity in a sustainable and adapted way, or because they do not have the necessary resources to invest in the required changes.

The **problem** that the proposed SCCF project seeks to address is that small-scale farmers in coffee and cacao value chains in El Salvador in particular, and in the Central American region in general, are increasingly vulnerable to the impacts of climate change. The vulnerability of these producers is greatly exacerbated by the degradation of ecosystems as a consequence of unsustainable production practices. The key **barriers** to the adoption of climate-resilient practices by small-scale farmers in El Salvador include: i) lack of knowledge of adaptation options and limited capacity to plan and implement them, ii) lack of access to finance needed for shifting to climate-resilient production practices, and iii) low associativity and limited access to markets.

Currently, there are few initiatives supporting climate change adaptation in the region that include both technical and financial aspects for smallholder coffee and cacao producers to break the cycle of poverty and vulnerability. This results in limited capacity of government and private sector entities to provide products and services targeted at these vulnerable populations.

The **proposed solution** is to strengthen the adaptive capacity and ultimately the climate-resilience of small-scale farmers in Central America through the introduction of nature-based solutions (NbS) into financial products and services specifically designed to address farmers' needs. Financial products will be accompanied by a technical assistance component to ensure the successful implementation of NbS options, improved associative approaches and access to markets.

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The project will focus on increasing capacity in financial and technical institutions to provide products and services that will improve management practices of water, soil and nutrients, while enhancing market opportunities in coffee and cacao value chains. Lessons, tools, methodologies and momentum generated by the Microfinance for Ecosystem-based Adaptation (MEbA) project will be used to support Banco de Fomento Agropecuario (BFA) in El Salvador and at least three other financial institutions in the region to develop the aforementioned NbS products and services for climate resilience of small-scale cacao and coffee farmers. Training on the MEbA methodology will be provided, which includes climate-risk management, information management, application of monitoring tools to measure the adaptation impact of nature-based solutions and green financial product development. In addition, financial and technical support to BFA will be delivered in structuring the dedicated NbS credit line and engaging technical institutions to support clients who access this funding.

The proposed project will promote sustainable nature-based adaptation solutions through packages and practices that reduce pressure on ecosystems, contribute to the sustainable use of water and soil resources, and create favorable conditions for ecosystems to recover health and services. This has direct repercussions on the producers that rely on functional ecosystems not only to sustain their livelihoods but also to buffer them against the negative impacts of climate change. These on-the-ground nature-based adaptation interventions will be coupled with the financial and technical support of state and private institutions. As a result, micro, small and medium agricultural entrepreneurs will have increased access to: i) technical assistance in identifying and implementing nature-based adaptation solution packages for sustainable climate-resilient production (e.g. conservation agriculture, natural shade, seed banks, improved and resilient varieties, organic farming, efficient irrigation, integrated pest management) combined with resilience-building alternative livelihoods (e.g. beekeeping, agritourism, crop diversification); ii) technical assistance in processing methods (e.g. solar dehydration, seed/pulp processing and treatment, storage, product transformation); iii) capacity-building in business, marketing, and cooperative approaches, with linkages to national and international green markets; and iv) access to loan and, potentially, insurance services targeted at sustainable climate-resilient production.

The proposed interventions will address the predicted impacts of climate change described above, namely<sup>[18]</sup>:

**i) Increased temperatures, drought and intensity of extreme rainfall events that translate into crop losses.** Nature-based solutions, such as agroforestry systems, provide numerous benefits to address climate impacts. The presence of trees reduces exposure to the sun, wind and rain and regulates air and soil moisture. These factors promote the establishment of a microclimate that mitigates the effects on crops of extreme heat, wind and intense rainfall as well as drought. This diversified system enhances food security, decreases the potential for soil erosion by wind or water and reduces the need for greater agricultural inputs, due to beneficial interactions among species in different plant strata. Mixed systems provide diversified sources of revenue, which increases overall resilience in times of uncertainty caused by increased climate variability.

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**ii) Increased abundance of pest and diseases that reduce productivity.** Plants that are well nourished are more resistant to pests. Organic fertilizers help reduce the effects of intense rainfall, drought and changes in rainfall patterns on crops because they increase the capacity of the soil to absorb and retain moisture, while providing essential nutrients to the plants' roots. In addition, improving the physical, chemical and biological characteristics of the soil increases productivity, diminishes the need for large amounts of agricultural inputs and controls erosion. NbS such as integrated pest management decrease potential damage to crops by opportunistic species that take advantage of changing rainfall patterns or temperature to propagate. Through alternative control methods, integrated pest management reduces the need for greater agricultural inputs. Combined with other measures, it helps increase yields considerably.

**iii) Increased climate variability which affects cropping seasons and increases overall production risks.** Technological climate-resilient options, such as efficient irrigation systems, reduce the effects on crops of drought, extreme heat and changing rainfall patterns through the efficient use of water. The water savings allow production to continue where and when less water is available, which increases food security and stabilizes income. Covering the soil with organic matter (crop residue or green manures) helps preserve moisture and provides additional nutrients to the soil, thus increasing irrigation efficiency and minimizing runoff. This helps protect nearby surface water bodies. Other technological options, such as solar dehydrators conserve or add value to agricultural products by maintaining their nutritional or genetic value and inhibiting the proliferation of microorganisms that cause decomposition. This allows the producers to process the products and increase their profit margin. Finally, complementary ecological support measures, such as beekeeping, raise the productivity of nearby cropland and increase food security. Beekeeping also lessens the impact of phenological changes through pollination and enhances the general resilience of farmers by providing them with an alternative source of income in the event of crop loss or damage.

The proposed solution will also address **main identified barriers** that smallholders face in adapting to climate change, namely:

**i) Insufficient knowledge of adaptation alternatives, including their benefits and costs, and limited capacity to implement them.** Technologies and practices available for the production of coffee and cacao crops with sustainable and climate-adapted practices do not yet reach the necessary scale to transform these value chains. Of the cultivated coffee area, 87% has varieties that are not resistant to coffee leaf rust (a pest that has practically decimated coffee production in El Salvador in recent years and is increasing its impact due to changes in temperature and rainfall patterns). Some coffee plants are more than 28 years old and have not been renewed. Maintenance practices such as pruning are not properly implemented and there is generally a low recovery of the organic content of the soil. There is particularly limited awareness of nature-based solutions for building climate resilience in coffee and cacao production systems. The project, aligned with the efforts of the GOES, will contribute to strengthening the capacities of local producers through a training of trainers program that will disseminate knowledge about adaptation options and build capacity for their implementation widely among local farmers. Producer

associations will play a fundamental role in the sustainability of the strategy. In addition, demonstration farms will be installed allowing producers to learn about nature-based solutions, accompanying technologies and practices, their benefits (economic and environmental), and financing options.

**ii) Lack of financing or incentives that promote a change in behavior towards climate resilience.** Studies suggest that to generate significant changes in the coffee sector, such as renovating 70,000 ha of coffee plantations, there is an unmet financing need of approximately USD 300 million in five years<sup>[19]</sup><sup>19</sup>. The Banco de Fomento Agropecuario (BFA) currently finances coffee producers (20% of its agricultural portfolio) and cacao producers (less than 1% of the agricultural portfolio) for working capital and investment activities. However, the current credit methodology does not take into account climate-risk considerations so there is no way to determine if the bank is promoting climate-resilient investments. The proposed project will allow to scale up the work that BFA has been developing at pilot scale –with support from UNEP through the MEbA project– to promote microloans geared for investments in nature-based adaptation solutions. The proposed financial mechanism will offer a credit line with improved interest-rate conditions that will incentivize farmers to invest in resilience. Coupled with a technical assistance component, the proposed solution is to reduce the credit risk currently borne by the coffee sector and also enhance investments in replacing coffee with cacao crops where land has changed suitability due to temperature increase.

**iii) Insufficient market links that maintain farmers in a cycle of poverty and vulnerability.** The associativity and cooperativism among coffee and cacao producers are weak in El Salvador, which is a reflection of the situation in the broader Central American region. The coffee crisis, the context of pervasive violence and the lack of new leaders in rural areas have weakened these organizational structures. To add value in coffee and cacao production and motivate access to specialized markets, strong associations are needed, particularly to install post-harvesting infrastructure, to generate required volumes to meet the demand of the international market, to standardize product quality and to reach certification for fair trade, quality or green stamps<sup>[20]</sup><sup>20</sup>. The proposed project will support farmers and farmer associations to access specialized markets through training on sustainable climate-resilient practices and business management, enhanced access to local buyers and the general motivation of local value chains. Of particular importance both for individuals and associations, is the proper recording of expenditures and gains.. Training on financial literacy and business practices will be provided to improve this situation.

### *A1.2 The baseline scenario and associated baseline projects*

Small-scale agricultural producers in Central America are negatively affected by climate change. In particular, the length and intensity of droughts is increasing while extreme rainfall events and increased incidence of climate-related pests (e.g. leaf rust) continuously damage and reduce productivity in crops, particularly coffee and cacao. Coupled with

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unsustainable production practices, climate change is affecting essential ecosystem services required to sustain production, namely water and climate regulation leading to soil loss and erosion, and diminishing water availability. Market fluctuations and lack of investment in agricultural production place small-scale producers in a continuous cycle of poverty and vulnerability. All these factors are a major threat to food security and rural livelihoods. These baseline problems are being addressed by a series of responses from the GOES with the support of bilateral and multilateral cooperation.

In response to the problem presented, the UNEP and GOES have been implementing different initiatives with public resources and international cooperation, which are briefly described below:

## **Regional**

The United Nations Environment Programme, with financing from Germany's BMU, has been implementing the second phase of the **Microfinance for Ecosystem-based Adaptation to Climate Change (MEbA II)** project since 2018. The objective of this project is to provide technical assistance to microfinance institutions to autonomously promote financial products and services aimed at climate-resilient, sustainable adaptation practices for small-scale producers. This second phase amounts to € 1 million and is currently active in El Salvador (Banco de Fomento Agropecuario), Costa Rica (Fundecooperación para el Desarrollo Sostenible) and the Dominican Republic (Banco Adopem) among other financial institutions in Latin America and Africa. Tools and materials developed under this project will be used to scale up activities in the above-mentioned institutions that will ensure access to dedicated credits for improved, nature-based, climate-resilient practices in coffee and cacao production. Co-financing from this project will be directed towards capacity-building activities to BFA to scale up what the bank is currently piloting with support from the MEbA team in terms of, among others, i) green product development for climate-resilient practices and technologies; ii) inclusion of climate risk variables in the lending methodology, and iii) managing information, in particular monitoring variables to assess impact of investments on farmer's adaptation capacity. Co-financing will be also directed to provide training and technical support on nature-based adaptation solutions to government institutions, agricultural service and input providers, and farmers. Finally, a synthesized version of the training provided to BFA on the MEbA concept will be delivered to selected partners in the regional component of the proposed SCCF project. USD 500,000 will be considered as co-financing, to scale up the pilot experience in BFA and use of tools and methods developed by MEbA.

The project "**Maximizing Opportunities in Coffee and Cacao in the Americas – MOCCA**", funded by the U.S. Department of Agriculture and implemented by a consortium led by TechnoServe aims at leveraging private resources to drive incentives for a more resilient and growing trade of coffee and cacao. MOCCA is a five-year, \$36.4 million initiative funded by the U.S. Department of Agriculture to build the agricultural sectors of coffee and cacao in five countries – El Salvador, Guatemala, Nicaragua, Honduras and

Peru. The project works on seven different components: i) training farmers, ii) integrating farmers into higher value trading models, iii) augmenting research and improving how research findings reach farmers, iv) strengthening suppliers of genetic material for planting, v) facilitating access to finance, vi) improving institutional capacity to deliver services that support rehabilitation and renovation, and vii) strengthening platform support to the coffee and cacao sectors[21]<sup>21</sup>. The proposed SCCF project will complement the MOCCA project given that BFA is a State Bank with private autonomy. Due to the regional nature of MOCCA, having a national finance mechanism at rates that usually only a State Bank can provide will prove beneficial. The proposed SCCF project will focus on nature-based solutions, which could be part of MOCCA's Component 1.

The "**Partnership for Climate Smart Cocoa (CSC)**" is funded by USAID and implemented by the World Cocoa Foundation (WCF) in consortium with ACDI/VOCA and nine private sector companies in Dominican Republic, El Salvador, Honduras, and Nicaragua in Central America and in three West African countries. The four-year CSC Program began in 2016 with an initial investment of \$1.7 million from USAID and approximately \$400,000 from the listed WCF member companies. With these funds, the CSC Program is supporting strategy development and pilot activities in the areas of farmer training curricula, agroforestry market systems linkages, and drought-tolerant planting material. The CSC Programme works through the cocoa and non-cocoa value chains to coordinate and leverage private sector investment in developing Climate Smart Agriculture. The project has developed models to predict impacts of climate change on the cocoa supply chain, performed analyses of the trade-offs between different CSA practices and identified innovative tools and services to support effective engagement and investment[22]<sup>22</sup>. Synergies between the proposed SCCF project and CSC may be drawn in activities related to enhanced access to markets, homologation of climate-smart practices in the nature-based curricula and monitoring on adaptation impact of nature-based solutions.

The project "**Knowledge management of the cacao value chain in Central America**" (2018-2022) is in its second phase, executed by Rikolto and financed mainly by the Swiss Development Cooperation (CSD). With an overall budget of USD 1.6 million, this project aims to improve competitiveness and inclusiveness in the cacao value chain in the region with a climate-resilience focus. It works in building capacities in public and private actors in Nicaragua, Honduras, El Salvador and Guatemala to i) improve the decision-making process based on new knowledge to produce and market sustainable cacao, and ii) contribute to regional integration to generate a favorable environment to achieve competitive and resilient cocoa[23]<sup>23</sup>. The proposed SCCF project would benefit from aligning knowledge-sharing materials developed under Component 3 with this regional baseline project, particularly in best practices and market approaches. Its particular focus on softer aspects of the value chain may well complement Components 1 and 2 of the proposed SCCF project aimed at promoting on-the-ground adaptation solutions.

## El Salvador

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USAID, in partnership with the Howard G. Buffett Foundation, the Department of Agriculture (USDA), and Catholic Relief Services (CRS) recently began the second phase of the **El Salvador Cacao Alliance II** (2019-2024). This baseline project will provide assistance to approximately 3,000 small-scale farmers with local execution by CLUSA, Acugolfo, and Cáritas. Through continued technical assistance to small farmers, approximately 4,500 hectares of cacao will be grown under diversified agroforestry systems. Cacao is promoted as an alternative crop for coffee farmers in low altitude zones affected by coffee leaf rust, which caused heavy coffee crop losses. The goal is for cacao to become a value chain of national importance that restores natural resources and catalyzes rural economies in El Salvador through the following specific objectives: i) cacao agroforestry systems are productive, resilient and contribute to family income in project's intervention areas; ii) Salvadorian cacao and chocolate businesses are viable and expand the sustainable national cacao value chain; iii) expanding the volume of Salvadorian cacao that is sold in national and international markets. CLUSA provides technical assistance to approximately 50% of total targeted farmers with a budget of USD 2 million. The SCCF project will establish synergies by offering access to the BFA credit line to farmers who receive technical assistance from the Cacao Alliance II with the aim of climate-proofing investments. Technical collaboration will be established with CLUSA to integrate the climate component into capacity building activities and to work with associations for enhanced access to specialized markets and thus fulfilling both project's objectives towards a sustainable and profitable cacao value chain. USD 500,000 will be considered for co-financing.

UNEP was requested by the Government of El Salvador to develop the USD 2.9 million readiness proposal "**Agreements, processes, and tools to move towards a climate-resilient society in El Salvador**" to the Green Climate Fund. The proposal (currently pending GCF approval) focuses on National Adaptation Planning (NAP) mechanisms with the aim to reinforce governance capacities and develop tools for the coordination of the current and future adaptation planning cycles. A NAP will be developed, including four sectorial plans (1. biodiversity and ecosystem services; 2. Health; 3. infrastructure and cities; and 4. tourism) and two intersectoral plans (1. water security and 2. agriculture and food security). In addition, a national framework to finance adaptation implementation with public and private investments is expected to be set in place. The SCCF project will liaise with the NAP process and provide additionality for coffee and cacao value chains as well as on alternative mechanisms to finance adaptation solutions on the ground. USD 1 million will be assigned as co-financing from the NAP in terms of capacity development for adaptation planning, sectoral and intersectoral plans developed and financing strategy.

GOES, through its Ministry of Agriculture and Livestock (MAG) has requested the Interamerican Development Bank a USD 45 million loan for specific project (LSP) entitled "**Strengthening the climatic change resilience of coffee forests in El Salvador.**" The five-year program has two general objectives: (i) to maintain the ecosystem services provided by the coffee forest; and (ii) to improve food security for small-scale coffee producers. The specific objective is to boost resilience to climate change, productivity, and the incomes of producers in the coffee forests, through: (i) adoption of climate-smart agricultural technologies (USD 25.5 million); (ii) incentives for marketing and cooperative initiatives (USD 6 million); and (iii) modernization of coffee sector governance (USD 10 million). Other costs (USD 3.5 million) correspond to administration, auditing and evaluation. Potential synergies between the baseline and SCCF project include identification of suitable complementary nature-based and technological packages, alignment of

training curricula and the support in geographical locations that are migrating from coffee to cacao. Promoting access to the blended finance and technical facility to farmers participating in this project will also be a priority.

Additional baseline initiatives at regional and national levels will be identified and further investigated during PPG stage to align investments and technical collaboration opportunities.

### ***A1.3. The proposed alternative scenario, with a brief description of expected outcomes and components of the project***

The negative effects of climate change are threatening the livelihoods of small-scale farmers across Central America. These effects are predicted to become more frequent and severe in the future. In the alternative scenario, the proposed SCCF project will increase the capacity of state and private technical and financial institutions, as well as farmer associations and individual farmers, to i) increase access to dedicated financing for nature-based adaptation investments; and ii) provide technical assistance in the adoption nature-based adaptation solutions, including improved management practices, and in building resilience mechanisms in cacao and coffee value chains to address market, production and climate risks. A blended finance mechanism will be established in El Salvador in collaboration with the Banco de Fomento Agropecuario (BFA) as a model to be replicated in the region, drawing from lessons learnt from the regional MEbA project. The improved access to finance at significantly better than market rates is intended to break the cycle of lack of investment in coffee and cacao production. The direct technical assistance component to farmers, which has not been so far included in the MEbA project, will close identified gaps in the need to accompany farmers more closely in their adaptation process. Monitoring tools, such as the EbA capacity index, developed under MEbA will be significant to quantify adaptation capacity impacts of investments. The double-objective facility (concessional financing and technical assistance) is intended to boost confidence in development finance institutions and impact investment managers to invest in climate-resilient coffee and cacao production in El Salvador in particular and Central America in general. Alliances with key stakeholders, such as the Central American Bank for Economic Integration (CABEI), Agence Française de Développement (AFD), BlueOrchard (Impact Investment Managers) and the Central American Microfinance Association Network (REDCAMIF) will be established to promote increased penetration of the MEbA approach in financial institutions in the region and the promotion of dedicated credit lines at improved conditions.

The proposed SCCF project consists of three components and outcomes, focusing on (i) strengthening institutional capacity for increased uptake of blended finance by coffee and cacao farmers; (ii) improving climate resilience of farmers through the implementation of nature-based adaptation solutions; and (iii) knowledge sharing at national and regional levels to incentivize further private investments in coffee and cacao value chains. The regional support will focus on establishing partnerships to replicate the model established with BFA elsewhere in Central America. The details of these components and outcomes are described below.

## **Component 1: Establishing a blended finance facility for nature-based adaptation investments**

Outputs under Component 1 will increase capacity in Banco de Fomento Agropecuario (BFA) to scale up the climate-smart methodology currently being piloted under the MEbA project into branches located in the main coffee and cacao producing areas. Training on the MEbA methodology for additional branches will be provided to ensure that investments intended for climate-resilient production are duly tracked and accounted for. Defined financial products aimed at promoting a suite of nature-based adaptation interventions will be made available to small scale coffee and cacao producers through the bank's communication channels and physical branches. Training activities will focus on accompanying BFA in developing capacity in its rural branches in the following aspects: climate-smart credit methodology, product development, marketing, and on management of climate risks and information systems to streamline operations and lay the foundation for the required monitoring of credits to ensure interventions are indeed targeted to the intended purpose.

In addition to the technical assistance provided to BFA, Component 1 outputs will focus on blending approximately USD 200,000 of SCCF resources with the bank's own to develop a USD 5 million concessional credit line dedicated to nature-based adaptation investments. Activities will focus on supporting BFA in establishing the on-lending mechanism, including criteria for eligibility and lending conditions (e.g. subsidized rates and longer grace periods than available in the market), while ensuring that the financial mechanism is known and understood by BFA staff to make it available to its clients. It is expected that this credit line will be fully utilized in one year of operations. Follow-up and monitoring will be performed according to the bank's rules and procedures, using the MEbA methodology to track investments and monitor increases in EbA capacity of clients. This concessional credit line will offer micro, small and medium coffee and cacao entrepreneurs a reduced interest rate – tentatively 4% less than BFA's current rates – when investing in one or some of the interventions described below. These will also form the basis of the training and capacity building curricula to be transmitted to farmers and associations in Component 2. The list of adaptation interventions will be finalized during the PPG stage.

**Climate-resilient ecological support practices:** organic and biofertilizer production, soil conditioning, bee-keeping, seed banks, wind breaks, ecotourism, agritourism, soil restoration, etc.

**Climate-resilient agricultural practices:** conservation agriculture, crop diversification, crop rotation, integrated nutrient management, integrated pest management, agroforestry systems, natural shade, family orchards and mixed plant nurseries.



**Climate-resilient technology:** biodigesters, solar dehydrators, vermicomposting, rainwater reservoirs and efficient irrigation systems.

**Climate-resilient practices specific for coffee and cacao:** local agroforestry system selection, grafting, pruning, selection of climate-resilient varieties, plant renewal (coffee), plant introduction (cacao), seed/pulp fermentation, treatment of leachates.

**Specialized branding and certification processes:** organic agriculture (e.g. USDA organic), sustainable farming practices (e.g. Rainforest Alliance, UTZ), shade-grown (Bird friendly) fair trade (Fairtrade, FLOCERT).

With the incentives provided in the credit line, monitoring of its impacts and support to Salvadorian institutions to develop a long-term financing strategy, the expectation is that coffee and cacao farmers will continue investing in their climate resilience, following the planned interventions outlined under Component 2 with enough flexibility to change course as needed to address climate uncertainty. The indicative outcome and outputs under Component 1 follow:

*Outcome 1: Improved uptake of financing for increased climate resilience of cacao and coffee value chains in El Salvador.*

*Output 1.1* Training provided to up to 6 BFA rural branches to disburse loans for nature-based adaptation solutions, including on credit methodology, product development, risk and information management and monitoring.

*Output 1.2* Dedicated credit line for private investment in nature-based adaptation solutions designed and accessed by up to 4,000 farmers.

*Output 1.3* Adaptation impact of the credit line assessed and a strategy developed for a long-term financial mechanism aimed at sustainable and climate-adapted investments.

## **Component 2: Promoting climate-resilient production practices**

Outputs under Component 2 will focus on supporting cacao and coffee farmers to increase climate resilience in their productive activities by supporting activities in medium-term adaptation planning and delivering quality climate and phenological information based on state-of-the-art technology and peer-driven demonstration plots. Direct technical assistance will be provided to farmers so they may make better decisions based on certain and adapted forecasts. With support from the trained in the community of practice (see below) and through partnerships with private service providers micro, small and medium farmers will receive training on methods and tools that will increase resilience in their productive practices. Meteorological stations and demonstration plots will be established to develop climate and phenological forecasts that will be shared with coffee and cacao farmers for improved decision-making. Peer to peer training will be provided in best management practices in cacao and coffee production adapted to local conditions. Support will be delivered in establishing the required agricultural practices to comply with green certification processes, such as organic, shade-grown or sustainable production labels and fair-trade schemes.

Institutional capacity will be strengthened in BFA, the Ministry of Agriculture and Livestock (MAG) and potential project partners including CLUSA and CENTA, to provide support to farmers on nature-based adaptation packages and continue such provision after the project ends. For this purpose, a community of practice will be established and training of trainers delivered on adaptation solutions. The community of practice will include other relevant stakeholders, such as agricultural service and input providers and extensionists as needed. Tools already developed under the MEbA project will be used to transfer knowledge, such as a training course on nature-based adaptation solutions, a training manual on nature-based methods and the implementation of demonstration plots under supervision of farmers who are leaders in climate-resilience and sustainable practices[24]<sup>24</sup>. New tools and knowledge-transfer solutions will be assessed and put into practice as needed.

Starting on financial literacy and business management skills, the proposed SCCF project will assess current financial literacy courses provided by BFA to its clients to incorporate the climate-resilience aspect in training delivery, namely to keep track of costs and expenditures related to climate variables and to diversify income sources when facing climate or market uncertainty. Tools developed under the MEbA project, such as the economic game, will be used[25]<sup>25</sup>. Activities will focus on ensuring that farmers set in place sound business practices and have the required financial capacity and managerial skills to meet loan commitments and improve association structures, particularly to enhance participation of women in decision-making. In that respect, emphasis will be given to providing capacity in women cooperatives and associations to set in place practices and activities that will offer consumers the possibility to pay differentiated pricing for their products (e.g. agritourism, farmers markets, fair trade labels). Support in certification procedures will ensure that improved practices promoted under Components 1 and 2 result in increased income. For this, partnerships with projects such as MOCCA, CSC and EI

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Salvador Cacao Alliance II, aiming at increased value and transformation, will be established to maximize the use of SCCF resources towards economic resilience of small-scale farmers.

Technical assistance will be provided in adaptation planning so that the coffee and cacao farmer is supported in planning medium-term strategies for investments in a series of nature-based adaptation interventions, offering resilience-building packages suitable for specific local conditions. Support will be provided to farmers in the implementation of specific adaptation options embedded in the product offered by BFA, for which they requested financing. Some potential examples of packages and their specific adaptation components are listed below:

- *Soil restoration package*: soil restoration and/or conditioning, agroforestry system, wind breaks, conservation agriculture, vermicomposting, integrated nutrient management
- *Water management package*: rainwater reservoirs, agroforestry systems, efficient irrigation systems, conservation agriculture
- *Crop and income diversification package*: agroforestry systems, family orchard, crop rotation, crop diversification, beekeeping, agritourism.
- *Increase in productivity package*: agroforestry system, vermicomposting, integrated pest management, seed banks, mixed nursery, efficient irrigation, solar dehydrator.
- *Organic certification package*: agroforestry system, soil conditioning, vermicomposting, organic and biofertilizer production, efficient irrigation system.
- *Product processing package*: agroforestry system, soil dehydrator, pulp/seed fermentation, biodigester.
- *Livelihoods package (agritourism, farmers markets, green label certification)*

The indicative outcome and outputs under Component 2 follow:

*Outcome 2: Strengthened capacities in micro, small and medium agricultural businesses to enhance climate resilience of coffee and cacao value chains*

*Output 2.1 A community of practice with local technical institutions and agricultural service and input providers established and training of trainers on nature-based adaptation solution packages delivered.*

*Output 2.2 Technical support and training delivered to farmers to access and interpret climate and phenological data and to implement nature-based adaptation solutions, including through peer-to-peer demonstration plots.*

*Output 2.3 Training delivered to coffee and cacao farmers and associations on financial literacy, business management skills, and certification processes to access specialized markets*

### **Component 3: Sharing knowledge to increase regional access to sustainable finance**

Outputs under Component 3 aim at scaling up regionally what BFA and technical partners, with support from the SCCF project, will promote in El Salvador. Lessons learned from the proposed project will be incorporated into communication and knowledge-sharing products, such as policy briefs for private and public decision makers and specific manuals on adaptation benefits of nature-based solutions for farmers. The materials will be shared with country governments and potential financial partners in Central America to generate momentum, boost confidence in the sector and increase the replication potential of these innovative financing schemes.

A regional community of practice will be established to engage i) multilateral development banks – such as AFD, IDB, CAF, CABI; ii) national agricultural development banks – such as Banrural in Guatemala, Crédito Agrícola de Cartago in Costa Rica and Banco de Desarrollo Agropecuario in the Dominican Republic; iii) global impact investment managers (IIMs) – such as BlueOrchard, Grassroots Capital, ResponsAbility; and iv) financial intermediaries in the Central American region, such as members of the REDCAMIF network. Two microfinance institutions that belong to REDCAMIF have already piloted the MEbA methodology: Fundecooperación in Costa Rica and Banco Adopem in the Dominican Republic. Activities within this community of practice of financial institutions for climate-resilient investments in agriculture will focus on strengthening ties to form a regional network in which experiences may be shared and lessons from the SCCF project in financing nature-based adaptation solutions may be incorporated into daily business processes. Current MEbA partners, such as BFA, Fundecooperación and Adopem will share success stories and potential areas for improvement with second-tier and first-tier institutions in the Central American region who are interested in financing climate resilience. The aim is to reinforce the role of financial institutions in driving climate adaptation action and exploring how to tap new business models that require certainty in the adaptation impact of investments. The main objective of promoting these partnerships will be to catalyse investment at a second-tier level via dedicated credit lines, preferably coupled with technical assistance.

SCCF resources will also be used to increase capacity in members of this community of practice by providing training and offering access to monitoring and capacity-building tools developed under the MEbA methodology to financial intermediaries. The following options for increased regional support will be analyzed during PPG stage and decided upon based on available project resources, costs of replication versus scale-up in specific potential institutions, as well as performance and interest from current REDCAMIF members (including MEbA partners Fundecooperación and Adopem): a) three financial institutions will receive one-on-one training to either i) autonomously deliver nature-based adaptation investments and to monitor the impact in clients' adaptation processes at pilot scale, or ii) scale up the MEbA methodology in their rural branches, following the BFA example, if they have already piloted it; or b) a simplified version of the MEbA methodology will be provided to all applicable financial intermediaries in the REDCAMIF network, which is active in seven countries. The options and/or their variations that produce the highest regional impact with the available resources will be chosen. This will ensure increased access to dedicated financing for climate resilience in the region. Also at PPG stage, additional partnerships for financial and technical support will be assessed to extend the reach of knowledge sharing, learning and training activities to the broader Latin America and the Caribbean region via current MEbA partners.

The goal is to disrupt the current paradigm: Due to a lack of climate-resilient lending methodologies, investment in the agricultural sector remains low and will continue to decrease because of additional risks posed by climate change. The transfer of solutions developed under the MEbA project for financial institutions and farmers to be deployed at national and regional scales through one-on-one training and communities of practice in all components of the proposed SCCF project, as well as targeted events to promote high-level dialogue between national, regional and global DFIs, IIMs and MFIs will provide the basis for improved partnerships, increased regional commitment and investment from development finance institutions and impact investment managers towards climate-resilient agriculture. The expected outcome is increased second-tier investment dedicated for climate resilience.

Particular focus and attention will be given to increasing access and participation of women in these innovative financial mechanisms. Potential to accompany investments with other risk-spreading solutions, such as insurance, will be analysed as well during the PPG phase.

The indicative outcome and outputs under Component 3 follow:

*Outcome 3: Enhanced regional engagement and exchange among financial institutions for increased investment in climate resilience in agriculture*

*Output 3.1 Knowledge products on lessons learnt from the project published and shared regionally (e.g. policy briefs for decision makers and a manual on nature-based adaptation solutions for cocoa and coffee chains).*

*Output 3.2 Regional community of practice for financial institutions (e.g. DFIs, IIMs and MFIs) established and operationalised for knowledge sharing, exchange, training and partnership building on finance for climate resilience in agriculture.*

*Output 3.3 Training on climate-resilient credit methodologies for replication provided at the regional scale to financial intermediaries (e.g. Adopem, Fundecooperación or other MEbA partners and/or members of REDCAMIF).*

*Output 3.4 High-level dialogue between national, regional and global DFIs (national agricultural development banks, CABEI, CAF, IDB, AFD), IIMs and MFIs established through targeted events to catalyze second-tier investments (e.g. dedicated credit lines) for climate-resilient agriculture.*

#### ***A1.4. Alignment with GEF focal area strategy***

The SCCF project is aligned with the GEF Programming Strategy on Climate Change Adaptation for the LDCF and SCCF (2018-2022). The following Objectives and Outcomes are addressed in the project in particular:

*Programming Strategy Objective 1: Reduce vulnerability and increase resilience through innovation and technology transfer for climate change adaptation; Outcome 1.1 Technologies and innovative solutions piloted or deployed to reduce climate-related risks and/or enhance resilience; Outcome 1.2 Innovative financial instruments and investment models enabled or introduced to enhance climate resilience (aligned with PPCR);*

The proposed project plans to promote a series of nature-based adaptation solutions (e.g. agroforestry systems, conservation agriculture, natural shade, seed banks, improved and resilient varieties, organic farming, efficient irrigation, integrated pest management)[26]<sup>26</sup> to increase the resilience of coffee and cacao producers in El Salvador, in particular, and Central America, in general, to address the effects of drought, extreme rainfall events and increase in pests and diseases. The agricultural sector is often seen as risky for lending enterprises so these NbS measures will be embedded in financial products under a USD 5 million concessional credit line in El Salvador with BFA. Support will be provided to BFA and at least three other financial institutions in the region on the lending methodology to promote EbA solutions. In addition, partnerships with development banks (CABEL, CAF, AFD, national development banks) and impact investment managers (BlueOrchard, responsAbility, Grassroots Capital) will be promoted and established to replicate the pilot scheme in the region. In terms of technical capacity, farmers will receive training on methods to increase resilience via nature-based solutions and accompanying technological packages for cacao and coffee production. The aim is to innovate in closing the gap on technical and financial barriers to address climate change.

*Programming Strategy Objective 3: Foster enabling conditions for effective and integrated climate change adaptation; Outcome 3.2: Institutional and human capacities strengthened to identify and implement adaptation measures.*

The project has a strong focus on setting in place an enabling environment for enhanced adaptation to climate impacts in cacao and coffee production. Component 2 of the project, specifically, aims to increase the capacity of agricultural entrepreneurs to establish resilient business practices with improved decision-making to address not only climate variability and change but also market fluctuations, particularly through training on financial literacy and product certification to organic, sustainable production and fair trade labels. Component 3 focuses on knowledge management, information sharing and regional engagement of financial institutions for regional replication of innovative financing schemes. Emphasis will be given to training of selected financial intermediaries in the region for increased delivery of dedicated loans towards agricultural resilience, be it by replicating the MEbA concept in new institutions or scaling it up in those who have already piloted the methodology. At the PPG stage, an analysis of costs, performance and interest for scaling up the MEbA methodology in current partners (Adopem and Fundecooperación) will be undertaken and complemented with that of the potential to pilot the methodology with members of the REDCAMIF network. Potential for scale-up with other MEbA partners in the broader Latin America and the Caribbean region will also be explored at this stage.

#### ***A1.5. Additional cost reasoning***

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The proposed SCCF project will increase the capacity of government and private institutions to provide products and services that will strengthen the climate resilience of cacao and coffee farmers and allow them to adapt to the adverse effects of climate change. A description of the additional cost reasoning for each Component of the project follows below.

### **Component 1: Establishing a blended finance facility for nature-based adaptation investments**

#### **Business-as-usual scenario**

Although climate change is recognized as a major threat to socio-economic development in Central America, financial sector investment in agriculture, via agricultural lending or other forms, still lacks penetration in rural areas and is not typically designed for those that need it the most. Because of the perceived risk by the finance industry and the high operational costs of providing access to dispersed populations, commercial interest rates may be as high as 50% per year. In the region, microfinance institutions are often selected by farmers despite these higher interest rates because they are able to deliver faster service, typically with less requirements. However, high rates remain a major factor for the suboptimal uptake of financing by the most vulnerable populations. The BFA in El Salvador has increased its portfolio in cacao and coffee throughout the years, but requires support to include technical capacity building to farmers and promote dedicated credit lines for adaptation. Under the business-as-usual scenario, this lack of financing will continue also because financial products are not specifically geared towards adaptation solutions. Traditional loans that do not require verification of the adaptation impact are the norm and financial institutions do not have the capacity to implement innovative products since they lack climate-resilient methodologies for risk management or monitoring mechanisms to support their development. Blended financing, coupled with technical and financial assistance, is a way to overcome market, institutional and finance barriers towards improved climate-resilient investments.

In El Salvador, as in many countries in the Central American region, there is a strong government push to adapt to climate change. Policies, strategies and plans are developed and published to address the impacts that are already affecting important sectors, such as agriculture. However, these policies often lack the financing component that would allow them to be implemented on the ground. The adaptation finance gap is widening and will continue to do so without active participation from the finance sector. Although regional collaboration for climate change adaptation is promoted via CCAD and other regional mechanisms, collaboration among financial institutions with the aim of fostering climate-resilient investments is unheard of in the region.



UNEP, with funding from Germany’s BMU, is currently implementing phase II of the MEbA project. Through this project, capacities in BFA, Fundecooperación and Adopem have been increased to develop and promote NbS oriented financial products. Project activities included i) an institutional assessment to assess gaps towards climate-resilient finance, ii) the development of a green strategy and training to pilot agencies to roll-out the MEbA methodology, and iii) support in defining the scale-up plan in each institution. Given that scale-up requires significant time and resources, MEbA project activities end at this stage. The MEbA project has increased capacity in financial intermediaries in the region to autonomously deliver nature-based adaptation loans with the institutions’ own funds. Although product development is part of the strategy implemented, a dedicated or subsidized credit line has not been set in place to incentivize the uptake of financing. Directed technical assistance to those who access these adaptation loans has only been superficial. Additional funding is needed to scale up the climate-resilient methodology in BFA as an example for other countries in the region to replicate the inclusion of innovative financial mechanisms in their adaptation responses.

**Adaptation scenario**

Additional funding (GEF/SCCF: USD 320,000) is required to increase the institutional capacity in BFA to scale-up the MEbA methodology and replicate risk management, information management and monitoring procedures for interventions in rural branches where most of cacao and coffee production takes place (see table below). GEF/SCCF funds will also be used to identify the interventions that are best suited for each local branch and embed them in financial products. This includes marketing and promotion of specific adaptation products based on identified vulnerabilities at the local scale. A blended finance mechanism will be set in place to incentivize investment in the proposed nature-based adaptation interventions at lower than market rates, with an expected reduction in rate of approximately 4%. Preference will be given to women and women’s associations, who will receive additional points in the credit scoring process to determine eligibility.

<b>BFA’s Agency</b>	<b>Coffee production mountain range (2018)</b>	<b>Cacao – Department (2007)[27]<sup>27</sup></b>
Usulután San Miguel	Tecapa Chinameca (4307 tn = 10% of National production)	Usulután 232 tn
San Francisco	Cacahuatique (1552 tn = 4% of National production)	Morazán 7tn

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Rosario La Paz San Vicente	Chichontepec (1761 tn = 4% of National production)	San Vicente 17 tn
La Libertad	El Balsamo Quezaltepec (10815 tn = 26% of National production)	La Libertad 8 tn
Santa Ana Sonsonate Ahuachapan	Apaneca Ilamatepec (22254 tn = 53% of National production)	
Calatenango	Alotepec Metapán (967 tn = 2% of National production)	

Source: Based on Consejo Salvadoreño del Café (2019). Estadísticas cafetaleras al 30 de septiembre de 2019. <http://www.csc.gob.sv/estadisticas/> and Ministerio de Economía. IV Censo agropecuario 2007-2008. Atlas agropecuario.

The adaptation scenario will result in breaking the cycle of lack of investment of coffee and cacao farmers towards their adaptation processes. At reduced rates, with focalized products to address their needs in Component 1 and with the technical support on planning, decision-making and implementation of adaptation options in Component 2, at least 4,000 farmers (2000 female) are expected to invest in nature-based adaptation packages. The improved capacity in the main agricultural development bank in El Salvador will spark competitiveness of the private sector and potentially lead to a decrease in rates when investments are geared towards adaptation activities. The use of monitoring tools tested during the SCCF project will allow to pioneer risk-adjusted pricing in BFA, which may be replicated by other private financial intermediaries in the country. Regional replication of the proposed approach will be catalyzed under Component 3 to increase access to dedicated investments towards climate resilience, be it at the second-tier or first-tier scale, through partnerships and training of financial institutions in the REDCAMIF network and more broadly in the LAC region (via an online course).

## **Component 2: Promoting climate-resilient production practices**

### **Business-as-usual scenario**

Climate change has already had significant impacts on coffee and, to a lesser extent, cacao production in Central America, yet farmers lack access to climate and phenological data in timely forecasts that would allow them to improve crop management and business decisions. Production follows conventional approaches with the use of fossil-fuel-based fertilizers and pesticides and a continuous degradation of soil. This leads to a cycle of low productivity and reinforces the need for additional agricultural inputs, increasing production costs and decreasing capacity of ecosystems to provide essential services. Although shade cropping is commonplace, improved practices, such as adapted calendars and selective pruning have to date not been combined with resilient technology (water reservoirs, efficient irrigation, solar dehydrators) nor linked to lending products in single strategies to address such impacts.

The GOES and other stakeholders involved in projects such as MOCCA, CSC and the Cacao Alliance II have established some technical and financial support mechanisms to increase competitiveness in coffee and cacao value chains. Based on an evaluation report of Phase I of the El Salvador Cacao Alliance, farmers could recognize the added value of technical support received from CLUSA, Caritas and other non-governmental stakeholders. However, there is consistency in expressing absence of support from government entities, such as CENTA and MAG. A clear reinforcement of capacities is needed to support these institutions. Improved linkages to service providers with experience in El Salvador and other Central American countries would add value to share new findings and knowledge on adaptation solutions. The stakeholders involved in public and private initiatives related to the cacao and coffee value chains have common goals in improving climate resilience, some with a financing component, but enabling, knowledge-sharing mechanisms with an adaptation focus are not apparent in these projects. The role of adaptation solutions in increasing farmer's capacity to face climate impacts with a nature-based approach has not been monitored to date.

Financial literacy courses provided by BFA and other financial intermediaries in the country working with the agriculture sector have not taken into account the contribution of climate change in overall production costs. Projects like the El Salvador Cacao Alliance aim not only at improving cacao production under climate-resilient practices but also to enhance the overall value chain. Increased Salvadorian farmer participation in contests and events, such as the *Salon du Chocolat*, are included in their indicators to reach such objective. Another focal area is to provide financial incentives to SMEs to develop business plans related to the purchase of Salvadorian Cacao. CENTA, in turn, is working on identifying high quality native strains of cacao for commercialization with the objective to increase presence of Salvadorian cacao in global markets. Few programs and investment addressing the depressed coffee sector are in place. Although these initiatives exist, farmers at the local level still lack business and managerial skills to profit from such opportunities. Women's participation in business enterprises in rural areas is low.

Under MEbA project execution, two demonstration farms were implemented in partnership with BFA in the plots of one male and one female leader who had a credit with BFA and a couple of adaptation solutions installed. These farms were updated with up to five additional measures to showcase nature-based solutions and climate-resilient technologies.

The demonstration farms are a tool to i) raise awareness on climate risks and potential adaptation solutions, ii) provide training to peers on installation, operation and maintenance of these adaptation measures, and iii) market credits for the adaptation solutions being showcased.

### **Adaptation scenario**

Additional funding (GEF/SCCF: USD 350,000) is required to set demonstration plots in which farmers will regularly monitor temperature, precipitation and humidity. These findings will be compiled with additional data, such as indications of crop suitability based on climate scenarios and structured in regular forecasts to be sent via messages to the entire community of farmers. Such data, coupled with demonstration of climate-resilient practices specific to coffee and cacao, has been shown to improve decision-making in other Central American countries. Other demonstration plots, similar to the two already implemented under MEbA will be established, with a specific resilience-building purpose to portray entire adaptation packages (see description of Component 2). Such opportunity to understanding in a practical way that adaptation is a medium-term planning processes, coupled with the availability of financial support, is one way of establishing an enabling environment to increase the number of adaptation investments. Additional training will be provided based on the technologies or practices for which credits are intended in the form of videos, certification schemes and peer-to-peer exchange.

A community of practice will be established with a focus on nature-based adaptation solutions and climate-smart technology as drivers of change towards resilience. This will allow to strengthen the exchange of knowledge among existing initiatives and programs and eventually increase confidence of private institutions and entrepreneurs to invest in climate-resilient agriculture. Under the adaptation scenario nature-based adaptation solutions are consistently implemented through access to financing provided by dedicated credit lines and technical capacities transferred from members of the community of practice to small-scale farmers. The exchange of information and lessons from practices in cacao and coffee producing areas and the participation of a range of stakeholders in the value chain produce improved local adaptation responses.

SCCF resources will also be used to train farmers and farmer associations, with an emphasis on women-led organizations, on financial literacy and to accompany them in certification processes for green and sustainable production labels. Given that several certification options exist and that many nature-based adaptation solutions would provide access to one or more of these labels, a thorough assessment of pros and cons of each certification scheme will be established during the PPG phase to offer those that result in the highest revenue for the lower investment in modifying current practices, and establishing a progression to increasingly higher climate-resilient standards. Other aspects, such as meeting quotas under organic production while the system is in transition from chemical to organic fertilization may prove challenging. Feasibility of each standard will be addressed during PPG stage to develop the required capacity-building activities.

### **Component 3: Sharing knowledge to increase regional access to sustainable finance**

#### **Business-as-usual scenario**

Traditional knowledge is being lost in agriculture due to migration to cities, reduced opportunities for peer-to-peer exchange in rural areas and dominance of cocktails of chemicals sold by agricultural input providers and applied by farmers. A return to nature-based, climate-resilient practices is a necessary reaction to the overuse of synthetic fertilizers, herbicides and pesticides that increase GHG emissions and damage soils and ecosystems. Different stakeholders have different perceptions and roles in financing, implementing or providing inputs for nature-based interventions. Information that is easily accessible and understandable by a wide range of stakeholders is required, particularly on practical examples of existing adaptation solutions, how to access financing and implement them. The MEbA project is currently developing an online course regarding Nature-based Adaptation solutions.

There is an increased push for financial inclusion in Central America and financial service providers are increasingly present in rural areas. Microfinancing has proven effective for people to transition out of poverty, but few tools exist to monitor social, environmental or economic impacts of investments. Typically, microfinance institutions do not differentiate between green investments, climate-resilient investments or traditional loans nor do they know how to. REDCAMIF, Central America's network of microfinance institutions was established to strengthen capacity of microfinance institutions in Central America in areas such as financial inclusion, product development, green financing and others. However, a consistent methodology to be applied by all interested partners has not been offered or provided. Two members of REDCAMIF already have experience in implementing a climate-resilient credit methodology and could share lessons in this or a larger network.

Development Finance Institutions (DFIs) and Impact Investment Managers (IIMs) are searching to place financing in climate-resilient, sustainable, fair trade or specialized production. However, monitoring capabilities of institutions are limited in the region. Few financial intermediaries in the region are familiar with climate resilient methodologies that would allow them to track clients' progress in their adaptation process. Mobilizing investment that is directed at specific adaptation activities becomes challenging under such circumstances.

## **Adaptation scenario**

Additional funding (GEF/SCCF: USD 322,320) is needed to develop a community of practice for financial institutions to increase their knowledge and understanding of the benefits of climate proofing investments, using climate-resilient methodologies and promoting resilience-building loans. Materials generated by the project will be shared through the community of practice and other learning mechanisms to have a robust reach with directed focus in Central America and the broader LAC region. SCCF funds will be used to identify opportunities for increased investment in climate-resilient agricultural activities through collaboration and knowledge-sharing, particularly in establishing partnerships that will focus on combining technical assistance and dedicated financing vehicles. These partnerships will aim at increasing investment and spreading risks, so they may involve the combination of training for NbS loans, dedicated financing and insurance mechanisms. Training to selected FIs in the region on piloting and/or upscaling climate-resilient methodologies will support replication and ensure an increased uptake of NbS-oriented financial products. This training could take the following forms, which will be analyzed at PPG stage to choose that which provides the highest impact: i) a one-on-one training to three additional financial intermediaries either on upscaling the credit methodology if they have already piloted it or in performing the initial pilot, or ii) a broader training providing key concepts to identify, develop and monitor financial products dedicated to Nature-based Solutions and climate-resilient technology. Either option will be complemented with an online course on climate change, NbS and green financing that will be made available to all members of the REDCAMIF network and other national or regional microfinance associations. Microfinancing usually has a strong focus on women's empowerment and thus women agricultural entrepreneurs and their role in building resilience in the farm will be highlighted in communication materials. Information, communication and knowledge management products that capture lessons from project activities will be developed and shared with audiences through accessible means (SMS, videos, social media).

In the adaptation scenario, investments from DFIs will be mobilized to replicate the financial mechanism developed in El Salvador. The model of a second-tier credit line with the inclusion of a technical assistance component and reduced rates may be feasible once improved efficiency in institution's procedures enables risk-adjusted pricing. With the incorporation of monitoring tools, donors and banks will gain confidence in making and promoting climate-resilient investments. The partnerships developed under Component 3 will be aimed at DFIs, IIMs, national development banks and other key stakeholders to develop dedicated financing mechanisms that incorporate technical assistance and may be accessed by small-scale farmers throughout Central America and the broader LAC region.

### ***A1.6. Adaptation benefits (LDCF/SCCF)***

Climate change is continuously affecting the cocoa and coffee sector in Central America. In El Salvador alone, more than 17,000 producers depend on this activity as their main source of income. Intense and prolonged droughts, intense rainfall events and increased humidity levels generate different challenges (e.g. reduced productivity, increase in pests and diseases) for producers who must act by implementing sustainable and climate-smart adaptation measures to increase resilience.

The proposed SCCF project will address different components of farmers' adaptive capacity by increasing the overall resilience of the productive unit, which translates into more stable income, through the inclusion of *inter alia* the following adaptation solutions into financial and technical support mechanisms: i) enhanced productivity with sustainable methods by incorporating agroforestry systems, natural shade, seed banks, improved climate-resilient varieties, etc. into production practices; ii) improved product quality and diversification of revenue streams through the use of climate and phenological data for crop management and the incorporation of alternative activities such as beekeeping, crop diversification and agritourism; iii) risk reduction of crop losses and loss of productivity through climate-smart solutions and technological packages, including regular climate and phenological forecasts, efficient irrigation systems, solar dehydrators, greenhouses; and iv) improved associativity and linkage to local, national, regional and global markets via support in certification processes, fair trade branding, promotion of farmers markets and identification of niche buyers. The potential to incorporate other risk-spreading mechanisms, such as insurance specific for agriculture or climate purposes will be analysed during PPG stage.

The promotion of nature-based adaptation solutions in these value chains will translate into positive results in ecosystems and ecosystem services in the form of: i) reduced pollution of water bodies from the decrease in chemical fertilizer and pesticide use, ii) reduced soil erosion from improved soil, nutrient and water management practices, iii) water conservation and groundwater recharge through efficient irrigation and improved soil structure from use of soil amendments and organic fertilizers; iv) increase in pollination and agrobiodiversity through beekeeping, mixed production systems and crop diversification. These improvements in ecosystem function will ensure rural livelihoods may be sustained in the long term, despite potential climate change impacts on ecosystems and their services, and on the productivity of the agricultural systems and the livelihoods of the farmers who depend on them.

Establishing an enabling environment for adaptation financing is essential to ensure government policies are translated into tangible results on the ground. As far as the technical environment, lessons from other projects in the region, such as IDB's Proadapt will be incorporated into support provided to farmers in El Salvador and utilized for the regional replication approach. The goal is to reduce risks at local production sites and demystify agricultural lending. In terms of financing, BFA will scale up specific adaptation financial products and incentivize investments via a dedicated credit line by blending its own resources with SCCF funds. The SCCF project will then incorporate lessons and results from the blended finance mechanism in El Salvador to engage investors and lenders (e.g. AFD, CABEI, CAF, national development banks, BlueOrchard, responsAbility) in the region, so that additional dedicated credit lines may be established. Based on the work with Fundecooperación, Adopem and REDCAMIF, the SCCF project will share the MEbA

methodology with additional institutions in Central America and/or the broader LAC region who may then incorporate into their day-to-day business practices criteria for monitoring triple bottom-line impacts, managing information and climate risk and developing targeted products catered to the needs of coffee and cacao producers in the region.

#### *A.1.7. Innovation, sustainability and potential for scaling up*

**Innovation:** The proposed solution presents a holistic approach to increase resilience in two highly vulnerable cash-crop value chains in Central America. The SCCF project will focus on piloting activities in El Salvador and setting up a replication structure for the region. GEF/SCCF resources will provide i) access to finance at improved rates for farmers implementing adaptation solutions; ii) technical assistance in sustainable production methods and alternative livelihoods to stabilize and diversify income; iii) adaptation packages based on climate scenarios, local climate and phenological data and adaptation needs; iv) capacity-building in business operations, cooperative approaches, and linkage to markets with emphasis on women groups; and v) private sector engagement, including sharing of lessons for increased penetration of green finance products and development of regional dedicated financial mechanisms.

**Sustainability:** The proposed technical options have been proven to be no-regret options with clear environmental, economic and social co-benefits. By providing technical assistance to both the finance institution promoting these adaptation options and the farmers putting them in place, the potential of success increases. Sustainability of interventions will be enhanced by the following aspects: i) activities will be demand-driven since credits will only be disbursed once the proper due diligence procedures of financial institutions are met; ii) demonstration plots and farms for peer-to-peer learning will be established, which is one of the most effective ways to transfer knowledge in agricultural production; iii) lessons will be shared among partner financial institutions, technical providers and government authorities to establish the proper enabling mechanisms at national and regional levels; iv) the market perspective of coffee and cacao value chains will be coupled with alternative income generating activities to increase overall resilience of farmers; and v) increased efficiency in operations of financial institutions results in savings that can be transferred to clients through improved lending conditions and technical support.

**Potential for scaling up:** With the improved information management in financial institutions and through sharing of knowledge of the impact of this integrated implementation approach (access to finance coupled with technical support), it is expected that confidence for investment in coffee and cacao value chains will increase in the region. Financial institutions will be capable of monitoring progress of their client's adaptive capacity and show donors and lenders the impact of their adaptation actions. With improved climate risk management within the institution coupled with know how to develop products and services directly targeted at client needs, more resilient portfolios are expected. Once risk-



adjusted pricing schemes are established, improved conditions for agricultural lending can be sustained. Besides the Central American region, Phase II of the MEbA project is currently active in Colombia, Peru, Benin and Senegal. Once activities of the SCCF project are proven to be successful and if additional funds are available, a similar approach can be set up in the broader LAC region and/or Sub-Saharan Africa.

All of the above factors will benefit from the innovative approach of using software and data management solutions in the microfinance sector to incorporate climate variables into credit decision-making, improving knowledge of client vulnerabilities and needs to develop dedicated products and services and to estimate progress in their adaptation process. The proposed project will focus on supporting financial intermediaries in gathering significant amounts of data of client practices, exposure and sensitivity to climate impacts, phenological development of coffee and cacao, as well as market conditions of these crops. With the indices developed by the project and transferred to financial intermediaries, they will be able to monitor their clients' progress in increasing adaptive capacity due to climate-resilient investments. Once the data is gathered, the project will support partners in sorting out which sets may be used for climate-risk management policies or product development within the institutions, which sets for bulletins, recommendations and early warnings to clients, and which sets would be suitable to report triple bottom line returns to investors. Uniquely linked to the support provided to farmers in the implementation of risk-reducing packages including nature-based solutions and climate-resilient technologies, the proposed approach will provide a unique opportunity to increase confidence in agricultural lending and improve client segmentation.

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[1] For the purpose of this proposal, Central America will be defined as the seven contiguous countries plus the Dominican Republic, which face similar climate threats and development barriers for coffee and cacao production: Guatemala, Honduras, Nicaragua, El Salvador, Costa Rica, Panama, Belize and the Dominican Republic.

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[4] <http://www.marn.gob.sv/descargas/informe-nacional-del-estado-del-medio-ambiente-inema/?wpdmdl=41835>

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[25] <http://unepmeba.org/en/publicaciones-y-medios/publicaciones/>

[26] [http://unepmeba.org/fileadmin/user\\_upload/pdf/Microfinance%20for%20Ecosystem%20based%20Adaptation\\_EN.pdf](http://unepmeba.org/fileadmin/user_upload/pdf/Microfinance%20for%20Ecosystem%20based%20Adaptation_EN.pdf)

[27] Latest available public data. During PPG the target rural branches will be updated based on information on implementation of baseline projects, particularly Alianza Cacao II.

#### **1b. Project Map and Coordinates**

**Please provide geo-referenced information and map where the project interventions will take place.**

#### **2. Stakeholders**

**Select the stakeholders that have participated in consultations during the project identification phase:**

##### **Indigenous Peoples and Local Communities**

**Civil Society Organizations** Yes

**Private Sector Entities** Yes

**If none of the above, please explain why:**

N/A

**In addition, provide indicative information on how stakeholders, including civil society and indigenous peoples, will be engaged in the project preparation, and their respective roles and means of engagement.**

Key stakeholders of this project will include governmental bodies in El Salvador, in particular the Ministry of Environment and Natural Resources (MARN), the Ministry of Agriculture and Livestock (MAG), the Bank for Agricultural Development (BFA) and the National Centre for Agricultural and Forestry Technology (CENTA). Other key partners at the national level include CLUSA[1], Catholic Relief Services (CRS) and the Consejo Salvadoreño del Café for the transfer of climate-resilient agroforestry practices and training on cacao and coffee production and transformation. Additional stakeholders include: i) YAPU Solutions, a private software company which is currently delivering

technical assistance to BFA on credit methodology, risk management, information management and product development; and ii) Ingemann, a private company which offers training to farmers on climate and phenological data interpretation, monitoring and improved management practices. These two institutions will support implementation carried out with the different ministries and CENTA.

At the regional scale, main stakeholders include REDCAMIF, Central America's regional network of microfinance associations and its constituent entities, which are microfinance associations in each country. REDCAMIF supports member associations and financial institutions in green financing, product development, monitoring tools and other activities relevant to the project. In terms of Development Finance Institutions, the Central American Bank for Economic Integration (CABEI) and the Agence Française de Développement (AFD) have been identified as potential entities to develop regional dedicated credit lines with. Potential opportunities to increase dedicated investment at the regional level also exist with Impact Investment Managers, such as BlueOrchard, responsAbility and Grassroots Capital. For example, BlueOrchard is currently promoting the InsuResilience Investment Fund, which ties capital investment to the promotion of climate insurance. The Fund includes technical assistance resources, which may be used for training on the MEbA methodology. Partnership potential will be analyzed in detail during the PPG phase.

Other important stakeholders for regional replication include current MEbA project partners Fundecooperación and Adopem who will be ready to scale up the concept at the time of CEO endorsement. Other project partners may be included at PPG stage for replication, including Coomultagro and Fundación delamujer in Colombia, banCODESARROLLO in Ecuador and Fondesurco in Peru. Foundations, such as the Grameen Credit Agricole Microfinance Foundation and the BBVA Microfinance Foundation may also prove important for regional replication. For instance, Adopem and Bancamía are both MEbA partners and members of the BBVA Microfinance Foundation.

National Development Banks also have the potential to play a key role for replication, as demonstrated by the partnership established by MEbA in Colombia with Bancoldex. Other national banks with a particular focus in agriculture with which the project could partner include Banrural in Guatemala, Crédito Agrícola de Cartago in Costa Rica, Banadesa in Honduras, and Banco de Desarrollo Agropecuario in the Dominican Republic and Panama.

A full list of institutional stakeholders will be compiled upon the launch of the PPG phase and the most suitable and impactful partnership strategies will be incorporated in the project.

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[1] CLUSA El Salvador originated from the National Cooperative Business Association CLUSA International.

### 3. Gender Equality and Women's Empowerment

**Briefly include below any gender dimensions relevant to the project, and any plans to address gender in project design (e.g. gender analysis).**

Climate change impacts economic sectors and people differently, and rural women farmers are in a particularly vulnerable position since they generally have fewer opportunities for access to paid jobs, do not have financial independence, work more unpaid hours in domestic activities than men, and have less access to land, education and financing. Rural women in particular have fragile livelihoods that rely heavily on local natural resources, which climate change is making harder to secure. Women in Latin America play critical roles in their communities and are key to securing food, resources, and income for their families. Women account for 20% of Latin America's agricultural labor force, they participate in productive activities and in natural resources management.

According to the global gender gap index of the World Economic Forum, El Salvador is ranked 87th out of 149 countries evaluated. The index is calculated taking into account variables of economic participation and opportunities, education, political participation, and health. The subindex of political participation and economic participation is where the country shows the worst performance. Additionally, El Salvador is among the 5 countries with the largest gender gap in the Latin American and Caribbean region.

Despite the efforts of GOES to build a more equitable country (El Salvador is a signatory of the Protocol to the convention on the elimination of all forms of discrimination against women, and also has the Salvadoran Institute for the Development of women), it is notable that agricultural sector policies and existing climate change policies still do not make any reference to gender equality. Only the Family Agriculture Plan of 2012 indicate gender as key to its objectives. According to the latest available agricultural census (2007) in El Salvador there were 45,676 female agricultural producers and 348,975 male agricultural producers. This does not necessarily indicate a lower participation of women in the sector but less ownership of farms and less participation as decision makers in the family units. In the case of coffee, in 2015, 34% of the producers were women, out of which 81% have farms of less than 3.5 hectares. Additionally, 50.8% of rural women do not have their own income, as compared to 17% of men, who not have their own income.

Considering the persistent gender equality gap in El Salvador, the project will promote the empowerment of rural women in the coffee and cocoa value chains. It will ensure that capacity building activities on issues such as climate-adapted cacao and coffee production, family finances, access to credit, and access to markets, reach women's groups with special emphasis on women's farmer organizations. A special publication of the role of women in the production of cacao and coffee in El Salvador will be published to understand and make visible the potential of women in the management of nature-based

solutions and the generation of climate resilience in rural households. In addition, a minimum percentage of credits for rural women will be established, promoting equitable access to financing, and ensuring that the principles of action without harm are met.

A detailed baseline of women's roles within coffee and cocoa value chains is not available, neither an identification of needs to close existing gaps. Information from local women's organizations and other key actors will be collected in the PPG phase to better guide activities that contribute to the empowerment of women in coffee and cocoa value chains. The definition of the proportion of women who participate in the project will be refined during the PPG stage in the process of consultation with key actors. The participation of the Women's coffee alliance in El Salvador and other local women's producer organizations will be promoted. The promotion of women's participation under the project is in line with GEF guidance and standards. A gender analysis will be conducted during the PPG phase. The participation and number of women involved in the project will be monitored during project implementation. Gender-disaggregated indicators will be developed during the PPG phase to provide project targets for women's participation.

**Does the project expect to include any gender-responsive measures to address gender gaps or promote gender equality and women empowerment? Yes**

**closing gender gaps in access to and control over natural resources; Yes**

**improving women's participation and decision-making; and/or**

**generating socio-economic benefits or services for women. Yes**

**Will the project's results framework or logical framework include gender-sensitive indicators?**

Yes

**4. Private sector engagement**

**Will there be private sector engagement in the project?**

Yes

**Please briefly explain the rationale behind your answer.**

Private sector engagement is a major focus of the proposed SCCF project since all four components seek opportunities to engage with private sector at different levels. Although BFA is a State bank, it has mixed capital and operates as a private entity. The structure of the lending mechanism to implement EbA options will be directed at micro, small and medium-scale agricultural entrepreneurs, who, in addition of accessing loan services at improved rates in Component 1, will receive training on associative processes and access to markets targeted at climate-resilient, high-value production in Component 2. Private financial institutions (e.g. Adopem) have already incorporated the lending methodology and will play an important role in knowledge sharing and regional replication. Development Finance Institutions and Impact Investment Managers will be targeted for regional replication and upscale in Component 3 so that a similar mechanism may be accessed by additional financial intermediaries and made available to coffee and cacao producers in the region. Selected private financial institutions adhered to REDCAMIF or other microfinance associations in the region will receive either one-on-one or summarized training on the MEbA methodology to scale up or begin incorporating climate criteria into credit decision-making and establishing the necessary tools to monitor climate-resilient investments.

**5. Risks**

**Indicate risks, including climate change, potential social and environmental risks that might prevent the Project objectives from being achieved, and, if possible, propose measures that address these risks to be further developed during the Project design (table format acceptable)**

#	Description	Potential consequence	Countermeasures	Risk category	Probability & impact (1–5)
Local-level risks					

1	<p>Limited acceptance/demand/adoption of adaptation interventions by coffee and cacao farmers.</p>	<p>Adaptation interventions not adopted during or after the proposed SCCF project, resulting in the continued vulnerability of coffee and cacao farmers and decreased ecosystem services.</p> <p>Interventions will not be sustainable after the project finishes.</p>	<p>Demand will be enhanced with a dedicated credit line in Component 1. Technological packages and support on implementation and operation of sustainable business practices will be provided in Component 2. Particular attention will be given to women farmers in the credit assessment process and in capacity-building activities.</p> <p>At PPG stage BFA's rural agencies covering most of the country's cacao and coffee production will be identified. Demand for adaptation options will be analysed during assessment of their portfolio. A results framework will be developed for the project with indicators disaggregated by gender.</p>	<p>Economic Technical</p>	<p>P=2 I=4</p>
2	<p>Microfinancing promotes indebtedness of coffee and cacao producers</p>	<p>Decreased socio-economic and environmental conditions due to the impact of over-indebtedness in farmer's livelihoods, leading to increased vulnerability to climate change.</p>	<p>Adaptation loans will be demand-driven. The credit methodology has been tested since 2012 and proven effective in integrating risk assessment processes into institutions' policies, where over-indebtedness prevention measures are applied. Furthermore, investments in nature-based solutions will be linked to a productive activity that the project will help to "climate-proof" for increased, diversified and consistent revenues.</p> <p>During PPG phase the potential technological packages for support to farmers will be defined as well as the plan to replicate the methodology in BFAs rural branches.</p>	<p>Economic</p>	<p>P = 1 I = 4</p>



3	Natural hazards and climate shocks.	<p>Increased negative impact on crop productivity, ecosystems and ecosystem services, thus impacting farmers' livelihoods and main source of income.</p> <p>Delays in project implementation.</p>	<p>Nature-based interventions are designed to be climate-resilient (e.g. best practices followed in terms of planting operations, choice of varieties, etc.).</p> <p>Activities will take into account and integrate climate and early warning information.</p>	Natural	<p>P=3 I=3</p>
National-level risks					
1	The dedicated credit line is not sufficiently accessed by coffee and cacao farmers.	Under-disbursement of Nature-based adaptation loans will have impacts on investors' confidence in agricultural lending.	<p>The combined technical and financial support in Components 1-3 aim at maximizing potential for full use of the credit line: from improved lending conditions to technical assistance to both loan giver and receiver.</p> <p>During PPG stage, the scale-up plan will be designed and the pilot roll-out the climate-smart methodology assessed.</p>	Economic	<p>P =1 I = 4</p>

2	<p>Technical or logistic characteristic of the project surpass management capacity.</p>	<p>Project interventions delayed, insufficient capacity to face potential implementation challenges.</p>	<p>The capacity of BFA and other national stakeholders in El Salvador for the promotion, monitoring and follow-up of NbS-oriented credits will be enhanced through training and capacity-building activities in Components 1 and 2. All partners involved in project execution will have ample experience in the proposed approaches.</p> <p>At PPG stage the execution arrangements among stakeholders will be established to provide training to BFA, farmers, associations and financial intermediaries as required once the project starts.</p>	<p>Organisational</p>	<p>P=2 I=3</p>
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3	Improved conditions provided by the SCCF project in terms of concessional financing or technical assistance to farmers are not sustained over time.	Similar credit lines will not be replicated or will not include the support components, limiting the scope for national or regional replication and scale-up.	<p>Improvement in procedures have already proven beneficial to reduce processing time of credits, and also in diminishing losses and arrears due to climate change. The project will prove the concept of risk-adjusted pricing, which once established will provide options to financial intermediaries of incentivizing those who invest in climate-resilient approaches. The technical support, once established, will require little maintenance, which farmers can pay with increased productivity or its costs may be included in the overall loan cost. The project will leave installed capacity, such as a long-term financing mechanism and technical curricula for training of trainers in place.</p> <p>Activities during the PPG phase will assess the feasibility of reducing interest rates according to the potential risk reduction of adaptation options at local levels.</p>	Social Economic	P=2 I=4
Regional level risks					

1	<p>Limited understanding of the project's concept by financial intermediaries in the region.</p>	<p>Replication limited to collaboration with 1-2 financial intermediaries.</p> <p>Negative outcome on the suitability and sustainability of a regional credit line.</p>	<p>Component 3 is aimed at sharing knowledge among financial institutions and increasing understanding of green finance for adaptation. Training on methods and tools directed at financial intermediaries will be provided in the community of practice platform.</p> <p>At the PPG stage potential entities in the Central American or broader LAC region will be identified. An inception workshop will be organized with REDCAMIF to engage institutions.</p>	<p>Technical</p>	<p>P = 1</p> <p>I = 3</p>
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2	Development Finance Institutions (DFIs) may not engage with the project	Replication and scale-up potential of the project will be limited.	<p>The topic of “green credit lines” is of major interest to DFIs but capacity of financial intermediaries to monitor impacts of invested funds is often limited. The monitoring process also incurs additional costs that financial intermediaries would transfer to the client, thus effectively increasing rates. All project components will serve as proof of concept that with ad-hoc tools and once the capacity is installed, financial intermediaries may autonomously monitor investments’ results in increased adaptive capacity from nature-based solutions at no additional costs. Increased certainty of impacts will increase confidence in agricultural lending. Engagement with DFIs such as CABEL, AFD, IDB, CAF and and IIMs, such as BlueOrchard and Incofin, will be constant throughout the project.</p> <p>During the PPG phase, additional impact investment managers will be identified and made aware of opportunities to engage with the project. The potential to establish partnerships with regional entities and national banks for replication will be assessed.</p>	Organisational	P = 2 I = 3
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## 6. Coordination

**Outline the institutional structure of the project including monitoring and evaluation coordination at the project level. Describe possible coordination with other relevant GEF-financed projects and other initiatives.**

The project will be executed by the following Executing Agencies (EAs):

Components 1, and 2 – Banco de Fomento Agropecuario (BFA) as a decentralized credit institution of the Ministry of Agriculture and Livestock.

Component 3 – UNEP Latin America and the Caribbean Office is currently proposed, while an analysis of other possible options and their feasibility will be undertaken in early PPG phase.

A full-time, dedicated Project Manager will be hired by the BFA to lead a Project Management Unit (PMU) in El Salvador for components 1 and 2, and to execute the day-to-day management of the project. It is proposed that UNEP's Latin America and the Caribbean Office executes the regional component, with an analysis of other options to be undertaken in early PPG phase.

UNEP Climate Change Adaptation Unit (CCAU), as the Implementing Agency (IA), will oversee the overall project and provide the technical assistance required to meet project outcomes. UNEP will be responsible for project supervision to ensure consistency with GEF and UNEP policies and procedures. The institutional structure of the project will include a Project Steering Committee (PSC), with a mandate to oversee and guide project implementation, and to review annual workplans and project reports. The PSC will include representatives of BFA, MARN, UNEP and key project stakeholders. Members of relevant cacao and coffee associations as well as farmer leaders will also be invited to participate to the PSC to ensure local ownership and guidance for the project.

The project will follow UNEP standard monitoring, reporting and evaluation processes and procedures. An M&E plan consistent with the GEF M&E policy will be developed in the PPG phase. The Project Results Framework to be developed will include SMART indicators for each expected outcome as well as mid-term and end-of-project targets. These indicators will be the main tools for assessing project implementation progress and whether project results are being achieved. Day to day project monitoring will be the responsibility of the project management team, particularly the Project Manager and an M&E specialist. In addition, other project partners will be responsible for collecting specific information to track the indicators.

Numerous national and regional GEF and non-GEF projects that focus on adaptation to climate change have been or are currently being implemented in El Salvador and Central America and the Dominican Republic. These projects will provide information on relevant, cost-effective climate change adaptation interventions as well as lessons learned on policies and financing mechanism that can guide the adaptation process of coffee and cacao farmers in El Salvador and the region. The proposed SCCF project will focus on collating and synthesising the lessons learned from past and ongoing climate change adaptation projects to inform its design and to disseminate these lessons to both government and the public. This approach will maximise synergies and avoid duplication of activities. Some of these initiatives are described below. A complete list of projects to coordinate with will be identified at PPG stage.

UNEP is currently implementing the regional project “Building climate resilience of urban systems through Ecosystem-based Adaptation (EbA) in Latin America and the Caribbean”. This four-year, USD 6 million GEF/SCCF project focuses on demonstration of EbA solutions in the urban context in three mid-size cities in the region: San Salvador, El Salvador; Kingston, Jamaica; and Xalapa, Mexico. The proposed SCCF project will develop synergies with the ongoing project, particularly its regional components on mainstreaming EbA solutions into planning mechanisms and sharing knowledge on EbA, to increase knowledge and understanding of innovative financial mechanisms that may support investments in nature-based adaptation solutions.

The proposed SCCF project will take into account monitoring and report systems already in place for the PNCC (MARN 2018c) and the NDC (EuroLatina 2018a,b,c) to which will be added the project “Building institutional and technical capacities to enhance transparency for implementing El Salvador’s NDC” funded by the Capacity Building Initiative for Transparency (CBIT) of the Global Environment Fund (GEF).

GOES IKI -UNIQUE. “Upscaling of private sector FLR investments in Latin America” provides support to meet the needs of impact investors in assessing and monitoring the environmental and social impacts of FLR projects in a transparent manner. The project will enable financial intermediaries to better monitor and communicate FLR impacts, to develop and implement specific lending products for FLR investments and to improve the enabling environment for FLR by strengthening their management capacity to upscale their FLR investments (loans and private equity). The outputs of the project will be made publicly available and promoted in order to globally support the FLR related policy targets and increase transferability. Potential synergies on FLR financial mechanisms will be established at PPG stage.

## **7. Consistency with National Priorities**

### **Is the Project consistent with the National Strategies and plans or reports and assessments under relevant conventions**

Yes

**If yes, which ones and how: NAPAs, NAPs, ASGM NAPs, MIAs, NBSAPs, NCs, TNAs, NCSAs, NIPs, PRSPs, NPFE, BURs, INDCs, etc**

The proposed SCCF project will be aligned with the following national strategies and plans in El Salvador and regional initiatives in Central America.

El Salvador

- National Determined Contribution, particularly in objectives 3.5.2. for the sustainable management of 1 million ha by 2030 and 3.5.4 on a plan for diversification of agriculture and economic activities in the Eastern portion of the country.
- National Environmental Policy (PNMA, Government of El Salvador 2012). The PNMA aims to reverse degradation and reduce environmental vulnerability to climate change.

- National Climate Change Strategy (ENCC, MARN 2012). The ENCC provides strategic orientation for climate change adaptation and mitigation. Ecosystems and ecosystem services
- Climate Change National Plan (PNCC, MARN 2015). Road map for adaptation and mitigation actions that the country must carry out, in addition to the restoration of critical ecosystems.
- National Program of Restoration of Ecosystems and Landscapes (PREP), a flagship program of the MARN to face the severe deterioration of ecosystems and the loss of ecosystem services with a Mitigation based on Adaptation approach. The program considers cost-effectiveness of adaptation measures and has interventions in over 170,657 ha that benefits more than 100,000 people, addressing three components: 1. the development of climate- and biodiversity-friendly agriculture; 2. the restoration and inclusive conservation of critical ecosystems; and 3. the synergies between grey- and green-infrastructure. The Sustainability Index for Restoration (ISR) is a measure of the biophysics and socioeconomic impacts of the PREP, an integrates eight indexes related to water, soils, biodiversity, carbon, rural livelihoods, vulnerability and governance. The ISR has been applied at a pilot scale in one landscape for the 2011-2018 timeframe.
- The Ministry of Agriculture and Livestock (MAG) has formulated its climate change policy (MAG 2017) and an environmental strategy of adaptation and mitigation (MAG 2015).
- MARN has prepared two inventories of critical investments in the face of potential climate events, for essential ecosystems (MARN 2019c) and strategic infrastructure (MARN 2018b), respectively; as well as the National Plan for the Integrated Management of Water Resources (preliminary version, MARN 2016).
- The Policy for the Development of the Salvadorian Cacao Value Chain (2018) establishes objectives for the transformation of the cacao sector into climate-resilient production, processing, value chain addition. Strategic objectives include: knowledge management and institutional strengthening, support of agroforestry systems for climate change adaptation, development of cacao agroindustry, commercialization of cacao and derivatives, strengthening associative processes and access to financing.

## Regional

At the supranational level, the Central American Integration System (SICA) guides policy initiatives through several bodies, of which the Council of Ministers of the Central American Commission on Environment and Development (CCAD) is of particular importance for this SCCF project.

The CCAD has recently published a regional climate change adaptation strategy. The proposed SCCF project is aligned with strategic objective 2.2 a) in terms of regionally reducing vulnerability and promoting adaptation and resilience to climate change of populations and key economic sectors. In terms of means of implementation, the SCCF project is aligned with institutional strengthening, knowledge management and technology transfer and finance management.

The project is aligned with the NDCs of most countries in the Central American region, as they aim at reducing vulnerability in the agriculture sector since it is particularly important for their GDP. For example, in Guatemala the aim is to strengthen capacity of nearly 2 million producers linked to agriculture and forestry enterprises. In the Honduras NDC, specific changes of practices to agroforestry systems, organic farming, erosion control measures, improved seeds and farming calendars and micro-irrigation, among others,



are mentioned, as well as a national climate finance process. Similarly, Nicaragua proposes to promote agroecological production in permanent shading systems resilient to climate impacts as well as the restoration and conservation of ecosystems and their services. Costa Rica has been a long-time promoter of conservation approaches, and explicitly highlights the commitment to promote ecosystem-based adaptation approaches. As stated throughout the PIF, typically developing countries do not have enough financial resources to initiate and maintain their adaptation actions on the ground and fulfillment of most NDCs is contingent to receiving international financing. The proposed approach aims to initiate and maintain such adaptation processes in a sustainable fashion, with financing from private sources complementing public funds. GEF/SCCF resources will be used to leverage financing that will deliver on-the ground solutions for cacao and coffee farmers in complete alignment with the NDC in El Salvador and those of other countries in the Central American region.

A more detailed list of applicable regional policies and ways the proposed project will align with them will be provided during the PPG phase.

## **8. Knowledge Management**

**Outline the Knowledge management approach for the Project, including, if any, plans for the Project to learn from other relevant Projects and initiatives, to assess and document in a user-friendly form, and share these experiences and expertise with relevant stakeholders.**

The proposed SCCF project will address knowledge management mainly under Components 2 and 3. Component 2 will focus on peer to peer exchange of methods and practices to address climate resilience in coffee and cacao production with the use of scientific data and guidance for improved decision-making. Lessons from the field will be captured in a manual on costs and benefits of adaptation options, to be produced under Component 3. Component 3 will also promote exchange of information among financial intermediaries and establish a platform to train additional institutions on the climate-smart methodology and increase the potential of replication. All entities will be able to account for nature-based adaptation loans disbursed and monitor progress of clients towards building adaptive capacity. This information will form the basis for promoting regional dedicated credit lines that may be accessed by a significant number of institutions who will have the capacity to monitor the significant impact on adaptive capacity that adaptation finance delivers. Regional knowledge exchange will also be supported at the technical level with experiences from Nicaragua and Honduras transferred to El Salvador and potentially Costa Rica and Dominican Republic.

**Part III: Approval/Endorsement By GEF Operational Focal Point(S) And Gef Agency(ies)**

**A. RECORD OF ENDORSEMENT OF GEF OPERATIONAL FOCAL POINT (S) ON BEHALF OF THE GOVERNMENT(S): (Please attach the Operational Focal Point endorsement letter with this template).**

<b>Name</b>	<b>Position</b>	<b>Ministry</b>	<b>Date</b>
Amanda Ulloa de Wildner	Head of International Cooperation	Ministry of Environment and Natural Resources	11/18/2019

**ANNEX A: Project Map and Geographic Coordinates**

Please provide geo-referenced information and map where the project intervention takes place