

UNDP Project Document

Governments of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua
The Central American Bank for Economic Integration (CABEI),
United Nations Development Programme,
Central American Commission for Environment and Development (CCAD)

PIMS 3368

Central American Markets for Biodiversity (CAMBio): Mainstreaming biodiversity conservation and sustainable use within micro-, small, and medium-sized enterprise development and financing

The project will support the mainstreaming of biodiversity conservation and sustainable use within small, micro- and medium-sized enterprise (SMME) development and financing in five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua). In doing so, it will generate biodiversity benefits by encouraging transformed productive and service sector practices and related investments that can positively impact biodiversity. It will work closely with, and help to bring together, three important service-provider networks, each of which will be associated with a specific project outcome. First, it will work with the region's financial sector network, namely the Central American Bank for Economic Integration (CABEI) and select members of its extensive network of financial intermediaries (FIs), to develop and extend new financial products that will generate substantial increased lending to biodiversity-friendly SMMEs (BF-SMMEs) for investments that create biodiversity benefits. Second, it will work with potential BF-SMMEs and in partnership with a range of national and international providers of business and technical services to ensure that SMME investments are made efficiently and in a manner that maximizes economic, social and biodiversity / environmental benefits. Finally, it will work with Governmental and inter-governmental institutions, including Ministries of Environment, relevant sectoral ministries (agriculture, industry, tourism, finance and commerce) and the Comision Centroamericana de Ambiente y Desarrollo (CCAD), a regional coordinating structure, to promote an enabling environment that will encourage BF-SMME growth over the medium and long run.

GEF funding will support technical co-operation aimed at removing a variety of barriers – including those related to business organization and development, banking and an enabling environment – to mainstreaming in the above areas. It will also provide direct financial support in the form of partial guarantees and other loan enhancements. GEF funding will leverage substantial co-financing in the form of direct lending funds available under existing CABEI SMME credit lines that are currently supporting only minimal amounts of lending to biodiversity-friendly SMMEs (BF-SMMEs). It will also work in partnership with other funding sources, such as those being channeled through Rainforest Alliance, to support efforts to transform production and service sector (e.g., ecotourism) practices in ways that benefit biodiversity.

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Acronyms

BD	Biodiversity
BF	Biodiversity friendly
BF-SMMEs	Biodiversity-friendly small, micro and medium sized enterprises
CA	Central America
CABEI	Central American Bank for Economic Integration
CAMEL	CABEI methodology for evaluation and monitoring of Financial Intermediaries
CATIE	Centro Agronómico Tropical de Investigación y Enseñanza
CCAD	Comisión Centroamericana de Ambiente y Desarrollo
DFC	Development Finance Company
FI	Financial intermediary
FALIDES	Fondo Ambiental de Centroamérica (CABEI Central America Environment Fund)
FSC	Forest Stewardship Council
GEF	Global Environment Facility
ICDF	International Co-operation Development Fund (Republic of Taiwan)
IDB	Inter-American Development Bank
IFC	International Finance Corporation, the World Bank Group
INBio	Instituto Nacional de Biodiversidad
INCAE	Costa Rica Business School
MBC	Mesoamerican Biodiversity Corridor
MFI	Micro-finance Institution
MBRS	Mesoamerican Barrier Reef System
NGO	Non-Governmental Organization
PROARCA	Programa Ambiental Regional para Centroamérica (USAID Regional Environmental Program)
PRODOMA	Programa de Pequeñas Donaciones de Manejo Ambiental (PROARCA Environmental Small Grants Program)
PROMYPE	Programa para el Apoyo a la Micro y Pequeña Empresa (CABEI SMME Development Financing Facility)
RA	Rainforest Alliance
REDCAMIF	Red Centroamericana de Microfinanzas (Central American Society for Micro-finance Institutions)
SIGMA	Sistemas de Gestión para el Medio Ambiente (PROARCA Environmental Management and Finance Program)
SME	Small and Medium-sized Enterprise
SMME	Small, Micro- and Medium-sized Enterprise
TA	Technical Assistance
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development

SECTION I: Elaboration of the Narrative

PART I: Situation Analysis

Context and global significance

1. About 5 million years ago, submerged sections of Central America rose above sea level to create a land bridge between the previously separated landmasses of North and South America. Species began to spread in both directions and to interact within the newly created transition zone. Combined with the effects of five million years of subsequent evolution, this prehistoric merger has created one of Earth's top three most biologically diverse regions.¹

2. Mesoamerica, defined as the seven Central American countries together with Mexico's four southernmost states, has a land area of 769,000 km², representing only 0.5% of global land area; however, it supports approximately 7% of the total number of terrestrial species identified globally to date.² The region's 210 endemic mammal species and 24,000 plant species rank first and fourth respectively among 25 global biodiversity 'hotspots.'³ In terms of habitat, coastal swamps and mangroves along Mesoamerica's Pacific coast transition to broad-leaved and coniferous forests at higher altitudes. To the east of these mountains, within Caribbean lowlands, moist sub-tropical wet forests and rain forests are found. Finally, the southern portion of Mesoamerica supports broad-leaved premontane and montane hardwood forests.⁴

3. The region has made substantial strides towards conserving its remarkable biodiversity, including establishing approximately 600 protected areas and over 100 marine protected areas. About 12% of Mesoamerica is now under some form of protection, with Costa Rica (26%) and Guatemala (22.6%) leading the way in terms of share of land surface protected.⁵ Regional co-operation in conservation has led to the creation of an innovative programme for consolidating a network of protected areas and biodiversity friendly plantation forests, agro-forestry systems and private reserves into a Mesoamerican Biological Corridor (MBC) that is linking together habitats throughout the region.⁶ In an analogous step aimed at conserving marine biodiversity, Guatemala and Honduras joined Belize and Mexico in a 1997 pact calling for protecting the countries' 1,000 km long system of coral reefs, known as the Mesoamerican Barrier Reef System (MBRS).⁷

4. The five nations participating in the present project⁸ – Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua – occupy a contiguous area of some 420,000 km² in the heart of Mesoamerica (hereafter “the project area” or simply “the area”). With the exception of Costa Rica, each is considered to be at a

¹ See Conservation International website: www.biodiversityhotspots.org/xp/Hotspots/mesoamerica/?showpage=Ecosystem

² Proyecto para la consolidación del Corredor Biológico Mesoamericano, CCAD. 2002. *El Corredor Biológico Mesoamericano: Una plataforma para el desarrollo sostenible regional*. Serie técnica 01.

³ See www.biodiversityhotspots.org/xp/Hotspots/mesoamerica/?showpage=Ecosystem

⁴ Ibid.

⁵ Op. cit. Fn. 1

⁶ Op cit. Fn 2.

⁷ Both the MBC and MBRS are currently being supported by the GEF.

⁸ Participation in the project has been limited to those Central American countries who are members of the Central American Bank for Economic Integration (CABEI), the main project partner. Panama is currently negotiating its membership; should it become a member of CABEI during the lifetime of the project, it would become eligible to participate. The seventh Central American country, Belize, is a member of Caribbean financial institutions and is not expected to participate in the project.

medium level of human development.⁹ Together, the countries had an estimated population of 33.2 million in 2000, or an average of about 79 persons per km². Annual population growth projected for 2000-2015 ranges from 1.6% (El Salvador) to 2.4% (Guatemala and Nicaragua). GDP per capita in 2000, based on purchasing power parity, ranged from a high of \$8,650 (Costa Rica) to a low of \$2,366 (Nicaragua).¹⁰

5. The project area's relatively high population growth rates and relatively low income levels have contributed to a situation of increasing pressures being placed on a limited stock of natural resources and associated biodiversity. Widespread deforestation and other negative environmental impacts have been the result. The area may be standing on the cusp between a downward poverty-degradation spiral and major biodiversity losses or, perhaps, a transition to a sustainable development path linked to adaptation of less destructive, less resource-intensive and more sustainable production methods. The fate of the area's abundant biodiversity is thus closely tied to its development path.

Threats, causes, opportunities and the role of SMMEs in various sectors

THREATS AND CAUSES

6. Loss of biodiversity within **forest and mountain ecosystems** in the project area is primarily related to habitat loss and degradation. Prior to the 20th century, Mesoamerica, including the project area, was largely under forest cover, wherein much of its biodiversity was to be found. With the advent of mechanized forestry, and at an intensifying rate as the century progressed, much of this forest cover was lost. Between 1980 and 1990, the rate of deforestation in Mesoamerica was estimated at 1.4% per year, reaching as high as 1.9% for Central America alone. From 1990-95, total **forest habitat losses** in Central America were estimated at 2.3 million hectares. It is estimated that today, only about 20%, or 231,000 km², of the original Mesoamerican forests remain in a relatively natural state.¹¹

7. To add to the difficulties facing its biodiversity, deforestation has left much of the region's remaining forest cover highly fragmented and thus increasingly isolated genetically. The well documented relationship between species numbers and habitat area, as measured by species-area curves, indicates that many of the species remaining within these fragments may be doomed to local extirpation or, in the case of narrowly endemic species, extinction. Indeed, such concerns underlie recent efforts to focus on biological corridors within the productive landscape as a strategy for conserving biodiversity.

8. Timber extraction has of course been one motivating factor in the above-described process of deforestation. Old-growth mahogany trees in particular have historically been the most valuable resources sought within virgin forests. Timber extraction—legal and illegal, large-scale and small-scale, sustainable and unsustainable—continues throughout the region. Looking forward, the way in which remaining 'productive' (as opposed to 'protected') forest lands are managed, including how both timber and non-timber products are harvested, will be an important determinant for biodiversity within these areas.

9. Timber is not the only value sought by those seeking livelihood or profit from forested lands. Selective logging has frequently served to open up the forest to slash-and-burn agriculture. A large percentage of forest lands have been converted for cattle ranching or for use in agricultural or mixed production

⁹ They rank from between 104 (El Salvador) and 120 (Guatemala) in UNDP's 2002 Human Development Report. Costa Rica is considered to have a high level of human development, ranking 43rd.

¹⁰ Ibid.

¹¹ Figures cited related to 'Mesoamerica' in this paragraph are from Conservation International website: www.biodiversityhotspots.org. Central America figures are from State of Environment Report 1998.

systems. A variety of production systems is found within the region, including beef cattle grazing lands, banana and coffee plantations, etc. As is the case for timber, North American and European demand for agricultural and meat products play an important and ongoing role in processes of land conversion.

10. Agricultural, agro-pastoral and agro-silvo-pastoral land uses common throughout the project area are potentially compatible with such goals as enhancing biological connectivity through ecological corridors. However, the degree to which they (i) promote connectivity, (ii) act as harbors for biodiversity in their own right, or (iii) discourage further land conversion, depends greatly on the land use methods and production strategies adopted. Preventing **degradation** of these productive landscapes – whether degradation of their productive capacity, of their environmental service provision capacity or of their biological diversity support capacity – constitutes a social, economic and conservation priority. At the same time, however, encouraging **intensification** of production on these lands represents an important strategy for discouraging further encroachment into remaining forested areas. Land use methods currently employed throughout the region typically do not represent the needed combination of intensified, yet sustainable production needed to reduce encroachment and support conservation and connectivity.¹²

11. **Marine and coastal biodiversity** has likewise been under pressure, due to a distinct but related set of factors. Land-based sources of pollution, including industrial pollutants and sedimentation linked to deforestation, have had important effects on inshore marine habitats, including the MBRS (see above), the second longest barrier reef system in the world.¹³ Marine aquaculture, particularly shrimp culture, has also resulted in habitat loss, including to important mangrove areas. Finally, intensive fishing pressures have had significant impacts on inshore marine ecosystems.

12. The **underlying causes** of the above-mentioned threats involve development patterns and processes that are similar across Central America. These include high poverty levels, which in some countries reach 70% of the total population, rapid population growth, ill-defined government policies, short-term economic thinking, poorly defined property rights, the low institutional capacity of environmental agencies and the recurrent impacts of natural disasters. As an example of how these factors work together, highly unequal land distribution combined with high levels of population growth mean that the poor are often consigned to marginal lands, typically found on slopes, where attempts at agricultural and agro-pastoral production more often than not involve forest degradation and further deforestation, followed by rapid soil erosion and land degradation. The impacts of subsequent natural disasters, such as Hurricane Mitch in 1997, are made substantially worse by the preceding ecological changes.

13. The most acute rural poverty in the region often occurs in precisely those areas of greatest global environmental value, e.g., frontier forests. These areas are generally characterized by their distance or relative isolation from economic centers, deficiency of basic services such as educational and health facilities, road network, supply of potable water, energy, low level of education and literacy, high population growth and dependence on subsistence agriculture for livelihoods. These factors seriously handicap the development of economically and ecologically sustainable productive activities and livelihoods. For example, low levels of literacy and available transport contribute to weak commercial integration and poor capital accumulation by forest dwellers.

14. Among the constraints that allow such destructive processes to persist are poorly enforced laws and regulations. These are emblematic of an antiquated development paradigm that seeks to raise production and exports while paying scant attention to environmental consequences. These problems are

¹² Specific examples from different sectors are outlined below in the sub-section on SMMEs.

¹³ See Almada-Villela et. al, “Status of Coral Reefs of Mesoamerica – Mexico, Belize, Guatemala, Honduras, Nicaragua and El Salvador,” Chapter 16 in Wilkinson, Clive, Ed. 2002. *Status of Coral Reefs of the World: 2002*. Australian Institute of Marine Science.

compounded by poorly articulated property rights, which discourage investment by rural communities in the environmental upkeep of lands, despite the fact that they would have the most to gain from such stewardship.

15. Counter-productive incentive structures created by governmental policies represent an additional, important barrier. These range from macroeconomic policies that discourage investments in enhanced agricultural productivity to policies that explicitly promote conversion of natural areas to agricultural or other use, subsidize pesticide use, etc.¹⁴

16. Finally, an extremely important barrier to conservation has been the limited extent to which markets have recognized and ascribed a monetized value to biodiversity. While environmental economic analysis has successfully demonstrated the many and significant values inherent in biodiversity, individual landowners have been unable to capture all of these values and derive rents from them; as a result, they have not had incentives to undertake an optimal level of conservation.¹⁵

OPPORTUNITIES

17. In the past, opportunities for conserving biological diversity have most often been seen in the form of establishing protected areas (PAs). Indeed, countries within the project area have taken great advantage of such opportunities, establishing hundreds of PAs in the process. However, the realization has gradually taken hold that PAs are a necessary, but not a sufficient, instrument for conserving the region's biodiversity. An essential adjunct to PAs must be to ensure that productive landscapes – particularly strategically located or otherwise biologically important ones – also play an enhanced role in conservation. Such a realization lay behind the establishment of the MBC.

18. Ensuring that landscapes live up to this potential role will require a transformation of productive and service sector practices in economic sectors like forestry, agro-forestry, tourism and aquaculture. Many of the business opportunities associated with transformed productive and service sector practices are associated with newly developing 'green markets.' Businesses of all sizes have begun to take advantage of opportunities offered by these markets, which typically offer a combination of price premia and improved market access to producers that operate according to pre-determined social, environmental and/or biodiversity-related criteria related to their production processes. Compliance with such criteria is generally demonstrated through a process of certification and use of a resulting 'seal of approval.'

19. In environmental economic terms, certification drives a process of positive change within productive and service sectors that eliminates some of the negative externalities associated with these sectors. The degree of change is measurable due to the manner in which the schemes operate, i.e., through repeated assessments / audits, which serve to document progress towards, and eventually ongoing compliance with, the set of standards in question. Clear, demonstrable benefits to biodiversity are among the results of such transformed production practices.

20. In the context of the present project, certification is important for three main reasons:

- it offers a methodology for demonstrating the existence and scale of biodiversity benefits ('certified benefits') through independent, third-party certifying bodies;

¹⁴ Pagiola, Stefano, John Kellenberg, Lars Vidaeus and Jitendra Srivastava. March 1998. "Mainstreaming biodiversity in agricultural development." *Finance and Development*

¹⁵ Some level of conservation will almost always be economically rational given the importance of biodiversity as a productive input. However, where a large part of biodiversity values go unrecognized by markets, this level will remain sub-optimal.

- it provides one set of criteria by which a given business, and in this context a potential borrower, may be judged eligible for access to a preferential financial facility ('certified eligibility');
- lenders, once they understand the price and market-access related advantages offered by certification, will be more interested to lend to the 'sector.'¹⁶

21. Certification and green markets, while extremely important, should not be seen as the only context within which business may support the creation of biodiversity benefits. Thus, in some cases, the goal is not so much to transform production processes as simply to encourage certain types of business to prosper. This may include business ventures that rely on biodiversity resources, assign value to protected areas, or otherwise reduce pressure on wild resources. Typically, such businesses help to monetize the use values of natural resources and areas, either through consumptive or non-consumptive means. Establishing a new ecotourism facility within or nearby a protected area is one example. Finding a new market for a nature-based product is another. Both serve to raise the market value of natural ecosystems and thus encourage their conservation.¹⁷

SMALL, MICRO- AND MEDIUM-SIZE ENTERPRISES (SMMEs) AND BIODIVERSITY: POTENTIAL BENEFITS OF TRANSFORMED PRODUCTION AND ASSOCIATED INVESTMENTS

22. As noted above, the project area requires a transition to a sustainable development path linked to adaptation of less destructive, less resource intensive and more sustainable production methods. Small, micro- and medium-sized enterprises (SMMEs) have a key role to play in achieving this goal.

23. An estimated 95% of enterprises in Central America are small, micro or medium-sized enterprises (SMMEs); these in turn account for 54% of employment and 34% of total production within the region.¹⁸ A substantial proportion of SMME operators are eager to expand their incomes by expanding their businesses. While many, even most, of these enterprises will ultimately fail, others will be successful and will become the large enterprises of tomorrow. Many remain part of the informal economy. Women and indigenous groups are well represented within the SMME sector.

24. Many SMMEs are located in rural areas and depend heavily on natural resource inputs. They represent an important segment within many economic sectors in the project area, including the agricultural, agro-forestry, forestry, tourism and marine sectors. These are precisely the sectors implicated in the above-described processes of degradation and biodiversity loss. Few SMMEs are knowledgeable about the importance of sustainable use and conservation practices to their long-term success. Those that are knowledgeable typically have few incentives or alternatives to actively conserve either natural resources or biodiversity.

25. As a result of the above factors, SMMEs represent critical engines behind ongoing processes of land conversion, degradation, pollution and resulting biodiversity loss. This in turn makes them a key target group within which to encourage sustainable and biodiversity friendly production and service sector practices.

¹⁶ The present project offers a third inducement to potential lenders in the form of loan enhancements (see Part II, Strategy, Outcome 1).

¹⁷ It is important to note that, even in this latter case, it will be necessary to establish objective criteria according to which investments and businesses may be judged as biodiversity-friendly. This process quickly becomes a de-facto form of certification, even if it is not aimed at a particular green market. Also, depending on the sector, e.g., collection of non-timber forest products (NTFPs), certification can serve as a useful adjunct to the process.

¹⁸ FOMIN – INCAE. Fondo concursable para la competitividad de las PYMES, ATN/ME-8291-RG, Resumen Ejecutivo. Mimeo. The FOMIN – INCAE project defines SMEs as enterprises having less than 100 employees and less than \$350,000 in assets.

Agriculture and agro-forestry

26. Agriculture is considered to be one of the main agents of ecosystem and biodiversity loss worldwide. As an example, the World Conservation Union and Future Harvest report that nearly half of the world's 17,000 major PAs are being *heavily* used for agriculture. Moreover, many additional PAs are located adjacent to, or even overlap with, agricultural land.¹⁹ Agriculture, as previously noted, remains a key incentive for conversion of remaining natural habitats.

27. Despite continuing technological advances, in many areas of the tropics, agroforestry continues to offer certain advantages over modern, 'technified,' monocultural agricultural techniques. With respect to biodiversity, Schroth et. al. (2004) examine and find support for three hypotheses, each of which represent a distinct pathway through which appropriate agroforestry practices can help to conserve tropical biodiversity:²⁰

- *Agroforestry can help protect natural forest:* While warning against the assumption of a generalized cause-effect relationship, the authors argue that under certain combinations of farmer characteristics, types of agroforestry practice and market and tenure conditions, agroforestry can serve to divert labor and capital resources from the forest frontier, thereby helping to reduce deforestation. Particularly useful here are techniques that: (i) require long-term investments in the land; (ii) are labor or capital intensive, and; (iii) reduce production risks. Benefits are more likely when the above are used in combination with other more direct forest conserving measures, such as protected areas and access to special (e.g., green) markets.
- *Agroforestry areas can provide habitat and resources for partially forest-dependent native plant and animal species:* Agroforestry systems such as shifting cultivation systems, shaded tree crops and complex agroforests are especially able to offer such support. There is a clear tension here between intensification and maintenance of wild species; thus, high diversity tends to coincide with areas of extensive management. For some groups of forest animals, diversity and/or abundance may even increase within "structurally heterogeneous fallow landscapes," compared with primary forest.²¹
- *Agroforestry can provide "a benign matrix land use for fragmented landscapes":* The full hypothesis is stated as follows: "In landscapes that are mosaics of agricultural areas and natural vegetation, the conservation value of the natural vegetation remnants...is greater if they are embedded in a landscape dominated by agroforestry elements than if the surrounding matrix consists of crop fields and pastures largely devoid of tree cover."²² Biodiversity-related functions of the agroforestry area include: (i) providing a smooth transition between open agricultural areas and forest boundaries (reducing 'edge effects'); (ii) providing connectivity; (iii) providing alternative/supplementary habitat for forest species.

28. An excellent example of the above principles in action, and their relationship with SMMEs and biodiversity, is the case of coffee. Smallholders, including SMMEs, represent a very significant portion of total production within the coffee sector. Five distinct coffee management systems are in use, ranging

¹⁹ Rainforest Alliance. 2004. "Agriculture and Biodiversity Loss." Draft mimeo.

²⁰ Schroth, Gotz et. al. 2004. *Agroforestry and Biodiversity Conservation in Tropical Landscapes*. Island Press.

²¹ Finegan, B. and R. Nasi, "The biodiversity and conservation potential of shifting cultivation landscapes," Chapter 8 in Schroth, Gotz et. al. 2004. *Agroforestry and Biodiversity Conservation in Tropical Landscapes*. Island Press.

²² Schroth, 2004.

from traditional or rustic to unshaded or full-sun monoculture.²³ A wide range of research indicates the existence of significant biodiversity benefits associated with the maintenance of the former systems.²⁴

29. In summary, the agricultural sector provides numerous examples where SMMEs are involved in destructive production practices that have substantial impacts on biodiversity. **Table 2** below highlights some of these practices, together with some alternative practices that could be introduced.

Table 1: Potential agricultural and agro-forestry SMME transformations

Common practice	Potential transformation
Technified production of cocoa and coffee (absence of shade trees, high synthetic fertilizer and pesticide inputs)	Shade-grown production of cocoa and coffee in integrated agroforestry systems with integrated pest management
Conversion of shade coffee production to other, less BD-friendly crops, due to low coffee prices	Certification and integrated agroforestry systems increases the value of shade-grown coffee, making production viable
Conventional coffee processing	Environmentally friendly coffee processing, with emphasis on on-site waste treatment
Intensive cattle ranching (few shade trees, if any; high-input beef and/or dairy).	Silvopastoral systems (incorporation of multipurpose trees species in diverse silvopastoral arrangements; low-input cattle and dairy production).
High-input horticultural production	Horticultural production in diversified agroforestry systems
High-input sugarcane production	Sugarcane production in combination with strip plantations of multipurpose tree species
Slash-and-burn agriculture on marginal soils	Intensive and diversified agroforestry systems (but systems depend on market access and demand).

(Source: CATIE CeCoEco, personal communication.)

Forestry

30. Forestry activities have a potentially critical role in biodiversity outcomes. Many forests in Central America are privately owned, and include both natural forests and plantations. While figures are difficult to come by, a significant percentage of such privately owned forest lands is under the control of small and medium sized entities or enterprises. This category includes lands that are owned and managed by local communities, many of which may not have established actual enterprises for this purpose.

31. Specific negative impacts from forestry activities on such lands include the following:

- use of exotic species;
- forest conversion to plantations or non-forest land uses;
- use of biological control agents, including genetically modified organisms;
- erosion and other impacts due to harvesting, road construction and other mechanical disturbances;
- loss of representative samples of ecosystems within landscape;
- no specific protections for rare, threatened or endangered species and their habitats, and;
- failure to ensure forest regeneration and succession.²⁵

32. Certification has become an increasingly important tool in ensuring sustainable use and conservation of biodiversity within forest areas. The Forestry Stewardship Council (FSC) is a non-profit international organization that has developed a system for identifying and labelling products from well-managed forests. The FSC, one of whose key roles is to accredit forest certification bodies, promotes

²³ See Faminow, Merle D. and Eloise A. Rodriguez. 2001. "Biodiversity of flora and fauna in shaded coffee systems." International Centre for Research in Agroforestry, Lima, Peru.

²⁴ See Seavey, Jennifer. 2002. "Shade-grown coffee and Northwest Migratory Birds: What is the link?" Seattle: Seattle Audubon Society; Faminow, Faminow and Rodriguez, 2001.

²⁵ FAO. 2004. State of the World's Forests 2003
http://www.fao.org/documents/show_cdr.asp?url_file=/DOCREP/005/Y7581E/Y7581E00.HTM

“environmentally appropriate, socially beneficial, and economically viable management of the world’s forests.”²⁶ To date, over 47 million ha of forest worldwide have been certified by certification bodies accredited by FSC.

33. Rainforest Alliance (RA) has played a key role as an FSC-accredited certification body through its SmartWood Program; to date, it has certified more than 800 operations on more than 10 million hectares worldwide.²⁷ In recent years, RA has also established a program for certifying Non-Timber Forest Products (NTFPs).

34. The extent of certification throughout the project area is presented below in **Table 3**.

Table 2: Extent of forest management certified sites in project area endorsed by the Forestry Stewardship Council (FSC)

Country	# Certified forest areas	Total area (ha.)	Of which...		# of chain of custody certificates
			Natural or semi-natural forest	plantation	
Costa Rica	15	51,669	8,975	42,694	8
El Salvador	0	0	0	0	0
Guatemala	14	475,248	439,644	35,604	8
Honduras	3	37,281	37,281	0	3
Nicaragua	4	16,727	13,157	3,570	4
Project area totals	36	580,925	499,057	81,868	23

Source: Forest Stewardship Council website, www.certified-forests.org/data/coc3.htm. Searched on 5/1/05. Breakdown into forest types calculated by authors.

Tourism

35. One sector where SMMEs play an important and currently often destructive role, yet represent an equally important opportunity for positive impact on biodiversity, is that of tourism. In terms of scale, tourism, including nature tourism, already represents Costa Rica’s most important source of foreign exchange. Beach tourism has become increasingly important to the economy of Honduras, where world-class diving is attracting divers from around the globe to its bay islands. Other countries within the project area are eager to replicate this success by further developing their own tourism industries.

36. Approximately 80% of tourism businesses worldwide are SMMEs,²⁸ a figure which is likely to be broadly applicable to the project area as well. Many, perhaps most such businesses are contributing to the various sources of environmental degradation typically associated with the tourism industry, including physical changes and habitat damage, inadequate solid waste disposal, release of toxic substances, groundwater depletion and contamination and changes in sediment loads.²⁹ Depending on geographic and other factors, many of the above threats can have important impacts on biodiversity, and growth of the industry is increasing such risks.

²⁶ See www.fsc.org

²⁷ Rainforest Alliance. “The Sustainable Forestry Program: Conserving forests for the future.” Brochure.

²⁸ The International Ecotourism Society. 2003. *A simple user’s guide to certification for sustainable tourism and ecotourism*. Washington, D.C.

²⁹ Island Resources Foundation. 1996. *Tourism and coastal resources degradation in the wider Caribbean*. St. Thomas, Virgin Islands.

37. However, the tourism sector, and particularly the segment occupied by SMMEs, also offers important opportunities to create biodiversity benefits. ‘Ecotourism’ is defined by the International Ecotourism Society as “responsible travel to natural areas that conserves the environment and improves the welfare of local people.” As such, ecotourism represents the intersection between ‘nature tourism’ and ‘sustainable tourism.’³⁰ Using these definitions, the importance of ecotourism to biodiversity conservation should be clear; by increasing the use values of natural areas (nature tourism)³¹ and thus increasing incentives to conserve them, while minimizing or avoiding the negative impacts of tourism (sustainable tourism), ecotourism can make a clear and significant contribution to biodiversity conservation. The above-mentioned example of Costa Rica is a case in point, whereby a significant effort to establish protected areas – combined with a successful marketing strategy – has helped establish ecotourism (or at least nature tourism) as a leading economic sector.

38. The degree to which ecotourism contributes to conservation is closely related to its success in engaging local communities directly in the process and ensuring that they benefit from it. In so doing, local communities are encouraged to divert labour and capital from resource extractive or other potentially destructive activities, both because they may be occupied in alternative livelihoods generated through ecotourism and because they now have greater incentives to conserve the resources that are attracting tourists in the first place. Here again, SMMEs have an important role to play, as recognized by recent efforts to promote community-based rural tourism.³²

Marine aquaculture

39. Marine aquaculture offers further examples of the role of SMMEs in generating biodiversity impacts. According to a 1997 study, four of the five countries in the present project were among the top 11 producers of cultured shrimp. These were, in order of importance: Honduras, Nicaragua, Costa Rica and Guatemala.³³ Biodiversity-related concerns associated with marine aquaculture include: physical impacts on habitats, changes of natural or semi-natural habitats; chemical impact on water and sediments, including eutrophication; introduction of disease organisms, and; introduction of non-indigenous or possibly genetically modified organisms.³⁴

40. In the case of Honduras, approximately 287 shrimp farms are currently in operation, with a 2004 export production of nearly 20 million kg. Here, as elsewhere in the project area, there is tremendous variance in the degree to which environmental and biodiversity-related factors are taken into consideration by producers. Those who have adopted standards of the Aquaculture Certification Council (ACC) have been certified to be following practices such as the following:

- no net loss of mangroves,
- strict effluent standards,
- sediment management,
- control of soil and water salinization and groundwater depletion,
- no use of wild postlarvae, and
- compliance with national regulations re. importation of native and non-native shrimp seedstock.³⁵

³⁰ Ibid, p.5.

³¹ The travel cost method can be used to demonstrate the contribution of visitation to use values (economic value) while more widely used measures such as foreign exchange receipts will measure the commercial impacts of increased visitation.

³² See, e.g., UNDP. 2003. *The real Costa Rica: Your guide to community-based rural tourism*. San José

³³ Hernandez-Rodriguez et. al. 1997. *Aquaculture development trends in Latin America and the Caribbean*. Food and Agriculture Organization.

³⁴ Communication from the Commission to the Council and the European Parliament - Biodiversity Action Plan for Fisheries, /* COM/2001/0162. See [http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=52001DC0162\(04\)&model=guichett](http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=52001DC0162(04)&model=guichett)

³⁵ See <http://www.aquaculturecertification.org/ACC-PDFS/fgud504.pdf>

41. The cumulative difference for biodiversity of complying with all of the above standards vs. the probably high level of non-compliance among non-certified farms can be significant.

42. Regarding the role of SMMEs, of Honduras' 287 shrimp farms, more than half, or 150, are small farms covering no more than 30-40 ha. each. It is precisely these farms, with limited access to capital, that are having the greatest difficulties in raising their environmental standards in response to increasing international market demands for shrimp raised according to 'Best Aquaculture Practices.'³⁶ Thus, as other, larger operations make the necessary investments needed to transform their production practices, these smaller producers are being left behind and are becoming responsible for an increasing share of environmental damage and biodiversity loss.³⁷

Baseline situation: Tools for transforming SMME practices

43. Given the key role of landscape-level conservation in the project area in maintaining biological connectivity and as a harbour for biodiversity in its own right, together with the importance and currently far from optimal role being played by SMMEs within that landscape, there is clearly an enormous opportunity to achieve biodiversity benefits through transformed SMME productive and service sector practices. Three critical tools for taking advantage of this opportunity are described in detail below. For each tool, the following information is presented: (i) an overview of the tool; (ii) an analysis of barriers related to effective functioning of the tool for supporting transformed SMME productive and service sector practices; (iii) a description of stakeholders involved in the use of the tool and their related baseline activities; (iv) a summary of the baseline scenario related to use of the tool.³⁸

TOOL #1: CHANNELLING CAPITAL TO BF-SMMES

Overview

44. A major constraint limiting the growth of any small business is availability of capital. Capital markets tend to be conservative all over the world. Private money is channelled to purposes where the risks, guarantees and rewards are in balance: at one end funds are made available for high-return and high-risk investments and businesses (especially equity financing, venture funds); at the low end, money is lent to low-risk, reasonable-return businesses which can provide good quality guarantees. SMMEs are in most cases left out of this mainstream of medium- and long-term financing. Governments and NGOs have recognized this problem and have started to make public funds available to support SMMEs through various formal and informal financing channels. The dedicated funding available in Central America for SMMEs, including affecting biodiversity, can be categorized in the following manner:

- *Funds controlled and channelled through the formal financial sector:* Multilateral or national development finance institutions, such as the Central American bank for Economic Integration (CABEI) are entrusted with public funding, both foreign and domestic, for these dedicated purposes, normally on subsidized terms. The funds are then lent through local financial

³⁶ Major retailers such as the Whole Food market, which describes itself on its website as "The World's Leading Natural and Organic Foods Supermarket," carry only shrimp certified by the Aquaculture Certification Council. The latter is the primary certifier of aquaculture products originating in Central America.

³⁷ Personal communication, William R. Moore, Director, Aquaculture Certification Council, 29/12/05. See www.aquaculturecertification.org/

³⁸ To avoid repetition, this section integrates separate sections in the UNDP pro-doc outline for barriers, stakeholder analysis, policy, institutional and baseline analysis, instead grouping the discussion by tool.

institutions to SMMEs on market or near market terms. Depending on the target clientele, the Financial Intermediaries (FIs) are banks and specialized financiers (for medium and small enterprises) or non-banking institutions (for micro- and small enterprises and clients). The main characteristics of these funds are that they can be dispersed among the scattered clientele, but also managed efficiently and according to prudent banking principles.

- *Funds from donors and NGOs channelled through international and local NGOs and non-banking institutions:* These funds are more specific in terms of purpose, normally smaller in volume and large in number and variety. They are often operated at the community level and are given either as grants or quasi-grants, e.g., grants to revolving community funds. These funds are normally channelled through local NGOs or consulting companies on behalf of donors. Technical assistance forms a substantial part of these facilities.
- *Funds obtained from capital markets:* The formal banking sector provides funds for SMMEs through dedicated funds deposits. However, many non-banking FIs, especially NGOs, cannot obtain sufficient funding from these sources, and need to resort to capital markets for additional resources. Co-operative savings and loan associations obtain much of their resources from their members' deposits.

45. The concept of biodiversity-friendly (BF) practices, products, etc. is not only widely understood in the region by enterprises and the financing community, but also perceived as important. However, it is quite clear that BF businesses, even if already successfully underway, are still at an early stage, as they are not well-known and are perceived as high-risk. The potential for BF practices to be included in business is, however, extremely wide and should reach economic players at all levels and sizes. It is important to involve the main players in the financial sector, increase their awareness, and attract them to find ways to finance biodiversity friendly and profitable business.

46. Financing cannot be the driving force to create new BF business. Rather, it should be the business community, farmers and local communities that call for and establish this type of business. It is essential, however, that when concrete investments are presented, the financing community is prepared to consider financing such activities within generally accepted financing principles. Experiences elsewhere show that getting new BF businesses financed requires financing incentives for start-up, or so-called "smart subsidies". Therefore, one of the project's goals is to establish a financing community that considers smart subsidies and expands on them based on the merits of the businesses, as well as their increased knowledge of the specific requirements of this clientele. To achieve this goal, the project will engage key players within the region's financial community and connect them with potential and emerging BF businesses.

Barriers

47. Central America's financial sector may be characterized as a dual system consisting of: (i) commercial banking and other financial institutions catering to the large and medium-sized enterprise and consumer sectors, and; (ii) an emerging non-banking sector catering to the needs of micro-enterprises and community-based activities. A great majority of the small and medium businesses fall within a gap between the micro-financiers and commercial financiers. SMMEs³⁹ are often left out of the system because they are unable to provide the collateral and security required by the commercial banking sector. Most banks are not willing to service the SMME sector due to their universally applied prudent banking

³⁹ To avoid confusion, the term SMME is used throughout this document. It should be noted, however, that in the case of formal banking institutions the goal is to increase lending to small and medium enterprises (SMEs), since micro-loans are almost never provided by such institutions.

approaches; they have little or no experience in tailoring safe approaches and instruments to this type of business, even when commercially viable. Given the specialised characteristics of biodiversity-friendly economic activities and businesses, BF-SMMEs and community groups working in this area have greater difficulty in getting access to financing than SMMEs in general. However, directing finance to such businesses would create tremendous potential for bringing environmentally-sound practices to a large portion of the economic activity and populations in the project area. Specific financial sector barriers to doing so are outlined below:

- B-1.1 Financial institutions do not realize green markets' business potential: Even the most active banks in the region admit that they do not know whether there is demand for financing in biodiversity-related businesses. They have little idea of the potential market, as they do not as a rule take the initiative to carry out project identification beyond their normal marketing and client relationship activities. With no experience in this type of financing, it is difficult for them to assess the risks and financial returns related to these businesses. Despite these factors, some banks in the region have already entered into environmental lending, particularly in the field of financing clean production processes and mainly to medium-sized businesses in this sector.⁴⁰
- B-1.2 Banks are often unwilling to lend to SMMEs that do not have access to collateral: The majority of SMMEs, including those expected to qualify as BF-SMMEs, operate in agriculture, silviculture, aquaculture, small scale processing and artisan businesses, trading and services. These entrepreneurs typically possess neither sufficient fixed assets, nor financial assets, to provide the collateral presently required by the formal banking institutions, particularly for medium and long-term lending. In contrast to banks, non-banking micro-finance institutions have developed risk mitigation instruments, such as group guarantees, making it possible for them to lend to micro-enterprises without formal collateral.
- B-1.3 Banks do client-based and not revenue-based lending: The banking sector has been consolidated in many of the countries, resulting in fewer, more solid banks. The competition is hard, especially for the medium and large sectors of the economy. This has led to decreasing loan margins and increasing selectivity in lending operations. Proper collateral (see above) forms the key parameter of the banks' risk management and mitigation to the extent that the financial status of the client is considered as the primary concern for the lenders, rather than the intended use of the loans. Thus, lending does not typically take place based on the merits and cash flow of the proposed investments. The banks' credit officers are oriented toward analysing client risk and not project risk; they have generally not been trained in project-oriented and revenue-based lending, nor in project appraisal techniques. This leaves the majority of the productive SMME sectors in the region, including potential BF-SMMEs, without access to term lending.
- B-1.4 Funding by non-banking institutions is too expensive: Non-banking institutions have a vast clientele in the region, successfully catering to the grassroots level financing needs of a vast number of clients, from individuals through micro-enterprises up to small enterprises. As the bulk of the lending takes place without fully bankable collateral (group guarantees, financial assets etc.), and because average loan size is small, the interest rates charged by the institutions tend to be high in order to cover the larger transaction costs and risk exposure. In addition, funding from the capital market is substantially more expensive than that coming from the development finance institutions – including CABEI and donors – which cover only part of their funding. The end result is that these lenders may charge up to 30% p.a. for an 18-month loan. Some of the entrepreneurs active, e.g., in trading, are clearly able to generate financial returns sufficient to

⁴⁰ This financing is possible due to the existence of fixed assets often available for collateral, as well as a partial risk guarantee program launched by USAID in the region (PROARCA/SIGMA) with selected commercial banks.

service these expensive loans. Those involved in agriculture, cottage industry and related fields have difficulties in creating cash flow sufficient for loan servicing, and are thus excluded from this system. This constraint also applies to many potential BF-SMMEs.

- B-1.5 No tailored financing products or incentives exist for the sub-sector: Potential BF-SMMEs suffer from the same barriers as explained above concerning SMMEs and micro-enterprises. In addition, depending on the economic sector and type of operation (from short-term pre-export financing and cross-border factoring to long-term investment financing to timber plantations), they may require so-called 'tailored' financing solutions. These types of financing targets are not among the standard templates to which the banks are accustomed today. For example, International Finance Corporation (IFC) experiences show that flexibility and the use of different financing instruments are required for BF lending. In complementing the traditional instruments of direct debt and equity finance, other more structured financing instruments may be required, such as quasi-debt (subordinated loans, income participation) or tranching cash flows into high and low-risk as well as into senior and junior tranches, etc. Risks can be managed and mitigated through various means which will include structuring of financing to the various sub-activities, such as production, processing and trade (combination of cash flow, certification and off-take contract, and secondary collateral comfort). The banks are not accustomed to catering for all these needs as a financial package, nor do they have the most innovative instruments in their tool-kits. Furthermore, no fiscal incentives, such as tax incentives, have been extended to BD friendly activities to help induce the financing.
- B-1.6 Limited environmentally knowledgeable personnel and organizational resources at CABEI: CABEI is in a strong position to help transform lending practices among financial intermediaries (FIs) in the project area. However, although CABEI has adopted environmental policies supporting sustainable environmental management and biodiversity conservation, it has little experience in channelling funds to BF-SMMEs. As CABEI has the operational and organizational structure of a wholesale financing institution, it has not been compelled to direct sufficient attention to this type of new business, especially while the actual demand has been limited. In the financing of SMME business, CABEI's focus is to ensure that the FIs finance healthy investments. Therefore, its attention is paid more on the performance of the FI as a portfolio than the individual projects that the FIs finance. Biodiversity is as new a concept to the institutions as it is for other financiers. The bank had a small environment department but it was abolished during past reorganization. Currently there are plans to re-establish the function. However, personnel resources geared to environmental issues remain limited.
- B-1.7 Financial institutions have no criteria for considering biodiversity when assessing possible loans to BF-SMMEs: The main criteria for the FIs to provide loans are the overall creditworthiness of the client and the existence of real collateral. The use of the funds is of secondary importance, as long as it does not adversely affect the repayment capability of the client of its loans and other financial commitments. The SIGMA clean production risk guarantee scheme provides with selection criteria for financing targets. Such criteria do not exist at the FIs for BD business and investments. Therefore, positive and negative lists of eligible activities are prerequisites for efficient screening and selection of potential BF projects to their portfolio.

Stakeholders and their baseline activities

48. Key financial institutions involved in channeling capital to SMMEs are described below, together with their baseline activities in this area, including lending to BF-SMMEs.

49.(i) The Central American Bank for Economic Integration (CABEI): CABEI, founded in 1960 by the five founding CA members with five non-regional members as shareholders,⁴¹ is a publicly owned development bank, and the leading wholesale financier in the region. It occupies a central position in SMME financing through its extensive network of financial intermediaries. Regional integration and poverty reduction form an important part of its mission. It provides 47% of multilateral financing in the CA region, which is far more than either the Inter-American Development Bank (IADB) or the World Bank. Total assets amount to US\$ 3.6 billion, 40% of which is channeled towards private sector activities. Public sector loans are mainly directed to infrastructure, have a sovereign guarantee (state, municipal) and are lent directly. Larger private sector lending is provided directly.⁴²

50. CABEI works with private and public banks, specialized financial institutions and non-banking financial intermediaries (credit unions, NGOs, etc.). Its network of 136 financial intermediaries includes 51 private banks and 59 non-banking institutions.⁴³ The percentage of banks that are clients of CABEI in each country varies from 100% in Nicaragua to 50% in Honduras. CABEI operates its financing through FIs by way of a process of selecting and approving the institution as an approved FI, then through defining, approving and supervising a global credit limit to that FI.

51. Recognizing the economic importance of SMMEs, governments and donors have introduced a variety of technical assistance and grant programs, channeled through local and international NGOs in the CA region. Several donors have also considered it important to create commercial financing opportunities for SMME investments and businesses in order to make this support more sustainable. They have chosen CABEI as one of the most important channels for providing this type of financial support and have launched, together with CABEI, a number of credit line facilities. These credit lines are provided on more favorable terms than those available from the capital markets.⁴⁴ The FI, within its approved limit, will use funds for SMME, drawing from the four main SMME-dedicated funds at CABEI (PROMYPE, ICDF, Spain Micro-credit and FALIDES). During the last five years, US\$ 301.6 million has been channeled to the sector through 127 banks, financial and non-banking institutions. The current portfolio of credit lines amounts to US\$ 135 million, half of which is financed through non-banking institutions.⁴⁵ Despite this, under these credit lines only a very small percentage of loans to SMMEs have so far been environment related, and even less has been directed towards biodiversity-friendly SMMEs (BF-SMMEs).⁴⁶ Funding which has gone to these sectors has not typically been subject to specific priorities, even though bankable environmental targets have been included within the standard financing business of the CABEI FIs.

Table 3: The CABEI definition of SMMEs

Type	Number of employees	Loan amount US\$
Micro-enterprise	less than 5	up to 1,000
Small enterprise	5-60	5,000-50,000
Medium enterprise	60-100	50,000-1,000,000

⁴¹ Founding members: Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. Non-regional members: Argentina, Mexico, Republic of China (Taiwan), Colombia, Spain. Currently, Panama, Belize as well as Dominican Republic are in the process of becoming members. For additional details re. CABEI, see Section IV, Part VII.

⁴² Normally not under the value of US\$ 2.5 million. In exceptional cases CABEI has given direct loans down to a level of US\$ 200,000 for special purposes (medium enterprises, environmental purposes etc.). Due to high transaction costs, the former tends to be the rule.

⁴³ The remainder are public banks and specialized financing institutions (“financieras”).

⁴⁴ It should be noted that for many of CABEI’s partner FIs, CABEI’s credit lines are not the only ones used to lend to SMMEs.

⁴⁵ Further details regarding the individual credit lines are presented in Section IV, Part VII.

⁴⁶ BF-SMMEs are herein defined as SMMEs operating in ways that avoid damage to, and/or serve to benefit, biodiversity.

‘Potential BF-SMMEs’ are defined as SMMEs that could become BF-SMMEs, but currently lack the capital either to start or transform the relevant business. Examples are discussed below.

52. SMMEs have been included as an important client group at CABEI since 1985. CABEI's new five-year Global Strategy, adopted in 2004, is based on three pillars: poverty reduction, integration and globalization. SMMEs will thus belong to the core of its financing strategy. Financial intermediation targeting SMMEs has in this way become a growing part of CABEI's total business. The estimated financing directed to the sector during 2005-2007 amounts to US\$314 million, representing a substantial increase in volume. The establishment in August 2004 of a Micro, Small and Medium Enterprise Unit with focal point credit officers in each regional office, will provide an improved basis for CABEI to expand financing to the sector, including environmentally and biodiversity friendly activities. The number of new non-banking FIs has been increasing by 14 institutions per annum. CABEI estimates that the potential number of SMME intermediaries amount to 600 institutions. It has identified 53 MFIs as potential intermediaries, and is giving technical assistance to the MFIs to help them fulfill the banking criteria and to qualify. In addition, recently increased co-operation and strategic alliance with the Central American Society of Micro-finance Institutions (REDCAMIF) has helped introduce another 42 MFIs as potential intermediaries in the near future.

53. Given the project's aim of introducing new financing modalities in a fairly specialized area of business, the fact that CABEI has perhaps the most extensive network of any financial institution in the region, working also on a wholesale financing level, makes it an ideal partner. CABEI can thus reach a majority of the existing and potential clients both through the banking as well as through the non-banking institutions in a cost-efficient manner. Thanks to regional coverage and new personnel resources dedicated for the promotion, processing and monitoring of SMME financing, CABEI will also be able to take the leading role in the implementation and monitoring of the proposed program.

54. (ii) Commercial banking sector: The financial intermediaries intended for financing the SMME sector are divided into banking, and non-banking institutions. The former hold a banking license and are regulated by the Central Banks. The commercial banking sector in the Central American countries can be characterized in three ways: (i) concentration of business in a handful of the largest banks (e.g. in Honduras 71% of business is controlled by the 6 largest banks⁴⁷); (ii) fragmentation of the other banks into smaller, non-competitive ones which are oversized for real business potential; (iii) captive financing done by banks to the powerful economic groups that own them ("house banks"). The sector has undergone a major consolidation in recent years; the number of players has diminished, and the remaining ones have improved their financial performance. CABEI has already acquired the key banks as intermediaries. They are characterized by good performance and well distributed clientele, including medium and to a limited extent small enterprises. Out of the 51 intermediary banks, 41 have utilized the CABEI SMME credit facilities⁴⁸. Of these, 12 are in Costa Rica, 9 in El Salvador, 7 in Honduras and Guatemala each, and 6 in Nicaragua. Accounts through November 2004 indicate that these banks have jointly utilized US\$ 168 million of these facilities. The number may still grow to some extent, as the bank coverage in Honduras, for example, is only 50%, whereas all banks are CABEI intermediaries in Nicaragua.

55. The increased competition has been reflected in decreasing interest margins. This fact combined with strict monetary control by the Central Banks, has kept the banks operating under conservative practices, from an international perspective. This is reflected in that they:

- are very selective of their clients,
- resort to first class collateral policy as a rule,
- do not practice revenue-based lending (or project lending),
- provide medium and long-term lending only to their large and medium client companies,

⁴⁷ Source: the World Bank

⁴⁸ PROMYPE, ICDF and Spain Micro-credit facilities

- provide housing loans and short-term, mainly consumer loans to other clients, and
- have a limited number of innovative financing instruments in use.

56. The typical medium and long-term loans of the banks have a maturity of 5-6 years, and up to 10 years on an exceptional basis. Housing mortgage loans can be extended to 20-30 years. Small business loans are normally under US\$ 300-350,000 and present less than 10% of business. Typical targets for term lending are industry and energy. Agricultural financing has typically been considered problematic. The pricing for a five-year loan on US\$ terms varies from 5-6 % for a corporate client and up to 8-10% p.a. for medium and small enterprises. The interest rates are considerably higher for loans provided in local currencies, reflecting the higher funding costs and exchange rate risk. E.g. in Honduras, the interest rates for a similar loan in Lempiras would be as high as 18-22% p.a. A first class collateral is required, normally in the form of a mortgage (housing loans) or fixed assets (investment loans) of a value of 130-150% of the loan amount. Several interviewed banks informed that the main problems for them not considering lending based on project risk (i.e. cash flow and merits of the investment, rather than the creditworthiness of the client and collateral) are lack of reliable business information and the unfamiliarity of credit officers with revenue-based lending techniques. They admit that the collateral requirement leaves a large number of potential clients outside the possibilities of their financing.

57. A number of banks have already taken measures in moving to a new direction. This applies to many of CABEI's clients which are making use of the SMME facilities. Banks, such as BAMER and FICOCHA of Honduras and Banco Cuscatlan of El Salvador and Guatemala have started to make use of the SIGMA partial risk guarantee scheme for clean production investments. In addition some have started to consider cash flow based financing on energy projects. Still, they tend to be hesitant to move to this direction, unless there is an incentive scheme (such as partial risk guarantees) in place, at least initially. An exceptional bank among formal banks is the biggest client of the CABEI SMME facilities, Banco ProCredit El Salvador, with a line amounting to US\$ 18 million. This bank (an off-spring of a micro-financing cooperative) and now the leading micro-financier in El Salvador has introduced to the market revenue-based lending techniques and can accept project risk to some extent and approves lesser than first class collateral (such as pledge on assets). Its rapid growth (50% p.a.) demonstrates the potential for these businesses, as well as to BF investments and business. Nonetheless, none of these banks have started to lend or even consider lending to BF projects. Even Banco ProCredit has not seen a demand for financing of BF businesses among its clients. The problem with this bank as well as the others is that they do not actively look for new businesses in new fields, but do their marketing among their traditional clientele. In addition, they are not aware of the BF business concept as such, nor are prepared to structure finance for this type of business.

58. (iii) Micro-finance institutions (MFIs): Non-banking intermediaries predominantly target the micro-enterprise sector, and are normally run by local NGOs, co-operatives, private development organizations or alternative rural community based organizations. They are not supervised by the Central Banks, but are guided by specific co-operatives legislation or civil code and are supervised by various commissions. The financial institutions depend on the proximity of the clients. Thereby, a good network of intermediaries and collaborators is required. The largest MFIs have organized themselves into wholesale ("segundo piso") and retail ("primer piso") institutions. The former take care of overall management and funding functions, while the latter provide actual lending to micro-clients. As an example, Grupo Coveló (segundo piso) in Honduras has 22 agencies around the country (primer piso), which in turn have 19,000 clients and working relations with 1,000 other micro-lenders. The co-operatives play an important function in providing finance to micro-business. There are altogether around 5,300 cooperative societies in the region, of which almost 800 are savings and loan cooperatives. Their accumulated loan exposure to clients is almost US\$ 700 million.⁴⁹

⁴⁹ Source: CABEI

59. The largest wholesale MFIs can process 800-1,000 micro-loans per month. The loan sizes average US\$ 500-1,000 for a maximum period of 12-18 months (housing loans have longer maturities). Majority (50-70%) of the lending goes to finance trading activities, the next biggest to services and less than 10% to industry. Agricultural lending is still minimal, but efforts are being made by MFIs (e.g. through support by donors and partial risk guarantee arrangements) to increase agricultural lending. The institutions that sustain themselves follow relatively prudent banking principles, and as a whole appear healthy, unlike in many other emerging markets. The main difference to banks is that these institutions are able to work on the basis of less formal guarantees. The proposed business and investments are appraised by the credit officers together with the client risk, enabling the FIs to take a managed risk. Group guarantees are the standard acceptable collateral for small loans. Micro-enterprises will normally have to provide also other types of guarantees, such as bank deposits and other fiduciary collateral. On the other hand, the high price of borrowing from capital markets (except from development finance institutions such as CABEL) and high transaction costs, make their lending too expensive for a vast number of potential clients, who enjoy normal rates of return from their small businesses. The interest rates in terms of local currencies amount to 26-36% per annum, the lower end applying to firms and higher end to individuals. The rates reflect high funding costs, high business risks and high transaction costs. Much of potential industry and agricultural micro-business, and very probably also BF business, is left out of financing, as they hardly can create financial returns high enough to service loans at these interest rates. The savings and loan co-operatives can source much of their funding from members' deposits. Combined with the nature of their business being non-profit, the lending rates to their members are considerably lower, even less than 15% per annum.

60. (iv) International and NGO financing schemes: There exist a number of schemes and institutionalized financing facilities in Central America for SMMEs, and more specifically for BF SMMEs. The points below intend to illustrate a few of these to give a general sense of the type of players that are active in Central America.

- *EcoLogic Finance:* This NGO was established in 1999 to work with US private sector importers to promote environmentally friendly trade. With 54 mainly US private sector investors as shareholders, the fund provides loans and arranges privately placed co-financing for mostly short-term working capital and pre-export funding requirements of exporters with a US buyer. Shade-grown coffee is the biggest business sector (78% of loans) with Starbucks as the buyer. Other areas are agriculture, agro-forestry, eco-tourism, certified fisheries, but not timber. The fund provides loans of US\$ 25,000-500,000 backed by full collateral. The loan portfolio comprises 90 loans amounting to US\$ 13 million, in Guatemala, Nicaragua, Costa Rica and most recently in Honduras.
- *EcoEnterprises Fund:* This Fund is a profit-oriented, US\$ 5.2 million fund based in Costa Rica and is owned by the Inter-American Development Bank, TNC and private investors. The fund, managed by the NGO Conservancy, can finance up to 50% of project costs either through equity or loan. Out of 324 conservation and biodiversity project proposals, it has approved a portfolio of US\$ 3.7 million (11 loans, 4 equity investments) and has leveraged US\$ 18.4 million of financing. The BF investments include cut flowers in Ecuador, eco-lodge in Belize, honey production in El Salvador, fair trade coffee in Guatemala and certified charcoal in Mexico.
- *PROARCA (Programa Ambiental Regional para Centroamerica):* This USAID sponsored regional environmental program was inaugurated in 1996. The four main components are improved management of protected areas, market promotion for environmentally friendly products, harmonization of environmental legislation, and promotion of the use of less contaminating practices and technologies in the municipal and private sectors. Four sub-programs

are active in implementing these goals. Two of them have a financing facility for an environmentally friendly SMME sector:

- *PROARCA / PRODOMA*: This facility invests in eco-friendly production and processing, mainly in small communities and co-operatives on a grant basis. Main product groups are coffee, bananas, cocoa, forestry, shrimp, lobster and eco-tourism. Small grants of US\$ 25,000-80,000 are granted to approved work plans and are disbursed against results. In total US\$ 3 million has been approved. The program has also helped in developing technical packages and sample projects in sustainable forestry together with local communities.
 - *PROARCA / SIGMA*: This program pilots financing and technical assistance for medium and small companies willing to introduce less polluting technology and cleaner production investments. CABEI is a key participant, and 12 retail commercial banks have been pre-selected in the region to finance such investments on a commercial basis. SIGMA, through an USAID grant, will provide a 50% risk guarantee for the banks to catalyze financing. The US\$ 5 million grant would be able to leverage a loan program of US\$ 10 million. Eight investments (loans of US\$ 200,000-500,000 each) are at advanced stages of processing for approval. The technical assistance (TA) pilot of US\$ 75,000 from USAID and CABEI would train the banks in assessing clean production and for clients preparing technical and financial plans. The UNIDO regional Clean Production Centers are in charge of this TA.
- *International Finance Corporation (IFC), the World Bank Group*: Together with the GEF, the IFC has among the most solid and extensive experiences in arranging financing for GEF-eligible private sector investments in a number of developing countries. Since 1996, the SME program, through 25 financial intermediaries, has financed US\$ 17 million worth of investments in conservation of biodiversity and mitigation of climate change, benefiting approximately 140 SMEs around the world. The program operated mainly through retail level financial intermediaries. The overriding principle was to cover the incremental cost of undertaking GEF activities for the program. The program provided low-interest long term loans (2.5% p.a, 10 years) to the FIs, which combined their other funding to complement the overall financing requirements. Since 2000, the arrangements were modified to include two elements instead: a concessionary fee structure and risk compensation. The latter was a reward for successful implementation of the project and repayment, starting at a level of 50%, but later reduced to half that. The program included BF projects/loans to ecotourism (6), sustainable forestry (2), organic farming (1) and combined biodiversity and climate change loans (5). Two of these were in Central America.

The main findings and lessons learned from this and related GEF programs include:

- environmental SME projects can be developed on a non-grant basis
- SMEs are more likely to get involved and implement successfully biodiversity and climate change projects
- involvement of local intermediaries will bring more sustainable results in the long-term
- use of risk incentives and fees are the key for encouraging performance and commitment to portfolio management
- program design and delivery to SMEs have to be flexible
- proactive market development is critical to build consumer awareness and increase market size
- projects are replicable.

Building on the good experiences of the SME Program, IFC and GEF launched a subsequent Environmental Business Finance Program in Spring 2004. The program will concentrate on proactive market development, technical assistance and risk sharing through financial intermediaries to support the four GEF focal areas (climate change, biodiversity, land degradation and POPs). It is expected that 25-30% of the activities will fund biodiversity conservation. The GEF contribution of US\$ 20 million is equally divided into two components: financing facility and technical assistance facility. The former is expected to leverage additional commercial financing of US\$ 70 million, while the latter will leverage donor grant financing of US\$ 10 million (leverage factors of 1:7 and 1:1 respectively). The financing facility will provide direct financing to FIs, partial guarantees and quasi-debt (subordinated loans), and in some cases direct financing to medium sized SMEs. The instruments will be tailored to each country and circumstances. The technical assistance facility will focus on three areas: local market development; support to FIs on credit risk processes, development of financial products and portfolio risk management; and support to SMEs in improving their business skills. The program is at an early implementation stage. It is expected to be implemented in 10-12 countries. The first phase constitutes an in-depth, 9-12 month market assessment, stakeholder identification, and country program planning phase. Such assessments have already been completed in South Africa and Brazil, and a similar one is underway in Guatemala. The implementation phase in each country will take 5-6 years. The program will include a specific, built-in performance scoring and environmental performance monitoring system. A novel environmental scorecard is currently being developed. It will help credit officers define if the SME is GEF-eligible, and based on environmental performance which credit terms can be offered. The six main areas assessed are: degree of environmental sustainability; magnitude of environmental benefits; financial sustainability; environmental management and monitoring system; replicability; and centrality to industry.

➤ *GEF/UNDP Accelerating Renewable Energy Investments through CABEI in Central America:* The project, which will be implemented by UNDP and executed by CABEI, is currently being prepared for final approval. The GEF financing of US\$ 7 million is expected to leverage co-financing of US\$ 83 million, of which US\$ 39 million from CABEI as loans, TA and in-kind services, US\$ 5 million from the environment fund FALIDES, US\$ 19 million from local banks and private investors each. The project is implemented in the five CABEI member countries and Belize. The objective of the project is similarly to this proposed project to remove financial barriers to large-scale development of investment, in this case only in the renewable energy field. The activities concentrate in the following areas:

- integrate small-scale renewable energy lending strategies internally at CABEI;
- development of a pro-active small-scale renewable energy pipeline to be included in the lending portfolio of CABEI;
- development of appropriate risk mitigation mechanisms to increase the availability of investment capital for renewable energy projects less than 10MW, and
- support market penetration through expanded financing opportunities.

The project is to support the implementation of 12 to 20 investments in the region, including 8 pre-identified investments. CABEI will arrange the financing of the projects from the FALIDES facility or its own resources, channeled through commercial banks. GEF contributes to the provision of grants to cover a partial risk guarantee facility to help mobilize funding and to persuade the intermediaries to finance renewable energy investments presented by clients.

Baseline assessment and scenario

61. According to the project's baseline scenario, and in the absence of GEF support, lending by CABI to SMMEs would grow, perhaps quite rapidly. However, lending to BF-SMMEs could be expected to increase very slowly over time, only as the market becomes better known and banks become used to lending to these types of businesses. A number of barriers (see below) would prevent any rapid increases. This scenario is especially meaningful given the expected rapid growth in overall lending to SMMEs through CABI, which would mean that a significant opportunity for financing BF-SMMEs would have been lost.

TOOL #2: BUSINESS DEVELOPMENT AND MARKETING SUPPORT TO BF-SMMEs

Overview

62. As outlined above (see Tool #1), a key obstacle for developing the opportunities which lie in BD friendly business is the absence of credit available to SMMEs to finance necessary investment for business development. The barriers that exist in the Central American banking sector and that keep credit from flowing towards BD-friendly business development have been described above.

63. Analysis carried out during project preparation, covering several pilot experiences in the region, shows that even if credit is made available to SMMEs for them to undertake investments for BD-friendly activities, a series of problems still exist that makes it difficult for businesses to take advantage of the green market opportunities. These constitute a different, but just as important, set of barriers to BD-friendly business development. These barriers relate to the capacity of SMMEs to manage a multitude of factors determining their success in the marketplace. These include such factors as business organization and planning, production and post harvest treatment technologies, access to useful market intelligence, establishing links with buyers and input providers and other special requirements associated with BD-friendly business in particular. Small and medium businesses, for example, need a wide range of technical and managerial skills to effectively position themselves in markets for bio-friendly markets and services. While these barriers persist, it is unlikely that they will take advantage of available financing or that they will undertake the transformation to BD-friendly businesses able to capitalize on available opportunities.

Barriers

64. The following specific barriers have been identified related to business development of BF-SMMEs:

- B-2.1 Limited awareness of green market and other biodiversity-friendly business opportunities: Biodiversity-friendly business is still a very recent phenomenon. While generally representing only niches of international markets, the biodiversity sector is one of the fastest growing sectors of the forest and agricultural markets. However, in many cases, SMMEs in Central America are not aware, or fully aware, of the BD market opportunities in major importing countries such as those in Europe and North America. In most cases, certified sustainable production, clean production, or other niches fetch a sizable price premium relative to the prices on conventional markets. These production methods, when appropriately certified, can also help secure access to North American and European green markets or, more broadly, help gain general market access in cases where trade agreements require fulfilment of minimum environmental standards.
- B-2.2 Limited technical skills needed to transform productive and service sector practices: As described in some detail in Part I: Situation Analysis, transforming an existing SMME into a BF-SMME may require significant upgrades in production technologies. These may include, for example, wholesale transformations related to techniques of coffee and cocoa production, new procedures

related to timber harvesting, sharply different methods in aquaculture, etc. Many potential BF-SMMEs will have little or no experience in the new methods being adopted and little awareness of where to go for technical support. There is thus a significant learning curve, and associated transitional costs, involved in such transformations.

- B-2.3 Inadequate business management skills for succeeding in national and international green markets: Many entrepreneurs may have good ideas and viable plans to do business as BF-SMMEs and may even possess the technical know-how to implement them. However, they do not often possess the business management skills needed to transform the plans into viable and self-sustaining enterprises. They have limited abilities to formulate business plans including skills in preparing market assessments, financial projections, risk analysis and financial analysis. The FIs agree that much potential business is lost because of inadequate business planning skills. SMMEs also seldom have access to specialists with expertise in financial planning and management, business organization, supply chain development, marketing or accounting. As a result, many rural SMMEs find it difficult to expand and sustain growth.
- B-2.4 Difficulty for SMMEs to get their production or services certified: SMMEs operating in areas where sustainability certification schemes could offer a price premium and/or improved market access for products with environmentally-friendly attributes (such as certified coffee, cacao, and timber, eco-tourism, etc.) have to go through a quite complicated, and often costly, process of having their business certified. While there are direct charges associated with the certification process, typically much more significant are the costs of making the changes required to earn certification. Overall, it requires considerable effort, particularly for smaller producers, to establish contact with certifiers, raise funds to cover the expense of certification, and carry out changes required by the certification programmes. Partly for this reason, certification programs such as those operated by the Rainforest Alliance have had greater success to date certifying larger-scale producers. Some progress has been made towards implementing group certification programmes, which can create important economies of scale for the certification, but such efforts remain at an early stage. It should be noted here that this barrier, given its financial implications, represents an important point of intersection between Tools 1 & 2.
- B-2.5 Difficulty developing market chains that include BF-SMMEs, particularly in the case of export markets: It is important to recognize that a host of actors may be involved in the production, transformation and commercialization of a single product before it reaches the final consumer. In many cases, BF-SMMEs are unable to meet the quality, price and volume requirements called for by the chain. This can be an important factor hindering movement by producers into the BF sector and overall development of the market. Recognizing this fact, some of the baseline actors in the area, notably CATIE-CeCoEco and Ecologic, have begun to work closely with various actors along the supply chain for BF products.
- B-2.6 SMME do not have access to useful market information and analysis: Even SMMEs with large potential for transformation into BD friendly production and services typically do not have access to information on experiences and best practices generated in the area worldwide, for example on product development, market prices, input suppliers, business contacts, marketing of their product or service, target market segments, market trends and price fluctuations, etc. Systematic market research is often very costly to do, but market information can often be bought from specialized market research companies, or even academic institutions. Nevertheless, most potential BF-SMMEs are not advanced enough to actively search for this information.
- B-2.7 Limited demand and price premia: Demand for BD products is still very limited within the region as consumer culture has not reached the same level as outside the region. Therefore, certified

products sold domestically, such as timber, do not currently enjoy a price premium. Eco-tourism is a growing segment in the incoming tourism business, with clients often prepared to pay higher price for unique nature experiences. As far as international markets are concerned, these have been growing fast, as noted; however, the process is not an ‘automatic’ one. Organizations like Rainforest Alliance work hard to raise consumer awareness and associated ‘willingness to pay.’ They also work with corporate actors, including major coffee wholesalers such as Kraft and timber purchasers such as Home Depot and Ikea, and to reach specific agreements concerning advance purchases of green products. Such efforts serve to greatly reduce market-related risk, which can otherwise have sharply negative effects on willingness to transform businesses or to lend for such purchases. Here again, Eco-Logic’s experience is a case in point.

B-2.8 Limited access to applied research useful to BF-SMME business development: Research institutions are not sufficiently focused on applied research that can contribute to new business and product development. What research is being done is not being adequately disseminated. Sometimes information comes at a high cost. Preliminary experience by the Instituto Nacional de Biodiversidad (INBio) in Costa Rica has shown the potential for productive collaboration between biodiversity research organizations and BF-SMMEs (see below).

Stakeholders and their baseline activities

65. Stakeholders involved in providing business development and marketing support to potential BF-SMMEs are described below, together with their baseline activities.

- **The Rainforest Alliance** is a leader in developing best management practices for sustainable land use, and offers third-party certification and eco-labeling services to farms and forests that are managed in ways that reduce environmental impacts and increase social benefits. As the first organization in the world to utilize market forces to conserve tropical forests, launching its Sustainable Forestry Division in 1989 and its Sustainable Agriculture Division in 1991, the Rainforest Alliance pioneered a worldwide certification movement. Its Sustainable Tourism Division is building awareness of environmentally and socially responsible tourism, and promoting certification for tourism operations that are managed sustainably. **Rainforest Alliance**, along with NGOs such as **Fairtrade**, have strongly supported the use of certification as a tool for shifting production processes in the direction of social and environmental sustainability. Partly due to the support of these organizations, demand for certified products, including those certified as ‘sustainable,’ ‘organic’ or ‘Fair Trade,’ has risen sharply in recent years and appears poised for continued steady growth. For example, in 2005, Kraft Foods and Procter & Gamble will purchase over 14 million pounds of coffee certified by the Rainforest Alliance as ‘sustainable.’ Gibson Guitars is demanding sustainably harvested mahogany from Guatemala for producing its guitars. **Table 2** below highlights certification systems operating in production and service sectors in the region. Rainforest Alliance is also leading the next major steps in the creation of an accreditation body for sustainable tourism certifiers, with a number of local, regional and international partner groups such as the World Tourism Organization and the United Nations Environment Programme.

Table 4: Overview of certification systems operating in the CA region

Sector	Sub-sector	Certification systems	Current extent of certification among SMMEs
Agriculture	Coffee	Rainforest Alliance	98 certified farms
		Rainforest Alliance	91 certified farms
	Bananas	Fairtrade	Currently operating in Costa Rica only
	Citrus	Rainforest Alliance	4 farms
	Ferns	Rainforest Alliance	24 farms
	Cut flowers	Rainforest Alliance	0 farms
	Avocado	Rainforest Alliance (planned)	NA

Sector	Sub-sector	Certification systems	Current extent of certification among SMMEs
	Pineapples	Rainforest Alliance (planned)	NA
Forestry	Sustainable forestry	Rainforest Alliance	36 areas covering 580,000 ha
	Non-timber forest products	Rainforest Alliance	Unknown
Marine aquaculture	Shrimp	Aquaculture Certification Council	c. 3 million pounds per year

- **NGOs like Eco-logic, The Nature Conservancy, Conservation International and the World Resources Institute** are providing technical support to potential BF-SMMEs, often within the context of financial lending support (see descriptions under Tool #1).
- **The Centro Agronómico Tropical de Investigación y Enseñanza (CATIE)**, located in Turrialba, Costa Rica, is a regional leader in postgraduate education, research and outreach related to technologies and approaches for sustainable rural development in tropical America. CATIE's **Center for Competitiveness of Eco-enterprises (CeCoEco)** supports eco-enterprises in capitalizing on opportunities in specialty markets such as organic, fair trade and gourmet. CeCoEco takes a supply chain approach to increasing competitiveness in Eco-Agriculture and Eco-Forestry. CeCoEco builds capacities through a Diploma in Rural Enterprise Development, which is aimed at strengthening the entrepreneurial capacities of business development service providers and rural enterprise representatives. It provides consulting services in areas such as international and local market analysis; cooperative business organization; supply chain analysis and development; design of competitive business plans, and; conversion from conventional to ecologically sound production. Finally, CeCoEco provides bilingual market intelligence systems on Forest Eco-Business and AgriEcoBusiness.⁵⁰
- **Provision of market intelligence** concerning eco-markets has become an increasingly important service being provided by local institutions in the region. In addition to the above mentioned market intelligence systems offered by CATIE-CeCoEco, **INCAE**, a well known business school in Costa Rica, operates a Sustainable Markets Intelligence Center, known by its Spanish acronym **CIMS**.
- **Development of basic business skills** is an important prerequisite for the success of any SMME, whether or not they are interested in green markets. Organizations like **INCAE** and **CATIE** have a great deal of experience in providing this type of support, *inter alia*, to BF-SMMEs. Similar support is being sponsored by donors and is provided by NGOs and specialized SMME agencies, such as **SWISSCONTACT**, **FINTRAC**, **AGROPIME**, the **UNIDO Clean Production Service Centers**, etc. Further technical support for SMME business skills development has been provided as technical co-operation in the context of SMME credit lines created by **CABEI** with donor support, though, as noted, little of these efforts have gone towards BF-SMMEs.
- The **Instituto Nacional de Biodiversidad (INBio)** is based in San Jose, Costa Rica and is perhaps the leading research organization for biodiversity in Central America.⁵¹ INBio has been working, with technical co-operation from the Inter-American Development Bank (IADB), to establish co-operation with SMMEs to develop new products that would add value to natural resource-based products. INBio's role related to research and development for the product. Working with six SMMEs, INBio was able to support the development of six products. More recently, INBio has developed a loan proposal for **CABEI** support under which the above

⁵⁰ See www.catie.ac.cr/econegociosforestales

⁵¹ Another biodiversity research organization is being established at Zamorano, an agricultural research organisation called Zamorana, is currently

experience would be replicated. This experience represents a clear example of the kind of approach that the present project is seeking to support.

- The **GEF Small Grants Programme (SGP)** has provided grants to hundreds of small enterprises, typically associations, cooperatives and related community-based organizations. However, the majority of these were not organized as for-profit ventures, nor did the experience involve credit. Nevertheless, many of these enterprises, having reached the SGP limit of \$50,000 in grants, are looking for further financial support. Those whose project ideas may be bankable represent an important potential market for BF lending.
- Various other examples of **project development support** have been identified during preparation of the present proposal, many of which were operating outside of the scope of certification. For example, a **GEF project in Honduras** had completed an assessment of ecotourism investment opportunities in the vicinity of key national parks, all of which would be within the appropriate scale to be handled by an SMME.⁵² The **Ministry of Environment in El Salvador** had worked to develop interest in a possible coffee-lands tourism venture that could help to prevent cutting of old-growth trees. **InBio** in Costa Rica was working with SMMEs to develop new products based on NTFPs

Baseline assessment and scenario

66. Under a baseline scenario, numbers of certified sustainable businesses would increase but their growth and spread would be constrained, perhaps severely, by limitations on available financing, as well as by the other barriers described above. To date, no significant attempt has been made to link this important work with the mainstream financial sector – the strategy adopted by the present project.

TOOL #3: CREATING AN ENABLING ENVIRONMENT TO ENCOURAGE BF-SMMEs

*Overview*⁵³

67. SMMEs are key actors in the development process. They are essential in mobilizing public and private resources and allocating them to productive activities. SMME development can help to promote national and regional economic development, provide employment, alleviate poverty, and promote an equitable distribution of income. SMMEs represent the beginning of a development path towards larger enterprises. Finally, as we are seeing, SMMEs can also have considerable impact on the ability to achieve environmental and biodiversity objectives. The starting point for any specific policies referring to BF business is the general policies and enabling environment for the SMME sector as a whole.

68. Despite the above, SMMEs do not typically receive the appropriate degree of attention from policymakers. The so-called business environment, including policy, legal and regulatory aspects, is in many countries relatively unfavourable to SMMEs. Often, for example, monetary and credit policies, taxation and trade policy may favour larger-scale enterprises over their smaller-scale competitors.

69. The policy, legal and regulatory (PLR) environment exists to perform two broad functions. Firstly, it provides the means by which government can manage the economy to achieve sustainable social and

⁵² Wolfgang Strasdas, Victor Archaga, Jorge Salaverri, Cecilio Zelaya, Luso Consult. Hamburg, Alemania. 31 de julio de 2000. Diagnóstico del Potencial Turístico de 13 Áreas Naturales Protegidas en Honduras y Concepto de Desarrollo Turístico para 4 Áreas Prioritarias: Informe Final.

⁵³ This sub-section relies heavily on White, Simon. 1999. "Creating an Enabling environment for Micro and small enterprise development in Thailand." ILO/UNDP THA 99/003, Working Paper 3. Mimeo. See <http://www.ilo.org/public/english/employment/ent/papers/thai3.htm>

economic outcomes. The second function of the legal and regulatory environment is to protect and assist the small business itself. Small business operators require space in which to operate, and physical facilities to conduct their business - whether this be providing a service, producing a product or trading. They require physical protection against unlawful behaviour of others, but also protection in the sense of having legal mechanisms available which help to improve the conduct of business (e.g. protection against unfair competition), and incentives to prompt the start of the business. There is a need to find a balance, in policy terms, between addressing the needs and capacities of the MSE sector and those of large-scale industries. There are many ways in which complementary policies and structures can be developed in support of MSEs and large-scale industries. Indeed, a diverse and healthy economy will contain both forms of enterprises and will promote inter-linkages, such as sub-contracting and trading arrangements between each other.⁵⁴

70. In general, the macro-picture that is advocated above envisages a less intrusive role by government, and re-focusing on a more limited number of functions. This healthier enabling environment allows entrepreneurs to take risks, pursue opportunities and organize their commercial operations in response to changing markets. Such activities lead to a more diversified, efficient and sustainable economy in which jobs are created, goods and services provided, and the quality of life enhanced. These functions, however, should not prevent or deter governments from responding to the demands for equity, social protection, and from promoting the development of communities which support enterprise endeavour.⁵⁵

71. In practice, the enabling environment for an individual SMME signifies the following day-to-day business related aspects:

- stability of legislation re. conducting of business
- ease of registration and licensing
- taxation (no. of different taxes, level, enforcement)
- regulatory practices and red tape (interference)
- financing available and terms applied
- business support services available.

72. The environmental, and more specifically BD aspects, will build on the general policy and operational environment explained above. It has the following two dimensions:

1. *General BD Policy environment:* Environmental legislation is in place in all the CA countries and sets the stage for a code of conduct. The legislation, overseen by the Ministries of Environment in coordination with the Ministry of Finance and the relevant line ministries, is geared to regulate and control, instead of guiding economic activities. Biodiversity issues are handled to a large extent on the regional level. There appears to be a comprehensive regional co-ordination mechanism in place in terms of BD in general, but concerning the Meso-American BD Corridor, in particular. The main co-operating body in co-ordination is CCAD. Each participating country's National Biodiversity Strategy and Action Plan (NBSAP) represents a particularly relevant component of the biodiversity policy environment. Each one reflects, *inter alia*, areas where national Ministries of Environment have been given the responsibility to work with sectoral and other ministries on aspects of the policy environment that are impacting biodiversity. Part IX below presents an overview of the relationship between the each country's NBSAP and

⁵⁴ *ibid.*

⁵⁵ *ibid.*

the following key policy areas: (i) credit/banking policy, (ii) SMME policy, (iii) the overall regulatory framework, including the use of incentive policies.

2. *Enabling environment for SMME business:* The fact that still very little BF business and investment takes place in CA is a sign of lack of enabling environment. In absence of solid business, it is hard to conclude the specific constraints that are faced by SMMEs considering engagement into BF investment or business, other than face by SMMEs in general. The enforcement of environmental legislation is based on negative control aspects, and sanctions. So far, there have been no tax or monetary incentives created by the Governments in order to persuade SMMEs to conduct their business in BF manner. In the existing BF business and trade, the pull comes from export markets and customers, not from within the countries. Thus, it is hard to expect that BF business would grow fast, only based on export market pull.

Barriers

73. An initial review of the enabling environment within the project area has identified the following barriers which, if allowed to persist, could negatively the project's success:

- Existing incentives promote large-scale activity (industrial production, tourism) which may not be eco-friendly: SMMEs already often face being second-in-line in terms of national policies and incentives towards industry and services. BF business will follow down-the-line even further at present, in absence of specific incentive structures for them.
- Sectoral development policies fail to take into account BD business development opportunities: Environmental and more specifically BD policies appear not to have been taken down to sectoral level. In the absence of positive signals for the business community, economic activities are geared towards least cost/maximum return targets, as reflected by the market forces.
- Policies emphasize 'command-and-control' solutions and fail to recognize the potential of incentive-based approaches: Business, and especially SMME business, is concerned of cutting costs and doing the minimum required to take care of environmental and BD concerns and regulations, which still remain an externality for their business. An incentive towards BF behaviour would internalize this cost component.

Stakeholders and their baseline activities

74. At a regional level, the CCAD is the main institution within the environment areas. The organization consists of the ministers of environment of the Central American countries, and a series of strategic planning activities in the region. For the enabling environment of BF-SMME development in Central America, the CCAD is a key player.

75. Particularly with regard to conservation of biodiversity, the CCAD's central role in the formulation of promotion of the innovative and visionary Mesoamerican Biological Corridor concept should be mentioned. That concept is promoted by a series of projects, financed by the GEF and other donors, and it offers a framework for BF-SMME development, both thematically and geographically.

76. The CCAD – with the assistance of the regional UNDP/GEF implemented MBC project – has recently formulated a Strategic Business Plan which is being adopted by the countries in the region. The current project will add value to this Plan by helping to enlist private businesses in the realization of the region's biodiversity conservation goals.

77. At the country level a series of ministries form an important baseline of actions, on which the project will build – and help transform. A comprehensive mapping of the wealth of different institutions, legal frameworks, regulations and policies at a national level will be performed during the full-size project.

PART II: Strategy

Project Rationale

78. The situation analysis presented in Part I above constitutes the firm foundation upon which the present project intervention has been constructed. The central conclusions that follow from this analysis are as follows:

- i. that globally significant biodiversity within forest, mountain and coastal and marine ecosystems throughout the project area is at threat;
- ii. that protected areas, while necessary, are insufficient as a tool for confronting this threat;
- iii. that *BD 2: Mainstreaming Biodiversity in Production Landscapes and Sectors* offers a cost effective framework within which the GEF could help to address these threats;
- iv. that current productive and service sector practices by SMMEs within the project area's productive landscapes are contributing significantly to the loss of the area's globally significant biodiversity and that it is not realistic or useful to simply try to prevent or reduce their economic activities (although this is a useful strategy within certain highly sensitive areas, many of which have already been established as protected areas);
- v. that the emergence of global markets for green products, together with the advent of systems for certifying production practices, are providing an important and growing opportunity to transform SMME production practices, to the dual benefit of sustainable development and conservation;
- vi. that the best way forward within the productive landscape is therefore to encourage the development of biodiversity-friendly SMMEs (BF-SMMEs), whose economic activities are sustainable and non-damaging to biodiversity;
- vii. that among the benefits of this approach is that it can significantly enhance the conservation effectiveness of the Mesoamerican Biodiversity Corridor (MBC) and Mesoamerican Barrier Reef System (MBRS);
- viii. that the key tools available for supporting the emergence of BF-SMMEs are (i) financing, (ii) business development and marketing support, and (iii) creation of an effective enabling environment;
- ix. that the above tools, while currently at least partially effective in supporting the development of SMMEs, are facing numerous barriers preventing them from effectively supporting the emergence of BF-SMMEs;

- x. that incremental support from GEF to address these barriers should therefore constitute the guiding principle to the present project.⁵⁶

Policy Conformity

79. The project represents an important contribution to the aims and objectives of the Convention on Biological Diversity. It constitutes an important step in implementing the interest expressed repeatedly by the Conference of Parties to advance the involvement of the private sector in the Convention process. Of greatest relevance have been the COP's efforts to develop a global initiative on banking, business and biodiversity. For example, a recent Note by the Executive Secretary has highlighted the important potential role of the banking sector in, *inter alia*, developing biodiversity loans, while also making reference to many of the business and biodiversity-related initiatives, such as the development of standards for sustainable forestry and fisheries, that are directly involved in the present project.⁵⁷

80. The project relates to GEF priorities as follows:

81. *GEF operational strategy*: The main strategic considerations guiding GEF-financed activities to secure global biodiversity benefits are: (a) integration of the conservation and sustainable use of biodiversity within national and, as appropriate, subregional and regional sustainable development plans and policies; (b) helping to protect and sustainably manage ecosystems through targeted and cost-effective interventions; (c) integration of efforts to achieve global benefits in other focal areas, where feasible, and in the cross-sectoral area of land degradation, primarily desertification and deforestation; (d) development of a portfolio that encompasses representative ecosystems of global biodiversity significance; and (e) that GEF activities will be targeted and designed to help recipient countries achieve agreed biodiversity objectives in strategic and cost-effective ways.

Operational Programs

82. The project relates to the GEF operational programs as follows:

OP-2 Coastal, Marine, and Freshwater Ecosystems

83. The project will contribute to conservation and sustainable use of biodiversity in the coastal, wetland, mangrove, estuarine, marine, and freshwater ecosystems through promoting SMMEs which benefit and maintain such ecosystems through a variety of business practices including: reduce pollution to rivers and coastal areas, develop BF shrimp and fish aquaculture and mariculture, develop coastal resorts which maintain key habitats, mangrove resources and reduce shoreline erosion and manage in shore agriculture and forest practices in a manner to reduce sedimentation and agro-chemical pollution to marine ecosystems.

OP-3 Forest Ecosystems

84. The project will contribute to the demonstration and development of sustainable use methods in forestry as part of integrated land management in agricultural and forest landscapes. Particular attention will be given to supporting SMMEs, which invest in business opportunities which demonstrate and apply

⁵⁶ For an overview of the direct correspondence between barriers and project outputs, see Section IV, Part V.

⁵⁷ See UNEP/CBD/COP/7/18, 10 November 2003. "Financial Resources and Mechanism (Articles 20 and 21): Additional financial resources – Note by the Executive Secretary."

techniques to conserve wild relatives of domesticated plants and animals for the sustainable use of biodiversity and development of sustainable use methods in forestry. The project will also help promote the enabling environment for BF-forest products through policy reform and domestic market stimulation.

OP-4 Mountain Ecosystems

85. The project will support SMMEs which can demonstrate that their proposed investments will help establish sustainable land use practices on mountain slopes in order to protect representative habitats and strengthen the network of representative conservation areas in the alpine, mountain grassland, montane forest zones, and freshwater systems. This will be mainly through SMMEs focusing on agriculture, livestock and forestry but may also include more general business practices which will engage labor and increase incomes to reduce dependency of local populations on mountain resources.

Strategic priority: II. Mainstreaming Biodiversity in Production Landscapes and Sectors

86. Rationale. There is an ever more pressing need to mainstream biodiversity conservation within production systems where biodiversity faces most critical threats. This project will mainstream biodiversity conservation and sustainable use within SMME development and financing. This will promote SMMEs through their business operations to integrate biodiversity conservation in agriculture, forestry, fisheries, tourism and other production systems and sectors to secure national and global environmental benefits. The project will target assistance to SMMEs to maximize biodiversity impact through a series of tools so that FIs lend to SMMEs in specific sub-sectors which influence biodiversity and to SMMEs, which are located near areas of high biodiversity value, defined primarily by the MBC. The project will fortify this mainstreaming through strengthening the national enabling environment to promote BF-sub sectors and SMME activity within them and will make efforts to increase market demand within Central America for BF-products and services.

Project Goal, Objective, Outcomes and Outputs/activities

87. The project will support the mainstreaming of biodiversity conservation and sustainable use within small, micro- and medium-sized enterprise (SMME) development and financing in five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua). This will generate biodiversity benefits by encouraging transformed productive and service sector practices and related investments that can positively impact biodiversity. It will work closely with, and help to bring together, three important networks of partners, each of which will be associated with a specific project outcome. First, it will work with the region's financial sector network, namely the Central American Bank for Economic Integration (CABEI) and select members of its extensive network of financial intermediaries (FIs), to develop and extend new financial products that will generate substantial increased lending to potential biodiversity-friendly SMMEs (BF-SMMEs) for investments that create biodiversity benefits. Second, it will work with potential BF-SMMEs and in partnership with a range of national and international institutions that have been supporting their sustainable growth and development, to increase the ability of SMMEs to develop biodiversity friendly business opportunities, which are financially viable and secure financing for the investments. Finally, it will work with Governmental and inter-governmental institutions, including Ministries of Environment, relevant sectoral ministries (agriculture, industry, tourism, finance, etc.) and a regional co-ordinating structure (CCAD), to support an enabling environment that will encourage BF-SMMEs both to prosper and generate biodiversity benefits.

88. GEF funding will support technical co-operation aimed at removing a variety of barriers – including those related to business organization and development, banking and the enabling environment – to mainstreaming in the above areas. It will also provide direct financial support in the form of partial

guarantees and other loan enhancements. GEF funding will leverage substantial co-financing in the form of direct lending funds available under existing CABI SMME credit lines that are currently supporting only minimal amounts of lending to biodiversity-friendly SMMEs (BF-SMMEs). It will also work in partnership with other funding sources, such as those being channeled through Rainforest Alliance, to support efforts to transform production and service sector (e.g., ecotourism) practices in ways that benefit biodiversity.

89. The **project goal** is to ensure that micro-, small- and medium-sized enterprises in Central America increasingly contribute to sustainable development and environmental protection by incorporating biodiversity concerns in their products and services

90. The **project objective** is to remove barriers in banking, business, and enabling environment to catalyze biodiversity-friendly investments in micro-, small-, and medium-sized enterprises in Central America

91. The project outcomes and outputs are described below. It should be noted that each output is specifically designed to address a barrier identified in the above Situation Analysis.⁵⁸

Outcome 1: *CABEI and its Financial Intermediaries are providing loan financing to SMMEs for development of biodiversity-friendly business activities (GEF - \$4,595,607; CABEI lending – a minimum of \$ 15 million*⁵⁹

92. Commercial financing to BF businesses has not taken place on a wide scale in developed, and even less in developing countries. BF-SMME financing has been initiated by NGOs and has only recently started to attract commercial financing, mostly in short-term loans for trading activities (such as shade-grown coffee and certified timber) and tourism.

93. The component will provide temporary “smart subsidies,” namely partial risk guarantee and biodiversity reward instruments. These are intended to provide an initial boost for CABEI, the participating FIs and the enterprises themselves to structure viable businesses and actually get financing for sustainable, private sector BF economic activities.

94. The financial instruments will be tailored to two types of clientele: the small and medium enterprises which currently have very limited access to loans from commercial banks; and micro-enterprises which have partial access to loans from non-banking institutions but cannot afford the high interest rates. This will promote the extension of financial services to innovative and emerging businesses.

95. The volume of business created through the facility will reflect the true demand, which is still unknown. Such demand already exists in other environmental fields, such as renewable energy and energy efficiency. Therefore, availability of financing, like that available from CABEI already today,

⁵⁸ Section IV, Part V (p. 60) presents matrices showing these relationships for each output / barrier combination.

⁵⁹ The range of potential financing to be leveraged is based on the following low and high assumptions: Partial risk guarantees; \$2.8 million, covering 50% loan risk, and revolving twice during the project life would leverage \$ 11.2 million in loans. If CABEI can share part of the exposure risk (ratio 1:5) knowing the low prevailing bad loan rates, the same guarantee amount could leverage loans of \$ 56 million. This is entirely a business decision by CABEI management. The BD reward of \$ 0.7 million to micro and small business can leverage lending volumes of 3.5 million, if the reward constitutes 20% of the loan amount, and double of that, if the reward would only be at 10% level. (IFC started with 50%, and had to come down to 25% level in their earlier global program). Therefore, the wide bracket of financing to be created and much bigger leveraging impact be achieved, as key policy items will only be decided upon at project inception. Still, the impact can be considered significant, also in the minimum bracket level.

cannot create demand. It will come from the private business itself. The main outcomes from the side of the financiers would be to make them better aware of the emerging business opportunities and being prepared to structure financing to these activities based on acceptable banking principles, when such project proposals will be presented.

96. The program will endeavor to catalyze the maximum amount of financing towards viable BF investments and business also through networking, collaboration and co-financing with also other financing institutions and instruments already in place in CA in addition to CABEL and its network. These include: EcoLogic Finance (joint project identification, market intelligence and attracting pre-export short-term co-financing), EcoEnterprise Fund (joint project identification, formulation and attracting equity and loan co-financing), the International Finance Corporation IFC (joint work with intermediaries, project identification, market assessment in Guatemala, attracting co-financing in other CA countries).

97. Outcome 1 consists of the following outputs:

Output 1.1 Increased awareness among financial institutions of potential market opportunities for lending to BF-SMMEs, including information on specific bankable projects

98. As commercial lending to BD business is either non-existent (e.g. in El Salvador, Nicaragua and Honduras) or at a very early development stage (Costa Rica and Guatemala), the starting point for the promotion of BF business financing is to create awareness among CABEL and the FIs on the potential that the emerging sector can offer. The most efficient way to do this is to help identify deal flow for them. The project will establish working relations with the sector associations (particularly for coffee, forestry and tourism), NGOs and other institutions already active in the BD field in order to start with activities and potential business, which is already there, but has not found the financiers. A series of seminars will be organized for the FIs to sensitize them to BF opportunities and to understand the core aspects of BF business as a financing target. Specific awareness raising programmes will also be undertaken within banking institutions expressing particular interest in particular emerging market areas. The awareness raising will be followed up by training programmes to familiarize the bankers with the technical and operational modalities important to help appraising BF project proposals. The relevant players in BF business would also be brought together to establish more a permanent dialogue and networking forum.

Output 1.2: A risk guarantee facility established by the project is being used by banks to reduce the risks of lending to BF-SMMEs (GEF – US\$2.8 million)

99. This output will help to reduce perceived risk towards actual project risk level, making more potential viable business to qualify for loans. The project will establish a risk guarantee facility, tailored for small and medium business willing to invest or create sustainable and profitable economic activity with BF impacts in the region, but which are currently unable to access financing from banking institutions due to lack of collateral. The facility, established as a revolving fund at CABEL, will be provided by CABEL to selected commercial banks and FIs with banking licenses, which are most likely to service BF clientele. The instrument which has recently been introduced to commercial banks in other fields (such as clean production, renewable energy) would be able to reduce the risk level assumed by the FIs to a level where viable BF clients and projects could qualify for financing by FIs without first class collateral. The 50% partial guarantee would lower the risk to a level where the FIs would be willing to on one hand accept lesser collateral (e.g. pledges on assets), and on the other hand be willing to accept the project cash flow and client's business plan to guarantee repayment. This process of moving towards the use of revenue based lending techniques to SMEs is expected to be gradual, evolving along with the increase of the familiarity with the project appraisal techniques among the credit staff of the FIs during the project implementation.

Output 1.3: Revenue-based lending approaches have been accepted, and are being used by banks to lend to BF-SMMEs

100. The project will help the participating banks through capacity building to credit officers. The project will undertake associated training to the FIs on both how to work with the Fund and on project appraisal techniques. The project will also develop standard tool-kits of credit officers on project appraisal techniques, focused on sectors with BF-SMME opportunities. The partial guarantee facility introduced under this project (see Output 1.1) will reduce their risk profile in transactions, and would help them in considering the cash flow of the BF projects, and not only the financial status and creditworthiness of the client. Having been trained in project appraisal techniques as an alternative to the traditional client risk assessment method, it is expected that being equipped with these techniques, they can consider the merits of the project together with the partial guarantee as sufficient collateral, in the absence of first class guarantees. The banking sector in CA is currently operating on very conservative principles and practices, also in international comparison. It will certainly take time for them to adapt their approaches towards revenue-based lending across the board. However, the transformation process has already started, as demonstrated by their new lending starting into renewable energy and clean production investments, supported e.g. by partial guarantee schemes sponsored by GEF. This project would help them also consider financing targets among small and medium BF enterprises, which cannot present sufficient formal collateral for loans.

Output 1.4 A biodiversity reward facility is helping to expand lending by non-banking institutions to BF micro-enterprises at interest rates that are sufficiently profitable to lenders and affordable to borrowers (GEF – US\$700,000)

101. The very small and micro-enterprises are a new world for financiers. The businesses are normally run by families, their financing needs are much smaller, fixed investments limited and business based on quick cash flow. Very few formal banks can service this sector. The region has, however, an established network of successful non-banking institutions able to cater for a good deal of the needs for business financing for small entrepreneurs. There still exists a vast need for financing for this sector, even if the lending volumes have been growing rapidly. Biodiversity friendly activities pose an even larger financing challenge at this moment for micro-enterprises. As the FIs work close to them and are subject to smaller individual transaction risk they can accept less stringent collateral. On the other hand, the lending terms are tighter in terms of shorter (maximum 2 years') loan maturities, and are priced high to reflect the high funding and transaction costs. The proposed reward facility, shared by the FI and the clients after the biodiversity benefits have been achieved, would act as a *de facto* interest subsidy. The BF micro-or small enterprise client could thus afford to service the loan from BF business proceeds and would be induced to plan the investment biodiversity friendly.

102. The facility has been designed based on positive experiences gained by other financiers in the environmental friendly investments, such as the International Finance Corporation (IFC). The rationale for this instrument is that the micro-finance institutions (MFIs) mainly financing trading and other enterprises with strong cash flow position and relatively high returns find it harder to find eligible clients in sectors more typical to BF activities, such as farming, timber and small processing business. The reward (10-20% of loan principal) is designed to be awarded towards or at the loan maturity upon achieved biodiversity impacts. This would on one hand give an incentive to the MFI to look for BF clientele, and on the other hand act as a boost towards increased spread (i.e. lower funding cost) for the MFI. Increased funding to new clients (and especially to BD business) should be achieved due to the resulting lower price of borrowing for potential clients. It is assumed that the reward will be shared between the MFI and the client. If proven successful, grant co-financing may be sought among interested multi-and bilateral donors at the early phases of implementation. The reward level would be lowered

towards the end of the project along with increased familiarity among the MFIs in financing BD related micro- and small business.

Output 1.5 Tailored financing products developed for standardized loan situations

103. The two above mentioned credit enhancement incentives have been used and tested and other developing countries, and are known to promote financing of environmentally sound business. Very recently one of them, the partial risk guarantee instrument, have also been introduced to commercial banks in Central America. CABEI and several of its FIs have already confirmed their interest in participating in the scheme. The project team will be working closely with the FIs directly and through local service providers in facilitating the introduction and running of the instruments. Best practice learned e.g. by IFC during the last several years shows that the instruments have to be designed as flexible, in order to best stimulate and meet the BF business financing demand. Simultaneously, along with gained experience new tailored financing products and approaches will be developed together with CABEI and FIs to ensure the relevance and cost-efficiency of such commercial new products. In addition, efforts will be made in designing standard project concepts (e.g. for certified small timber plantation investments) and financing structures (e.g. investment cum pre-export financing packages) for major BD friendly product groups and activities. Availability of standard templates and guides will assist both the banks and MFIs to facilitate their project appraisal and assist clients in structuring of BF business financing. The interventions will focus on-the-job training, workshops and advisory services.

Output 1.6 Strengthened personnel and organizational resources at CABEI and involved FIs for improved management of BD financing

104. CABEI has recently established a unit dedicated to SME financing and is also planning to re-establish an environment unit. The former is already operational and has appointed a focal point loan officer in each Regional Office. CABEI has appointed the unit as the counterpart for this project. The project team will train the key staff and management in promotion, formulation and management of BD related technical issues. In addition, the unit will participate in the day-to-day operations, management and monitoring of the Financing Incentives Facility, and will gradually take over the overall responsibility. When applicable the unit's regional staff will participate in the training of the staff of the FIs and will be providing day-to-day support to them when required. The capacity building plans will be prepared during the Inception Phase.

Output-1.7 Biodiversity criteria being used in FIs loan approval procedures

105. The project will develop sector specific criteria for the financial institutions so that there is clear guidance on what types of businesses and investments generate sufficient biodiversity benefits to be eligible to access the financial incentives being established by the project. The criteria will also place particular emphasis on location of the SMMEs with regard to the MBC and ecological areas of importance as impacts on biodiversity from economic activities are highly dependant on their proximity to sensitive habitats. In this regard the project will work with Ministries of Environment and conservation NGOs to map areas of particular investment interest.

106. The project will develop criteria for the FIs which are practical in that the standards will not be too stringent to unduly limit investment opportunities whilst ensuring the investments contribute to biodiversity conservation. They will also be developed to be cost-effective in that they will be based on existing tools such as certification where possible and will not be laborious to apply during loan screening, appraisal and approval.

107. Certification is the most cost-effective instrument as verification of biodiversity benefits is implicit in the certification process. However, where products and services are not certified but can still contribute to biodiversity conservation a certain degree of verification will be necessary. The project will explore how this can be undertaken between the banks and third party organizations (e.g., conservation NGOs).

108. Once these are developed the project will work directly with banks to train them on how to use these environmental guidelines.

Outcome 2: SMMEs working in a broad range of economic sectors are able to develop biodiversity-friendly business ventures and access new markets for their products and services. (GEF - \$3,443,410; Associated Financing – \$5,100,000)

109. The strategy for this outcome is to ensure that potential BF-SMMEs will have enhanced access to loans, can use those same loans effectively and in ways that create tangible and long-term biodiversity benefits. This is essential, *inter alia*, to ensure that BF-SMMEs can acquire and maintain a solid reputation among the FIs as suitable borrowers.

110. Working in alliance with a broad set of partners (see Section I, stakeholders), including organizations involved with certification, business development and market research support, biodiversity research and sustainable and biodiversity-friendly production and marketing, this outcome will provide targeted and incremental support for global benefits within the following sectors: agriculture / agro-forestry; sustainable forestry, including NTFPs; ecotourism and marine (including aquaculture and possibly sustainable fisheries). GEF support will build on financing already being provided by and/or channelled through these partners, which include Rainforest Alliance, CATIE, INBIO, INCAE and others. It will link closely to certification work, which is expected to provide, *inter alia*, a stream of potentially bankable projects. Finally, it will reach out to other existing networks within and outside of consortium, including GEF-SGP, and other GEF and donor projects in the region, particularly for help in identifying potential partners (producers' associations, etc) and specific bankable projects.

Output 2.1: Potential BF-SMMEs who could be in need of BD financing are identified and listed in a database

111. The project will develop a database of potential BF-SMMEs borrowers with potential for a) certification (coffee, timber, cacao, bananas, eco-tourism, etc.), b) other producers with potential for enhancing BD management in their operations, and c) environmentally damaging producers with potential for cleaner production. During the life of the project, the database will be used by the project team to direct information campaigns towards potential borrowers, to alert them of the availability of loan financing and technical support to develop BF business activities. This may involve a third party operator, working on cost recovery principles, which will be determined during project inception.

112. The identification process will prioritize targeting in geographic areas of biodiversity importance, particularly the MBC, as impact on biodiversity from SMMEs will be greater in areas of close proximity to sensitive ecosystems, but should generally include all producers who could potentially get their production or service certified, regardless of location. It is expected that large amounts of producers and service providers in Central America will be organized in associations, and that membership records can be obtained for inclusion in the database. This would be an important first step for the project because it will be able to establish outreach with many thousands of potential borrowers.

Output 2.2: Awareness created with identified, potential BF-SMMEs regarding green markets and other biodiversity-friendly business opportunities, and of the newly available lending opportunities for related investment

113. Raising awareness among the target beneficiaries, in this case operators of existing or planned SMMEs who may be interested in taking out business loans, is an important first step in achieving the desired outcome. The project will initially try to reach out to large groups of potential BF-SMMEs. Through work with national industry associations it will work to increase awareness among the associations' members, for example through broad communication through the associations' newsletters. It is expected that the project will be able to establish a good general awareness of the availability of loan financing, and technical support for BD business development within these large groups.

114. The general information campaigns will provide interested SMMEs with sufficient information to seek further assistance to develop their business idea. Workshops and seminars will be offered to inform these businesses how to achieve technical support and loan financing.

115. More targeted campaigns will also be carried out. Sector-based awareness-raising seminars will be held, initially targeting SMMEs that are known to be interested in pursuing biodiversity-friendly business ventures. These will be identified through partnerships with organizations like the GEF Small Grants Programme, Rainforest Alliance, CATIE and INCAE, which together have worked with hundreds of such community organizations and small-scale operators throughout the region.

116. Key issues to be highlighted during the awareness raising programmes will include green market opportunities, business development support mechanisms available under the project and financial modalities. Depending on the size of their operations, potential BF-SMMEs will learn about either the small and medium-size banking 'window' or the micro-enterprise borrowing facilities being made available through the non-banking institutions.

117. This awareness raising programme will be institutionalized into the banks, trade associations and regional institutions so that future SMMEs also have the opportunity to develop BF-related businesses.

Output 2.3: Technical capacity of SMMEs with viable ideas for BD-friendly business development is enhanced through a PACT (Programa de Asistencia en Capacidades Técnicas) technical skills support programme,

118. Transforming an existing SMME into a BF-SMME usually requires specialized technical knowledge. New techniques of coffee and cocoa production, timber harvesting, aquaculture production, etc., need to be adopted by SMME managers. While many techniques are known in the region and limited new research is required, many will require some degree of adaptation to the particular environmental or socio-economic circumstances facing specific SMMEs. Technical skills support, is already provided to some extent by CATIE, Rainforest Alliance and other partners.

119. It is the project's strategy to capitalize on these existing resource bases in the region when establishing the PACT programme, which will institutionalize and scale up existing effort to support BF-SMME development. The PACT technical assistance programme consists in an initial screening for technical viability of the project idea, which will determine whether or not the interested SMME will enter into the support programme. The initial screening consists in a questionnaire scorecard which can be filled out by the individual interested SMME. If the scorecard shows business potential, it will automatically be eligible for technical support. The PACT programme will be developed in the inception

phase of the full project, but is likely to include a combination of assessments and analysis of the applicants business situation, and the provision of training to develop the business practice to generate biodiversity benefits.

Output 2.4: SMME's business planning and management skills developed through an established PACE (Programa de Asistencia en Capacidades Empresariales) Support Programme

120. While the PACT programme will provide the interested SMMEs with a screening and technical support to develop viable BF business ideas, many SMMEs have basic shortcomings in their business planning and management skills. The owners and managers seldom have formal business or financial training to enable them to prepare proper business plans and financial projections for their investment/business. The banks and especially the MFIs do not have the resources or capability of providing support to their SMME clients in this respect. Therefore, SMMEs often abandon good investment ideas and proposals due to lack of business planning skills or inability to locate where they could receive assistance. The numerous local and internationally sponsored SMME assistance programs contain support for the preparation of business plans as an essential component. Various local NGOs, other non-profit institutions and consulting companies already offer such services. These include CATIE, INCAE, SWISSCONTACT, FINTRAC, AGROPIME, UNIDO Clean Production Centers and many more.

121. The project will establish a PACE business skills support program through a network with the main TA providers in each country and will sub-contract the provision of business planning skill development to selected TA providers, in order to complement the technical support given through the PACT programme. The project's target is that all SMMEs with technically viable BF business ideas will be able to receive training in business planning and management. Such training would be non-reimbursable to micro-enterprises and partly reimbursable for small and medium business.

122. The PACE programme will be scaled up and institutionalized, based on cost recovery principles. The banks will act as sources of information on TA providers as they are a point SMMEs contact. The project will explore the option of developing long-term agreements with up to 5 service providers (approximately one in each country or by sector) for 5 year periods which are renewable. These providers could charge a recoverable fee from the SMEs and a slice of the BD reward payback scheme. Their renewal would be based on performance based on level of outreach and feedback from SMMEs. The cost recovery mechanisms will be further worked out during project inception.

Output 2.5: Market linkages improved across the supply chain

123. A host of actors may be involved in the production, transformation and commercialization of a single product before it reaches the final consumer. In many cases, BF-SMMEs are unable to meet the quality, price and volume requirements called for by such supply chains. In other cases intermediaries reduce farm gate prices and hence revenues for BF-SMMEs. These can be an important factors hindering movement by producers into the BF sector and overall development of the market. The project will therefore build on the ongoing work of CATIE-CeCoEco and Ecologic in this area, by working closely with various actors along the supply chain for BF products and supporting the integration of BF-SMMEs within these chains.

124. This will include sectoral market assessments and supply chain analysis to be carried out by the project in each country, except Guatemala.⁶⁰ These studies will identify biodiversity friendly business opportunities for SMMEs and identify opportunities and constraints across the supply chains to determine where and how interventions are required to stimulate BF-SMME development. The project will work with IFC's EBFP team to compare studies and approaches between Guatemala and the other countries.

125. The market assessments will feed into the awareness raising programmes for identified BF-SMMEs. The market assessments will also identify non-conventional sectors and biodiversity opportunities beyond ecotourism and shade coffee such as rural manufacturing and other activities which may have biodiversity benefits due to their geographic location.

126. The supply chain analysis will lead to the development of additional activities aimed at intermediaries, transporters, wholesale purchasers, retail purchasers and exporters to improve the economic conditions for the BF-SMMEs. For select products that have a large or potentially large global market, the assessments will also analyse international markets and connections to international buyers. The supply chain analysis will make recommendations on where and how the project can facilitate connections between local and regional producers and international markets. Where justified, the project will carry out outreach to major key industry players (wholesale and retail) in US and Europe to establish direct sourcing relationships with sets of SMMEs.

Output 2.6: Market information about BD-friendly products and services is disseminated to SMMEs through a BD- market information clearing house mechanism (BD-CHM)

127. SMMEs with significant potential for transformation into BD friendly production and services need to have access to information on experiences and best practices generated in the area worldwide. Information to be provided will include: product development, market prices, input suppliers, business contacts, marketing of products and services, market segmentation, market trends, price fluctuations, and options for cost-effective measures within a select number of business models (e.g., ways to reduce costs of pest control for organic agriculture or sources of economic solar panels for ecotourism lodges) and opportunities for economies of scale, e.g., forming Cooperatives to supply more consistent higher volume products.

128. The project will not in most cases attempt to generate its own market information, but will obtain such information as needed from specialized market research companies or academic institutions. Information will be channelled to partner BF-SMMEs as needed. Bringing such market information to the project's pool of borrowers and potential borrowers will build on work being done in this area by CATIE and INCAE, and may include expansion into new market areas not previously examined.

Output 2.7: Increased market demand for select BF-products and services

129. The project will limit its involvement with the complexities of stimulating market demand to targeted, cost-effective measures.

130. The project will review the market assessments, prepared in Output 2.5 to determine market stimulation strategies across the five countries. Additional market studies will be undertaken where useful to improve regional understanding on requirements to increase demand in targeted sectors in the region.

⁶⁰ The project will not undertake this work in Guatemala as IFC is preparing these studies in Guatemala as part of their IFC-GEF Environmental Business and Finance Project (EBFP).

Based on the market assessments approaches to stimulate consumer demand in those domestic markets will be developed. These will focus primarily but not solely on: targeted consumer marketing campaigns in urban centers and partnership development with key regional wholesalers and retail outlets. Based on the findings the project will develop and implement a region wide demand focused programme. The project will not work to increase international demand.

131. The programme will make recommendations on where the development of a critical mass of similar SMME products or services in a specific country may stimulate demand for that product or service. For example, Costa Rica now has sufficient ecotourism operations so that it is known as an ecotourism destination. Such a critical mass of SMMEs could create similar reputations and demand for products and services in other countries. This will feed into and guide the FI lending and technical assistance strategies.

132. The project will also coordinate with sectoral programmes in the region. The project will seek to leverage and coordinate with donors and governments to finance this long-term demand focused programme. Where justified, this would include working with governments to increase their budget for marketing of specific BF goods. The project would also seek to stimulate domestic demand through policy reform (see Outcome 3).

Output 2.8: Develop partnerships between potential BF-SMMEs and research community for development and marketing of new BF products

133. The project will closely examine the experience with the IADB-supported project with INBio⁶¹ in order to determine the most effective manner in which the experience can be scaled up to involve additional SMMEs and products. Consideration will also be given to involving other biodiversity research institutes around the region. The project will coordinate with and build on CABEI's existing proposal for a \$10 million loan for developing new products in co-operation between INBio and BF-SMMEs.

Outcome 3: Enabling environments have been modified to create greater incentives for developing biodiversity-friendly sub-sectors of national economies (GEF - \$1,367,468; Co-Financing \$320,000)

134. Public policies affecting BF economic behavior by consumers and the business community play an important role in influencing markets and the profitability of BF-SMMEs in various sectors. Many of the countries do not yet have support measures for SMMEs and at the same time apply incentive structures for mainstream productive sectors, which marginalize green markets. The project staff will therefore work with Ministries of Environment, Ministries of Industry and Commerce, Ministries of Finance and sectoral line Ministries to identify influential policies and where politically possible to improve the policy framework for BF-SMMEs. The outcome will also build on a number of donor supported sectoral programmes currently underway and organizations established in Central America and will have a strong coordination component (see Situation Analysis). Both the work at government level and with the sectoral components will be facilitated by CCAD, which has strong network connections with the governments and the sectoral programmes. CCAD – being a key institution for intergovernmental policy coordination in Central America – has formulated a series of region-wide strategies for environmental management, including a Strategic Business Plan for the Mesoamerican Biological Corridor. These strategies will serve to guide the project intervention so that it is in harmony with stated objectives in the region, and at the same time contribute so that formulated strategies actively promote BF-SMME investment.

⁶¹ See INBio stakeholder description, p. 28 above.

Output 3.1: Policy, legislative and regulatory review and reform recommendations formulated

135. The project will commission five national assessments of national policies, legislation and regulations which influence BF-SMMEs. The assessments, which will be organized by key sector, will cover the following aspects:

- Policies which influence consumer demand for biodiversity SME products and services, including purchasing policies by government agencies favoring or discouraging BF products and services,
- Policies which influence production practices and operational costs for SMEs ,
- Policies which influence export of BF goods,
- Rules and regulations governing the creation, management and taxation of SMMEs (excessive transaction costs as barriers to SMME development)
- Business development and financial services provided by government agencies (incl. provision of market information, credit, etc.)
- Comparisons of incentive structures between green and mainstream markets,
- Comparison of incentive structures between SMMEs and larger companies in order to determine where there may be opportunities to level the playing field,
- Identification of where problems lie not in weak policy frameworks but in the need to strengthen enforcement of existing policies, legislation and regulations,
- Recommendations on how to reduce bureaucratic hurdles for BF-SMMEs to develop (eg streamlining procedures to secure permits for ecolodges or innovative technology may incentivise entrepreneurs in new sub-sectors), and
- Policy development for national accreditation and certification systems for selected products.

Output 3.2: Recommendations formulated and support provided for creating financial incentives

136. The project team will review global best practice on how to stimulate SME development and specifically SME development within sub-sectors with potential to generate biodiversity benefits. The review will then compare global practices to the political and economic realities in each of the five countries and propose tailored recommendations for each country. The recommendations will aim to be complementary to not create perverse incentives between the countries. The fiscal incentives the review will focus on:

- Mechanisms for environmental service payments
- Tax reductions or exemptions for BF-SMMEs. For example an ecotourism hotel could pay a lower tax rate than a traditional hotel or be granted tax exemption for its start-up period.
- Exclusion of VAT from select certified products to influence consumer demand.
- Green purchasing policy of public sector agencies, giving preference to BF products
- Price premium for certified products used in public works (e.g., certified construction wood)
- Reduced concession fees for certified forest enterprises
- Reduced royalty rates for certified forest products

137. This review will also provide definitions on what type of biodiversity friendly products and services would be eligible for such fiscal incentives. The review will also assess the degree to which such incentives may be difficult to introduce as many of the beneficiary countries have low tax rates and levels of collection, making the incentives unattractive to governments and of limited benefit to SMMEs.

Output 3.3: Support for national adoption and implementation of recommended policy, legislative, regulatory and incentive reforms

138. The project, through CCAD, will work closely with the Ministries to support the adoption of the recommendations so that they pass into law and are implemented and their impact is felt on the ground by SMMEs. A national strategy will be developed to phase support during the project for policy reform based upon agreed priorities. Extensive consultation processes will be organized. This will include both (i) country and regional level forums to discuss major policy issues and raise awareness amongst Ministries of the value in reform and (ii) the establishment of multi-stakeholder working groups in each country to work on specific options and opportunities within sub-sectors.

139. The project will, on request from Ministries, fund studies to show the socio-economic benefits of certain reforms based on projected growth of sectors. Where countries are willing to consider and adopt specific recommendations the project will provide support to pilot the revisions and innovations. These will then act as demonstrations to the other countries in the region.

Outcome 4: Learning, feedback and adaptive management, particularly relating to interactions amongst outcomes 1-3, are ensured (GEF - \$818,515)

140. This component will focus on two levels of learning and feedback. One will be internal to the project and ensure it adapts each year based upon lessons coming from the field. The second is to set up a mechanism to share lessons between the countries in the project so that each pilot does not have to be replicated in each country.

141. The project will set up a monitoring system of both activities and impact. This will monitor the success of financing, business development and biodiversity impacts. Therefore there will be multiple sets of indicators and the project will have to learn how to develop the system so that it will be cost-effective and sustainable. The wider lesson sharing will be through national level workshops and thematic working groups established across the region, providing advice to the IFIs and Ministries.

142. The three Outputs to achieve this Outcome are:

Output 4.1: Advanced monitoring system established for a) biodiversity impact measurement, b) continuous project indicator measurement, and c) distillation of lessons learned, including BF-SMME development and BF banking

Output 4.2: Adaptive management systems established to continuously incorporate adjustments based on lessons learned from monitoring system

Output 4.3: Project's lessons learned will be disseminated widely, including best practices for BF-SMME development

Project Indicators, Risks and Assumptions

Outcome 1

Performance indicators:

- Legally and institutionally operative financing instruments (partial guarantee and BD reward)
- A minimum of US\$ 11 million of lending by banks to SME's under the partial guarantee facility and 90% of guarantee funds returned to revolving fund at the completion of project (provided that CABEI is prepared to raise the risk exposure ratio in guarantees from 1:1 to 5:1, the lending volumes can subsequently increase to US\$ 56 million)
- A minimum of US\$ 3.5 million of lending by MFIs to small and micro-enterprises under the BD reward facility (based on 20% on reward level, a 10% reward would leverage loans of US\$ 7 million)
- Number of BD projects entering the FI project pipelines and number of formally eligible proposals to MFIs
- Change of lending pattern by banks for BD business
- No. of key CABEI and bank credit officers trained and familiar with BD and revenue based lending

Risks:

- Banks not willing to move towards taking project risk or accepting lower class collateral from BD clients (mitigation: training, built-in conditionality in facility)
- Pricing by MFIs not lowered and loans remaining too expensive to micro-enterprise clients (sharing of reward, starting at higher level, e.g. 20%)
- No demand for financing during early project implementation (awareness, enhanced project identification and promotion through existing BD network)
- Financing business concentrates on Costa Rica and Guatemala (groundwork and promotion intensified in other countries; Anyway: good examples draw new business, first-come-first-serve basis on financing should prevail)

143. The project acknowledges these risks and has designed the financing incentives to reduce these risks. The project has also set up implementation arrangements for each country so that each one will have nationally-based activities to stimulate the national SMME base. Finally the project has been designed for six years to give sufficient time for the networks and capacities to be developed to increase the volume of demand for the credit facilities.

Assumptions:

- No major delays in establishing Facilities;
- Full co-operation and staff resources by CABEI SME Unit and RO's;
- Strategic alliances and BF network established early on.

Outcome 2

Performance indicators:

- SMMEs involved in the project can document increased earnings of at least 15% a year;

- By mid-term evaluation of the project, 60% of borrowers are able to document BD benefits from their investment, increasing to 80% of borrowers by the end of the project.

Risks

- There are too many potential BF-SMMEs to benefit from the project activities and TASP.
- Market information is available and the project can find ways for rural and remote SMMEs to access the information.
- Supply chains can be reformed.
- There are market opportunities for new products.
- Market demand can be increased during the project with limited funds.

144. The project has been designed to reduce this risk and accommodate the large and disparate number of SMMEs by having an extensive outreach programme, strengthened through coordination with numerous regional organizations. The project has also been designed to make the technical assistance service providers self-financing so that they can keep operating and over time work with an increasing number of BF-SMMEs.

Assumptions

145. Given the right market conditions and information SMMEs will have the interest to invest in BF-products and services.

Outcome 3:

Performance Indicators

- By the end of the project, the countries will have revised their policies, legislation, and regulation to promote BF-SMME development;
- National and sector incentive structures developed and introduced.

Risks

- Other policy issues override BD priorities in regional and CCAD context;
- Governments are not prepared to give special status to only BD activities;
- Delays in getting national and sector BD policies in place.

146. The project has developed implementation arrangements to reduce risks at the national policy level by developing an important role for the CCAD. CCAD will facilitate the policy work in Outcome 3 and assist in pushing recommendations through the policy agenda. UNDP country offices will also support in these efforts. Finally the project will be for a sufficiently long duration for the project to support the adoption of policy reform which can take many years. The workplan will also push for the technical studies to be done early providing sufficient time for the process related activities expected during the subsequent policy negotiations.

Assumptions

- Full cooperation by CCAD, Ministries, and the MBC projects and networks;

- BD considered high enough priority for adoption of fiscal and monetary incentives by Governments.

Expected Global, National and Local Benefits

147. The types of biodiversity benefits created by the project will depend on the distribution of lending and technical co-operation among sectors. Thus, a high proportion of loans within sustainable forestry will imply different benefits from those that could be generated through lending to ecotourism.

148. The overall magnitude of impacts will depend on: (i) the magnitude of loans generated and (ii) the degree to which productive and service sector processes are ‘transformed’ against a given baseline.

149. In cases where certification is used, benefits will be clearly measurable by comparing baseline audits to audits conducted following loan-facilitated implementation of best practice transformation. Section IV, Part V describes the importance of certification and other criteria-based methods.

Country Ownership: Country Eligibility and Country Drivenness

150. The target countries have all ratified the CBD, as follows: Costa Rica, August 1994; El Salvador, September 1994; Guatemala, July 1995; Honduras, July 1995; Nicaragua, November 1995. All countries are eligible to receive funding from UNDP. Section IV presents endorsement letters from national operational focal points.

151. The countries are all members of CABEI and have a network of CABEI’s IFIs functioning within them.

152. The CCAD also endorses this project, reaffirming the priority of this project to the respective Ministries of Environment.

Sustainability

153. The project aims to institutionalize the provision of financial and technical assistance to the banking and SMME sector across the five countries so the likelihood of the sustainability of the piloted activities will be increased.

154. Firstly, the risk reduction measures should be available after the project as the partial guarantee facility is a revolving facility. Based on standard non-performing loan rates (less than 3%), the facility should retain at least 90% of the funds at the end of the project. CABEI should be able to cover the gap through returns from other operations after the project completion. The reward facility is a non-reimbursable grant, and will be exhausted during the project. However, the approach is based on the assumption that the piloted BF-SMMEs will demonstrate commercial viability and convince the MFIs to service the new clients at more competitive pricing on fully commercial basis. Donor co-financing may be expected to complement funding at early phase, if the facility will succeed. Sustainability has always been less than perfect in all micro-financing activity.

155. By the completion of the program, it is planned that all the relevant CABEI FIs have been given training in BD issues and project appraisal. In addition, a permanent basis will exist for the provision of

business planning and BD support to SMMEs. This support will be sustainable through cost recovery of services. However, when micro-enterprises cannot afford such services there may still be a need for public and donor funding. Therefore at project completion CABEI and the FIs will be able to handle BD related financing business on their own. SMMEs will also be serviced by competent local service providers on a commercial basis and by MFIs. Furthermore, the project should have improved national enabling environments, which will provide increased incentives and opportunities for BF-SMMEs over the long-term.

156. Therefore, by the end of the project, support for BF-SMME business development and transformation of resource development practices will be mainstreamed into the region's private financial systems. From that stage onwards, costs and benefits of private BF business should be internalized and no "smart subsidies" should be required, nor are justified. Successful implementation will give rise to new similar financial facilities run on commercial basis, not only for SMMEs, but also for BD business and access to funding should stop being a bottleneck for BF-SMME development.

Replicability

157. Replication is integral to the overall project strategy as its ultimate success will be when the instruments and methodologies are applied across the financial sector in Central America.

158. The project will serve, first as a demonstration platform to prove that BF investments and business can attract financing from both commercial banks as well as non-banking financial institutions, previously not experienced in environmental projects. It will then promote replication in two manners:

1. Built-in replication process within Outcomes 1 and 2;
2. Promotion of roll-out of approaches to non-project related FIs.

159. *Built-in replication within Outcomes 1 and 2:* Given the large number of financial intermediaries with which CABEI finances SMME business and their lack of experience in appraising and financing BF projects, the program has chosen a prudent strategy in starting with a limited number of FIs to provide them with BD and banking TA and experiment the incentives instruments. 2-3 commercial banks and 2-4 MFIs per country will be selected during the Inception Phase by the team and CABEI (for selection criteria, see Part VIII).⁶² The manageable number of initial target FIs will enable the program and CABEI to:

- Pilot orientation of FIs to biodiversity and BF-SMME investment opportunities;
- Tailor TA to typical needs in banking and in the specific banks;
- Enable hands-on TA to banks to help mainstream BD, develop financing packages and solutions, interact with clients and potential BF investors and help focus promotional activities.

160. The piloting phase is planned to last for up to 2 years, (or to a stage when experimenting is ready for roll-out). Whilst the piloting phase will target a certain number of FIs per year for assistance any of CABEI's qualified FIs are eligible for the same financing incentives, if they are interested and capable to lend to BF-SMMEs without prior assistance.

⁶² Given the uncertainty of initial BD related demand level, projects presented by CABEI network banks should also be accepted as potential financing targets. This would ensure the maximum BD impact of the financing instruments and retain flexibility in the program. Contractual arrangements and possible technical assistance support to those FIs would also be involved, once projects were accepted in the pipeline.

161. The pilot phase will also include training to the local TA providers to support the SMME clients in BD related technical issues as well as in improving their business planning skills. The number of TA providers trained each year will increase BF-SMME financing opportunities. In addition, local banking TA providers will be trained in project appraisal and financial structuring skills relevant to BF business during the piloting phase (any idea of numbers and who these TA providers may be in each country?). This will also increase the number of FIs, which can be assisted, have their capacity strengthened and hence be capable of lending to BF-SMMEs.

162. By the end of the pilot phase certain of the barriers to BF-SMME development and financing will be reduced and conditions will have been established for scale-up of capacity building activities to the entire FI network of CABEL. There will have been a number of BF-SMME projects financed and generating lessons on the reality of BF business; increased number of investment opportunities being created, identified and brought to the attention of FIs; and work under the national enabling environments should be improving certain sectors.

163. It is expected that after the pilot years, the local TA providers for SMME business planning, for BD technical issues as well as for project appraisal capacity building will have been trained and will operate by themselves to work with increasing numbers of BF-SMMEs. This will be monitored and additional support and incentive systems set up if such replication does not occur automatically.

164. By the completion of the program, it is planned that all the relevant CABEL FIs have been given training in BD issues and project appraisal. In addition, a permanent basis will exist for the provision of business planning and BD support to SMMEs. This support will be sustainable through cost recovery of services. However, when micro-enterprises cannot afford such services there may still be a need for public and donor funding. The coverage of the targeted support can then raise from 20-25 institutions to more than 150 financial intermediaries. It is also expected that by that time increased business demand will catalyze an elevated level of loan financing by CABEL FIs. The resulting financing should increase accordingly from the piloting phase.

165. *Roll-out beyond the CABEL network of FIs.* CABEL already covers an essential part of banking FIs in the region. Successful demonstration by the program in arranging commercial financing into viable SMME BF business and investments would set the stage for larger scale financing by FIs using non-CABEL funds.

166. The co-operative sector will play an important role in extending BF financing to wider sphere of users than the present financing community can service. This expansion effect depends on the attractiveness of the business and actual financing risks involved. Additionally, the introduction by the project of new financial instruments other than direct debt, such as equity or quasi-equity financing, short-term pre-export credit lines etc. will automatically bring in other financial institutions in play without support from CABEL.

PART III: Management Arrangements

167. The following key institutional actors and structures will be involved in project management:

- **UNDP** will be the project's implementing agency,
- **CABEL** will be the project's executing agency,
- A **Project Steering Committee (PSC)** will oversee project implementation,

- A **Project Co-ordination Unit (PCU)** will be responsible for day-to-day project co-ordination and management,
- A number of **Technical Assistance Service Providers (TASPs)** will be sub-contracted by the project to provide technical support and outreach, particularly under Outcomes 2 and 3.

168. The specific roles of each of the above institutional actors and structures are outlined below. Additional details are provided in Section IV, Part III, Terms of Reference.

UNDP

169. **The UNDP Country Office in Honduras** will maintain day-to-day oversight responsibility for project implementation and have direct responsibility for fulfilling the duties and obligations of a GEF Implementing Agency. It will be responsible for financial management and accountable for the use of GEF resources under the project. It will provide technical and administrative backstopping to the Project Co-ordination Unit (see below) to ensure results-oriented management and proper administration of funds. It will maintain project accounts, facilitate staff recruitment and procurement processes and monitor resource mobilization of baseline and co-finance as defined in the project brief and document. Financial transactions will be subject to annual audits undertaken by internationally certified auditors.

170. UNDP Honduras will oversee and verify the proper use of funds through: the “cash advance request” based on an annual basis dependant on workplans and quarterly financial reports; Combined Delivery Reports (and/or other reports generated from UNDP’s project management software); budget revision approval; periodic visits to CABEI, including the PCU; regular communication with project staff; site visits; and dialogue with project stakeholders.

171. UNDP Honduras will also participate in project work planning exercises, **Project Steering Committee (PSC)** meetings and monitoring missions. The office will introduce and sensitize project staff and consultants to UNDP work planning, adaptive management and financial reporting requirements, formats and processes, particularly during the **Project Inception Phase (PIP)**. UNDP may provide additional assistance upon request by Government, through Letters of Agreement for Support Services (as per the UNDP Programming Manual).

172. **UNDP-GEF’s Regional Co-ordination Unit (RCU)** for Latin America and the Caribbean, and in particular its Regional Co-ordinator for Biodiversity and International Waters, is responsible for project oversight, ensuring that the project maintains principles of incrementality while achieving global environmental benefits. The UNDP/GEF Regional Co-ordinator has an important role in monitoring project implementation and in ensuring that GEF funds are used in accordance with GEF eligibility rules, policies and norms. The Regional Co-ordinator will serve as a key link between UNDP Honduras and the GEF, advising the former on the nature of UNDP’s responsibilities as an officially designated GEF “Implementing Agency” and the appropriate means of fulfilling these. Finally, the UNDP/GEF Executive Coordinator in New York will report regularly on project delivery to the GEF Secretariat and GEF Council.

CABEI

173. **CABEI’s** responsibilities as the executing agency (or the “Designated Institution” in UNDP terminology) and key project stakeholder will include the following:⁶³

⁶³ Some of these functions, including those related to management of project budgets, etc., will be performed with the support of staff of the Project Co-ordination Unit. However, overall responsibility for them will remain with CABEI as the executing agency.

- Jointly selecting, in co-operation with UNDP Honduras and UNDP-GEF, staff of the **Project Coordination Unit (PCU)**;
- Planning for and monitoring the technical aspects of the project, including regular field visits and monitoring progress benchmarks and outputs,
- Actively participating in all relevant project activities where appropriate;
- Adopting, during the course of the project, the systems, programmes and tools developed by the project to ensure sustainability of the project outcomes;
- Ensure all committed credit lines remain available for project related lending activities;
- Play an active role in coordinating with other stakeholders throughout the project and in particular to maintain a close relationship with CCAD.
- Preparation and submission of periodic progress reports, and regular consultations with beneficiaries and contractors;
- Chairing the **Project Steering Committee (PSC)** and annual **Tripartite Review (TPR)** meetings;
- Maintaining a separate project account for the accountability of project funds;
- Ensuring advanced funds are used in accordance with agreed workplans and project budget;
- Preparing, authorizing and adjusting commitments and expenditures; ensuring timely disbursements, financial recording and reporting against budgets and work plans;
- Managing and maintaining budgets, including tracking commitments, expenditures and planned expenditures against budget and work plan ;
- Maintaining productive, regular and professional communication with UNDP and other project stakeholders to ensure the smooth progress of project implementation.

COMISION CENTROAMERICANA DE AMBIENTE Y DESAROLLO (CCAD)

174. CCAD will play a key role throughout the project and particularly in Outcome 3. It will work with the project team to ensure the project activities are centrally located within sectoral and related environmental programmes underway in Central America. This will include informing the project team of coordination opportunities, accompanying team members for critical meetings and working jointly with the team on specific activities, to be agreed upon during the project inception phase.

175. CCAD will support the implementation of Outcome 3, which will promote improvement to the enabling environments for BF-SMMEs in each of the five countries. This will include liaising with the project team and CABEI.

176. CCAD will play an instrumental role in identifying and defining the target groups and linkages to regional organizations of producers, tourism industry and other relevant initiators of BF business. CCAD has already developed regional environmental and conservation strategies and created a number of networks, which can be utilized effectively under the project. CCAD will be an important part of the core group with CABEI and UNDP in ensuring the full participation of the “demand” side of the equation.

PROJECT STEERING COMMITTEE

177. Project implementation will be overseen by a **Project Steering Committee (PSC)**, vested with the responsibility of approving the project’s annual operational plans and reports, as well as ensuring that project activities are in line with those outlined in the approved project documentation and with relevant policy frameworks in the region. The PSC will have its first meeting during the **Project Inception Phase (PIP)**. This ten to twelve person committee will include representatives from UNDP, CABEI and CCAD, as well as the Ministries of Environment and Finance of each participating country and relevant NGO and private sector representatives. The PSC will normally meet twice a year to review semi-annual progress

reports, monitor results, receive other reports that they may request on an *ad hoc* basis and agree on annual rolling workplans.

PROJECT CO-ORDINATION UNIT

178. The **Project Co-ordination Unit (PCU)** will be established in Tegucigalpa within the Headquarters of CABEI and will have general project coordination functions. It is proposed that the unit be located within the SME Department in CABEI. Currently there is no environment Department in CABEI. However, this is to be established soon and once operational will have strong links to the PCU. Both the SME Department and the Environment Unit will be responsible for assisting to link the PCU to the rest of CABEI's Departments, offices and programmes. The SME Department will designate staff to work closely with the PCU in general and on specific activities to be agreed during the project inception phase.

179. The PCU will ensure that project implementation proceeds smoothly through well-written workplans, Terms of Reference and carefully designed administrative arrangements that meet UNDP's requirements. The PCU will be staffed as follows:

- *The Project Co-ordinator* will be a person with substantial technical skills related to the project and also strong management skills. (S)he will provide overall technical direction and leadership for the project. This person will be an international expert for the first three years of the project. Then as a cost-effective measure it is proposed that one of the three outcome-based experts will take over responsibilities for project coordination for the remaining three years of the project.
- *A Biodiversity Expert* will have cross-cutting technical responsibilities to ensure that the activities and outputs remain focused on the objective of biodiversity conservation and that biodiversity principles and requirements are mainstreamed into the commercial and financial outputs.
- *Three Outcome-based experts* will be responsible for Outcomes 1, 2 and 3 respectively.

These four experts will be financed by the project for the first 5 years of the project. In the final year of the project the banking, SMME, policy and biodiversity expert functions will be taken over by CABEI staff. This is to maximise sustainability of the project activities and processes through facilitating them becoming fully institutionalized within CABEI staffing and systems.

180. The PCU staff will also include an Administrative / Finance Assistant which will be financed by the project for the full six years.

181. The responsibilities of the PCU will include the following:

- achievement of the project outcomes and objective;
- to manage day-to-day implementation of the project, coordinating project activities in accordance with the rules and procedures of UNDP/GEF and CABEI and based on the general guidance provided by the Project Steering Committee (PSC);
- to provide overall project co-ordination, while acting as an independent and unbiased guarantor of co-operation and information exchange;
- to provide technical input as appropriate into the outcomes;
- to coordinate with the project stakeholders and regional programmes of relevance to the project;
- develop a special working relationship with IFC/GEF's EBFP (see Stakeholder Annex);
- to convene quarterly Project Implementation Meetings (PIMs) in order to review progress in implementing project workplans;

- to ensure, together with UNDP, that specified tasks are outsourced to suitable sub-contracted Technical Assistance Service Providers or national and international consultants through competitive bidding processes. PCU responsibilities in this regard include development of bidding documents and terms of reference;
- to organize project-level meetings and workshops, e.g., inception workshop, Project Steering Committee (PSC) meetings, etc.;
- to work closely with UNDP offices in the region in organising and providing technical and logistic support and coordination to all missions and assignments by international and national consultants;
- to prepare overall project reporting.

TECHNICAL ASSISTANCE SERVICE PROVIDERS (TASPs)

182. The preparation phase of this project identified a number of organizations in the region which are qualified to provide technical assistance to the FIs and SMMEs. It is expected that a number of these organizations will play a key role in project implementation particularly in providing technical services to the FIs (Outcome 1) and the BF-SMMEs (Outcome 2). Many of these organizations are already active in the region supported by donor-financed activities, including those that were outlined in the baseline situation section of Part I. It should be noted that these organizations have not yet been selected to be engaged as specific technical assistance service providers (TASPs). **Table 6** lists the strongest and most suitable regional organizations which will be invited and considered to be engaged as TASPs for Outcomes 1 and 2. These organizations are listed for each project output (see logframe).

183. These organizations will be invited to bid for certain tasks. Certain activities may require more than one organization and in such cases will be expected to work together. In some circumstances organizations may be selected by country or by sector.

184. The main difference between TASPs and standard service sub-contracts is that the project is designed so that these TASPs will build, during the project activities a system of service delivery which is based upon cost recovery principles and so will continue the provision of services to the FIs and SMMEs after project contracts terminate. Hence the TASPs will become a fundamental component of the project's sustainability strategy.

Table 6: Short-list of Organizations to be engaged as TASPs.

Output (abbreviated title)	Examples of technical co-operation activities to be implemented with support of TASPs	Candidate TASPs
1.1 Increased awareness (banks, MFIs)	Awareness raising seminars	BD specialists (see outputs 2)
1.2 Risk guarantee facility (banks)	Project appraisal training	1. Banking consultant (foreign) 2. Local financial consultancies
1.3 Revenue-based lending (banks)	Formal and on-the-job training on project financing, BD technical aspects	1. Banking consultant (foreign) 2. Local financial consultancies 3. BD specialists (see outputs 2)
1.4. BD reward facility (MFIs)	Training on BD technical aspects (and on project appraisal, when necessary)	1. BD specialists (see outputs 2) (2. Banking consultant, local consultants)
1.5 Tailored financing products (banks/MFIs)	On –the-job training and joint development	1. Banking consultant (foreign) 2. Local financial consultancies

Output (abbreviated title)	Examples of technical co-operation activities to be implemented with support of TASP	Candidate TASP
1.6 Capacity building at CABEI, FIs	Banking: see 1.2-1.5 BD training	1. BD specialists (see outputs 2)
1.7 Bio-Score loan approval tool	Building awareness and capacities to use Bio-Score	EcoEnterprises
2.1 BF-SMME database	Development of database; training and awareness raising	TBD
2.2 Increased awareness (SMMEs)	Awareness-raising seminars and outreach programmes	TBD
2.3 Tech. skills support programme	Transfer of technical skills in context of transformation, including for certification	CATIE, Rainforest Alliance, Regional Industrial Network of Enterprises for Cleaner Production, and Network of National Centers for Cleaner Production
2.4 Mgm't and business planning skills support programme	Management skills training workshops	INCAE, CATIE, Swisscontact
2.5 Market linkages	Liaise with possible green market players to help integrate BF-SMMEs into supply chains	Rainforest Alliance for certain agriculture products and timber, Ecologic
2.6 Market information	Develop and disseminate market intelligence	INCAE, CATIE, Rainforest Alliance, Ecologic, CCAD
2.7 Market demand		CCAD
2.8 Partnerships with research	Support research organizations working directly with SMMEs to develop business plans and secure lending	INBio

COORDINATION AND CONSULTATION WITH FIs AND BF-SMMEs

185. The project will have extensive coordination and consultation activities to ensure the multitude of stakeholders in the region both input into, and benefit from, the project.

186. In Outcome 1: The primary stakeholders are the FIs, which are part of CABEI's network. TASP will be contracted to carry out the capacity building of the FIs in revenue based lending and biodiversity appraisal techniques and BF-SMME sectoral opportunities

187. More general awareness raising and training will be provided through seminars hosted in each country to a large number of banks. More detailed hands on training and tailored products will be provided to a limited selection of banks on an annual basis. It is proposed that 3-4 FIs per country per year are targeted for individual assistance. Whilst not all the FIs will benefit from these programmes the ones that are targeted should have a greater likelihood of adopting the new practices into their business and acting as demonstrations for other FIs (see Replication section). The outcome will coordinate closely with the IFC-GEF EBFP.

188. In Outcome 2: The primary stakeholders are the BF-SMMEs and umbrella trade associations, TASP will be contracted to carry out the following outputs:

- identification of BF-SMMEs (output 2.1)

- awareness raising of SMMEs about the potential of biodiversity friendly businesses and investment opportunities (output 2.2)
- provision of technical assistance to BF-SMMEs to build their capacity to transform their business practices (output 2.3)
- provision of technical assistance to BF-SMMEs to build their capacity for business planning and management (output 2.4)
- disseminate market information (output 2.6)

189. The initial identification of potential BF-SMMEs will frame the pool of SMMEs to be contacted during the project. The awareness raising activity will be targeted to as many SMMEs as possible. These fora will provide the opportunity to screen and identify BF-SMMEs that could benefit from the provision of technical assistance from the TSAPs. The TSAPs will then undertake a programme of technical assistance in each country over at least four years during the project. During this period more BF-SMMEs will hear about the project and will be contacted and additional TSAPs will be brought on to scale up the provision of assistance. The outcome will coordinate closely with the IFC-GEF EBFP.

190. In Outcome 3: The primary stakeholders are the Ministries of Environment, Finance and productive sectors in each of the five countries. Specialists will be supported by CCAD and UNDP to work with relevant Ministries to implement outputs 3.1-3.3.

COORDINATION WITH GEF PROJECTS IN CENTRAL AMERICA

191. The project will make a particular effort to establish regular communication and coordination mechanisms with other biodiversity and private sector development projects in the region. This strategy will serve several purposes: it will serve to identify and absorb knowledge and lessons learned, generated through other efforts, to ensure the project builds on the most advanced knowledge available. It will also serve to coordinate with other projects with similar or related purposes, to avoid duplication of efforts. And it will seek to complement other projects by offering financing services through the FIs to stakeholders involved in other projects, precisely because most other projects are not in a position to provide stakeholders with access to credit. The potential to complement a whole series of other project interventions throughout Central America is a particular strength of this project.

192. The most important project to coordinate with is IFC's GEF-Environmental Business Finance Program (EBPF). The EBPF aims to create a sustainable market for SME activities and project that target any of the GEF focal areas. It has many areas of common interest to the UNDP project due to its focus on the financial sector and SMEs. One of the main differences in approach is that IFC works directly with commercial banks (retail level), whereas the project works through a wholesale institution (CABEI).

193. The EBFP is global but one of the selected target countries for pilot activities of EBPF is within the Central American region, in Guatemala. The project has started implementation there and the market assessment is currently underway. The UNDP project will establish close working relations with IFC and the program, in order to co-ordinate efforts in the biodiversity focal area, build on each other's achievements and work, to join hands in co-financing and technical assistance arrangements, and in avoiding duplication of efforts. In addition, IFC's potential participation in the work of the Project Steering Committee will be considered. The proposed collaboration includes e.g.:

- co-ordinated efforts in Guatemala and the region on policy related work, promotion of BD concept and business
- joint promotional activities and project identification with local stakeholders in Guatemala

- attraction of IFC co-financing in the region, not only in Guatemala
- co-operation in developing financing packages and new financing instruments suited for BF business
- co-operation on market and supply chain assessments
- strengthening of the financial institutions sector in Guatemala and seeking IFC's support in other CA countries
- replication of successful IFC approaches and vice versa.

194. The other key project is UNDP-GEF's regional MesoAmerican Biological Corridor (MBC) project as well as national MBC projects through the World Bank. But potentially most GEF biodiversity projects in the region could benefit from the interaction with this project. Of particular relevance could be the work being done with GEF financing in buffer zones to protected areas, or in biological corridors. Through this project it would be possible to help SMMEs in these geographical areas transform their businesses to become more biodiversity friendly.

PART IV: Monitoring and Evaluation Plan and Budget

195. Project monitoring and evaluation will be conducted in accordance with established UNDP and GEF procedures and will be provided by the project team and the lead UNDP Country Office (UNDP-CO) with support from UNDP/GEF. The Logical Framework Analysis in Annex B of the Executive Summary provides *performance* and *impact* indicators for project implementation along with their corresponding *means of verification*. These will form the basis on which the project's Monitoring and Evaluation system will be built.

196. The following sections outline the principle components of the Monitoring and Evaluation Plan and indicative cost estimates related to M&E activities. The project's Monitoring and Evaluation Plan will be presented and finalized at the Project's Inception Workshop following a collective fine-tuning of indicators, means of verification, and the full definition of project staff M&E responsibilities.

197. The monitoring of the progress under the financing incentive facilities will be the responsibility of the Project Co-ordinator, reporting to the Project Steering Committee.

1. Monitoring and Reporting

1.1. Project Inception Phase

198. The Monitoring and Evaluation Plan, including indicators and needs for baseline information, will be refined and finalised at the project **Inception Workshop (IW)**. The IW will unite the principal stakeholders of the project to familiarize them with the project staff, develop a detailed **Annual Workplan and Budget (AWP)** for the first year of operations, and agree on the information and timeframes for reporting project activities to the different levels within the governance structure, including project review meetings and national and local steering committee functions. Finally, the inception workshop will provide an opportunity to inform the project team on UNDP project-related budgetary planning, budget reviews, and reprogramming as necessary. In subsequent years, a brief annual workshop will be held to develop AWP's and make new adjustments to the monitoring and evaluation system as necessary.

199. An **Inception Report** will be prepared immediately following the Inception Workshop. This will include a review of the project context, including any changes since the design phase which may affect

implementation, and will detail the different levels of monitoring and evaluation that will take place throughout the project with specific information on the roles, responsibilities, activities, and indicators to be monitored during the first year of operations. For the benefit of all stakeholders, the following specific UNDP mechanisms will be defined and programmed with actions included in the inception report: annual **Project Implementation Review (PIR)**, the **Annual Project Report (APR)**, **Tripartite Review (TPR)** meetings, as well as the nature and timing of the **Mid-Term** and **Final Evaluations**.

1.2. Monitoring responsibilities and events

200. A detailed schedule of project review meetings will be developed by the project management, in consultation with project implementation partners and stakeholder representatives and incorporated in the Project Inception Report. Such a schedule will include: (i) tentative time frames for Tripartite Reviews, Steering Committee Meetings, (or relevant advisory and/or coordination mechanisms) and (ii) project related Monitoring and Evaluation activities.

201. *Day to day monitoring of implementation progress* will be the responsibility of the Project Coordinator based on the project's AWP and its indicators. The Project Team will inform the UNDP-CO of any delays or difficulties faced during implementation so that the appropriate support or corrective measures can be adopted in a timely and remedial fashion.

202. The Project Coordinator and the Project's Technical Advisor will fine-tune the progress and performance/impact indicators of the project in consultation with the full project team at the Inception Workshop with support from UNDP-CO and assisted by the UNDP-GEF Regional Coordinating Unit. Specific targets for the first year implementation progress indicators together with their means of verification will be developed at this Workshop. These will be used to assess whether implementation is proceeding at the intended pace and in the right direction and will form part of the AWP. The local executing agencies will also take part in the Inception Workshop in which a common vision of overall project goals will be established. Targets and indicators for subsequent years would be defined annually as part of the internal evaluation and planning processes undertaken by the project team.

203. Measurement of impact indicators related to global benefits will occur according to the schedules defined in the Inception Workshop and tentatively outlined in Part II Table 1: Objectively Verifiable Impact Indicators. The measurement, of these will be undertaken through subcontracts or retainers with relevant institutions.

204. *Periodic monitoring of implementation progress* will be undertaken by the lead UNDP-CO through quarterly meetings with the project staff, or more frequently as deemed necessary. This will allow parties to take stock and to troubleshoot any problems pertaining to the project in a timely fashion to ensure smooth implementation of project activities.

205. UNDP Country Offices and UNDP-GEF RCUs as appropriate, will conduct yearly visits to projects that have field sites, or more often, based on an agreed upon schedule to be detailed in the project's Inception Report / Annual Workplan to assess first hand project progress. Any other member of the Steering Committee can also accompany, as decided by the SC. A Field Visit Report will be prepared by the CO and circulated no less than one month after the visit to the project team, all SC members, and UNDP-GEF.

206. *Annual Monitoring* will occur through the **Tripartite Review (TPR)**. The first such meeting will be held within the first twelve months of the start of full implementation. The project proponents will

prepare an Annual Project Report (APR) as one of the basic documents for discussions in the TPR meeting and submit it to the UNDP-CO and the UNDP-GEF regional office at least two weeks prior to the TPR for review and comments. The project proponent will present the APR to the TPR, highlighting policy issues and recommendations for the decision of the TPR participants. Separate reviews of each project component may also be conducted if necessary.

(a) Terminal Tripartite Review (TTR)

207. The terminal tripartite review will be held in the last month of project operations. The project proponent is responsible for preparing the Terminal Report and submitting it to UNDP-CO and LAC-GEF's Regional Coordination Unit. It will be prepared in draft at least two months in advance of the terminal TPR in order to allow review, and will serve as the basis for discussions in the TPR. The TPR has the authority to suspend disbursement if project performance benchmarks (developed at the Inception Workshop) are not met.

208. The Project Coordinator will be responsible for the preparation and submission to UNDP and UNDP-GEF the following mandatory reports: Inception Report (IR), Annual Project Report (APR), Project Implementation Review (PIR), the Project Terminal Report. Specifications for additional internal and external progress reports will be defined during the IW. The Project Coordinator will also submit quarterly progress reports to enhance the flow of information and feedback. UNDP will be responsible for forwarding information and feedback to and from the UNDP-GEF structure.

(b) Periodic Thematic Reports

209. As and when called for by UNDP, UNDP-GEF or the Implementing Partner, the project team will prepare Specific Thematic Reports, focusing on specific issues or areas of activity. The request for a Thematic Report will be provided to the project team in written form by UNDP and will clearly state the issue or activities that need to be reported on. These reports can be used as a form of lessons learnt exercise, specific oversight in key areas, or as troubleshooting exercises to evaluate and overcome obstacles and difficulties encountered. UNDP is requested to minimize its requests for Thematic Reports, and when such are necessary will allow reasonable timeframes for their preparation by the project team.

(c) Project Terminal Report

210. During the last three months of the project, the project team will prepare the Project Terminal Report. This comprehensive report will summarize all activities, achievements and outputs of the Project, lessons learnt, objectives met, or not achieved, structures and systems implemented, etc. and will be the definitive statement of the Project's activities during its lifetime. It will also lay out recommendations for any further steps that may need to be taken to ensure sustainability and replicability of the Project's activities.

2. Independent Evaluation

211. The project will be subjected to at least two independent external evaluations as follows:

(i) Mid-term Evaluation

212. An independent Mid-Term Evaluation will be undertaken at the end of the second year of implementation. The Mid-Term Evaluation will determine progress being made towards the achievement

of outcomes and will identify course correction if needed. It will focus on the effectiveness, efficiency and timeliness of project implementation; will highlight issues requiring decisions and actions; and will present initial lessons learned about project design, implementation and management. Findings of this review will be incorporated as recommendations for enhanced implementation during the final half of the project's term. The organization, terms of reference and timing of the mid-term evaluation will be decided after consultation between the parties to the project document. The Terms of Reference for this Mid-term evaluation will be prepared by the UNDP CO based on guidance from the Regional Coordination Unit and UNDP-GEF.

(ii) Final Evaluation

213. An independent Final Evaluation will take place three months prior to the terminal tripartite review meeting, and will focus on the same issues as the mid-term evaluation. The final evaluation will also look at impact and sustainability of results, including the contribution to capacity development and the achievement of global environmental goals. The Final Evaluation should also provide recommendations for follow-up activities. The Terms of Reference for this evaluation will be prepared by the UNDP CO based on guidance from the Regional Coordination Unit and UNDP-GEF.

Audit Clause

214. Audit of the project will follow UNDP standard audit arrangements and regulations. Auditors to the project will be officially designated. Such auditors, and/or other officially appointed auditors shall undertake periodic management and financial audits of the project in accordance with UNDP auditing procedures.

3. Learning and Knowledge Sharing

215. Results from the project will be disseminated within and beyond the project intervention zone through a number of existing information sharing networks and forums. In addition:

- ◆ The project will participate, as relevant and appropriate, in UNDP/GEF sponsored networks, organized for Senior Personnel working on projects that share common characteristics.
- ◆ The project will identify and participate, as relevant and appropriate, in scientific, policy-based and/or any other networks, which may be of benefit to project implementation though lessons learned.

216. The project will identify, analyze, and share lessons learned that might be beneficial in the design and implementation of similar future projects. Identification and analysis of lessons learned is an ongoing process, and the need to communicate such lessons as one of the project's central contributions is a requirement to be delivered not less frequently than once every 12 months. UNDP/GEF shall provide a format and assist the project team in categorizing, documenting and reporting on lessons learned. To this end a percentage of project resources will need to be allocated for these activities.

TABLE 1: INDICATIVE MONITORING AND EVALUATION WORK PLAN AND CORRESPONDING BUDGET

Type of M&E activity	Responsible Parties	Approximate Budget US\$ (excluding project team staff time)	Time frame
Inception Workshop	<ul style="list-style-type: none"> ▪ Project Coordinator ▪ UNDP CO ▪ UNDP GEF 	50,000	Within first two months of project start up
Inception Report	<ul style="list-style-type: none"> ▪ Project Team ▪ UNDP CO 	None	Immediately following IW
Measurement of Means of Verification for Project Purpose Indicators	<ul style="list-style-type: none"> ▪ Project Coordinator will oversee the hiring of specific studies and institutions, and delegate responsibilities to relevant team members 	To be finalized in Inception Phase and Workshop.	Start, mid and end of project
Measurement of Means of Verification for Project Progress and Performance (measured on an annual basis)	<ul style="list-style-type: none"> ▪ Oversight by Project GEF Technical Advisor and Project Coordinator ▪ Measurements by regional field officers and local IAs 	To be determined as part of the AWP's preparation.	Annually prior to APR/PIR and to the definition of annual work plans
APR and PIR	<ul style="list-style-type: none"> ▪ Project Team ▪ UNDP-CO ▪ UNDP-GEF 	None	Annually
TPR and TPR report	<ul style="list-style-type: none"> ▪ Government Counterparts ▪ UNDP CO ▪ Project team ▪ UNDP-GEF RCU 	None	Every year, upon receipt of APR
Steering Committee Meetings	<ul style="list-style-type: none"> ▪ Project Coordinator ▪ UNDP CO 	None	Following Project IW and subsequently at least once a year
Periodic status reports	<ul style="list-style-type: none"> ▪ Project team 	10,000	To be determined by Project team and UNDP CO
Technical reports	<ul style="list-style-type: none"> ▪ Project team ▪ Hired consultants as needed 	15,000	To be determined by Project Team and UNDP-CO
Mid-term External Evaluation	<ul style="list-style-type: none"> ▪ Project team ▪ UNDP- CO ▪ UNDP-GEF RCU ▪ External Consultants (i.e. evaluation team) 	70,000	At the mid-point of project implementation.
Final External Evaluation	<ul style="list-style-type: none"> ▪ Project team, ▪ UNDP-CO ▪ UNDP-GEF RCU ▪ External Consultants (i.e. evaluation team) 	70,000	At the end of project implementation
Terminal Report	<ul style="list-style-type: none"> ▪ Project team ▪ UNDP-CO ▪ External Consultant 	None	At least one month before the end of the project
Lessons learned	<ul style="list-style-type: none"> ▪ Project team ▪ UNDP-GEF RCU (suggested formats for documenting best practices, etc) 	35,000	Yearly
Audit	<ul style="list-style-type: none"> ▪ UNDP-CO ▪ Project team 	7,000	Yearly
Visits to field sites (UNDP staff travel costs)	<ul style="list-style-type: none"> ▪ UNDP Country Office ▪ UNDP-GEF RCU (as 	20,000 (average one visit per year)	Yearly

Type of M&E activity	Responsible Parties	Approximate Budget US\$ (excluding project team staff time)	Time frame
to be charged to IA fees)	appropriate) ▪ Government representatives		
TOTAL INDICATIVE COST <i>Excluding project team staff time and UNDP staff and travel expenses</i>		US\$ 350,000	

PART V: Legal Context

This Project Document shall be the instrument referred to as such in Article I of the Standard Basic Assistance Agreement between the Government of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the United Nations Development Programme, signed by the parties on [date]. The host country implementing agency shall, for the purpose of the Standard Basic Assistance Agreement, refer to the government co-operating agency described in that Agreement.

The UNDP Resident Representative in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua is authorized to effect in writing the following types of revision to this Project Document, provided that he/she has verified the agreement thereto by the UNDP-GEF Unit and is assured that the other signatories to the Project Document have no objection to the proposed changes:

- a) Revision of, or addition to, any of the annexes to the Project Document;
- b) Revisions which do not involve significant changes in the immediate objectives, outputs or activities of the project, but are caused by the rearrangement of the inputs already agreed to or by cost increases due to inflation;
- c) Mandatory annual revisions which re-phase the delivery of agreed project inputs or increased expert or other costs due to inflation or take into account agency expenditure flexibility; and

Inclusion of additional annexes and attachments only as set out here in this Project Document

Section II: Strategic Results Framework and GEF Increment

PART I: Incremental Cost Analysis

A. Project Background

217. The project will support the mainstreaming of biodiversity conservation and sustainable use within small, micro- and medium-sized enterprise (SMME) development and financing in five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua). In doing so, it will generate biodiversity benefits by encouraging transformed productive and service sector practices and related investments that can positively impact biodiversity. It will work closely with, and help to bring together, three important service-provider networks, each of which will be associated with a specific project outcome. First, it will work with the region's financial sector network, namely the Central American Bank for Economic Integration (CABEI) and select members of its extensive network of financial intermediaries (FIs), to develop and extend new financial products that will generate substantial increased lending to biodiversity-friendly SMMEs (BF-SMMEs) for investments that create biodiversity benefits. Second, it will work with potential BF-SMMEs and in partnership with a range of national and international providers of business and technical services to ensure that SMME investments are made efficiently and in a manner that maximizes economic, social and biodiversity / environmental benefits. Finally, it will work with Governmental and inter-governmental institutions, including Ministries of Environment, relevant sectoral ministries (agriculture, industry, tourism, finance and commerce) and the Comision Centroamericana de Ambiente y Desarrollo (CCAD), a regional co-ordinating structure, to promote an enabling environment that will encourage BF-SMME growth over the medium and long run.

218. GEF funding will support technical co-operation aimed at removing a variety of barriers – including those related to business organization and development, banking and an enabling environment – to mainstreaming in the above areas. It will also provide direct financial support in the form of partial guarantees and other loan enhancements. GEF funding will leverage substantial co-financing in the form of direct lending funds available under existing CABEI SMME credit lines that are currently supporting only minimal amounts of lending to biodiversity-friendly SMMEs (BF-SMMEs). It will also work in partnership with other funding sources, such as those being channeled through Rainforest Alliance, to support efforts to transform production and service sector (e.g., ecotourism) practices in ways that benefit biodiversity.

B. Incremental Cost Assessment

B.1 Baseline

219. The baseline situation, support and scenario with regards to each of the project's three main tools/components is described in detail in 'Section I, Part I, Situation Analysis' and summarised briefly below. The fourth component, Learning, Evaluation and Adaptive Management is intrinsic to the present project and therefore has a zero baseline.

B.1.1 OUTCOME 1: FINANCIAL SUPPORT TO SMMEs, INCLUDING BF-SMMEs

220. Baseline activities and funding in this area involve both support to SMMEs in general as well as specific support to BF-SMMEs. Four groups of stakeholders and associated activities and spending have been identified:

1. *The Central American Bank for Economic Integration (CABEI)* operates several funding lines (PROMYPE, ICDF, Spain Micro-credit and FALIDES) that are dedicated to providing funding to BF-SMMEs. The current portfolio of loans outstanding under these credit lines is \$135 million. No outstanding loans to BF-SMMEs could be identified within this portfolio. For the purpose of the incremental cost analysis, a baseline figure of \$15 million is being used. It is important to recognize that these funds are part of the existing baseline of lending to SMMEs which is being transformed through the incorporation of biodiversity considerations. It therefore represents baseline co-financing for the purpose of the incremental cost analysis.⁶⁴
2. *The commercial banking sector* is involved with on-lending CABEI funds, as well as lending funds from other sources. While the project may lead them to begin lending from these other sources to BF small and medium enterprises, this cannot be predicted in advance. Thus, no baseline funding comes from these banks.
3. *Micro-finance institutions* channel CABEI funds to micro-enterprises. The same logic is applied to these as for the commercial banks, thus no baseline funding is counted here
4. *Several international and NGO financing schemes* have been identified and described in the baseline, including Ecologic Finance, EcoEnterprises Fund, IFC's SMME project and UNDP-GEF's renewable energy project with CABEI. As distinct from the previous this funding is not being included as part of either the project's baseline or co-financing.

221. Given the above, baseline financing funding for Outcome 1 is estimated at US\$15 million. According to the project's baseline scenario, and in the absence of GEF support, lending by CABEI to SMMEs would grow, perhaps quite rapidly. However, lending to BF-SMMEs could be expected to increase very slowly over time, only as the market becomes better known and banks become used to lending to these types of businesses. A number of barriers (see below) would prevent any rapid increases. This scenario is especially meaningful given the expected rapid growth in overall lending to SMMEs through CABEI, which would mean that a significant opportunity for financing BF-SMMEs would have been lost.

B.1.2 OUTCOME 2: BUSINESS DEVELOPMENT AND MARKETING SUPPORT TO BF-SMMES

222. Some outside assistance is being made available on business plan preparation, especially to micro-enterprises by the micro-financiers, local NGOs and consulting firms through donor assistance. Support is being provided by a variety of institutions in the region, varying from local NGOs to specific sector and functional service providers all the way to private consultants and international aid agencies and NGOs. A number of reputable institutions, many of which are working on a regional basis, are involved in biodiversity-related services such as certification of sustainable products, methods and processes. Due to the large number of players and specialization, the SMMEs have difficulties to locate appropriate assistance. All countries in the region have a variety of private and donor and NGO sponsored business support services, able to assist in business planning issues. Some notable gaps still exist.

223. This project builds on the following projects that are working, or plan to work, with SMMEs on best practices for biodiversity conservation and certification:

⁶⁴ It should be noted that CABEI baseline funding for SMMEs has various origins (see CABEI annex below). For purposes of simplification, and because there is no way to predict how much BF-SMME financing may ultimately come from each source, the ICA simply refers to CABEI as the sources of funds.

1. *The Certified Sustainable Products Alliance*, funded by USAID through the Global Development Alliance, is a three-year project promoting the scale-up of sales of certified products in the timber, banana and coffee sectors, and provide a stream of economic, social and conservation benefits to producers, workers and their families in Latin America. Through a set of cross-promoted supply-side and demand-side activities, the Alliance is strengthening the competitiveness and sustainability of agriculture and timber operations that supply private sector Alliance partners, and improve these operations' access to international markets. Alliance partners will bring new investment and trade to Latin America while supporting sustainable practices. The project is focused in Mexico, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and Panama. Partners include international manufacturers and retailers (e.g. IKEA, Gibson Musical Instruments, Kraft Foods, Procter & Gamble, and Chiquita Brands International), and various brokers and importers (e.g. North American Wood Products, International Wood Specialties, Neumann Kaffee Gruppe, and Volcafe). The Alliance's goal will be to transform the way that the participating companies source products, establishing alternative ways of doing business that the companies can replicate after the completion of USAID-funded activities.

2. *International Accreditation System and Consolidation of National Systems for Sustainable Tourism Certification to Facilitate Small and Medium Enterprises' Competitiveness and Market Access*, funded by the Inter-American Development Bank/Multilateral Investment Fund (IDB/MIF), involves Rainforest Alliance working with IDB/MIF to increase the competitiveness and market access of sustainable tourism SMEs participating in internationally accreditable certification systems in Latin America. The project is facilitating the implementation of best practices and certification in sustainable tourism SMEs, and the harmonization and strengthening of internationally accreditable certification systems, and increasing global awareness of these practices. The project is implementing local, regional and international work. At the local level, the RA is developing general training modules on best practices, certification, marketing and M&E, tailored to address separately the technical needs of SMEs and community based operations. At the regional level, the project is engaging organizations working with certification in five pilot countries (including Costa Rica and Guatemala) to foster the participation of SMEs and community-based operations in the implementation of best practices and certification. The project is also developing an international cohesive marketing strategy for organizations working with certification efforts that could participate in a global accreditation process (a Sustainable Tourism Stewardship Council). This strategy will result in direct benefits to SMEs that had implemented harmonized baseline standards, by allowing them to gain competitiveness and market access.

3. *Support to BF-SMMEs through the Centro Agronómico Tropical de Investigación y Enseñanza (CATIE)*: Located in Turrialba, Costa Rica, CATIE is a regional leader in postgraduate education, research and outreach related to technologies and approaches for sustainable rural development in tropical America. CATIE's **Center for Competitiveness of Eco-enterprises (CeCoEco)** supports eco-enterprises in capitalizing on opportunities in specialty markets such as organic, fair trade and gourmet. CeCoEco takes a supply chain approach to increasing competitiveness in Eco-Agriculture and Eco-Forestry. CeCoEco builds capacities through a Diploma in Rural Enterprise Development, which is aimed at strengthening the entrepreneurial capacities of business development service providers and rural enterprise representatives. It provides consulting services in areas such as international and local market analysis; cooperative business organization; supply chain analysis and development; design of competitive business plans, and; conversion from conventional to ecologically sound production. Finally, CeCoEco provides bilingual market intelligence systems on Forest Eco-Business and AgriEcoBusiness.

4. *INCAE* is a well known business school located in San Jose, Costa Rica. *INCAE* operates a Sustainable Markets Intelligence Center, known by its Spanish acronym **CIMS**, which is expected to be an important partner during the project.

224. Applicable baseline spending on Outcome 2 is estimated at \$11.6 million in associated financing. Under the baseline scenario, numbers of certified sustainable businesses would increase but their growth and spread would be constrained, perhaps severely, by limitations on available financing, as well as by the other barriers described above. To date, no significant attempt has been made to link this important work with the mainstream financial sector – the strategy adopted by the present project.

B.1.3 OUTCOME 3: CREATING AN ENABLING ENVIRONMENT TO ENCOURAGE BF-SMMES

225. Outcome 3 has by far the most limited baseline activities compared with those outlined above. To the extent that this issue has been considered at all within the region, its consideration would have taken place within the context of efforts undertaken by the national Ministries of Environment with the coordinating support of the Comision Centroamericana de Ambiente y Desarrollo (CCAD). Total baseline spending for such efforts during the project period is estimated at US\$50,000.

B.2 Global Environmental Objective

226. The global environmental objective of the project is to ensure mainstreaming of biodiversity concerns into the productive practices of Central American SMMES, thereby ensuring their contribution to the conservation of Central America's globally outstanding biodiversity.

B.3 Alternative

227. The alternative project will address the major gaps in the current activities with SMMES including more comprehensive linkages to the financial sector through products tailored to these enterprises and using biodiversity criteria to determine bankability. It will also provide business skills and market linkages on a more significant scale to ensure high payback rates, long-term financial viability, and strong incentives for biodiversity improvements beyond the life of the project of any of the above TA and certification-focused projects.

228. GEF funds will be sought for incremental costs associated with promotion of the loans, direct assistance to producers to access loans, assistance and outreach to banks, market linkages focused on the viability of suppliers due to the loans, and other activities directly related to producers' being able to access these financial products and FIs using the biodiversity criteria as a protocol for determining loan eligibility.

B.1.1 OUTCOME 1: FINANCIAL SUPPORT TO SMMES, INCLUDING BF-SMMES

229. The credit enhancement facilities operating under Outcome 1 would generate a minimum of US\$15 million in lending to SMMES for BD investments and business during the lifetime of the project. This funding would represent a transformation of a small portion of the existing baseline funding to SMMES. It has been calculated as follows:

- A US\$2.8 million partial guarantee (50%) incentive is expected to generate loan financing of US\$11 million during the seven-year life of the project. This figure assumes two full loan cycles,

each cycle consisting of approximately US\$5.6 million in loans.⁶⁵ It is furthermore projected to consist of approximately 200 loans with an approximate mean value of US\$60,000 per loan. This would represent, on average, 40 loans per country, 8 loans per country per year, and 4 loans per year by each pilot bank (if the number of banks is increased during the project, the number per bank would be lower).

- A US\$700,000 BF reward facility would refund between 10 to 20% of the loan principal to micro-enterprises, once they have qualified under the BF criteria. As described above, the grant injection would make the FIs share the lower funding costs (*ex post*) with clients and would lower interest rates to BF business, currently a major barrier. Given that average micro-loans are US\$ 1,000, the \$1 million incentive would be sufficient to support 5,000 micro-loans (20% reward on a \$1,000 loan = \$200, \$200*5,000 loans = \$1 million). The total resulting transformed baseline financing would be US\$5 million in micro-loans (5,000 loans @ \$1,000 per loan). To put the 5,000 loan figure into perspective, it should be noted that it represents only 1,000 loans per country, 200 loans per country per year, and 100 loans per institution per year (if two are selected into the pilot). Most of the participating CABEI FIs are either wholesale (*segundo piso*) financiers with hundreds of own intermediaries, or co-operatives (most underutilized by CABEI, part of their priority), which make thousands, if not tens of thousands of loans per year.⁶⁶ Thus, the target volumes are based on realistic assumptions.⁶⁷

230. In addition to the above transformed baseline spending, the project is expected to leverage substantial additional co-financing during the life of the project. Given that borrowers are typically required to provide about 25% of the value of the loan as equity investment, the approximate amount of private sector investments leveraged during the project period is estimated at US\$3.75 million (\$15 million * 25%).

231. Following the completion of the project, an estimated 90-95% of the guarantee funds would remain in the fund and would be available for re-investment by CABEI. Based on the same bad loan rate the funds would not be depleted until after 40 rounds of loan guarantees, and would catalyze loans worth US\$ 55 million. The facility would have been used by the banks, would suit the financing practices of private banks, and would still be giving a chance for small and medium enterprises to access term lending from these banks.

232. There are thus important amounts of financing being leveraged, through borrowers' equity participation in the loan arrangements, and through leveraged financing which will occur after the project ends. In particular the partial risk guarantee mechanism has the capacity to leverage new loan financing for many years before it is depleted. The projected total amount of leveraged co-financing is US\$59 million.

233. Total incremental cost of GEF support under Outcome 1 has been budgeted at US\$4.6 million. Co-financing for this outcome, in the form of transformed baseline spending, is estimated at \$15.0 million.

⁶⁵ It is assumed that the average loan maturity will be 3 to 5 years, the "booking" of the guarantee funds will take 3 years, amount of non-performing loans will be 5%. Thus the guarantee can be booked twice during the life of the project. The minimum leveraging assumption has been used here for the sake of prudence.

⁶⁶ It should be noted that the vast majority of such loans are made to small-scale traders, mostly in the urban areas. However, there is no reason why such entrepreneurs could not also become targets for loans, providing that they are part of a BF-friendly product marketing chain.

B.3.2 OUTCOME 2: BUSINESS DEVELOPMENT AND MARKETING SUPPORT TO BF-SMMES

234. Under Outcome 2, SMMEs working in a broad range of economic sectors will be able to develop biodiversity-friendly business ventures and thereby access new markets for their products and services.

235. This project outcome has been assigned a GEF budget of \$3.44 million, which will complement baseline associated financing of \$11.6 million.

B.3.3 OUTCOME 3: CREATING AN ENABLING ENVIRONMENT TO ENCOURAGE BF-SMMES

236. The GEF contribution towards achieving this outcome has been budgeted at \$1.37 million. Combined with co-financing of \$320,000, total financing for this outcome under the GEF alternative is \$1.69 million.

B.3.4 OUTCOME 4: LEARNING, EVALUATION AND ADAPTIVE MANAGEMENT, PARTICULARLY RELATING TO INTERACTIONS AMONGST OUTCOMES 1-3, ARE ENSURED

237. This fully incremental project outcome has been assigned a GEF budget of \$0.82 million.

Systems Boundary

238. In geographic terms, this project is working throughout the five Central American countries that are members of CABEI. These are Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. Thematically, the ICA has assessed and incorporated spending within the three related areas of lending to SMMEs, business development and marketing and development of an enabling environment. Notably left outside the scope of the analysis is spending on conservation, which is represented by a multitude of projects within the region, any of which could prove relevant depending on the geographic location of loan disbursements.

Incremental Cost Matrix

Cost/Benefit	Baseline (B)	Alternative (A)	Increment (A-B)
Domestic Benefits	<ul style="list-style-type: none"> Rural inhabitants face a variety of barriers to establishing successful and sustainable SMMEs, serving to limit short- and long-term income and employment prospects in these areas 	<ul style="list-style-type: none"> Increasing numbers of successful BF-SMMEs are selling to domestic and international markets Economic costs associated with unsustainable production, such as land and water resource degradation, are reduced due to transition to sustainable production methods Many borrowers have their first experience with the banking and/or non-banking financial institutions, helping them to begin building a credit history 	<ul style="list-style-type: none"> Employment and income benefits, notably among women and indigenous groups Long-term decreases in domestic economic costs of degradation, which typically weigh heaviest on vulnerable groups Better developed capital markets
Global Benefits	<ul style="list-style-type: none"> Baseline levels of land conversion and degradation lead to continuing biodiversity losses Conservation effectiveness of PA system is compromised by continuing high levels of degradation linked to encroachment and lack of alternative livelihoods in buffer zone areas Connectivity of PAs is supported somewhat by MBC, but difficulties developing and sustaining BF-SMMEs in key areas limit impact of these corridors Biologically important areas outside of MBC, including marine areas, are being degraded 	<ul style="list-style-type: none"> Transformed production practices provide a sustainable development baseline together with direct benefits for biodiversity Increased employment and income-generating opportunities in buffer zone areas associated with BF-SMME development contributes to reduced levels of encroachment and hence reduced degradation BF-SMME development within other areas of MBC (besides buffer zones) helps to change production practices and reduce pressures 	<ul style="list-style-type: none"> Enhanced conservation of forest and mountain habitats Long-term conservation of species and habitat diversity within protected areas, linked to reduced direct impacts and increased connectivity Enhanced role of productive landscapes in harbouring significant levels of biodiversity Improved protection for marine habitat and species diversity

Cost/Benefit	Baseline (B)		Alternative (A)		Increment (A-B)	
Costs	CABEI	15,000,000	CABEI	15,000,000	GEF	4,595,607
Outcome 1: Financial institutions, both banking and non-banking, have come to recognize the commercial opportunities and viability of biodiversity-friendly investments and business by BF-SMMEs and are providing them with loans			GEF	4,595,607		
	Total	15,000,000	Total	19,595,607	Total	4,595,607
Outcome 2: SMMEs working in a broad range of economic sectors are able to develop biodiversity-friendly business ventures and access new and expanded markets for their products and services ⁶⁸	CATIE	6,530,000	GEF	3,380,410	GEF	3,380,410
	USAID	3,600,000	CATIE	6,530,000		
	IDB/MIF	1,500,000	USAID	3,600,000		
			IDB/MIF	1,500,000		
	Total	11,630,000	Total	15,010,410	Total	3,380,410
Outcome 3: National enabling environments have been modified to increase net incentives for developing biodiversity-friendly sub-sectors	Ministries of Environment	50,000	Ministries of Environment	320,000	Ministries of Environment	270,000
			GEF	1,430,468	GEF	1,430,468
	Total	50,000	Total	1,750,468	Total	1,700,468
Outcome 4: Learning, feedback and adaptive management, particularly relating to interactions amongst outcomes 1-3, are ensured			GEF	818,515	GEF	818,515
	Total	0	Total	818,515	Total	818,515
Cost Totals	CABEI	15,000,000	CABEI	15,000,000	GEF	10,225,000
	CATIE	6,530,000	CATIE	6,530,000	Ministries of Environment	270,000
	MoEs	50,000	USAID	3,600,000		
	USAID	3,600,000	IDB/MIF	1,500,000		
	IDB/MIF	1,500,000	Ministries of Environment	320,000		
			GEF	10,225,000		
	Total	26,680,000	Total	37,175,000	Total	10,495,000

⁶⁸ Figures shown under Outcome 2 baseline and alternative represent Associated Financing.

PART II - Logical Framework Matrix

Project Strategy	Objectively verifiable indicators
Goal	Micro- Small- and Medium-sized enterprises in Central America increasingly contribute to Sustainable Development and Environmental Protection by incorporating biodiversity concerns in their products and services

	Indicator (quantified and time-bound)	Baseline	Target	Sources of verification	Risks and Assumptions
Objective of the project : Removing barriers in banking, business, and enabling environment to catalyze biodiversity-friendly investments in micro-, small-, and medium-sized enterprises in Central America	By the end of the project, SMMEs are accessing financing through CABEL's financial intermediaries for investments with proven environmental benefit	At project start, virtually no financing is channeled by CABEL and its FIs to BD-friendly investments	By the end of the project, CABEL's FIs will have disbursed a total of 17 million dollars for BD-friendly investments. After the project, installed capacity and remaining loan enhancement instruments are going to catalyze significant amounts in leveraged financing	FIs will report on increase in value of BD loan portfolios	There is some uncertainty related to how quickly the project can provoke a deal flow of sufficient magnitude to reach the stated target. The loan enhancement instruments are designed to be able to work long after the project is finished.
	Indicators will be developed and refined depending on the composition of business activities in the loan portfolio, but will include number of hectares of agricultural production with improved BD management (including number of hectares RA or ecological certified), reduction in contamination sources, implementation of clean production technology etc.	Currently no measurable, positive impact on biodiversity derived from CABEL or FI lending activities	As the project generates a more accurate overview of potential borrowers, targets will be formulated per industry area, e.g. thousands of hectares managed according to BD-friendly principles (including certification), reduction in specific contamination sources (including POPs), etc.	Portfolio-wide monitoring of investments and business activities will document impact	The project will provide assistance to SMME for transformation to BD-friendly products and services, but will not have full control over private sector activities. It can show more difficult than anticipated to generate clear BD benefits in SMMEs

	Indicator (quantified and time-bound)	Baseline	Target	Sources of verification	Risks and Assumptions
Outcome 1: CABEI and its Financial Intermediaries are providing loan financing to SMMEs for development of biodiversity-friendly business activities	Number of loans to SMEs for BD-friendly business development – based on revenue-based lending principles – being processed by participating banks	No BF loans processed; very few with risk guarantee	By the end of the project, the banks will have generated a minimum of USD 11 million in loans. ⁶⁹ The risk guarantee will continue to leverage an estimated additional US\$ 55 million during lifetime of funds (write-off rate 5%)	Lending records of participating banks	Risk: loans do not materialize as quickly as anticipated, possibly because demand proves less than anticipated
	Increasing number of loans to micro-enterprises to develop BD friendly business practices	Few loans processed to micro-enterprises for BD-friendly activities	By the end of the project, 6-8,000 BD loans have been processed by the FIs to micro-enterprises, representing USD 7 million in loan financing. The BD reward facility will continue to leverage an estimated additional 7million by year 2020 ⁷⁰	Lending records of participating micro-finance institutions	Risk: micro-loans do not materialize as quickly as anticipated
Output 1.1: Increased awareness generated among financial institutions of potential market opportunities for lending to BF-SMMEs, including information on specific bankable projects	Participating banks take a leading role in development of the new BF lending opportunities	Some interest, but minimal awareness detected in FIs	Participating FIs include BF-lending prominently in plans and strategies	FIs' plans and strategy papers	Awareness does not translate to action or business Other priorities override BD preferences
Output 1.2: A risk guarantee facility established by the project is being used by banks to reduce the risks of lending to BF-SMMEs	Loans provided to BF investments and business.	No loans provided to BF business	Guarantee facility will leverage loans of US\$ 11million during project (portfolio turnover rate 2)	Lending records at the banks and CABEI	Guarantee does not trigger lending, due to lack of demand or conservative practices continuing by banks.
Output 1.3: Revenue-based lending approaches have been accepted, and are being used by banks to lend to BF-SMMEs	Increase in number of banks willing to do loans to SMEs for BD-friendly business development based on revenue-based lending principles	Few pilot experiences in revenue-based lending, mainly in clean production financing	By the end of the project's pilot phase, one participating bank per country regularly does revenue-based BD lending, using the risk guarantee facility. This will expand to a minimum of 15 banks in the region by the end of the project	Lending records of participating banks, monitoring by CABEI	It could be more difficult than anticipated to change banks' lending practices

⁶⁹ This is estimated to be about 40 loans per country, for a total of 200 loans. A minimum level and prudent assumption is used as a basis. A 5:1 risk exposure ratio by CABEI instead of 1:1 would increase the lending volumes five-fold.

⁷⁰ Should some of the micro-loans not be able to document BD benefits, the borrower will not get access to the BD reward. The BD reward will be able to catalyze a total of USD 20 million for activities with proven BD benefits

	Indicator (quantified and time-bound)	Baseline	Target	Sources of verification	Risks and Assumptions
Output 1.4: A biodiversity reward facility is helping to expand lending by non-banking institutions to BF micro-enterprises at interest rates that are sufficiently profitable for lenders and affordable to borrowers	BD reward facility drastically increases interest in BD-friendly activities. MFIs extend micro-loans to BF business and activities.	Few micro-finance institutions lend to BD-friendly micro-enterprises	From the end of the project's pilot phase, loan records of at least one participating micro-finance institution per country show lending to BD-friendly micro-enterprises growing at rates of 30% per year. At least US\$ 7 million of micro-loans have been granted by MFIs to BF business (based on 20% reward).	Lending records of participating micro-finance institutions	Clients are not geared to include BF features in business (e.g. trading). MFIs find transaction costs too high on BF business.
Output 1.5: Tailored financing products developed for standardized loan situations	Credit officers have developed standard financing structures for repeat BF operations. Project financing approach is part of the banks' standard operations. New financing instruments are being utilized (e.g. quasi-equity)	No financing products others than direct loans with real collateral available.	80 % of credit officers have been exposed to revenue based lending techniques. 30% of the banks have financed BF projects with less than first-class collateral.	Financing products are adopted by banks. Loan records and CABEI monitoring	Banks not willing to cease obtaining collateral from SMMEs, as prerequisite for loans. Increased TA to credit officers in BF project structuring.
Output 1.6: Strengthened personnel and organizational resources at CABEI and involved FIs for improved management of BD financing	CABEI's and the FIs loan supply chain (term?) are fully able and willing to take the lead in developing the BD market and loan potential	Limited awareness of opportunities, lack of technical skills in promoting, appraising and monitoring BF projects.	By the project's mid-term evaluation, CABEI and FIs have earmarked and have trained key officers to be able to deliver against any new BF financing demand. BF has been internalized as one eligible line of business	Mid-term evaluation	CABEI and FIs too thinly spread to actively promote BD area.
Output 1.7: Loan approval tool including biodiversity criteria being used in FIs loan approval procedures	FI loan officers find it easy to apply biodiversity criteria in its loan approval practices	No biodiversity criteria are being applied in loan approval procedures	By the end of the pilot phase, 80% of involved credit officers find the loan approval tool easy to use. 50% of FIs have used the tool in BF project appraisal process.	Poll at the end of pilot phase, monitoring by CABEI.	BioScore not used due to lack of demand, or to minor role of >BF component in loans.
	Biodiversity criteria are continually revised according to findings of project monitoring of loan portfolio, thereby guaranteeing BD impact	No biodiversity criteria are being applied in loan approval procedures	Impact evaluations show that the biodiversity criteria in the loan approval tool ensure biodiversity impact		
Outcome 2: SMMEs working in a broad range of economic sectors are able to develop biodiversity-friendly business ventures and	Number of SMMEs able to document a biodiversity benefit from its production or service as a result of project assistance	Few SMMEs are able to document BD benefits	By mid-term evaluation of the project, 60% of borrowers are able to document BD benefits from their investment, increasing to 80% of borrowers by the end of the project	Yearly BD impact evaluations performed on the portfolio	

	Indicator (quantified and time-bound)	Baseline	Target	Sources of verification	Risks and Assumptions
thereby access new markets for their products and services	BD-friendly investments generate extra value-added for involved SMMEs		SMMEs involved in the project can document increased earnings of at least 15% a year	Yearly SMME economic performance surveys	
Output 2.1: Potential BF-SMMEs who could be in need of BD financing are identified and listed in a database being used by FIs.	Database listing all producers or operators registered in national industry associations with potential for a) certification (coffee, timber, cacao, bananas, eco-tourism, etc.), b) other producers with potential for enhancing BD management in their operations, and c) environmentally damaging producers with potential for cleaner production	Producers and operators are registered by their respective industry associations, but not linked to potential need for BD-financing	At least 10,000 potential BF-SMMEs identified by the end of year 1. ⁷¹	Database is operational	Identification process could be more arduous than expected due to data gaps.
Output 2.2: Awareness created with identified, potential BF-SMMEs regarding green markets and other biodiversity-friendly business opportunities, and of the newly available lending opportunities for related investment	Using the database of potential BF-SMMEs and regional networks, an information campaign has succeeded in disseminating the message of BD-friendly business potential and available financing to a majority of producers and operators in the region	Some knowledge exists among the more visionary SMMEs regarding BD-friendly business opportunities, but often not enough to convince them to take action.	50 % of identified SMMEs are aware of the BD-friendly business opportunities and availability of financing for related investments by the end of the pilot phase, and 75% by the end of the project	Estimates based on polls with randomly selected SMMEs from the database	There are too many potential BF-SMMEs to benefit from the project activities.
Output 2.3: Technical capacity of SMMEs with viable ideas for BD-friendly business development is enhanced through an operational PACT (Programa de Asistencia en Capacidades Técnicas) technical skills support programme,	PACT technical skills support programme – consisting of a select group of technical assistance providers – screens all incoming BD-friendly business ideas for technical viability, and technically viable business ideas get access to high-quality support to develop business ideas so that a large majority of them are able to access needed loan financing	Some sporadic technical assistance is available in the region, but SMMEs interested in developing BD-friendly business ideas have considerable difficulty in accessing assistance.	By the end of the pilot phase, 100% of SMMEs identified in the database will have access to an initial screening. All SMMEs with technically viable business ideas needing technical support to develop BD-friendly activities, will get help to develop them.	The project will compile statistics of the rate of viable business ideas which achieve access to financing	There are too many potential BF-SMMEs to benefit from the project activities and TASP.

⁷¹ Most of these will be small- or micro-producers

	Indicator (quantified and time-bound)	Baseline	Target	Sources of verification	Risks and Assumptions
Output 2.4: SMME's business planning and management skills developed through an operational PACE (Programa de Asistencia en Capacidades Empresariales) Support Programme	Increasing numbers of SMMEs with technically viable BD-friendly business ideas develop good business plans acceptable to FIs	A minority of SMMEs have the technical capacity to develop business plans	By the end of year 3, 70% of SMMEs who receive technical support will achieve loan financing from FIs.	Lending records of participating banks	There are too many potential BF-SMMEs to benefit from the project activities and TASP. SMME business skills is so low that each SMME beneficiary takes a long time to become capacitated.
Output 2.5: Market linkages improved across the supply chain	A number of additional key purchaser are newly engaged and directly sourcing from SMMEs involved in this project.	Established market linkages exist in some sectors, but generally remains a barrier for BF-SMME development	At least ten experiences of additional demand created through project activities by the end of the project. At least one example in each country of a supply chain improved to benefit BF-SMMEs.	Export agreements and other documentation showing successful market linkages	Supply chains can be reformed.
Output 2.6: Market information about BD-friendly products and services is disseminated to SMMEs through a BD market information clearing house mechanism (BD-CHM)	SMMEs interested in BD-friendly business opportunities will have access to market information	Very few SMMEs have sufficient access to market information for BD-friendly products and services	At the end of the pilot phase, 50 % of SMMEs in the database of potential BF-SMME borrowers have the ability (knowledge and suitable technology) to access BD market information, increasing to 75% at the end of the project	Estimates based on polls with randomly selected SMMEs from the database	Market information is available. The project can find ways for rural and remote SMMEs to access the information.
Output 2.7: Increased market demand for select BF-products and services	Increase in value of domestic market for BD-friendly products and service in each country	Current demand is scarcely met and little new demand is generated	Value of domestic market demand for at least one BD-friendly product and service in each country increases by 30% by the end of the project	Market studies	Market demand can be increased during the project with limited funds.
Output 2.8: Partnerships established between potential BF-SMMEs and research community for development and marketing of new BF products	Increase in new and innovative BD-friendly products and services developed through the partnerships	No established partnerships in place	At least one new product brought into the markets and the value and market opportunities for 3 existing BF products and services increased by the end of the project.	Market studies	There are market opportunities for new products.
Outcome 3: Enabling environments have been modified to create greater incentives for developing	In each country initiatives have been put in place which will provide incentives for BF-SMME development	No particular incentives in place	By the end of the project, the countries will have revised their policies, legislation, and regulation to promote BF-SMME development		

	Indicator (quantified and time-bound)	Baseline	Target	Sources of verification	Risks and Assumptions
biodiversity-friendly sub-sectors of national economies					
Output 3.1: Policy, legislative and regulatory review and reform recommendations formulated	Recommendations on legislative and regulatory reform to improve economic conditions for BF-SMMEs.	A mixture of policies which generally do not provide any comparative advantages for BF-SMMEs to compete in the marketplace	Recommendations on legislative and regulatory reform to improve economic conditions for BF-SMMEs are presented to government in each country on policy and provisionally agreed upon by key stakeholders by end of year 2.	Report on reform.	
Output 3.2: Recommendations formulated and support provided for introduction of fiscal incentives	Fiscal incentives identified for introduction in each participating country.	No fiscal incentives for BD-friendly behavior	Fiscal incentives recommended and provisionally agreed for introduction in each participating country.	Report on introduction of fiscal incentives	
Output 3.3: Support provided for national adoption and implementation of recommended policy, legislative, regulatory and incentive reforms	Adoption of recommended policy, legislative or incentive reform occurs in all five countries	Government ministries resistant to change with vested interests in mainstream commercial sectors.	By the end of the project the major policy, legislative or incentive reforms proposed are in place and are being implemented. Fiscal incentives implemented in at least three participating countries. CCAD actively promotes the application of fiscal incentives throughout the region	Laws, government records and assessment of government activity.	Not too much resistant and the project has sufficient time to support reform recommendations through generally lengthy negotiation and adoption procedures at the national level.
Outcome 4: Learning, evaluation and adaptive management, particularly relating to interactions amongst outcomes 1-3, are ensured	Project Technical Advisory Group members are commending the project for applying lessons learned and adapting to changing environment, thereby achieving its objectives	N/a	N/a	Technical Advisory Group meeting minutes	
Output 4.1: Advanced monitoring system established for a) biodiversity impact measurement, b) continuous project indicator measurement, and c) distillation of lessons learned, including BF-	High-quality information available to project manager and project team for decision making	N/a	N/a	Regularly updated reports available	

	Indicator (quantified and time-bound)	Baseline	Target	Sources of verification	Risks and Assumptions
SMME development and BF banking					
Output 4.2: Adaptive management systems established to continuously incorporate adjustments based on lessons learned from monitoring system	Bi-yearly revision of project log-frame and implementation strategy based on inputs from monitoring system	N/a	N/a	Periodic project progress reports	
Output 4.3: Regional dissemination of project lessons, including best practices for BF-SMME development	Opportunities for governments, NGOs, donors, FIs and trade associations to learn about project programmes and lessons.	N/a	Material available on the project's website gets accessed by interested from inside and outside the region. Two international workshops will attract key players in BF-SMME development and financing	Registry of hits on the website. Number and quality of participants in workshop	

SECTION III : Total Budget and Workplan

Award: tbd

Award Title: PIMS 3368 BD: FSP Central American Markets for Biodiversity (CAMBio)

Project ID: tbd

Project Title: FSP Central American Markets for Biodiversity (CAMBio)

GEF Outcome/Atlas Activity	Responsible Party	Source of Funds	ERP/ATLAS Budget Description	Amount 2006 (USD)	Amount 2007 (USD)	Amount 2008 (USD)	Amount 2009 (USD)	Amount 2010 (USD)	Amount 2011 (USD)	Total (USD)
OUTCOME 1: Financial intermediaries, including banking and non-banking institutions, have come to recognize and will start lending to biodiversity-friendly investments and business among SMMEs	CABEI	GEF	*74200 AudioVisl	26,250	26,250	26,250	26,250	15750	15750	136,500
			71200 International consultants	96,556	96,556	96,556	96,556	96,556	96,556	579,336
			71300 Local consultants	52,762	52,762	52,763	52,763	52,763	52,763	316,576
			71600 Travel	46,331	46,331	46,331	46,331	46,331	46,332	277,987
			72100 Sub-Contracts	21,000	15,750	16,662	0	0	0	53,372
			72600 Grants - Partial Risk Guarantee Fund	2,940,000	0	0	0	0	0	2,940,000
			72600 Grants - BD Reward Facility	735,000	0	0	0	0	0	735,000
			73100 Office operating costs (incl computers)	16,984	16,984	16,985	16,985	16,985	16,985	101,908
			74500 MiscExp	3,707	3,707	3,707	3,708	3,708	3,708	22,245

				Sub-total GEF	3,938,590	258,340	259,214	242,593	232,093	232,094	5,162,924	
	CABEI										17,000,000	
	Sub-total										22,162,924	
OUTCOME 2: Potential BF-SMMEs working in a broad range of economic sectors gain improved access to capital and product markets and thereby expand the scope and scale of their biodiversity-friendly business ventures	CABEI	GEF	*74200	AudioVisl	15,750	15,750	15,750	15,750	10,500	10,500	84,000	
			71200	International consultants	48,431	48,431	48,431	48,431	48,431	48,432	48,432	290,587
			71300	Local consultants	52,762	52,762	52,762	52,763	52,763	52,763	52,763	316,575
			71600	Travel	39,068	39,068	39,068	39,068	39,069	39,069	39,069	234,410
			72100	Sub-Contracts	136,500	430,500	420,000	530,250	399,000	0	1,916,250	
			73100	Office operating costs (incl computers)	18,871	18,871	18,872	18,872	18,872	18,872	18,872	113,230
			74500	MiscExp	3,707	3,707	3,708	3,708	3,708	3,708	3,708	22,246
				Sub-total GEF	315,089	609,089	598,591	708,842	572,343	173,344	2,977,298	
OUTCOME 3: National and regional-level enabling environments have been modified to create greater net incentives for developing biodiversity-friendly sub-sectors of national economies	CABEI	GEF	*74200	AudioVisl	10,500	10,500	10,500	10,500	10,500	10,500	63,000	
			71200	International consultants	34,212	34,212	34,212	34,212	34,212	34,213	34,213	205,273
			71300	Local consultants	47,250	47,250	47,250	47,250	47,250	47,250	47,250	283,500
			71600	Travel	26,250	26,250	26,250	26,250	26,250	26,250	26,250	157,500
			72100	Sub-Contracts	52,500	131,250	105,000	52,500	52,500	52,500	52,500	446,250
			73100	Office operating costs (incl computers)	15,570	15,570	15,570	15,570	15,570	15,570	15,570	93,420
			74500	MiscExp	3,707	3,707	3,708	3,708	3,708	3,708	3,708	22,246
				Sub-total GEF	189,989	268,739	242,490	189,990	189,990	189,991	1,271,189	

OUTCOME 4: Learning, evaluation and adaptive management, particularly relating to interactions amongst outcomes 1-3, are ensured											
			Government of Guatemala (MARN)								30,000
			INGUAT (Guatemala)								20,000
			Government of Costa Rica (MAE)								90,000
			Government of Honduras (SERNA)								90,000
			Government of Nicaragua (MARENA)								90,000
			Sub-total								1,591,187
		CABEI	GEF	*74200	AudioVisl	15,750	21,000	21,000	21,000	21,000	52,500
			71200	International consultants	27,212	27,212	27,212	27,212	27,214	27,214	163,276
			71300	Local consultants	6,825	6,825	6,825	6,825	6,825	6,825	40,950
			71600	Travel	6,037	6,037	6,037	6,038	6,038	6,038	36,225
			74100	Mon&Eval	31,500	31,500	105,000	42,000	52,500	105,000	36,7500
			74500	MiscExp	3,708	3,708	3,708	3,708	3,708	3,708	22,248
			73100	Office operating costs (incl computers)	5,190	5,190	5,190	5,190	5,190	5,190	31,140
				Sub-total GEF	96,222	101,472	174,972	111,973	122,475	206,475	813,589
	SUB-Totals Per Financer:			GEF							10,225,000
				CABEI							17,000,000
				Others							320,000⁷²
										GRAND TOTAL	27,545,000

⁷² Please note that there is a substantial increase in co-funding from the participating governments from \$50,000 to \$320,000 from the original amount in the Prodoc. However, the total amount of co-financing is 2.5% less (\$430,000) than proposed in the Prodoc reviewed by council. This reflects a reduction in total project budget of only 1.5%. The reduction is because the level of government in-kind co-financing, totaling \$320,000 reflects high level participation of all the relevant Ministries in the participating governments and is sufficient to achieve the policy goals of Outcome 3 in a more cost-effective manner. This will be achieved through convening of a national policy Task Forces which will meet regularly throughout the project to formulate and support the adoption and implementation of policies and laws to promote biodiversity friendly businesses.

* 74200 AudioVisl- This budget is for workshops, and may need to be used for any other expenses important for the workshops.

The Executive Agency Fee is \$486,905

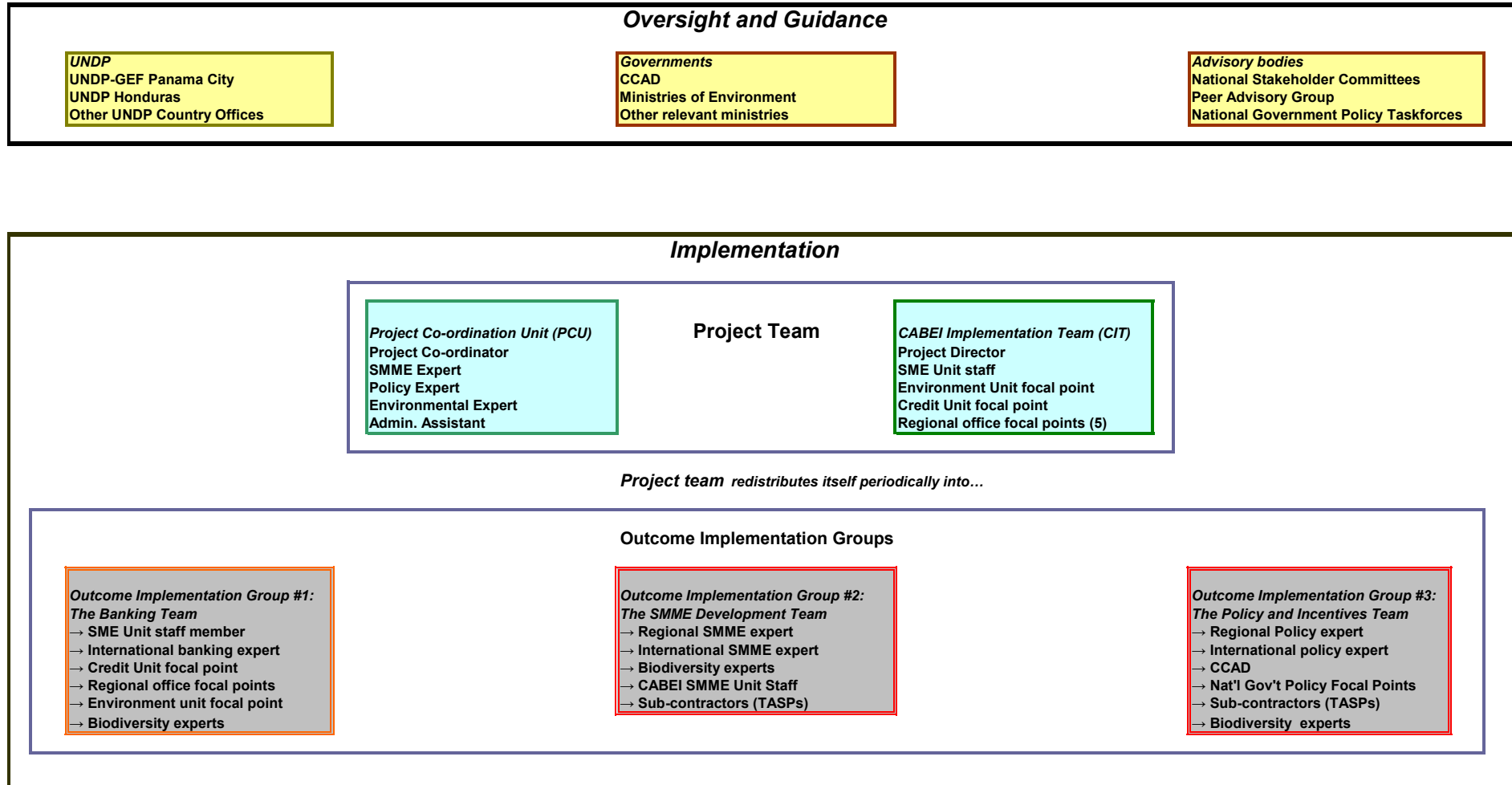
SECTION IV: Additional Information

PART I: Other agreements

See Separate File of Letters of Endorsement from the participating countries and Co-financing Commitment letters.

PART II: Project Organigramme

Part II - Project Organigramme



PART III: Terms of Reference

A. Draft Terms of Reference for Project Management – Processes and Structures

Title	Project Inception Phase (PIP)
Terms of reference ID#	1

The **Project Inception Phase (PIP)** is an opportunity for project stakeholders to become acquainted (or re-acquainted) with the project – its agreed strategy, expected outputs and outcomes, risks, etc. As such, it brings new momentum to the project following the final process of its approval. It is also an opportunity to finalise outstanding details related to implementation, to establish and train a project team and to develop and test implementation procedures.

UNDP will provide CABEI, as Executing Agency, with an initial cash advance for the eight-month PIP upon receipt of the standard Cash Advance Request form for the costs of the activities described below. No additional workplan will be required.

Bi-monthly PIP progress updates should be provided to the UNDP Resident Representative through meetings at the UNDP office. More regular and informal contact should be maintained through the responsible UNDP Program Officer.

The central elements of the PIP are described below, and a summary workplan explaining the timing of these elements is provided at the end of these ToR.

I. Establishing and training the project team

The **Project Team** will consist of two main components. These are:

- (i) **The Project Coordination Unit (PCU):** Following receipt of the initial cash advance, the project will begin recruiting the members of the **Project Co-ordination Unit (PCU)**. These will include the **Project Co-ordinator (PC)**, three additional professional staff and one support staff. The Project Co-ordinator will be recruited first, as (s)he will play a lead role in the finalization of ToRs and the selection of remaining staff. CABEI, UNDP Honduras and UNDP-GEF will constitute an **Appointment Panel** for selection of the PC and other PCU staff. All positions will be publicly advertised.⁷³ The PC will be recruited internationally and contracted by UNDP Honduras, while remaining PCU staff will be contracted directly by CABEI, the project executing agency. Terms of reference (ToR) for the PCU as a whole are presented below (see ToR#2), as is the scope of work of individual PCU staff with respect to individual project outcomes and outputs (see ToRs #11-13).
- (ii) **The CABEI Implementation Team (CIT):** This team will be composed of CABEI staff with direct and significant roles in project implementation. It will be led by the Head of the SME Unit, who will serve as **Project Director (PD)**. Key Headquarters Units, such as the Environment Unit and the Credit Unit, as well each of the five Regional Offices, will nominate **Focal Points** as CIT members who will lead their unit's or office's participation in the project. CIT members, along with other CABEI staff involved in loan supervision, etc., will provide part-time support to project implementation, and will be given the proper incentives to ensure that they give due

⁷³ This would most likely include advertisement in a periodical such as *The Economist*.

priority to achieving project objectives.⁷⁴ Terms of reference (ToR) for the CIT are presented below (see ToR#3), as is the scope of work for CIT members with respect to individual project outcomes and outputs (see ToRs #11-13).

Upon assuming his/her position, the PC will establish offices in CABEI, on the same floor as the SME Unit, the Head of which has already been designated as the PD. Key early tasks for the PD and PC, in co-operation as appropriate with UNDP Honduras, will include:

- (i) preparing detailed PCU staff member ToRs;
- (ii) selecting remaining members of the PCU and overseeing the contracting process (in consultation with remaining members of the Appointment Panel);
- (iii) establishing or re-establishing contact with the entire range of project stakeholders identified during the project development stage, and;
- (iv) ensuring that CIT Members, are identified, officially notified of their responsibilities and provided with appropriate incentives to play their part in making the loan facilities work to their desired ends.

As Project Team members are identified/selected, each will require a period of training, particularly regarding UNDP and CABEI procedures. This will include the PC and PD themselves (the latter will need to gain familiarity with UNDP, including UNDP-GEF, procedures). UNDP Honduras and CABEI's SME Unit will be responsible for ensuring that all necessary training and guidance are provided. In the case of UNDP, this will include an overview of UNDP rules and procedures from UNDP Honduras, as well as a briefing on GEF from the UNDP-GEF Regional Coordinator. For CABEI's part, training should cover an introduction to the Bank, its rules and procedures, as well as a sharing of project-specific knowledge from existing initiatives.

II. Allocating tasks, defining ToRs & contracting expert support

The project has a substantial budget for sub-contractors and consultants, who will work with PCU and CIT members to implement project activities and achieve project outcomes and outputs. Substantial progress has already been made in defining and allocating these human resources amongst the various project outputs (see Section III, Total Budget & Workplan, as well as Section IV, Part III, ToRs 10-12). During the PIP, the following additional steps will be taken:

- (i) draft Outcome-based task matrices (see ToRs 11-13) will be reviewed and finalized by the Project Team;
- (ii) based on matrices, detailed consultant and sub-contract ToRs will be prepared;
- (iii) potential Technical Assistance Service Providers (TASPs) in each country and in all relevant sectors will be identified, their capacities will be assessed and a short-list established;
- (iv) where possible / appropriate, sub-contracts will be issued prior to the completion of the PIP.

Several of the sub-contracts will be issued as 'draw-down framework contracts', meaning that the exact level of activity / spending cannot be pre-determined, due to unknown factors such as the number of SMMEs or banks requiring technical support during a given time period.

⁷⁴ See ToR #14 below.

III. Selecting banks and MFIs for the Program Group

Section IV, Part VII of this document defines the selection criteria for financial intermediaries to be included within a so-called ‘**Program Group**.’ During the PIP, the Project Team, with technical support from the international Banking, and BD Experts, will use these criteria to prepare a draft list of Program Group members. Final selections will be approved by the Project Steering Committee (PSC) and CABEL Credit Committee,⁷⁵ based on the criteria and the proposal prepared by the Project Team. In this way, up to 10 banks and 16 MFIs from the approved CABEL network will become initial members of the Program Group.

Members of the Program Group will receive the following technical support during the first two years of full project implementation:

- In-depth training in BD promotion, appraisal and selection (Loan Officers, Project Analysts, Environment managers)
- On-the-job training in project appraisal, cash flow analysis and development of new financial instruments (Loan Officers, Project Analysts, Credit management)
- Training in out-reach, project identification and proactive BD marketing.

The selection of charter Program Group members will be made for an initial period of 2 years, following which their performance will be reviewed and any appropriate changes made. In addition, more banks may be brought into the program to widen the demand platform. The Banks will enter into a Guarantee Agreement and MFIs into a Conditional Grant Agreement with CABEL, once they have been accepted as project intermediaries. The Agreements can be made as an umbrella agreement with all approved banks at Inception, or separately with those entering at later stages.

All CABEL network banks will be eligible to present BF projects for approval. If successful, a Guarantee Agreement will be established for them, too. New CABEL network FIs can be accepted as eligible ones during the project implementation period, once they present BF eligible project proposals and comply with the general requirements. They can also receive TA support within CAMBio’s resource limitations.

IV. Updating the BF-SMME lending market baseline

The PIP will build on and update work undertaken during the project formulation stage to construct an up-to-date overview of the BF-SMME lending market. The analysis will help guide the formulation of detailed project strategies, including the design of sub-contracts. For example, it will help to make the connection between sources of demand for loans / TC and the relevant banks covering these areas / sectors.

PCU staff, working with the Regional Office Focal Points, and international experts, will carry out a systematic review of current and expected business prospects for BF lending. The review will elaborate on the barriers, identify ways to promote the business and expand the clientele and target groups within

⁷⁵ The CABEL Credit Committee will clear the necessary lending terms of all lending operations, including those under CAMBio instruments, based on standard prudent banking principles. The clearance process is either direct or indirect, depending on the size of the projects and total exposure levels through the FIs.

individual SMME sectors. A diagnostic report with detailed recommendations will be submitted to CABEI and UNDP. Each PCU expert will prepare an initial technical review of issues within his/her area of expertise, as follows:

- *Banking*: The international Banking Expert will analyse the lending practices of the Program Group member banks, especially with regard to readiness and willingness to adopt revenue-based lending practices, suitability of policies and strategies to promote and service BD sector, especially among SMMEs. Special emphasis will be placed on the collateral and risk exposure principles and readiness of each institution, given the unmet demand (lack of collateral) and readiness to share risks based on project cash flows and strengths, when backed by partial risk guarantee. Possible first experiences on the USAID Clean Production Guarantee Facility should also be reviewed, in order to overcome possible shortcomings in the banks' performance. The review will also analyze the capacity of the management and credit departments to move towards revenue-based lending policies and practices. A training needs analysis on each institution will be the end result. A similar analysis will be made among the participating MFIs.
- *SMMEs*: The SMME experts will develop an outreach strategy for how to engage SMMEs. This will not go to the same level of detail as the banking training needs assessment, since no work is planned during the PIP to identify specific SMMEs. However the strategy will consist of a more general analysis / strategic approach, broken down by individual sector (agro, aquaculture, etc.). An important output will be a set of procedures for developing a pipeline of loan/TA requests that will help clarify for SMMEs what steps they will need to follow in order to access project TA and loan financing.
- *Policy*:
- *Environment*: The environment experts will focus on finalizing the investment guidelines (see X. below).

V. Detailed design of financing instruments

A key task of the PIP will be to establish a financial mechanism to house the \$3.5 million available from GEF for loan guarantees and biodiversity rewards. This process will build on work done during the project preparation phase, and will be undertaken with the technical support of an international consultant specializing in this area. It will include the establishment of agreed procedures for approving, monitoring, evaluating and overseeing all related funding operations. Prior to the completion of the PIP, the financial mechanism should have been established and loan guarantees and biodiversity rewards should be available to interested borrowers through this financing mechanism.

The two finance enhancement instruments are based on best practice and proven successful implementation in similar circumstances. Local banking customs, demand characteristics and detailed *modus operandi* among the players will affect the detailed design of successful instruments. Based on the analysis made with potential participating FIs during the Inception Phase, the Banking Expert with potential support from SME Finance short-term expert will together with the PCU Team and CABEI Credit Department define the details and modalities for the *Risk Guarantee Facility*, which best suit the project objectives and CABEI practices and requirements. Special emphasis is to define:

- The Grant Agreement from UNDP to CABEI on placement of Funds in Trust to CABEI
- The Partial Risk Guarantee Agreement contents and text together with PCU, CABEI relevant departments (legal, credit, environment etc.), based on models already in place in the region

- Detailed approval process, monitoring, trouble-shooting, and guarantee claim process and conditions.
- Approval documentation needed and detailed process
- Detailed requirements for banks on collateral policies and lending criteria for qualifying under the Facility
- Minimum criteria to projects and banks for triggering the Guarantee payment, and instructions for collection requirements

The initial tasks for the *BD Reward Facility* for the PCU and the finance team will be to define:

- The Grant Agreement from UNDP to CABEI
- The Conditional Grant Agreement between CABEI and the MFI on the provision of the BD discount on loan principal, together with PCU, MFIs and the relevant CABEI departments
- Approval process and steps between MFI and CABEI (based on the process described as outline earlier in this document)
- Requirements, criteria and steps for benefit sharing of the reward between the MFI and the client
- Monitoring practices on the umbrella agreements, corrective measures

VI. Finalizing investment guidelines

Section IV, Part X of the present document contains draft investment guidelines for biodiversity conservation. These guidelines will be finalized during the inception phase, including the following specific aspects:

- clarify the process for reviewing / verifying information coming from lenders, particularly related to biodiversity aspects;
- develop a method of scoring and subsequently approving or rejecting investments based on application of various assessment criteria;
- clarify which organizations / entities will perform the above appraisals, and;
- determine which organizations will undertake detailed site assessments (where necessary).

The above issues will be discussed during the **Inception Workshop** with comments taken on board and included in the form of revised guidelines. A workshop will be held during the inception phase to address the above issues and to finalize the guidelines.

VII. Refining the project's Monitoring and Evaluation system

The present document presents a plan for project monitoring and evaluation. (see Section I, Part IV). During the PIP, practical arrangements will be put into place for implementing this plan. For example, the PCU banking expert will need to ensure that there is a system for keeping track of disbursements of biodiversity-friendly loans, by country, sector, etc. In addition, attention will be given to the types of environmental targets to be discussed and agreed during loan negotiations. A strategy will also be needed for monitoring the achievement of these targets. This may require, in the case of larger or more environmentally complex investments, additional environmental due diligence prior to loan approval to establish appropriate baselines. The Inception Workshop will provide an opportunity for representatives from organizations with relevant experience to comment on the proposed M & E arrangements, leading to further refinements prior to the onset of actual lending.

VIII. Holding the Inception Workshop

An **Inception Workshop** should be held during Month 6 of the Inception Phase. The PD and PC will be responsible for developing the agenda for this workshop. This workshop will be an opportunity for all stakeholders to meet within a common forum. Representatives from the five Governments and from the UNDP offices in the region are expected to attend, as well as designated staff from CABEI's Regional Offices in each of the participating countries.⁷⁶ An effort will be made to recruit the majority of PCU staff prior to the Inception Workshop

The PC, with support from PCU staff, will be responsible for preparation of an **Inception Report**. A draft Inception Report should be shared with UNDP and CABEI for comments. A revised draft Inception Report should then be circulated for comments to all stakeholders before being adopted. The outline of the Inception Report should be agreed upon early on in the PIP.

IX. Establishing the Project Steering Committee

The first meeting of the **Project Steering Committee (PSC)**⁷⁷ should take place immediately following the Inception Workshop. The meeting is expected to adopt the contents of the Inception Report and address any remaining institutional issues which may be standing in the way of full project implementation. This will also be an opportunity to clarify UNDP's role in annual workplan reviews, measurement of progress indicators and impact indicators, **Tripartite Reviews (TPRs)** and annual work planning exercises.

X. Workplan

Table 1 below presents a roughly chronological workplan for the Inception phase, which commences with the signature of the GEF Executive Secretary.

⁷⁶ See Annex ___ for a description of CABEI staff roles in the project, particularly vis-à-vis loan operations.

⁷⁷ ToR for the PSC are provided below in ToR #3.

Table 1: Inception Phase Workplan

Activity Areas	Activities	Responsibilities	Month(s)						Notes
			1	2	3	4	5	6	
1. Establishing and training the Project Team	1.1 Advertise and fill Project Co-ordinator (PC) position	CIT	x	x					
	1.2 Advertise and fill remaining PCU staff positions	PC, CIT		x	x	x			
	1.3 Install PCU staff in CABEI headquarters, with necessary office equipment, etc.	PC, PD	x	x	x	x			
	1.4 Complete designation of CABEI Implementation Team (CIT) Members	PD, CIT	x	x					
	1.5 Project Team members receive training in GEF and/or CABEI procedures, as appropriate	UNDP Honduras, CABEI				x	x		
2. Allocating tasks, defining ToRs & contracting expert support	2.1 Meetings of PCU, CIT and OIGs discuss and agree on detailed task allocation and associated staff performance indicators and incentives	PCU, CIT, OIGs							
3. Selecting banks and MFIs for the Program Group	3.1 Project Team prepares a draft list of Program Group members	PCU, CIT		x	x				
	3.2 Final list of Program Group members is approved	PCS, CABEI Credit Committee			x				
4. Assessing biodiversity market	4.1 Conduct an in-depth analysis of the lending practices of Program Group banks	International Banking expert(s)		x					
	4.2 Prepare a training needs analysis to support Programme Group banks in moving towards revenue-based lending policies and practices	International Banking expert(s)		x					
5. Final modalities for the financial instruments	5.1 Final design	International Banking Expert			x				
	5.2. Formulation of Guarantee Agreement and Reward contracts				x				
	5.3 Enter into contracts with pre-selected FIs					x			
6. Finalizing investment guidelines	6.1 Receive comments from Advisory Group (see 8.3 below)	PCU					x		
	6.2 Issue revised guidelines	PCU							x
7. Holding the inception workshop	7.1 Organize and hold inception workshop	PCU, CIT					x		
	7.2 Inception workshop to include meeting of Advisory Group, which will advise, <i>inter alia</i> , on investment guidelines								
8. Establishing the Project Steering Committee	8.1 Ensure that PSC members have been identified by relevant institutions	PCU			x				
	8.2 Hold first PSC meeting immediately following Inception Workshop.	PCU					x		

Title	Project Co-ordination Unit (PCU)		
Terms of reference ID#	2	Budget line	Misc.
Type of contract & ID#	NA		

The **Project Co-ordination Unit (PCU)** will be established in Tegucigalpa within the Headquarters of CABEI and will have general project coordination functions. The unit will be located within the SME Department in CABEI. The PCU will have strong links to CABEI's newly established Environment Department. Both the SME Department and the Environment Department will be responsible for assisting to link the PCU to the rest of CABEI's Departments, offices and programmes. The SME Department will designate staff to work closely with the PCU in general and on specific activities to be agreed during the Project Inception Phase (PIP).

The PCU will ensure that project implementation proceeds smoothly through well-written workplans, Terms of Reference and carefully designed administrative arrangements that meet UNDP's requirements. PCU professional staff will include: (i) an internationally recruited Project Co-ordinator (PC), (ii) a Biodiversity / Environment specialist, (iii) an SMME TA Specialist, and (iv) a Policy Specialist. The above staff will be supported by an Administrative / Finance Assistant. Terms of reference for individual PCU staff will be finalized by the PC during the Inception Phase.

While PCU staff will each have his/her individual responsibilities, as outlined in TORs 10-13, it is useful to highlight the responsibilities of the PCU as a whole. These are:

- to achieve the project outcomes and objective;
- to manage day-to-day implementation of the project, coordinating project activities in accordance with the rules and procedures of UNDP/GEF and based on the general guidance provided by the Project Steering Committee (PSC);
- to provide overall project co-ordination, while acting as an independent and unbiased guarantor of co-operation and information exchange;
- to provide technical input as appropriate into the outcomes;
- to coordinate with the project stakeholders and regional programmes of relevance to the project;
- develop a special working relationship with IFC/GEF's EBF (see Stakeholder Annex);
- to convene quarterly Project Implementation Meetings (PIMs) in order to review progress in implementing project workplans;
- to ensure, together with UNDP, that specified tasks are outsourced to suitable sub-contracted Technical Assistance Service Providers and national and international consultants through competitive bidding processes. PCU responsibilities in this regard include development of bidding documents and terms of reference⁷⁸;
- to organize project-level meetings and workshops, e.g., inception workshop, Project Steering Committee (PSC) meetings, etc.;
- to work closely with UNDP offices in the region in organising and providing technical and logistic support and coordination to all missions and assignments by international and national consultants;
- to prepare overall project reporting.

⁷⁸ ToR # 3 below describes the role of the Project Steering Committee in this process.

Title	CABEI Implementation Team
Terms of reference ID#	3

The CABEI Implementation Team (CIT) will be composed of CABEI staff with direct and significant roles in project implementation. It will be led by the Head of the SME Unit, who will serve as **Project Director (PD)**. Key Headquarters Units, such as the Environment Unit and the Credit Unit, as well each of the five Regional Offices, will nominate **Focal Points** as CIT members who will lead their unit's or office's participation in the project. CIT members, along with other CABEI staff involved in loan supervision, etc., will provide part-time support to project implementation, and will be given the proper incentives to ensure that they give due priority to achieving project objectives.⁷⁹ Terms of reference (ToR) for key sub-groups within the CIT are presented below (see ToR#3), as is the scope of work for CIT members with respect to individual project outcomes and outputs (see ToRs #11-13).

I. Small and Medium and Micro Enterprise Unit

The unit will be the responsible entity within CABEI and towards UNDP/GEF in all matters of project implementation, management and reporting. The unit will interact and liaise with all relevant CABEI Departments, such as the Credit Department, Legal Department, Financial Intermediaries Department and International Finance Department, in relation to all operational and banking issues.

CABEI SMME Unit will mobilize sufficient staff resources with financial analysis background to support the PMU. The function would be to ascertain a direct relationship and channel with CABEI's Regional Offices in each of the Central American countries: Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica. This/these official(s) would help manage all the financial information related with the use of resources.

II. Environment Unit

The *Environment Unit* working within CABEI's Business Management Office will support the Project Team in issues related to environment and policies. The Environmental Specialist and the Policy Specialist will have a close collaboration with this Unit. In CABEI headquarters, the Environment Unit will support the policy work and the Credit Unit will supervise the lending appraisal of the FIs.

Currently, CABEI has a close relation with the Central American Commission for Environment and Development (Comisión Centroamericana de Ambiente y Desarrollo, CCAD) due to their both being members of the Central American Integration System (Sistema de Integración Centroamericano, SICA). The Environment Unit will be responsible for the relationship between CABEI and CCAD. Thus, the Policy Specialist will work through this Unit when coordinating the activities developed by CCAD.

III. Regional Offices

Within CABEI's new structure, the *Regional Offices* play a key role on the channeling of resources, which is done through different kinds of financial products and services. The traditional financial products are sovereign loans to finance projects for the Governments, direct and co-financed loans to the Private Sector and intermediated loans directed towards the Private Sector through the approved Financial Intermediaries. These Institutions are assessed by CABEI's Methodology prior to the commencement of lending operations. Currently, CABEI is working on new products which will be channeled through its Regional Offices, and one of these products is the Risk Guarantee Fund.

⁷⁹ See ToR #14 below.

Once the *Partial Risk Guarantee facility for Biodiversity Projects* is designed, which will be a sub-product of CABEI's Guarantee Risk Fund, the Regional Officers will offer FIs this product with other products and will explain their characteristics, conditions and benefits.

Furthermore, once the *Incentive for Financing Biodiversity Projects* is designed, the Regional Business Executives will explain to the FIs the conditions which the projects must fulfill in order that both FI and SMME can access the Biodiversity Rewards.

III. Fulfillment of Goals

CABEI works under a Goal Fulfillment scheme. In the case of CABEI's Business Management Office, goals are directly related to resource allocation and it is reflected in the Annual Operative Plan (Plan Operativo Anual, POA) approved by CABEI's Board of Directors. Thus, CABEI's Regional Offices must fulfill annual allocation goals in the country's portfolio, with its composition approved by CABEI's Board of Directors (certain percentage on Public Sector, Private Sector, SMME Portfolio, etc.)

In general terms, the new units of the Business Management Office located at CABEI's Headquarters are required to develop strategies and design products and services which allow Regional Offices to increase the resource allocation on a specific sector. This translates as providing the client with greater opportunities. In the case of the SMME sector, each Regional Office has to increase the related portfolio in its country, incorporate a specific number of resource channeling institutions and maintain the portfolio quality.

The SMME Unit's goal is to support each Regional Office in fulfilling its country target so that, at the end, the regional aim in the SMME sector can be obtained. For the SMME Unit, the CAMBIO Project becomes an opportunity to offer a new product for the Financial System that serves SMME Sector: *Partial Guarantee Risk Facility for BD Projects* and a new mechanism to finance SMMEs through *Incentive for Financing BD Projects*.

The CAMBIO Project Team will work with annual goals and will be evaluated by the fulfillment of these goals, which can be associated with the AT performance, participating FIs, increasing number of participating SMME, increasing number of BD projects to finance and BD portfolio growth. The project goals could be included on CABEI's general goals through BD portfolio growth.

Title	Project Steering Committee (PSC)		
Terms of reference ID#	4	Budget line	Misc.
Type of contract & ID#	NA	Activity Area reference(s)	Misc.

The **Project Steering Committee (PSC)** will provide overall guidance and support to project implementation activities. CABEI will establish the PSC upon signature of the project document. Participating institutions (see below) will nominate representatives to the PSC in writing during the **Inception Phase**. Each PSC member must be sufficiently senior so that the individual has sufficient authority to make decisions on behalf of the institution or agency that s/he represents. This committee will include representatives from UNDP, UNDP-GEF, CCAD, the governments of each participating country and from relevant NGO and private sector organizations.

The first meeting of the PSC will take place towards the end of the Inception Phase, or approximately six months following project signature. By this time, staff of the **Project Co-ordination Unit (PCU)** will have been recruited, and the first **Annual Workplan** (see below) will have been prepared by them, together with draft **Rules of Procedure** for PSC meetings. **Annual PSC Meetings**, each two days in duration, will continue being held thereafter. Six PSC meetings are planned during the life of the project.

The Project Director (PD), supported by the Project Co-ordinator and other PCU staff, will act as Secretary to the PSC. At least two weeks prior to each PSC meeting (with the exception of the first meeting), the NPD will be responsible to disseminate a written **Annual Report** to all PSC members. This report will detail the activities and achievements of the project during the preceding year and compare these with the goals set out during that year's annual workplan. The Annual Report will highlight both achievements as well as difficulties encountered and will analyze the reasons for success / failure.

The PD will likewise present an Annual Workplan prior to the PSC meeting. This workplan will represent an elaboration and detailing of the activities described in project document to be implemented during the coming year.

In cases where the workplan proposes a deviation from the general course outlined in the project document, it should present clear justification for such changes, as well as reference to further documentation, i.e., Quarterly and Annual Reports, etc., supporting the proposed changes. These practices are designed to ensure that the work undertaken by the project team follows the overall course laid out in the project document, while also allowing for flexibility and adaptation ('adaptive management') to unexpected conditions and changes.

The specific tasks to be achieved during each Annual PSC Meeting include the following:

- to adopt Rules of Procedure (at its first meeting);
- to review and assess the progress of the Project and its components – particularly with respect to its **Logical Framework Matrix (LFM)** and associated **Process and Impact Indicators** – as highlighted in the Annual Report;
- to provide policy guidance and decisions to the PD, PC and the PCU team;
- to review and approve the Annual Workplan (including updated budgets of the Project and its activities) and the preceding year's Annual Report, and;
- to ensure mainstreaming of project activities and outcomes into Government plans, policies and actions.

Although the PSC will have decision-making power as well as advisory functions, it will not have the authority to alter the project goal or outcomes. However, the PSC may alter specific project outputs, activities and/or implementation arrangements, including arrangements for sub-contracts (ensuring due process is followed), in cases where there is clear and consistent evidence against project output indicators (based on progress reports and adaptive management outputs) that the project activities are failing to deliver project outputs, or the sub-contracts are failing to meet their obligations under their Terms of Reference.

In addition to participating in the Annual PSC Meetings, each PSC member will have the following year-round responsibilities with respect to the project:

- to champion the progress of project activities within the PSC member's institution / government department;
- to provide strategic direction on the workplan;
- to support the cross-sectoral approach of the project by creating mechanisms for interaction with NGOs and other stakeholders;
- to continue to seek additional funding to support the outputs and activities of the project beyond the lifespan of GEF funding, and;
- to disseminate lessons learned and encourage replication of best practices among the PSC member's institution/government department and relevant constituents.

Title	UNDP Country Office
Terms of reference ID#	5

Under its agreement with the Global Environment Facility, UNDP (and Executing Agency/ies) provide a core set of services for each UNDP/GEF project. The following ToR describes these services, which are to be carried out in accordance with UNDP's and the respective executing agency's operational policies and procedures. This includes UNDP applying its standard due diligence requirements related to financial, economic, legal, environmental, social, and technical aspects.

PROJECT APPROVAL AND START-UP

- Prepare legal and other documentation for approval by IA approval authority.
- Assist project proponent to establish project management structure in country.
- Assist project management agency to draft TORs and select experts for implementation.
- Facilitate project management agency with project startup workshop.

Outputs:

- ⇒ Project Document for Signature by Country.
- ⇒ Project Initiation Report.

IMPLEMENTATION SUPERVISION/MANAGEMENT OVERSIGHT

Day-to-day implementation support

Recruitment of Consultants (International and National)

- Assist in conducting search for suitable candidates (advertisement, website, rosters)
- Assist in preparing TORs and be involved in interviewing candidates
- Assist in issuing contract (when necessary)
- Authorize salary/consultancy fee/missions
- Supervise consultant's work, review and approve outputs

Sub-Contracts

- Assist in identifying suitable subcontractors (advertisement, website, rosters)
- Assist in preparing/finalizing TORs and evaluating bids
- Assist in issuing contracts (when necessary)
- Supervise sub-contractors' work, ensuring inputs as per contract TORs
- Ensure payments are made accordingly and that milestones are met
- Provide critical review of sub-contractors performance

Project Co-ordination/cross-project learning

- Monthly meetings with project implementing agency to ensure smooth project implementation
- Participate in Steering Committee meeting to ensure smooth project implementation
- Participate in Technical Committee meeting to ensure smooth project implementation
- Keeping clear communications and taking necessary interventions to ensure co-ordination between different co-financiers in implementing and completing project activities
- Facilitate cross-sectoral work of the project by lending UNDP's support to these activities and this goal.
- Encourage and enable cross-project learning among the project and UNDP's other projects;
- Lend UNDP's support to and take part in project round tables and workshops
- Maintain contacts with other environmental and development projects supported by various donors and cultivate cooperative ties with this project.

- Strengthen project's relationships with the private sector by lending UNDP's support, prestige to project efforts in this regard.

Training/Workshop

- Making appropriate arrangements for the logistical and technical support of the training and workshop activities

Awareness

- Disseminate relevant information to host/other countries in the region through UNDP COs
- Share project best practices with other UNDP offices with project interest on energy portfolio
- Share training materials from training workshops for other similar workshops organized by the UNDP CO
- Disseminating information through website created under the project
- Create links between this project and other GEF projects, and linking up national and international scientific communities that are addressing similar issues
- Working with media and journalists to publicize project activities.

Equipment/Office premises:

- Review & approve specifications
- Identify suppliers of goods and services
- Assist in evaluating contract and awarding contract (when necessary)
- Undertake Customs clearance
- Assist with procurement of services (furniture in setting-up office, telephone etc.)
- Authorize budgets for rent and payment.

Project implementation supervision

- Participate in every steering committee meeting
- Mount at least one supervision mission per year, including briefing operational focal points on project progress.
- Provide technical guidance, as necessary, for project implementation.
- Field Visits: Ensuring visits to the project at its site at least once a year; preparing and circulating reports no later than two weeks after the end of the visit.
- Provide technical backstopping when needed and play an ongoing trouble shooting role
- Ensure any project document revisions are done properly and in-line with GEF requirements by consulting UNDP-GEF colleagues.
- Review, edit, respond to project reports
- Conduct policy negotiations when required.

<u>FINANCIAL MANAGEMENT AND ACCOUNTABILITY</u>

- Make direct payments and ensure flow of funds for project activities;
- Pay advances to the Executing Agency and review financial reports.
- Training of staff of implementing agency on financial disbursement and reporting
- Oversee financial monitoring, record keeping, and reporting.
- Make budget revisions in cooperation with Executing Agency.
 - ❖ 1st. revision within two months of the signing of the project document to reflect the actual starting date and to enable the preparation of a realistic plan for the provision of inputs for the first full year.

- ❖ Annual revision approved by 10 June of each year to reflect the final expenditures for the preceding year and to enable the preparation of a realistic plan for the provision of inputs for the current year.
- Ensure annual audits of NEX projects are completed and the audited financial statements together with the audit report reach UNDP headquarters (Office of Audit and Performance Review) no later than 30th April.
- Continue ongoing fundraising efforts for the project's LTFM.

Reporting, Monitoring, Evaluation

Technical Reporting

- Prepare annual project implementation reports for submission to GEFME
- Monitor the implementation of the workplan and timetable
- Ensure progress reports are prepared and submitted timely
- Ensure Annual Programme Report (APR) are prepared and submitted to UNDP CO
- Ensure their annual preparation of APRs & their completion by the due date, two weeks before the TPR to UNDP-GEF.
- Prepare and participate in Project Implementation Reviews (PIR) and ensure their preparation submission by the due date.

<u>MONITORING AND EVALUATION</u>

- Undertake project monitoring/site visits
- Organize TPR meeting, participate and ensure that decisions are taken on important issues.
- Contribute to preparation of TPR reports
- Ensure the development of clear guidelines for assessing project progress and impact, for improving monitoring, and for identifying lessons learned and including them in the following years' workplans
- Undertake mid-term review, including possible project restructuring. Send copy to GEFME
- Prepare and finalize TOR for evaluation (mid-term and final evaluation)
- Make appropriate logistical and technical arrangements for the evaluation team and mission.

Completion

- Prepare Project Completion Report/Terminal Evaluation, and submit the report to GEFME.
- Operational completion activities. Determining when the project is operationally complete and advising all interested parties accordingly.
- Prepare project closing documents
- Ensure projects are financially completed no more than 12 months after operational completion by ensuring the final budget revision is promptly prepared and approved.

Output

- ⇒ Mid-term Review Report
- ⇒ Annual Project Implementation Reports
- ⇒ Independent evaluation reports
- ⇒ Project Completion/Terminal Evaluation Report

Title	Advisory bodies
Terms of reference ID#	6-8

Three advisory bodies will be set up during the inception phase, and detailed terms of reference adopted. These are as follows:

ToR 6 - National Stakeholder Committees which are essentially annual workshops to be held in each country to inform all interested parties in the project progress.

ToR 7 - Peer advisory group, which would consist of IFC, Ecoventures, Verde Ventures, Equator Ventures (UNDP-CI venture), Ecologic. This group would meet for a workshop during project inception and then perhaps after the mid-term evaluation findings. The project team should also coordinate with them on a regular basis during project implementation.

ToR 8 - National Government Policy Task Forces, to be established from in-kind contributions from each country. Each Task Force will nominate a focal point to liaise with Outcome Implementation Group #3 (see below).

B. Terms of Reference / Scope of work for Project Director and PCU Staff

Title	Project Director (PD)
Terms of reference ID#	9

The Project Director will have the following main responsibilities:

- approve project work plans, budget revisions and if necessary project revisions;
- chair the project PSC;
- be responsible for coordination of project activities with other involved governmental and non-governmental organizations
- ensure that national legislation, rules and procedures are fully met in the course of the project implementation;
- approve terms of references, selection of project staff and reports produced by the PCU and the key experts/contractors;
- approve/certify project monitoring reports (APRs), audit reports and evaluation reports;
- facilitate liaison and cooperation with Government authorities in the course of the project implementation;
- liaise with UNDP and project partners as required, on a regular basis, to build an effective partnership for the successful delivery of expected project outcomes, and;
- ensure that there is a clear and unambiguous decision-making process for project implementation so that project activities are planned well in advance and necessary resources are available.

Title	Project Co-ordinator
Terms of reference ID#	10

I. Scope of work

The project co-ordinator will be an international expert contracted by UNDP Honduras. (S)he will have a critical dual role in project implementation. First, (s)he will be responsible for overall co-ordination of project-financed activities. This will include the following specific responsibilities:

1. Ensure smooth implementation of the project in accordance with the project document and UNDP's procedures.
2. Co-ordinate and supervise PCU staff, sub-contractors and consultants. Certify attendance sheets, and oversee the establishment and operation of a project personnel performance assessment scheme.
3. Have overall responsibility for management of the project budget and use of the funds, both for technical assistance and through the financial instruments.
4. Work with project staff members and consultants to help each one utilize a practical and simple method for helping to determine the impact of project activities – of training activities, of workshops, the process of developing new laws and policies.
5. Develop, coordinate, monitor and be responsible to the PSC for implementation of annual project workplans;
6. Ensure consistency among the various program elements and related activities provided or funded from other sources, including CABEI;
7. Ensure the partial risk guarantee facility operates properly;
8. Work with UNDP Honduras to prepare Terms of Reference for consultants and contractors and ensure that specified project tasks are outsourced to suitable consultants and/or organizations
9. Foster and establish links with other related GEF programs and, where appropriate, with other relevant regional programs;
10. Be an ex-officio member of the Project Steering Committee (PSC) and be responsible for the preparation, organization, and follow-up necessary to the effective conduct of PSC business;
11. Submit quarterly reports of relevant project progress and problems to the PSC;
12. Organize round table discussions on project successes and failures, as per the workplan
13. Encourage an atmosphere of adaptive management in the project office, where people focus on meaningful results “on the ground”, rather than simply the spending of funds or reports.
14. Oversee an effective ongoing project monitoring program and development of a process whereby the project assesses best practices as it gains experience.
15. Ensure that the project maintains strategic direction during implementation and that it becomes an active member of a learning network of GEF projects.
16. Sharpen the project’s focus on quality outputs, and emphasize a learning and adaptive approach to project management and implementation.
17. Introduce international best practices by serving as a conduit for ongoing UNDP/GEF best practice input to project implementation, monitoring and evaluation. This will include – working in co-operation with UNDP-GEF’s Regional Co-ordination Unit (RCU) in Panama– the development of linkages between the project and other UNDP/GEF projects implemented in Central America, as well as in other parts of the world.
18. Liaise with UNDP and CABEI to identify, and find solutions to, problems and challenges facing project implementation;
19. Periodically review the progress of project implementation as compared with the defined baseline and with respect to benchmark indicators highlighted in the Logical Framework Matrix (LFM). Where shortcomings are apparent, propose remedial approaches

20. Facilitate a learning and adaptive approach to project management and implementation by asking questions of key project personnel, including: “What are we learning and how are we incorporating it into our project implementation process?” and “Are we meeting our indicators of success?”

In addition to the above co-ordination responsibilities, the Project Co-ordinator will provide technical leadership and inputs within one or more of the project’s thematic areas, i.e., banking, business, biodiversity and policy. The preferred area of expertise for the Project Co-ordinator will be banking, particularly revenue-based lending; however, the project design leaves open the possibility that the best all-around candidate may be most qualified in one of the other key areas instead. Where the selected Project Co-ordinator has sufficient expertise in a relevant field the TORs for the international consultants will be modified to avoid duplication and allow more focused cost-effective international inputs. The relevant ToRs and Outcome matrices provide an idea of what type of support would be expected under each area of expertise, whether from short-term consultants and/or the project co-ordinator.

II. Period and duration

The project co-ordinator position will be filled as soon as possible following the start of the project and will be financed over a period of four years. His/her responsibilities will be assumed by CABEI staff at the end of this period.

III. Qualifications

- ⇒ Bilingual English and Spanish with full working proficiency in each
- ⇒ Detailed knowledge of project design and implementation arrangements and experience;
- ⇒ At least ten years of international technical co-operation experience;
- ⇒ Proven experience in successfully working with adaptive management/monitoring & best practice assessment;
- ⇒ Well developed leadership, inter-personal, communication and negotiating skills, as well as a proven ability to work effectively in groups;
- ⇒ Previous work experience in Latin America;
- ⇒ Post-graduate university education in relevant area, e.g., finance, environmental management, international development
- ⇒ Reliability, initiative, thoroughness and attention to detail.

Title	Banking Specialist
Terms of reference ID#	11

I. Overview

The Banking Specialist will be a regional expert contracted by CABI and financed through project funds. (S)he will work under the direct supervision of the Project Co-ordinator, and in close co-operation with the international expert. (S)he will oversee a substantial set of sub-contracts aimed at enhancing the capacity of the regional Financial Institutions which are part of CABI's network and have been selected and agreed to participate in the project so that they build their capabilities and interest to finance BF businesses. His/her performance will be measured in large part according to whether Outcome 1 target indicators are achieved as per the Logframe Matrix. (S)he will work closely with, and support the missions of, the international banking expert including finalizing ToRs for each mission

II. Responsibilities related to specific project outputs

Output	Regional Banking specialist
1.1 Increased awareness among financial institutions of potential market opportunities for lending to BF-SMMEs, including information on specific bankable projects	<ul style="list-style-type: none"> • Work with the SMME experts to establish working relations with the sector associations (particularly for coffee, forestry and tourism), NGOs and other institutions already active in the BD field in order to start with activities and potential business, which is already there, but has not found the financiers; • Design with the international expert a series of seminars for the FIs to sensitize them to BF opportunities and to help them understand the core aspects of BF business as a financing target; • Organize and carry out the seminars in each participating country; • Undertake specific awareness raising programmes within banking institutions expressing interest in particular emerging market areas. Compile and contract information as necessary. This should be done in coordination with the SMME expert and the TAsPs; • Follow up awareness raising with training programmes to familiarize the bankers with the technical and operational modalities important to help appraise BF project proposals; • Bring together the relevant players in BF business to establish a more permanent dialogue and networking forum.
1.2 A risk guarantee facility established by the project is being used by banks to reduce the risks of lending to BF-SMMEs	<ul style="list-style-type: none"> • Work with the international banking expert and if needed contract a guarantee specialist to finalize modalities and operating procedures for the facility • Finalize contractual arrangements with GEF/UNDP, CABI and the participating banks • Work with UNDP, UNDP GEF and CABI finance officers and senior management to establish the mechanism for managing the funds dedicated for the guarantee facility and then to launch the facility; • Work with the international banking expert to design and undertake a monitoring system of the use of funds disbursed through the guarantee facility • Work with the international banking expert and CABI finance officers and if needed a guarantee specialist to modify and further develop instrument • Determine towards the end of the project the effectiveness of the guarantee modality and whether there is sufficient demand for the facility to continue after project termination and lead the process of ensuring the sustainability of the facility.
1.3 Revenue-based lending approaches have been accepted, and are being used by banks to lend to BF-SMMEs	<ul style="list-style-type: none"> • Work with international banking expert to prepare a training programme for the credit managers and officers in the financial institutions in the region on revenue based lending, project appraisal and the guarantee facility; • Sub-contract trainers as necessary and oversee and participate in the training programme • Select the financial institutions for the training programme • In follow up to the training provide one on one consultations with FIs to sensitize and consult senior management of banks in the guarantee approach • Design a scale up of the training programme to build capacity in as many financial

Output	Regional Banking specialist
	institutions as feasible <ul style="list-style-type: none"> • Work with the international banking expert to develop standard tool-kits of credit officers on project appraisal techniques, focused on sectors with BF-SMME opportunities
1.4 A biodiversity reward facility is helping to expand lending by non-banking institutions to BF micro-enterprises at interest rates that are sufficiently profitable to lenders and affordable to borrowers	<ul style="list-style-type: none"> • Work with the international banking expert and a specialist consultant if necessary to finalize modalities and operating procedures for the facility • Finalize financial management and contractual arrangements with GEF/UNDP and the participating MFIs • Work with CABEI to launch the facility • Work with the international banking expert to design, launch and undertake a monitoring system for the use of the funds modify and further develop instrument
1.5 Tailored financing products developed for standardized loan situations	<ul style="list-style-type: none"> • Work with the international banking expert to design standard project concepts (e.g. for certified small timber plantation investments) and financing structures (e.g. investment cum pre-export financing packages) for major BD friendly product groups and activities; • Work with the international banking expert to develop standard templates and guides to assist both the banks and MFIs to facilitate their project appraisal and assist clients in structuring of BF business financing, and; • Organize on-the-job training, workshops and advisory services related to the above. • Monitor efficiency of the 2 instruments and introduce modifications and alternatives along with implementation and experiences
1.6 Strengthened personnel and organizational resources at CABEI and involved FIs for improved management of BD financing	<ul style="list-style-type: none"> • Design with the biodiversity expert a capacity building biodiversity-related programme for relevant CABEI units in inception phase • Conduct with the biodiversity expert the training of relevant CABEI staff and management in promotion, formulation and management of BD-related technical issues.
1.7 Loan approval tool including biodiversity criteria being used in FIs loan approval procedures	<ul style="list-style-type: none"> • Work with the biodiversity experts to finalize the operational BF investment guidelines for project approval purposes; • Train the banks and MFIs in utilizing BF criteria in loan appraisal. Contract training experts if necessary; • Monitor the efficiency of the guidelines and modify, as required.

III. Period and duration

The Banking Specialist position will be filled as soon as possible following the start of the project and will be financed over a period of five years. His/her responsibilities will be assumed by CABEI staff at the end of this period.

IV. Qualifications

- ⇒ At least ten years of experience, related to banking, bank capacity building and business financing with at least five related to technical co-operation;
- ⇒ Knowledge of project design and implementation arrangements and experience;
- ⇒ Proven experience in successfully working with adaptive management/monitoring & best practice assessment;
- ⇒ Well developed leadership, inter-personal, communication and negotiating skills, as well as a proven ability to work effectively in groups;
- ⇒ Post-graduate university education in relevant area, e.g., finance
- ⇒ Reliability, initiative, thoroughness and attention to detail.
- ⇒ Bilingual English and Spanish with full working proficiency in each

Title	SMME Specialist
Terms of reference ID#	12

I. Overview

The SMME Specialist will be a regional expert contracted by CABEI and financed through project funds. (S)he will work under the direct supervision of the Project Co-ordinator, and in close co-operation with the international expert. (S)he will oversee a substantial set of sub-contracts aimed at enhancing the capacity of SMMEs to expand and/or alter their business practices in ways that benefit biodiversity. His/her performance will be measured in large part according to whether Outcome 2 target indicators are achieved as per the Logframe Matrix. (S)he will work closely with, and support the missions of, the international SMME expert including finalizing ToRs for each mission

II. Responsibilities related to specific project outputs

Output	Regional SMME specialist
2.1: Potential BF-SMMEs who may be in need of BD financing are identified and listed in a database	<ul style="list-style-type: none"> • With international SMME expert, prepare detailed terms of reference and contracting documents for development and maintenance of database and website • Oversee process of identifying, short-listing and selecting • Oversee sub-contract implementation • Ensure that database is available to potential interested parties including project team members, sub-contractors, banks and MFIs
2.2: Awareness created with identified, potential BF-SMMEs regarding green markets and other biodiversity-friendly business opportunities, and of specific borrowing opportunities available for related investments	<ul style="list-style-type: none"> • With international SMME expert, prepare detailed terms of reference and contracting documents for awareness raising activities • Oversee sub-contract implementation, including ensuring that sub-contractors are kept aware of broader project developments • Participate and act as resource person in awareness raising activities, including field-based ones • Work with national industry associations to increase awareness among the associations' members, for example, through broad communication in the associations' newsletters • Seek feedback from users and use other methods to monitor utilization and impact of awareness materials and website.
2.3 Technical capacity of SMMEs with viable ideas for BD-friendly business development is enhanced through a Programa de Asistencia en Capacidades Tecnicas (PACT) technical skills support programme	<ul style="list-style-type: none"> • Prepare detailed terms of reference and contracting documents for PACT • Oversee sub-contract implementation, including ensuring that sub-contractors are kept aware of broader project developments • Co-ordinate with Outcome 1 team to ensure that technical support is directed towards sectors and SMMEs with potential interest in lending facilities
2.4 SMMEs' business planning and management skills developed through a Programa de Asistencia en Capacidades Empresariales (PACE) support programme	<ul style="list-style-type: none"> • Prepare detailed terms of reference and contracting documents for PACT • Oversee sub-contract implementation, including ensuring that sub-contractors are kept aware of broader project developments • Co-ordinate with Outcome 1 team to ensure that technical support is directed towards sectors and SMMEs with potential interest in lending facilities
2.5 Market linkages improve across the supply chain	<ul style="list-style-type: none"> • Prepare detailed terms of reference and contracting documents for sectoral assessments and supply chain analyses • Oversee sub-contract implementation, including ensuring that sub-contractors are kept aware of broader project developments • Co-ordinate project team's review of sectoral assessments, which should include recommendations for follow-up activities • Agree on follow-up activities and integrate within a second sub-contract • Oversee implementation of follow-up sub-contract

Output	Regional SMME specialist
2.6 Market information about BD-friendly products and services is disseminated to SMMEs through a BD-market information clearing house mechanism	<ul style="list-style-type: none"> • Prepare detailed terms of reference and contracting documents for market stimulation efforts • Oversee sub-contract implementation, including ensuring that sub-contractors are kept aware of broader project developments • Develop and disseminate information on experiences and best practices on BD friendly production and services through a biodiversity market clearing house mechanism • Co-ordinate with website development efforts (see Output 2.2)
2.7 Increased market demand for BF products and services	<ul style="list-style-type: none"> • Review market assessments (see 2.5 above) to determine market stimulation strategies • Prepare detailed terms of reference and contracting documents for market stimulation efforts • Oversee sub-contract implementation, including ensuring that sub-contractors are kept aware of broader project developments •
2.8 Develop partnerships between potential BF-SMMEs and research community for development and marketing of new BF products	<ul style="list-style-type: none"> • Review IADB-supported project with INBio to determine the most effective manner in which the experience could be scaled up to involve additional SMMEs and products. Consider possibility of involving other biodiversity research institutes around the region. • Prepare detailed ToR and contracting documents for partnership development • Oversee sub-contract implementation, including ensuring that sub-contractors are kept aware of broader project developments

IV. Period and duration

The SMME Expert position will be filled as soon as possible following the start of the project and will be financed over a period of five years. His/her responsibilities will be assumed by CABEI staff at the end of this period.

IV. Qualifications

- ⇒ Bilingual English and Spanish with full working proficiency in each
- ⇒ Detailed knowledge of project design and implementation arrangements and experience;
- ⇒ At least ten years of technical co-operation experience, at least five of which related to SMME development;
- ⇒ Proven experience in successfully working with adaptive management/monitoring & best practice assessment;
- ⇒ Well developed leadership, inter-personal, communication and negotiating skills, as well as a proven ability to work effectively in groups;
- ⇒ Post-graduate university education in relevant area, e.g., finance, environmental management, international development
- ⇒ Reliability, initiative, thoroughness and attention to detail.

Title	Biodiversity Specialist
Terms of reference ID#	13

I. Overview

The Biodiversity Specialist will be a regional expert contracted by CABEI and financed through project funds. (S)he will work under the direct supervision of the Project Co-ordinator. (S)he will work closely with, and support the missions of, the international SMME expert, including finalizing ToRs for each mission

II. Responsibilities related to specific project outputs

The responsibilities of the biodiversity expert will range across the four project outcomes. (S)he is expected to participate in each of the Outcome Implementation Groups (OIGs) and to thereby ensure that biodiversity considerations remain central to lending, SMME support and policy-related efforts of the project. (S) he will have responsibility, in co-operation with the CABEI Environment Unit, for the following areas:

- investment guidelines for biodiversity conservation: updating, review, implementation, monitoring compliance;
- biodiversity impact monitoring, both at project portfolio and individual loan level;
- building in-house capacity in CABIE to continue these functions after the project terminates, including building strong partnerships between CABEI and environmental and conservation NGOs and institutions in the region.

III. Period and duration

The Biodiversity Specialist position will be filled as soon as possible following the start of the project and will be financed over a period of five years. His/her responsibilities will be assumed by CABEI's Environment Unit at the end of this period.

IV. Qualifications

- ⇒ Bilingual English and Spanish with full working proficiency in each
- ⇒ Detailed knowledge of project design and implementation arrangements and experience;
- ⇒ At least ten years of technical co-operation experience, at least five of which related to biodiversity conservation;
- ⇒ Proven experience in successfully working with adaptive management/monitoring & best practice assessment;
- ⇒ Well developed leadership, inter-personal, communication and negotiating skills, as well as a proven ability to work effectively in groups;
- ⇒ Post-graduate university education in relevant area, e.g., conservation biology, ecology, etc.
- ⇒ Reliability, initiative, thoroughness and attention to detail.

Title	Policy Specialist
Terms of reference ID#	14

I. Overview

Public policies affecting BF economic behavior by consumers and the business community play an important role in influencing markets and the profitability of BF-SMMEs in various sectors. Many of the countries do not yet have support measures for SMMEs and at the same time apply incentive structures for mainstream productive sectors, which marginalize green markets.

The Policy Specialist will therefore work with Ministries of Environment, Ministries of Industry and Commerce, Ministries of Finance and sectoral line Ministries to identify influential policies and where politically possible to improve the policy framework for BF-SMMEs. (S)he will work particularly closely with CCAD; both the work at government level and with the sectoral components will be facilitated by CCAD, which has strong network connections with the governments and the sectoral programmes.⁸⁰

The Policy Specialist will be a regional expert contracted by CABEI and financed through project funds. (S)he will work under the direct supervision of the Project Co-ordinator. (S)he will be responsible for project efforts aimed at creating an enabling environment to encourage BF SMMEs. The policy specialist will work closely with CCAD, the UNDP country offices and the established national government policy task forces. The policy specialist will supervise the national policy reviews and work closely with the banking and SME experts to ensure linkages from SME and FI needs with policy reform. Where necessary the specialist will hire short term experts with regard to specific sectoral or financial proposed reforms. His/her performance will be measured in large part according to whether Outcome 3 target indicators are achieved as per the Logframe Matrix.

II. Responsibilities related to specific project outputs

Output	Regional Policy Specialist
3.1: Policy, legislative and regulatory review and recommendations formulated	<ul style="list-style-type: none"> • Prepare detailed terms of reference and contracting documents for five national-level assessments of national policies, legislation and regulations which influence BF-SMMEs. • Oversee sub-contract implementation, including ensuring that sub-contractors are kept aware of broader project developments
3.2: Recommendations formulated and support provided for creating financial incentives	<ul style="list-style-type: none"> • Review global best practice on how to stimulate SME development and specifically SME development within sub-sectors with potential to generate biodiversity benefits. The review will then compare global practices to the political and economic realities in each of the five countries and propose tailored recommendations for each country. The recommendations will aim to be complementary to not create perverse incentives among the countries.
3.3: Support for national adoption and implementation of recommended policy, legislative,	<ul style="list-style-type: none"> • In co-operation with CCAD, will work closely with the relevant national Ministries to support the adoption of the recommendations generated under 3.1 and 3.2 so that they pass into law and are implemented and their impact is felt on the ground by SMMEs. A national strategy will be developed to phase support during the project for policy reform based upon agreed priorities. • Organize extensive consultation processes within the countries. This will include both (i) country and regional level forums to discuss major policy issues and raise awareness amongst Ministries of the

⁸⁰ It is expected that a sub-contract agreement will be negotiated with CCAD during the PIP to support implementation of portions of Outcome 3.

Output	Regional Policy Specialist
regulatory and incentive reforms	value in reform and (ii) the establishment of multi-stakeholder working groups in each country to work on specific options and opportunities within sub-sectors

III. Period and duration

The Policy Specialist position will be filled as soon as possible following the start of the project and will be financed over a period of five years. It is expected that his/her responsibilities will be assumed by CCAD staff by the end of this period.

IV. Qualifications

- ⇒ Bilingual English and Spanish with full working proficiency in each
- ⇒ Detailed knowledge of project design and implementation arrangements and experience;
- ⇒ At least ten years of work experience, at least five of which related to environmental and biodiversity policy formulation / analysis;
- ⇒ Well developed leadership, inter-personal, communication and negotiating skills, as well as a proven ability to work effectively in groups;
- ⇒ Post-graduate university education in relevant area
- ⇒ Reliability, initiative, thoroughness and attention to detail.
- ⇒ Experience in policy development preferably for environmental management and ideally also with regard to SMMEs.

⇒ *C. Terms of Reference / Scope of work for Outcome Implementation Groups*

Title	Outcome Implementation Groups
Terms of reference ID#	15

In ToR #1 above, the “Project Team” is broken down ‘vertically’ into two main components: (i) the Project Co-ordination Unit (PCU) and (ii) the CABEI Implementation Team (CIT). However, in practice, project implementation, including collaboration between these Teams, will take place ‘horizontally’ at the level of project outputs and outcomes. The three main sectoral outcomes, it will be recalled, are in the areas of: (i) banking, (ii) SMME development and (iii) policy, respectively. Thus, it is useful to group the various human resource inputs into the project, i.e., PCU and CABEI staff, international and national consultants, and Technical Assistance Service Providers (TASPs), into three **Outcome Implementation Groups (OIGs)**. OIGs #2 and #3 will be facilitated by full-time regional experts (see ToRs 11-13 above) and supported technically by a part-time international expert.⁸¹ OIG#1 will be facilitated by a CABEI staff member and also supported by a part-time international expert. The Project Director and Project Co-ordinator will participate in the OIGs as appropriate.⁸² It is expected that organizing the work in this way will help project participants to remain focused on achieving the agreed outputs and outcomes.

While each OIG will allocate responsibility amongst its members for the achievement of specific activities and outputs, nevertheless, the OIG as a unit will be jointly responsible for achieving the overall outcome in question. It is hoped that this combination of individual and group responsibility will achieve the optimal results.

ToRs have been developed for the regional experts who will be co-ordinating Outcomes 2 and 3 (see ToRs 11 and 13 above). Following the recruitment of each regional expert, and the identification of the CABEI staff member facilitating OIG#1, OIGs will meet to agree on the precise and detailed allocation of responsibilities amongst team members, with an initial emphasis on Year 1 of project implementation. The exercise can be repeated annually as a key element of an adaptive management approach. These responsibilities will then be reflected in agreed ToRs for individual team members, including short-term experts, sub-contractors, etc. This process may also lead to revisions in the regional experts’ ToRs (11 and 13 above) and will be done at the level of individual outputs in an iterative process. OIG meetings can coincide with, but need not exclusively take place during, visits of the relevant international experts.

Finally, it should be noted that the third PCU regional specialist, on biodiversity, will participate in all 3 OIGs as a way of mainstreaming biodiversity considerations within each of them.

Overviews of each OIG are presented below.

OIG #1 – The Banking Team

OIG#1 - The Banking Team will have operational responsibility for ensuring the delivery of Outcome 1, “CABEI and its financial intermediaries are providing loan financing to SMMEs for development of biodiversity-friendly business activities.”

⁸¹ Outcome 4, involving learning, evaluation and adaptive management, will bring together the entire project team under the leadership of the Project Co-ordinator. However, OIGs will be responsible for developing and keeping track of process and impact indicators related to their respective outcomes.

⁸² The Project Co-ordinator will have a particularly important role within the OIG related to his/her primary area of expertise.

OIG#1 will be organized as follows:

- a regional expert on banking and finance, who will provide full time co-ordination and technical support, mainly to outcome 1 and mainly on building capacity of the participating financial institutions to finance BF businesses, but also to provide inputs elsewhere in the project as appropriate;
- an international banking expert with wide-ranging international experience in lending to SMMEs, who will provide periodic inputs aimed at ensuring the work in this area is achieving its desired results and reflects best international practices in this area;
- a regional and an international biodiversity expert, whose part-time support will be injected into Outcome #1 as a tangible example of mainstreaming;
- CABEI staff, notably staff of the SME and Credit Units, who will be the main avenues for internalizing the results of Outcome 1 within CABEI, one of whom will facilitate this OIG.

OIG#1 will share responsibility for achieving the Outputs described in Table 1 below. Specific individual responsibilities during Year 1 will be confirmed and associated tasks allocated during the international expert's first mission,⁸³ which will take place during the Inception Phase.

OIG #2 – The SMME Development Team

OIG#2 - The SMME Development Team – will have operational responsibility for ensuring the delivery of Outcome 2, **“SMMEs working in a broad range of economic sectors are able to develop biodiversity-friendly business ventures and thereby access new markets for their products and services.”** The strategy for this outcome is to ensure that potential BF-SMMEs will have enhanced access to loans, can use those same loans effectively and in ways that create tangible and long-term biodiversity benefits. This is essential, *inter alia*, to ensure that BF-SMMEs can acquire and maintain a solid reputation among the FIs as suitable borrowers.

OIG#2 will be organized as follows:

- a regional expert on SMME development, who will provide full time co-ordination and technical support, mainly to outcome 2 but anywhere else as appropriate;
- an international expert with wide-ranging international experience in SMME development, who will provide periodic inputs aimed at ensuring the work in this area is achieving its desired results and reflects best international practices in this area;
- CABEI staff, notably staff of the SME Unit, who will be the main avenue for internalizing the results of Outcome 2 within CABEI;
- a regional and an international biodiversity expert, whose part-time support will be injected into each of the project's outcomes as a tangible example of mainstreaming;
- a select group of Technical Assistance Service Providers (TASPs), who will undertake much of the field work needed to reach individual SMMEs and provide them with necessary technical and organizational support.

OIG#2 will share responsibility for achieving the Outputs described in Table 2 below. Specific individual responsibilities during Year 1 will be confirmed and associated tasks allocated following recruitment of the regional expert and during the international expert's first mission,⁸⁴ which will take place during the

⁸³ See ToR # _ for first mission of the international expert on banking..

⁸⁴ See ToR # _ for first mission of the international expert on SMME development.

Inception Phase. A key responsibility for the regional expert and the international expert during the Inception Phase will be to finalize the Terms of Reference for sub-contracts to be awarded under Outcome 2, to organize requests for proposals and, subsequently, to review related bids.

Outcome 3 – The Policy Team

OIG#3 – The Policy Team will have operational responsibility for ensuring the delivery of Outcome 3, **“Enabling environments have been modified to create greater incentives for developing biodiversity-friendly sub-sectors of national economies.”** The strategy for this outcome involves working with Ministries of Environment, Ministries of Industry and Commerce, Ministries of Finance and sectoral line Ministries to identify influential policies and, where politically possible, to improve the policy framework for BF-SMMEs. The outcome will also build on a number of donor supported sectoral programmes currently underway and organizations established in Central America and will have a strong coordination component.

The **Policy Team** will be organized as follows:

- a regional PCU-based expert on policy, who will provide full time co-ordination and technical support, including liaison with CCAD;
- CCAD, which has strong network connections with the governments and the sectoral programmes. CCAD – being a key institution for intergovernmental policy coordination in Central America – has formulated a series of region-wide strategies for environmental management, including a Strategic Business Plan for the Mesoamerican Biological Corridor. These strategies will serve to guide the project intervention so that it is in harmony with stated objectives in the region, and at the same time contribute so that formulated strategies actively promote BF-SMME investments;
- an international expert with wide-ranging international experience in environmental policy and mainstreaming, who will provide periodic inputs aimed at ensuring the work in this area is achieving its desired results and reflects best international practices in this area;
- a regional and an international biodiversity expert, whose part-time support will be injected into each of the project’s outcomes as a tangible example of mainstreaming.
- Inter-Ministerial Policy Task Forces set up in each country to support the adoption of project’s policy recommendations

The Outcome 3 Team will share responsibility for achieving the Outputs described in the Table below. Specific individual responsibilities during Year 1 will be confirmed and associated tasks allocated following recruitment of the regional expert and during the international expert’s first mission,⁸⁵ which will take place during the Inception Phase. A key responsibility for the regional expert and the international expert during the Inception Phase will be to finalize the Terms of Reference for sub-contracts to be awarded under Outcome 3, to organize requests for proposals and, subsequently, to review related bids.

Tables 1-3 below provide a starting point for each of the OIGs for allocating specific tasks and responsibilities amongst themselves and for developing the remaining ToRs for OIG members.⁸⁶

⁸⁵ See ToR # _ for first mission of the international expert on SMME development.

⁸⁶ ToRs 11-13 show how the relevant columns from the OIG tables can be translated into ToRs.

Table 1: Tentative breakdown of responsibilities amongst OIG# 1 team members according to tasks

Output	Activities and responsibilities	International banking expert	Regional banking expert	CABEI staff
1.1 Increased awareness among financial institutions of potential market opportunities for lending to BF-SMMEs, including information on specific bankable projects	<ul style="list-style-type: none"> • establish working relations with the sector associations (particularly for coffee, forestry and tourism), NGOs and other institutions already active in the BD field in order to start with activities and potential business, which is already there, but has not found the financiers; • organize a series of seminars for the FIs to sensitize them to BF opportunities and to help them understand the core aspects of BF business as a financing target; • undertake specific awareness raising programmes within banking institutions expressing interest in particular emerging market areas; • follow up awareness raising with training programmes to familiarize the bankers with the technical and operational modalities important to help appraise BF project proposals; • bring together the relevant players in BF business to establish a more permanent dialogue and networking forum. 	<ul style="list-style-type: none"> • oversee • lead during Inception Phase • support • lead during Inception/participate • lead during Inception 	<ul style="list-style-type: none"> • lead • participate/lead • lead • participate/lead • participate/lead 	<ul style="list-style-type: none"> • support • participate/support • participate • support • participate
1.2 A risk guarantee facility established by the project is being used by banks to reduce the risks of lending to BF-SMMEs	<ul style="list-style-type: none"> • finalize modalities and operating procedures for the facility • finalize contractual arrangements with GEF/UNDP and the participating banks • agree and establish the mechanism for managing the funds dedicated for 	<ul style="list-style-type: none"> • co-lead, propose structure • advise • co-lead 	<ul style="list-style-type: none"> • co-lead, process within CABEI • lead with CABEI departments concerned • co-lead 	

Output	Activities and responsibilities	International banking expert	Regional banking expert	CABEI staff
	<p>the guarantee facility</p> <ul style="list-style-type: none"> • launch facility • design and undertake monitoring of the use of the guarantees • modify and further develop instrument • determine towards the end of the project the effectiveness of the guarantee modality and whether there is sufficient demand for the facility to continue after project termination and lead the process of ensuring the sustainability of the facility. 	<ul style="list-style-type: none"> • co-lead • lead at Inception, advise • lead/advise • lead/advise 	<ul style="list-style-type: none"> • co-lead/lead • co-lead • co-lead • co-lead 	<ul style="list-style-type: none"> • support • support
1.3 Revenue-based lending approaches have been accepted, and are being used by banks to lend to BF-SMMEs	<ul style="list-style-type: none"> • provide capacity building to credit managers and officers of FIs on revenue based lending, project appraisal and the guarantee facility; • sensitize and consult senior management of banks in the guarantee approach • develop standard tool-kits of credit officers on project appraisal techniques, focused on sectors with BF-SMME opportunities 	<ul style="list-style-type: none"> • design training program content and lead during Inception and early phases • lead • design and lead 	<ul style="list-style-type: none"> • participate/lead • participate/lead • co-lead 	<ul style="list-style-type: none"> • advise on BD issues
1.4 A biodiversity reward facility is helping to expand lending by non-banking institutions to BF micro-enterprises at interest rates that are sufficiently profitable to lenders and affordable to borrowers	<ul style="list-style-type: none"> • finalize modalities and operating procedures for the facility • finalize financial management and contractual arrangements with GEF/UNDP and the participating MFIs • launch facility • design, launch and undertake a monitoring system for the use of the funds • modify and further develop instrument 	<ul style="list-style-type: none"> • co-lead, propose structure • advise • co-lead • lead at Inception, advise • lead/advise 	<ul style="list-style-type: none"> • co-lead, process within CABEI • lead with CABEI departments concerned • co-lead • participate/lead • co-lead 	
1.5 Tailored financing products developed for	<ul style="list-style-type: none"> • design standard project concepts (e.g. for certified small timber plantation investments) and financing structures 	<ul style="list-style-type: none"> • design/lead 	<ul style="list-style-type: none"> • participate 	

Output	Activities and responsibilities	International banking expert	Regional banking expert	CABEI staff
standardized loan situations	<p>(e.g. investment cum pre-export financing packages) for major BD friendly product groups and activities;</p> <ul style="list-style-type: none"> • develop standard templates and guides to assist both the banks and MFIs to facilitate their project appraisal and assist clients in structuring of BF business financing, and; • organize on-the-job training, workshops and advisory services related to the above. • monitor efficiency of the 2 instruments and introduce modifications and alternatives along with implementation and experiences 	<ul style="list-style-type: none"> • lead • design/lead at Inception • lead 	<ul style="list-style-type: none"> • participate/co-lead • co-lead • co-lead, process amendments 	
1.6 Strengthened personnel and organizational resources at CABEI and involved FIs for improved management of BD financing	<ul style="list-style-type: none"> • design a capacity building biodiversity-related programme for relevant CABEI units in inception phase • conduct training of relevant CABEI staff and management in promotion, formulation and management of BD-related technical issues. 	<ul style="list-style-type: none"> • lead • design/lead 	<ul style="list-style-type: none"> • co-lead, participate • participate/co-lead 	<ul style="list-style-type: none"> • participate • participate
1.7 Loan approval tool including biodiversity criteria being used in FIs loan approval procedures	<ul style="list-style-type: none"> • Finalize the operational BF investment guidelines for project approval purposes • Train the banks and MFIs in utilizing BF criteria in loan appraisal • monitor efficiency of the guidelines and modify, if required 	<ul style="list-style-type: none"> • advise • advise • advise 	<ul style="list-style-type: none"> • co-lead • co-lead • co-lead 	<ul style="list-style-type: none"> • co-lead • co-lead • co-lead

Table 2: Tentative breakdown of responsibilities amongst OIG# 2 team members

Output	Regional SMME expert	International SMME expert	Regional and international biodiversity experts	CABEI staff	Sub-contractors / TASP
General	The regional expert will work under the direct supervision of the Project Co-ordinator, and in close co-operation with the international expert. (S)he will oversee a substantial set of sub-contracts aimed at enhancing the capacity of SMMEs to expand and/or alter their business practices in ways that benefit biodiversity. His/her performance will be measured in large part according to whether Outcome 2 target indicators are achieved as per the Logframe Matrix. (S)he will work closely with, and support the missions of, the international SMME expert including finalizing ToRs for each mission	The international expert will undertake (annual / Semi-annual) missions to the region to provide technical support to the Outcome 2 Team.	The biodiversity experts will in general ensure that biodiversity criteria are taken into account by the SMME Development Team	The SMME Unit will lead CABEI's participation in this outcome, with Regional Offices also participating	Unlike other outcomes, Outcome 2 relies heavily on sub-contractors. Some outputs, such as 2.3, will rely on multiple sub-contractors with specific sectoral and/or country-based expertise.
2.1: Potential BF-SMMEs who may be in need of BD financing are identified and listed in a database	<ul style="list-style-type: none"> • With international SMME expert, prepare detailed terms of reference and contracting documents for development and maintenance of database and website • Oversee process of identifying, short-listing and selecting • Oversee sub-contract implementation • Ensure that database is available to potential interested parties including project team members, sub-contractors, banks and MFIs 	<ul style="list-style-type: none"> • With regional SMME expert, prepare detailed terms of reference and contracting documents for development and maintenance of database and website. • Review and comment on sub-contract implementation during annual missions (Years 1 & 2) 	<ul style="list-style-type: none"> • Ensure that the process gives priority to identification of SMMEs within geographic areas of biodiversity importance and/or with strong potential to generate biodiversity benefits. Biodiversity criteria should be incorporated into contracting documents as well as implementation of sub-contract. 	<ul style="list-style-type: none"> • Support liaison with banks and other FIs which have direct contact with SMMEs 	<ul style="list-style-type: none"> • Develop a database and pipeline of potential BF-SMMEs borrowers and bankable projects with potential for: a) certification (coffee, timber, cacao, bananas, eco-tourism, etc.), b) other producers with potential for enhancing BD management in their operations, and c) environmentally damaging producers with potential for cleaner production. Strategy should include making contact with relevant Associations, in order to tap into their membership records for inclusion in the database. • <u>Tentative Output 2.1 TASP budget - Database development and dissemination:\$50,000</u>
2.2: Awareness created with	<ul style="list-style-type: none"> • With international SMME expert, prepare detailed terms 	<ul style="list-style-type: none"> • With regional SMME expert, prepare detailed 	<ul style="list-style-type: none"> • Ensure that the process gives priority to 	<ul style="list-style-type: none"> • Regional office staff participate and 	<ul style="list-style-type: none"> • Organize workshops and seminars to inform businesses how to secure

Output	Regional SMME expert	International SMME expert	Regional and international biodiversity experts	CABEI staff	Sub-contractors / TASPs
identified, potential BF-SMMEs regarding green markets and other biodiversity-friendly business opportunities, and of specific borrowing opportunities available for related investments	<p>of reference and contracting documents for awareness raising activities</p> <ul style="list-style-type: none"> Oversee sub-contract implementation, including ensuring that sub-contractors are kept aware of broader project developments Participate and act as resource person in awareness raising activities, including field-based ones Work with national industry associations to increase awareness among the associations' members, for example, through broad communication in the associations' newsletters Seek feedback from users and use other methods to monitor utilization and impact of awareness materials and website. 	<p>terms of reference and contracting documents for awareness raising activities</p> <ul style="list-style-type: none"> Participate and act as resource person in awareness raising activities, such as seminars, workshops, etc. Review and comment on sub-contract implementation during annual missions (Years 1-4) 	<p>raising awareness among SMMEs within geographic areas of biodiversity importance and/or with strong potential to generate biodiversity benefits.</p>	<p>act as resource people at awareness raising activities</p>	<p>technical support and loan financing</p> <ul style="list-style-type: none"> Establish and maintain a website to: (i) disseminate information about project activities, (ii) link users with specialized sources of information across the internet, and (iii) test methods for bringing together borrowers and lenders through web-based search and market-making approaches (viz. www.lendingtree.com) Organize targeted campaigns, e.g., sector-based awareness-raising seminars, initially targeting SMMEs that are known to be interested in pursuing biodiversity-friendly business ventures Both workshops and awareness raising seminars need to have two components, targeting (i) microenterprises, and (ii) small and medium enterprises. <u>Tentative Output 2.2 TASP budget</u> - Awareness-raising activities and materials: \$140,000
2.3 Technical capacity of SMMEs with viable ideas for BD-friendly business development is enhanced through a Programa de Asistencia en Capacidades Tecnicas (PACT) technical skills support programme	<ul style="list-style-type: none"> Prepare detailed terms of reference and contracting documents for PACT Oversee sub-contract implementation, including ensuring that sub-contractors are kept aware of broader project developments Co-ordinate with Outcome 1 team to ensure that technical support is directed towards sectors and SMMEs with potential interest in lending facilities 	<ul style="list-style-type: none"> With regional SMME expert, prepare detailed terms of reference and contracting documents for the PACT. Review and comment on sub-contract implementation during annual missions (Years 2-6) 	<ul style="list-style-type: none"> Co-ordinate with SMME expert to ensure that technical support is directed towards SMMEs that have strong potential to generate biodiversity benefits. This will involve refining biodiversity criteria and making them sector specific. 	<ul style="list-style-type: none"> Co-ordinate with SMME expert to ensure that technical support is directed towards SMMEs that have strong potential to utilize the borrowing facilities created under the project. 	<ul style="list-style-type: none"> Implement a Programa de Asistencia en Capacidades Tecnicas (PACT) to support SMMEs as they seek to develop the business practices needed to access project loan facilities and achieve biodiversity benefits Size of contracts should be geared to expected demand for lending from individual sectors <u>Tentative Outcome 2.3 TASP budget</u> – PACT: \$750,000
2.4 SMMEs' business planning	<ul style="list-style-type: none"> Prepare detailed terms of reference and contracting 	<ul style="list-style-type: none"> With regional SMME expert, prepare detailed 	<ul style="list-style-type: none"> Co-ordinate with SMME expert to ensure 	<ul style="list-style-type: none"> Co-ordinate with SMME expert to 	<ul style="list-style-type: none"> Design and implement a Programa de Asistencia en Capacidades

Output	Regional SMME expert	International SMME expert	Regional and international biodiversity experts	CABEI staff	Sub-contractors / TASPs
and management skills developed through a Programa de Asistencia en Capacidades Empresariales (PACE) support programme	documents for PACT <ul style="list-style-type: none"> Oversee sub-contract implementation, including ensuring that sub-contractors are kept aware of broader project developments Co-ordinate with Outcome 1 team to ensure that technical support is directed towards sectors and SMMEs with potential interest in lending facilities 	terms of reference and contracting documents for the PACE. <ul style="list-style-type: none"> Review and comment on sub-contract implementation during annual missions (Years 1 - 4) 	that technical support is directed towards SMMEs that have strong potential to generate biodiversity benefits. This will involve refining biodiversity criteria and making them sector specific.	ensure that technical support is directed towards SMMEs that have strong potential to utilize the borrowing facilities created under the project.	Empresariales (PACE) to support SMMEs as they seek to develop the business practices needed to access project loan facilities and achieve biodiversity benefits. <ul style="list-style-type: none"> This will likely involve several TASPs, working within their specific areas of technical expertise <u>Tentative Outcome 2.4 TASP budget – PACE: \$575,000</u>
2.5 Market linkages improve across the supply chain	<ul style="list-style-type: none"> Prepare detailed terms of reference and contracting documents for sectoral assessments and supply chain analyses Oversee sub-contract implementation, including ensuring that sub-contractors are kept aware of broader project developments Co-ordinate project team's review of sectoral assessments, which should include recommendations for follow-up activities Agree on follow-up activities and integrate within a second sub-contract Oversee implementation of follow-up sub-contract 	<ul style="list-style-type: none"> With regional SMME expert, prepare detailed terms of reference and contracting documents for sectoral assessments. Review and comment on sub-contract implementation during annual missions (Years 1 - 4) Provide technical support to project team's review of recommendations for follow-up activities 	<ul style="list-style-type: none"> Analyse potential biodiversity benefits related to various possible interventions and ensure that these help to prioritize same. 	<ul style="list-style-type: none"> Ensure that technical support is directed towards SMMEs that have strong potential to utilize the borrowing facilities created under the project. 	<ul style="list-style-type: none"> Prepare sectoral market assessments and supply chain analysis in each participating country except Guatemala Identify BF-business opportunities for SMMEs Identify opportunities and constraints across various supply chains to determine where and how interventions may be required to stimulate BF-SMME development Identify non-conventional sectors and biodiversity opportunities beyond ecotourism and shade coffee, e.g., rural manufacturing Design and implement activities aimed at intermediaries, transporters, wholesale and retail purchasers and exporters Tentative Output 2.5 TASP budget (at least 2 subcontracts) - \$305,000
2.6 Market information about BD-friendly products and services is	<ul style="list-style-type: none"> Prepare detailed terms of reference and contracting documents for market stimulation efforts Oversee sub-contract 	<ul style="list-style-type: none"> With regional SMME expert, prepare detailed terms of reference and contracting documents for market stimulation efforts 			<ul style="list-style-type: none"> Subscriptions or other means of access to updated market information - \$60,000 Limited and carefully circumscribed market research efforts - \$90,000

Output	Regional SMME expert	International SMME expert	Regional and international biodiversity experts	CABEI staff	Sub-contractors / TASP's
disseminated to SMMEs through a BD-market information clearing house mechanism	<p>implementation, including ensuring that sub-contractors are kept aware of broader project developments</p> <ul style="list-style-type: none"> • Develop and disseminate information on experiences and best practices on BD friendly production and services through a biodiversity market clearing house mechanism • Co-ordinate with website development efforts (see Output 2.2) 	<ul style="list-style-type: none"> • Review and comment on sub-contract implementation during annual missions (Years 1 - 4) • Ensure that international best practices are reflected in information clearing house mechanism 			
2.7 Increased market demand for BF products and services	<ul style="list-style-type: none"> • Review market assessments (see 2.5 above) to determine market stimulation strategies • Prepare detailed terms of reference and contracting documents for market stimulation efforts • Oversee sub-contract implementation, including ensuring that sub-contractors are kept aware of broader project developments • Develop marketing partnerships • Link market development to the policy and fiscal reform efforts 	<ul style="list-style-type: none"> • With regional SMME expert, prepare detailed terms of reference and contracting documents for market stimulation efforts • Review and comment on sub-contract implementation during annual missions (Years 1 - 4) 			<ul style="list-style-type: none"> • Develop approaches to stimulating consumer demand within countries and sectors highlighted in market assessments, potentially including, <i>inter alia</i>, targeted consumer marketing campaigns in urban areas and partnership development with regional wholesalers and retail outlets • Tentative Output 2.7 TASP budget - \$220,000, although this could become much higher if strong market development opportunities arise.
2.8 Develop partnerships between potential BF-SMMEs and research community for development and marketing of new BF products	<ul style="list-style-type: none"> • Review IADB-supported project with INBio to determine the most effective manner in which the experience could be scaled up to involve additional SMMEs and products. Consider possibility of involving other biodiversity research institutes around the region. • 	<ul style="list-style-type: none"> • With regional SMME expert, prepare detailed terms of reference and contracting documents for partnership development. • Review and comment on sub-contract implementation during annual missions (Years 1 - 4) 	Review and comment on potential biodiversity impact of alternative products		<ul style="list-style-type: none"> •

Table 3: Breakdown of responsibilities amongst OIG# 3 team members

Output	Regional Policy expert	International Policy expert	CCAD	Regional and international biodiversity experts	Sub-contractors / TASP
General	<p>The regional expert will work under the direct supervision of the Project Co-ordinator, and in close co-operation with the international expert. (S)he will be responsible for project effort aimed at creating an enabling environment to encourage BF SMMEs. The policy specialist will work closely with CCAD, the UNDP country offices and the established national government policy task forces. The policy specialist will supervise the national policy reviews and work closely with the banking and SME experts to ensure linkages from SME and FI needs with policy reform. The specialist should have experience in policy development preferably for environmental management and ideally also with regard to SMMEs. His/her performance will be measured in large part according to whether Outcome 3 target indicators are achieved as per the Logframe Matrix.</p>	<p>The international expert will undertake (annual / Semi-annual) missions to the region to provide technical support to the Outcome 2 Team</p>	<p>Both the work at government level and with the sectoral components will be facilitated by CCAD, which has strong network connections with the governments and the sectoral programmes. CCAD will ensure that region-wide strategies for environmental management – including a Strategic Business Plan for the Mesoamerican Biological Corridor –guide the project intervention. It will help to ensure that the project remains in line with stated objectives in the region, and, conversely, that regional environmental strategies actively promote BF-SMME investment as they are being implemented. Finally, CCAD will likely be sub-contracted under Output 3.3.</p>	<p>The biodiversity experts will in general ensure that biodiversity criteria are taken into account by the SMME Development Team (see details below)</p>	
3.1: Policy, legislative and regulatory review and recommendations formulated	<ul style="list-style-type: none"> • Prepare detailed terms of reference and contracting documents for five national-level assessments of national policies, legislation and regulations which influence BF-SMMEs. • Oversee sub-contract implementation, including ensuring that sub-contractors are kept aware of broader project developments • Oversee dissemination of results, 	<ul style="list-style-type: none"> • Comment on national-level assessments • Provide technical support to regional-level workshop on findings of national assessments, including preparation of a regional-level 	<ul style="list-style-type: none"> • Comment on national-level assessments • Contribute to organization of regional workshop 	<ul style="list-style-type: none"> • Review ToRs and draft reports to ensure that key sectors and issues are adequately addressed in biodiversity terms 	<ul style="list-style-type: none"> • Tentative Output 3.1 TASP budget - \$100,000

Output	Regional Policy expert	International Policy expert	CCAD	Regional and international biodiversity experts	Sub-contractors / TASP's
	including eventual publication	overview report			
3.2: Recommendations formulated and support provided for creating financial incentives	<ul style="list-style-type: none"> • Prepare detailed terms of reference and contracting documents for five national-level assessments of national policies, legislation and regulations which influence BF-SMMEs. (<u>May</u> combine with 3.1 sub-contracts • Oversee sub-contract implementation, including ensuring that sub-contractors are kept aware of broader project developments • Oversee dissemination of results, including eventual publication 	<ul style="list-style-type: none"> • Present global best practice on how to stimulate SME development and specifically SME development within sub-sectors with potential to generate biodiversity benefits. • Comment on national-level assessments • Provide technical support to regional-level workshop on findings of national assessments, including preparation of a regional-level overview report 	<ul style="list-style-type: none"> • Comment on national-level assessments • Contribute to organization of regional workshop (<u>May</u> combine with 3.1 workshop) 	<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • Compare global practices to the political and economic realities in each of the five countries and propose tailored recommendations for each country. The recommendations will aim to be complementary to not create perverse incentives among the countries. • Tentative Output 3.1 TASP budget - \$75,000
3.3: Support for national adoption and implementation of recommended policy, legislative, regulatory and incentive reforms	<ul style="list-style-type: none"> • In co-operation with CCAD, will work closely with the relevant national Ministries to support the adoption of the recommendations generated under 3.1 and 3.2 so that they pass into law and are implemented and their impact is felt on the ground by SMMEs. A national strategy will be developed to phase support during the project for policy reform based upon agreed priorities. • Organize extensive consultation processes within the countries. This will include both (i) country and regional level forums to discuss major policy issues and 	<ul style="list-style-type: none"> • Provide targeted high-level advisory support, as needed / requested 	* Expected to play a lead role in this output through a sub-contract to be negotiated.	<ul style="list-style-type: none"> • Support efforts to defined potential biodiversity benefits associated with alternative policy scenarios, including environmental economic costs and benefits. 	<ul style="list-style-type: none"> • Where necessary the specialist will hire short term national and/or international experts to support development of specific sectoral or financial reforms. • Note CCAD expected role as sub-contractor • Tentative 3.2 TASP budget - \$375,000

Output	Regional Policy expert	International Policy expert	CCAD	Regional and international biodiversity experts	Sub-contractors / TASPs
	<p>raise awareness amongst Ministries of the value in reform and (ii) the establishment of multi-stakeholder working groups in each country to work on specific options and opportunities within sub-sectors</p>				

PART IV: Stakeholder Involvement Plan

A. Summary of stakeholder consultations held during project preparation

A.1 Initial scoping mission, April 2004

This mission, which consisted of two UNDP-GEF staff, met with a number of officials at CABEI to discuss options for moving beyond the earlier FOCADES proposal. These discussions helped to generate the basic concept underlying the present proposal.

A.2 Project workshop, New York September 2004

The project preparation and design was assisted by a workshop convened by UNDP on September 28, 2004 in New York. Key institutions, including CABEI, IFC, EcoLogic Finance, EcoEnterprise Fund and CCAD, were in attendance. The workshop prepared the foundations for collaboration and networking, and clearly revealed that not enough financing or government and business level support were available to potential biodiversity-friendly SMMEs. The workshop included sharing of best practices by IFC, EcoLogic Finance and EcoEnterprise Fund in BF-related financing. The workshop was a key part of the consultation process and demonstrated the project's excellent relationships with these players and commitment to work with them on these issues in the region. The project team has built a particularly strong relationship with IFC in light of their past experience and the opportunities for synergy.

A.3 Regional consultations, November - December 2004

Country-level discussions began with CABEI, and included its Senior Management and all relevant departments, including Branch offices in El Salvador, Guatemala and Costa Rica.

The project development team met with a representative selection of banks as well as non-financial institutions. The targets were selected by CABEI as their typical intermediary clients and as those most exposed to SMME financing and also having potential to act as financial intermediaries for BF schemes. The FIs interviewed were:

Costa Rica

- Three Costa Rican CABEI FIs provided responses to a questionnaire concerning the proposed financing incentives

El Salvador:

- Banco Cuscatlan (commercial bank with regional branches in CA)
- Banco Procredit (the only micro-finance institution in CA with banking license)
- Caja de Credito Santiago Noncualco (cooperative micro-finance credit union)
- FONADES (public environmental and micro-finance fund)

Guatemala:

- Fundacion Genesis Empresarial (wholesale and retail micro-finance institutions)
- PROARCA/SIGMA (regional clean production financing fund)
- PROARCA/ PRODOMA (regional environmental micro-finance fund)

Honduras:

- Banco Mercantil BAMER (commercial bank)
- Banco FICOHSA (commercial bank)
- Fundacion Covelo (wholesale and retail micro-finance intermediary)

Other key organizations contacted in the region included:

Costa Rica

- UNDP Costa Rica
- Rainforest Alliance
- CATIE
- INCAE
- GEF Small Grants Programme

Honduras

- UNDP Honduras
- Ministry of Environment

El Salvador

- UNDP El Salvador

Nicaragua

- UNDP Nicaragua (phone and e-mail consultation only), which was responsible to share information regarding project development with the Nicaraguan Government

Finally, it is worth noting that many of the above organizations that were met with in the region have years of direct experience working with SMMEs. Knowledge about the latter could therefore be gathered most effectively by consultations with these institutions all of whom are quite active at the grassroots level.

B. Planned stakeholder involvement in full project

1. The project's success will require close relationships and networking with the various relevant stakeholders and players. It aims to build on existing structures and good practices, especially in the financing field, rather than to establish new and heavy structures. The driving principles are to maintain transparency, best practices, compliance, control and accountability. This would strengthen the sustainability of the introduced activities and instruments. The roles of the various stakeholders are outlined below.

1. CABEI

2. CABEI will be the key organization involved in generating biodiversity benefits through its commercial financing to eligible projects and SMME users. It will be both the executing agency for the GEF contribution and the main co-financier, and as such has been integral to the design and development of this project. The two GEF-sponsored financing incentive instruments (risk guarantee and BD reward) will be utilized by CABEI to make the terms of its specific SMME financing facilities more attractive to the FIs. This, in turn, will stimulate the latter to actively look for and finance BF businesses and investments with their existing and new clientele.

3. A financial mechanism will be established under CABEL. CABEL has decided to establish a separate Risk Guarantee Fund/Facility. The various facilities, such as CAMBio and the GEF Renewable Energy Guarantee Facility, will be incorporated in the Fund as dedicated windows. Talks are underway also with other similar instruments/windows to be established under this Fund, supported by donors. CABEL will be responsible for the management of the CAMBio funds and will report on their use to the Project Steering Committee. Lending to the FIs will follow the general criteria established under the SMME facilities. The guarantee and reward instruments will be attached to the terms, as soon as the sub-projects fulfill the BD criteria. The Guarantee Facility would start to provide cover to projects on 1:1 basis (i.e. maximum of two times size of loans can be given, the most prudent approach to exposure to credit risk by CABEL). In cases where CABEL carries out a risk analysis, the coverage ratio can increase to 1:10 (i.e. generate lending around 20 times the guarantee amount). Increases in the ratio will also follow along with the accrual of experiences during project implementation, subject to Steering Committee guidance and decision. Streamlined criteria and a degree of decentralization will be given to the FIs in small project financing with regard to the BD Reward Facility, but the reward will only be granted once the required positive BD compliance impact has been verified, on portfolio or project basis (The reward can be approved at loan approval stage once eligibility criteria are met. The reduction in the loan principal will only be granted, normally at repayment phase, when sufficient evidence has been provided on positive BD impact.). CABEL will also be the host and day-to-day co-ordinating organization, with oversight from UNDP Honduras, for the technical assistance activities provided under the project, and especially those directed toward the FIs.

4. The key collaborating unit will be the SME Unit (both at headquarters, as well as the focal points at the Regional Offices). The Environment Unit will be consulted in matters relating to BD, and in common policy directions, as the unit is also responsible for the GEF/UNDP Renewable Energy Project implementation within CABEL. CABEL will manage the overall monitoring of the financing program, will oversee the progress made by the FIs, and will take corrective measures when necessary, with support from the project team. It is worth noting that the flow of financing will continue to be an integral part of CABEL's regular activities. The BF components, however, specifically the project's contribution target, will gradually be added to CABEL's responsibilities. CABEL will be an essential part of the Project Steering Committee (PSC). CABEL staff will also benefit from capacity building related to promotion, appraisal and monitoring of BD related projects. For more detail on implementation arrangements, please refer to Part IV of this document.

2. *Financial Intermediaries*

5. CABEL's network of intermediaries (FIs) already make use of the CABEL SMME financing facilities within the framework of their overall credit ceiling with CABEL. The financing incentive instruments, designed to soften the terms of CABEL lending and subsequently of FI on-lending to SMMEs, will be made available to qualifying and viable BF investments and businesses through the FIs. The FIs are the direct contact to potential BF clients, and therefore the role of FIs in this project is crucial. They will be the vital link in making the investment finance happen. The proposed instruments have already been discussed initially with many of them, and in general are accepted and considered beneficial. The FIs will be in a key position to "feel the market" as the project takes off, and will be able to obtain feed-back in relation to the suitability of the financing incentives as well as the relevance of the TA provided to their SMME clients. This will provide the essential inputs for any adjustments needed on the instruments, in order to enable BF financing to materialize. The FIs are expected to guide their clients in designing appropriate BD orientation in the projects and also lead them to the project TA providers for support in business planning. As the FI's normally do limited marketing and proactive project identification, the TA provided through partnerships with NGOs and other active players in that field will help to inject suitable BF project pipeline to the participating banks. The FI's will be represented in the PSC.

6. The FIs will also benefit directly from the project's TA. When deemed necessary, the commercial banks will be subject to intensive on-the-job training by the project team and local TA providers. Training will focus on revenue-based lending techniques, project appraisal, and innovative alternative structured financing instruments and solutions. In addition, they will be acquainted with BD business, its promotion, appraisal and monitoring tools, e.g. environmental score cards. The non-banking MFIs will also receive capacity building on this last topic, adjusted to the specific needs of their micro-enterprise clientele. Some MFIs may also need TA in project appraisal techniques, although most of them already make use of this technique. The project will also help the FIs to establish networks with BD-promoting institutions to boost their BF project identification abilities.

3. *CCAD*

7. CCAD will be among the project's core strategic alliances, as it is in a strong position to provide the project with networks and liaisons for environmental legislation and policy related issues, due to the fact that it already plays a pivotal role in the regional efforts in harmonization of the promotion of BD approaches by the regional Governments. As the key player in activities around the Mesoamerican BD Corridor, CCAD would be spearheading its efforts in the BD arena for the benefit of the project. In addition to its advisory and co-ordinating role, CCAD will act as one of the main sub-contractors to the project (via UNDP). It will use its technical staff and will also contract BD policy specialists from the region to help to achieve the project outputs (Tool 3) explained above. As a member of the PSC, CCAD will also be able to bring feed-back to Governments from the business and financial communities on the actual BD business environment, and the obstacles that exist with regard to implementation of BD policies and incentives. Much of the work will be concentrated on helping Ministries of Environment to develop practical incentives, as well as improve co-operation among them, the line ministries and the Ministries of Finance. CCAD will also be able to bring to common use best practices from the countries within the region and beyond.

4. *National Ministries of Environment, Finance and Productive Sectors*

The project will work closely with the national government in each of the five countries. National Government Policy Task Forces will be established for this purpose. In addition, focal point representatives of these Task Forces will participate in various project activities, particularly those taking place under Outcome 3.

5. *Sector Associations, Chambers of Industry and Commerce*

8. The sector and industry associations and chambers are the key channels to their members, which are potential BD clients. As banks do very limited promotional work in specific fields, such as BD, these associations will take on an important role in project promotion and identification. They will be motivated and mobilized by the project through national seminars and other types of awareness creation to become strong proponents of BF approach in business, whenever applicable. The dialogue will also provide feed-back on the project activities, priorities and instruments, and will help focus them properly.

6. *SMMEs*

9. The client SMMEs are the agents for change in behavior in favor of BF businesses. Therefore, they are key beneficiaries of the project. Ultimately, they will either lead the project to success, or in the worst case scenario, they will continue to make business decisions without any regard to the positive incentives that favor BF approaches. All potential SMME clients should be given a chance to propose BF businesses for financing through CABI FIs. Their role in providing feed-back to the FIs, CABI

and the project is important from the very start. As flexibility has been considered by earlier similar projects essential in the design of financing incentives, the clients are able to trigger action by CABI to adjust the instruments to respond to the key bottlenecks and requirements. BF financing can be extended to the smallest economic entities in the region. The MFIs of the CABI network can provide loans as small as US\$ 25 to their clients. Thus, the project will be able to reach out to grass-root level businesses, creating an opportunity to introduce BF activities to all levels of the private sector.

7. *Technical Assistance Service Providers*

The project will be dealing with three types of TA providers:

(i) *Banking and revenue based financing specialist organization:*

Project financing practices are not yet common in CA. Therefore, the project will contract an experienced foreign institution, preferably a commercial bank, to engage in the bank TA assignment. Some known TA-providing banks also have world-wide experience in SMME financing. Therefore, the impact of this will be strengthened by helping the banks share the approaches and practices of other commercial banks, as well as facilitate the integration of new financing approaches and instruments into the proper bank structure. Such a twinning approach would be directed to the banks selected for the pilot phase. Local/regional qualified financial TA providers will be selected early on in project implementation, and will be trained by the foreign specialist along with the advisory services. In the later stages of project implementation, the local TA providers will be able to gradually take over the tasks and will thus strengthen the sustainability of the project. The specialist will work as a core team member.

(ii) *BD specialist organizations*

BD technical support is important, as such activities are still taking place more at pilot stages. Exposure to potential BF activities has to be provided at all levels: micro-, small- and medium businesses, MFI's, commercial banks, and CABI. There are active and capable institutions already operating in CA in this field. Rain Forest Alliance, a US based and sponsored NGO, is among the most experienced ones, with tangible project level experience and contacts in all countries of the region. The project will contract one or several such organizations to provide such services. If required, such tasks can be further sub-contracted on a country and/or sector basis. It is preferred that one main contractor be selected to facilitate overall project management.

(iii) *Institutions and consultants providing business planning and management support*

Such expertise is widely available in the region through NGO's, business schools and consulting firms. Services with good experience in the SMME sector include CATIE, Swiss Contact and related institutions. The project will screen the available expertise in more detail at Inception and will contract one main contractor, as in the case of the BD TA provider, to save costs and facilitate project management.

8. *Related International and National Biodiversity and Environmental Financing Facilities*

10. As presented in the Situation Analysis, a number of initiatives and programs are being implemented or launched in BD and closely related fields. The most relevant ones belong to the IFC Environmental Business Finance Program, EcoLogic Finance NGO program, EcoEnterprise Fund, and PROARCA/SIGMA Clean Production Program. All of these promote and finance BF business or provide similar new financing instruments to environmental businesses, act as a close liaison, exchange experiences, and share promotional tasks among CA clients as well as with the whole value chain up to the buyers in CA and abroad. The existence of complementary financing instruments and similar

interests will also enable co-financing with some of them as well as the structuring of more tailored financing packages for different types of clients and financing needs.

11. The New York workshop (see A.2 above) prepared the foundations for collaboration and networking, and clearly revealed that not enough financing nor government and business level support are available. There appears an opportunity to join hands with the other players, and the division of labor should be very feasible. CAMBIO can bring the good piloting work done by smaller financiers (like EcoLogic Finance, EcoEnterprise Fund) in helping leverage larger volumes of financing through the CABEI FI network. In addition medium-term lending enabled through the instrument would complement the mainly shorter term working capital and pre-export financing by EcoLogic finance and the equity financing provided by EcoEnterprise Fund. Collaboration with IFC is natural, and will gain the long experience IFC has in the field. In particular, Guatemala, where IFC is currently carrying out a market analysis to focus the BF financing offers co-financing opportunities for CABEI banks, and also for IFC to collaborate with CABEI in the other 4 countries IFC will not be actively seeking for investment opportunities.

12. Close cooperation with the specialized financing institutions has been included in the plans. The format for co-operation, whether formal agreements and /or program/sector/project level work will be agreed during the inception period. It is however rather clear that the proposed program would not duplicate efforts already taken place or planned, but will provide channels for adequate volumes of financing, to improve the business climate as well as contributing to improved project development and business planning activities.

9. IFC/GEF Environmental Business Finance Program (EBFP)

13. The IFC/GEF Environmental Business Finance Program (EBPF) is a pioneering effort, based on almost 10 years of environmental and BD financing experience and best practices in developing countries, including the Central American region. The EBFP aims to create a sustainable market for SME activities and project that target any of the GEF focal areas. It has many areas of common interest to the UNDP project due to its focus on the financial sector and SMEs. One of the main differences in approach is that IFC works directly with commercial banks (retail level), whereas the project works through a wholesale institution (CABEI).

14. The EBFP is global but one of the selected target countries for pilot activities of EBPF is within the Central American region, in Guatemala. The project has started implementation there and the market assessment is currently underway. The UNDP project will establish close working relations with IFC and the program, in order to co-ordinate efforts in the biodiversity focal area, build on each other's achievements and work, to join hands in co-financing and technical assistance arrangements, and in avoiding duplication of efforts. In addition, IFC's potential participation in the work of the Project Steering Committee will be considered. The proposed collaboration includes e.g.:

- co-ordinated efforts in Guatemala and the region on policy related work, promotion of BD concept and business
- joint promotional activities and project identification with local stakeholders in Guatemala
- attraction of IFC co-financing in the region, not only in Guatemala
- co-operation in developing financing packages and new financing instruments suited for BF business
- co-operation on market and supply chain assessments
- strengthening of the financial institutions sector in Guatemala and seeking IFC's support in other CA countries
- replication of successful IFC approaches and vice versa.

Part V: Barriers / Output Matrices

Outcome 1 - Financing

Barrier	Outputs
B-1.1 Financial institutions do not realize green markets' business potential	O-1.1 Increased awareness generated among financial institutions of potential market opportunities for lending to BF-SMMEs, including awareness concerning specific bankable projects
B-1.2 Banks are often unwilling to lend to SMMEs that do not have access to collateral	O-1.2 A risk guarantee facility established by the project is being used by banks to reduce the risks of lending to BF-SMMEs and is thereby contributing to increased lending
B-1.3 Banks do client-based and not revenue-based lending	O-1.3 Revenue-based lending approaches have been accepted, and are being used by banks to lend to BF-SMMEs
B-1.4 Funding by non-banking institutions is too expensive	O-1.4 A biodiversity reward facility is helping to expand lending by non-banking institutions to BF micro-enterprises at interest rates that are sufficiently profitable for lenders and affordable to borrowers
B-1.5 No tailored financing products or incentives exist for the sector	O-1.5 Tailored financing products have been developed and are being used in standardized loan situations
B-1.6 Limited environmentally knowledgeable personnel and organizational resources at CABEI	O-1.6 Strengthened personnel and organizational resources at CABEI and relevant FIs leads to improved management of BD financing
B-1.7 Financial institutions have no criteria for considering biodiversity when assessing possible loans to BF-SMMEs	O-1.7 Relevant appraisal tools including biodiversity criteria being used in FIs loan approval procedures

Outcome 2 - Business

Barrier	Outputs
B-2.1 Information about actual or potential BF-SMME is widely scattered	O-2.1 Potential BF-SMMEs who could be in need of BD financing are identified and listed in a database
B-2.2 Limited awareness of green market and other biodiversity-friendly business opportunities	O-2.2 Awareness created amongst identified, potential BF-SMMEs regarding green markets and other biodiversity-friendly business opportunities, and of the newly available lending opportunities for related investment
B-2.3 Limited technical skills needed to transform productive and service sector practices	2.3: Technical capacity of SMMEs with viable ideas for BD-friendly business development is enhanced through a PACT (Programa de Asistencia en Capacidades Técnicas), or technical skills support programme
B-2.4 Inadequate business management skills compared to the challenges of succeeding in green markets production and/or marketing	2.4 SMME's business planning and management skills developed through an established PACE (Programa de Asistencia en Capacidades Empresariales) Support Programme
B-2.5 Difficulty establishing market chains, particularly in the case of export markets	2.5: Market linkages improved across the supply chain
B-2.6 SMMEs do not have access to market information and analysis needed to make strategic production and lending decisions, respectively	2.6 Market information about BD-friendly products and services is disseminated to SMMEs through a BD market information clearing house mechanism (BD-CHM)
B-2.7 Uncertain and in some cases inadequate demand and limited price premia	2.7: Increased market demand for select BF-products and services
B-2.8 Limited access to applied research useful to BF-SMME business development	2.8 Partnerships established between potential BF-SMMEs and research community for development and marketing of new BF products

Outcome 3 – Enabling Environment

Barrier	Outputs
B-3.1 Existing incentives promote large-scale activity (industrial production, tourism) which may not be eco-friendly:	3.1: Policy, legislative and regulatory review and reform recommendations formulated
B-3.2 Sectoral development policies fail to take into account BD business development opportunities	3.2 Recommendations formulated and support provided for introduction of fiscal incentives
B-3.3 Policies emphasize ‘command-and-control’ solutions and fail to recognize the potential of incentive-based approaches.	3.3 Support provided for national adoption and implementation of recommended policy, legislative, regulatory and incentive reforms

Part VI: Biodiversity Financing Incentives Facility

The program intends not only to help create positive enabling environment for biodiversity friendly SMME investments and business, but also to help CABEL to channel financing to such investments through its network of financial intermediaries (FI) in the region. In order to overcome the barriers to such financing both for the SME sector (lack of available collateral) and the micro-enterprise sector (high price of loans), two types of incentives are proposed to be financed under the program:

1. **PARTIAL LOAN RISK GUARANTEE FACILITY**
2. **BIODIVERSITY LOAN REWARD FACILITY.**

Details of the facilities will be worked out during the Project Inception Phase (PIP), but a number of CABEL's FIs have already indicated their interest in participating in the scheme. Also, an indicative shortlist of both commercial banks and micro-finance institutions has been compiled by CABEL. The proposed financing instruments have been successfully used elsewhere in emerging markets and have proven useful for financing environmental investments, especially for SMMEs. Local circumstances and special requirements will, however, require flexibility from the financing tools. Therefore, adjustments in the conditions will be required, when first experiences have been gathered. It may also be necessary to develop more sophisticated banking instruments to cater for the need and to fill the gaps in the present supply of financing in CA. The PSC will monitor the efficiency of the instruments and if necessary, decide upon introduction of modified or new financing instrument into the project.

1. **PARTIAL LOAN RISK GUARANTEE FACILITY (RGF)**

This financing instrument would be introduced to enable financing to SMEs and to business not being able to present strong collateral to obtain loans from the commercial financiers, including environment and renewable energy projects. It requires an initial injection of grant funds to help the banks to cover part of their credit risk in circumstances where fully commercial financing terms cannot be met. They, in turn, will be able to accept a second class collateral (e.g. pledge of movable assets, related business guarantees etc.) when combined with the analysis of the project cash flow and viability, as against the traditional approach of them requiring a first class collateral (e.g. mortgage of fixed assets covering 140-150% of the loan amount). RGF can be summarized as follows:

- **Indicative budget:** US\$ 2.8 million of a revolving facility deposited with CABEL. To be incorporated in the proposed new umbrella CABEL Guarantee Fund, but will be maintained as a separate CAMBIO window.
- **Targets:** Small and Medium Enterprises willing to invest in biodiversity friendly business ventures and presenting viable and bankable projects qualifying under the financial and BD criteria set under the program.
- **Financiers:**

- Commercial banks and formal banking institutions belonging to the CABEI network (i.e. approved intermediaries). Selected banks of the most active financiers in this field will be invited to participate. The ones willing to become more active in the environmental and especially BD lending, committing to finance BF business and accept lesser collateral against the guarantee, and ready to introduce revenue-based lending techniques in their lending approach with the help from the project.
- CABEI in case of medium-sized projects, where it is in the position to finance them directly. This is expected to be an exception to the rule.
- **Product:** The facility will provide up to 50% risk guarantee on biodiversity friendly individual loans or portfolio of smaller loans⁸⁷. Guarantee will be tailored to the nature of each project and can vary between 20-50% based on analysis of a combination of the following criteria (Transparent and exact set of criteria will to be decided upon at Inception by PSC):
 - project size (larger coverage to smaller projects, e.g. 50% for loans less than US\$ 50,000; 20-30% for loans over US\$ 100,000)
 - availability of collateral and requirements by the banks (e.g. fixed assets mortgage: 0-20%; pledge on fixed or movable assets 20-40%; mainly project cash flow 50%)
 - BD impact (high 50%, medium 30-40%, low 20%).
- **Guarantee Coverage:** The prudent assumption starts from the level where risk exposure ratio by CABEI would be from 1:1 for loans, especially when the intermediaries carry out the appraisal of the proposed projects, and 1:5 when done by CABEI. This means that the original guarantee fund can leverage from US\$ 11 million (all 1:1 ratio) to US\$ 56million (all 1:5 ratio) of lending by the banks from the original available amount. The funds can be reallocated to new projects after the first loans have been repaid, thus increasing the total leveraged financing. The above figures assume that 2 rounds of loans can be provided during the project life-time. The ratio can also be increased as experiences are gathered through implementation, and as decided by the PSC. This, however, has to follow prudent banking principles.
- **Loan terms:**
 - The project has to fulfil pre-set criteria regarding positive impact on biodiversity.
 - Loan amounts will vary from USD 5,000-50,000 for small projects and USD 50,000-500,000 for medium-sized projects
 - Purposes and maturities: working capital up to 2 years, cost of equipment, infrastructure and engineering up to 8-12 years (Maximum maturity depends on the funding source used at CABEI. Subsidized facilities at CABEI may extend the maturities up to 15 years)

⁸⁷ As sizes of loans and participating banks vary, it may be more cost-effective for CABEI to provide a portfolio guarantee. This is a fundamental business decision, first to be considered by CABEI and subsequently approved by UNDP and PSC during early the early inception phase.

- Interest rate: CABEI interest plus margin (will reflect both guarantee and project risk). Varies according to the source of funding at CABEI.
- Security: for remaining 50% based on the strength of project cash flow (and/or available collateral, e.g. pledge on fixed or movable assets). It is expected as a qualifying criterion that the FI's will have to accept less than full collateral to qualify under the facility, e.g., loans requiring mortgage on fixed assets at 150% of loan amount cannot qualify, unless they will have exceptionally high positive BD impact. Towards the end of the project, only loans with inferior collateral (cash flow, pledge) can qualify, as banks become accustomed to assuming project risk.

When required and deemed necessary, the Guarantee will be accompanied by grant technical assistance for the Financial Intermediary in appraisal techniques for revenue-based lending and assessment of project risk.

CABEI will manage administer the funds in a dedicated Guarantee Fund. Operational details will be adjusted to existing CABEI structure and practices, and will be defined at Inception. The Guarantee Agreement model, already in use by the USAID Clean Production Program in the region, can be used as a basis. CABEI legal staff and UNDP legal staff will formulate a text suitable for the needs of CAMBio and to the legal practices of CABEI and UNDP. Agreements are needed between GEF/UNDP and CABEI, as well as between CABEI and the participating banks.

The RGF is a revolving fund, which is expected to suffice for up to 10 rounds of loans before being depleted, given that bad loan rates cannot exceed 10% of the loan portfolio (normally at max. 5% level with CABEI funding). The Fund, which is part of a new CABEI permanent financing facility, can prove useful beyond the duration of this project. In order to maximize its BF impact and creation of viable business on a sustainable fashion, it is highly advisable to make available the funds to CABEI also beyond the completion of CAMBio. At the end of the project there will be a review of the RGF and if proven effective and there is evidence of continued demand and appropriate governance structures can be agreed upon for the continuation of the Fund then UNDP will consider allowing remaining RGF funds to remain to be managed by CABEI with suitable monitoring systems in place.

First experiences on the implementation of partial risk guarantees have already been obtained recently by the USAID backed SIGMA Clean Production Program in the region. As clients in most cases have access to fixed assets as collateral, the FI's still have been able to obtain full collateral, even in the presence of 50% risk guarantee (in BD related business, this may not become an issue in absence of fixed assets). CAMBio will be ensuring that the FI's will either lend to those SME's with limited access to fixed assets as collateral (most often the case in BD related business), or will have to reflect the guarantee in pricing, if full collateral is available. This will be strictly enforced towards the end of the project.

It is envisaged that a comprehensive review should take place after 2 years of operation of the project, in order to assess the efficiency of the financing instruments as well as the BD impact.

Necessary adjustments should be then made. More program banks can be introduced to enable dedicated TA (especially those which have been active and proposing projects for the facility, even if outside the pilot group). The PSC should also be considering smaller adjustments on semi-annual basis, and when need arises.

Approval Process

1. Initial proposals and business plans are being discussed by client with FI and CABEI Regional Offices' CAMBio Focal Points. Counselling on BD requirements and loan terms will take place between the RO and the client.
2. The eligibility on BD aspect will be based on the Investment Guidelines and the inherent lender verification system (see Annex 3) including a *Positive List* of activities and investments, and a *Negative List* of harmful and non-eligible activities will rule out projects with negative (and neutral) BD impacts. CABEI and the FIs will be provided with Guidelines and training at Inception to this extent.
3. The project risk analysis will be carried out by the FI. CABEI RO will provide technical support if required. If cash flow analysis does not belong to standard practices at any given FI, technical assistance will be provided by the project.
4. Proposals submitted to RO through FI. Adjustments if necessary
5. Final proposal sent to CABEI PCU. Initial review, feedback and adjustments, if required. BD expert to verify for the Credit Committee that project fulfils eligibility criteria. Banking expert to verify the need for guarantee (additionality). To be submitted to the next Credit Committee meeting (sits once a week). President can approve loans up to US\$ 1 million. 2 weeks' turnaround to be guaranteed by CABEI HQ;
6. Approval through RO and the FI. If no umbrella Guarantee Agreement there yet, has to be signed between CABEI and FI before formal approval.
7. FI concludes loan agreement with client, together with guarantee agreement and the necessary collateral arrangements.

Implementation

1. Reporting will be incorporated within the CABEI regular process, including quarterly review of the portfolio. BD project portfolio will include review of BD compliance (to be prepared at Inception by BD expert). If BD criteria are not complied with, the Guarantee will be discontinued (part of the Loan/Guarantee Agreement). BD expert together with CABEI counterparts prepares quarterly BD monitoring report;
2. Guarantee can be called by FI if loan principal and/or interest is overdue more than 90 days (standard practice), or any other acceptable standard practice in use by CABEI at the particular moment. PSC and CABEI senior management have to approve the basis. Regular banking default practices will be imposed. As the FIs will retain 50% risk, it is expected that major efforts will be made by them to avoid the default and to collect the maximum amount in the adverse case;

3. CABEI will charge the Facility correspondingly when Guarantee triggers. Decision will be made by Credit Committee, together with recommendations by banking expert/team and BD expert/team. The GEF contribution will be regarded as one-time grant at that moment, unless overdue payment can be collected.
4. Individual guarantee expires when loan has been fully serviced, and released guarantee commitment can be committed to new business.
5. BD financing targets will be defined for each CABEI Regional Office within the general targets for SMME lending in consultation with the PCU.
6. PCU will monitor the BD lending development based on the quarterly reporting by FI's and RO's, and will take corrective action when deemed appropriate. Quarterly BD monitoring reports will also be prepared.
7. PSC will monitor the overall development and risk exposure, and will decide on any corrective action on the policy, criteria and practices, when necessary.

2. **BIODIVERSITY REWARD FACILITY (BRF)**

- **Indicative budget**

The Facility of US\$ 0.7 million is a grant deposited in trust by GEF/UNDP with CABEI.

- **Targets**

The beneficiaries will be small and micro-enterprises willing to invest into biodiversity friendly business and require loan from a micro-finance institution.

- **Financiers**

Non-banking microfinance institutions (intermediaries approved by CABEI). MFI's with banking license are also eligible, given that they fulfil the other eligibility criteria. A core group of qualified MFI's has already been drafted by CABEI, and will be formally approved during the Inception phase.

- **Product**

Once a MFI loan has been verified as beneficial to BD and fulfils the criteria, the project/activity can be eligible to receive a discount on the loan amount, ranging from 10 to 20% of the loan amount. The reward will be approved on a group of proposed separate projects at a frequent interval by CABEI, and will be administered as a portfolio to each MFI. The reward, a non-reimbursable grant, will reduce correspondingly the repayment of the loan principal once the BD commitment of the activity has been verified, and will affect the first repayment of MFI's loan principal. This reward will then be paid to the MFI from the CABEI facility. The reward will be shared by the MFI and client, in order to provide the best possible incentive, and to help reduce the loan pricing. (The exact terms will be defined at Inception and will be approved by PSC).

- **MFI Loan terms**

- Sizes: standard sizes, micro: USD 50-1,000; small USD 1,000 – 50,000
- Purposes and maturities: working capital 2 months – 1 year, investment 1-2 years
- Interest rates: CABEI plus margin (reflecting eventual reward shared among FI and client)
- Security: standard MFI practices, including group guarantees, fiduciary etc.

- **Administrative arrangements**

- An Umbrella Conditional Grant Agreement will be signed during the Inception Phase between UNDP and CABEI and similar ones with CABEI and the participating non-banking institutions.
- The Grant Agreement will define the benefit-sharing arrangement between the MFI and the client. The MFI has to confirm that at least 50% of the grant will be directly reflected in the loan pricing. (the exact terms will be defined at Inception). The GA will be defined as an Umbrella Agreement, together with a ceiling amount for BF project loans.;
- Due to the small average loan size, streamlined approval procedures, and a portfolio approach between CABEI and the MFI's would be necessary.
- Facility may be accompanied by technical assistance to FI on project appraisal, if required. TA will be provided to clients on biodiversity technical as well as in business and financial planning.
- Legal format and details have to be incorporated within the CABEI standard legal requirements and practices, acceptable to GEF/UNDP.

Approval Process

1. Proposal or financing discussions will be held among client and MFI. Review of BD criteria and necessary adjustments will be made by the MFI according to guidelines. Credit Committee/Sr. CABEI management can additionally assign grant TA funds to SMME clients in case of need to improve business plans and financial projections/analysis.
2. Loan appraisal will be carried out by MFI of project in terms of business (cash flow etc.) and BD eligibility (same positive and negative lists and Bio-Score apply). TA can be extended to MFI both in BD and project appraisal on grant/reimbursable basis. Modalities will be defined at Inception.
3. MFI can approve eligible loans up to US\$ 5,000 (Sanctioned by Umbrella Grant Agreement, reviewed on quarterly basis, and reward subject to be revoked at that stage). For larger BD loans, clearance or no-objection will be obtained from CABEI Credit Committee.
4. Loan agreement together with Conditional Grant Agreement will be concluded between MFI and the client. Inclusion of Reward clause and benefit sharing will be approved by CABEI RO on no-objection basis.
5. MFI's will have to provide quarterly reporting of approved and pipeline BD projects. BD expert/team will monitor the progress and propose amendments to PCU and PSC.
6. Will be disbursed at the final repayment of the loan principal, and/or once the BD impact has been confirmed

Implementation

1. The MFI will be reporting on quarterly basis to CABEI within the regular monitoring process. A separate CAMBio section is included.
2. Approvals are partly decentralised, but disbursements are subject to formal approval of project and terms by CABEI Credit Committee and PSC.

3. PSC will hold a veto power to disapprove projects
4. BD reporting follows the Bio-Score framework (or: General BD Investment Guidelines and detailed criteria and steps defined at the Inception Phase)
5. The MFI can be disallowed from the program according to the regular banking criteria in use by CABI and also if it deliberately misuses the BD opportunities.
6. The comprehensive review of the instrument takes place after two years from start-up. More program MFIs (enjoying access to TA) can then be introduced, especially those having actively proposed BD projects. The ones not active can also then be excluded from the core group. Adjustments will be made along the progress. Minor ones, including modalities of approval and disbursement can be made by PSC. Major amendments, including introduction of new or improved instruments should be considered after the comprehensive review, 2 years from start-up.

Part VII - CABEI, the Financial Intermediaries and the SMME Credit Lines

Description of facilities, selection criteria for financial intermediaries and technical assistance to financial intermediaries

1. CABEI'S SMME FINANCING SUPPORT

1. The bank works according to prudent banking principles. It selects partner FIs based on strict commercial banking criteria, and maintains the annual credit limits to them only if an acceptable level of compliance with various standard banking indicators is maintained. As a result, the FI network operates efficiently in average banking terms down to the level of micro-financing institutions (e.g. non-performing loan ratios cannot exceed 3% of portfolio). The fact that CABEI acts conservatively means that it does not sufficiently encourage the FIs to actively look for SMME business or to tailor suitable funding instruments for them, as happens elsewhere in the emerging markets. The only way the banks can successfully service the SMMEs is to resort to revenue-based lending and to start accepting risk based on the merits of the projects, not only on the collateral and financial status of the client. This applies to a large extent also to BF-SMMEs. The challenge that CABEI faces in the proposed program is to be able to persuade the FIs to move in this direction, with the help of the Financing Incentives Facility, and the technical assistance and capacity building that can be extended under the GEF BF financing program.

2. The following special funds established within CABEI represent the main sources for funding of the SMME and environment sectors:

- *PROMYPE*: The in-house dedicated fund for SMMEs initiated in 1995 with US\$ 20 million for investment and US\$ 500,000 for technical assistance of CABEI's own commitments is the biggest source for on-lending. The loan portfolio exposure as of Oct.31, 2004 amounted to US\$ 99.3 million. On-lending by FIs are directed to micro- and small enterprises for working capital (up to 2 years) and fixed investments (up to 5 years) with a possible grace period of 6 and 18 months respectively. The maximum loan amounts are US\$ 750,000 and technical assistance grant up to US\$ 25,000. KfW of Germany has recently granted a new US\$ 20 million micro-finance facility, which will be administered under PROMYPE. The FI is free to determine the type of collateral required.
- *ICDF (Taiwan)*: The fund, established in 1977, is a facility for Latin America totaling US\$ 50 million, of which US\$ 10 million is intended for Central America. The loan facility is channeled to small and medium enterprises with up to 60 employees, i.e. a bit larger enterprises than PROMYPE serves. Maximum loan is US\$ 500,000 up to 5 years with grace period between 6-18 months, both through banking and non-banking institutions. The current loan portfolio amounts to US\$ 10.3 million.
- *Spain Micro-credit Facility*: The fund, now amounting to US\$ 26 million, was established in 1999 to mitigate the poverty impacts of Hurricane Mitch and to create micro-enterprise activity in the affected regions. The loans, intended for working capital, fixed assets and business housing, will be maximum of US\$ 10,000 for up to 10 years, with a grace period up to one year. The current loan portfolio is US\$ 25.7 million.

- *FALIDES*: The Central American Environmental Fund of US\$ 8 million was established by CABEI in 1995 to provide loan financing through FIs for a variety of environmental activities, including bio-diversity protection and promotion. The maximum amounts to banking FIs are US\$ 100,000 and through non-banking FIs US\$ 50,000. The purpose of the financing is very much in line with the proposed intervention, and can provide a meaningful source for forthcoming BF loans. The Fund has not, however, been satisfactorily utilized by the FIs and clients. One of the major design problems in the facility has been, whereby the fund rules restrict the maximum loan margins by FIs to 400 Basis Points over the borrowing rate from CABEI. FIs have not found the funds attractive compared to other lending opportunities with comparable risk profile from e.g. PROMYPE. The fund would represent a definite source for BF funding, made attractive to FIs by the credit enhancement features to be provided under the proposed intervention.

3. CABEI approved in August 2004 its Global Strategy for 2004-2009, based on three pillars: poverty reduction, integration and globalization. The efforts are enhanced through the recent establishment of the Micro, Small and Medium Enterprise Unit (UMIPYME). Besides the staff at headquarters each Regional Office has a focal point SMME Loan Officer. The medium-term target is to grow this lending manifold, to a level of US\$ 1.5 billion. The CABEI FI network is growing by an average of 14 institutions per annum. The non-banking FIs already utilize half of the amount of the credit lines. CABEI has already identified 53 MFIs as new potential FIs, and is providing TA to them to facilitate their accession. The largest unexplored sector, the co-operative savings and loan institutions (only 9 as FIs now), have recently been the target for CABEI's attention. It has formed a strategic alliance with REDCAMIF, the CA Society of Micro-finance Institutions, in order to expand the scope of lending through the cooperative sector. The co-operation has already introduced a further 42 co-operative MFIs as potential intermediaries, to be accessed shortly. The main impediment to doing so has been the reluctance of the private banks to provide term loans without first class collateral, and the non-banking institutions not being able to grow according to the actual underlying demand among the small and micro-enterprises. The growth that has already been experienced in funding into the special SMME funds at CABEI is, however, a clear sign of the new strategy actually working. Environmental lending has also been introduced recently, through the GEF supported renewable energy financing window.

4. CABEI has developed a meticulous system of approving new FIs into the network, in approving and increasing credit lines and in monitoring their performance. The system called CAMEL analyses the following parameters on a quarterly basis: capital adequacy, asset quality, management, earnings and liquidity. A modified system has been devised for the non-banking micro-finance institutions, developed through the help of ACCION Internacional, a globally known and used micro-financing methodology. The mechanism is used for defining and maintaining of global credit limits to each FI, based on their creditworthiness and financial performance. The system not only facilitates in managing the credit lines and ensuring the repayment of funds, but also guides the participating FIs to managing their risk levels. In the event of failure of a FI to fulfill any of the CAMEL criteria, the credit limits will be lowered or revoked. This ensures healthy financing business continuing, also to the riskier micro-enterprises.

5. In addition to quality and risk control, CABEI assists the FIs in new business areas and opportunities, most recently in renewable energy and clean production areas. Biodiversity friendly business will add a new dimension to CABEI's services. The monitoring and evaluation system at CABEI enables to evaluate impacts of financing to e.g. micro-business, and through various databases maintained to e.g. monitor the use of donors' funds, and to identify new potential clients.

6. The financial intermediaries intended for financing the SMME sector are divided into banking, and non-banking institutions. The former hold a banking license and are regulated by the Central Banks. Subsequently, the banks act prudently. Their main lending business is either short-term loans or long-term

loans covered by full (normally 130-150%) collateral in forms of mortgage (housing) or fixed assets (investments). The SMME sector, and mainly the medium sized enterprises, may access the short-term working capital financing, but very seldom can present a solid collateral. The lack of collateral will leave much of the BF business outside the financing range by commercial banks. However, the CABEI SMME credit facilities (PROMYPE, ICDF, Spain microcredit) are financing this business through the 51 participating banks with total credit limit amounting to US\$ 168 million. Among these is the only micro-financier with banking license, Banco ProCredit El Salvador, with a line amounting to US\$ 18 million. This bank (an off-spring of a micro-financing cooperative) has introduced to the market revenue-based lending techniques and can accept project risk to some extent. Its rapid growth (50% p.a.) demonstrates the potential for this business, also to BF investments and business. The rate of non-performing loans (arrears over 90 days) are low and vary between 1.5-3 %.

7. The non-banking intermediaries predominantly target the micro-enterprise sector, and are normally run by local NGOs or co-operatives. They are not supervised by the Central Banks, but follow guidelines normally issued by Ministries of Finance. The institutions that sustain themselves follow relatively prudent banking principles. The main difference to banks is that these institutions are able to work on the basis of less formal guarantees. As they work very closely with their clientele on the grassroot level, they can accept e.g. group guarantees as collateral. The proposed business and investments are appraised by the credit officers together with the client risk, enabling the FIs taking a managed risk. The funding costs of CABEI lines are somewhat higher than the commercial banks would pay. Funding from the capital markets is, however, much more expensive. Together with high transaction costs (loan administration) and funding costs, the pricing of the loans is very high, ranging from 20-30 % p.a. for term loans. Much of the financing goes to trading, which business can absorb the high cost of finance. Farming and related business, and very much the targeted BF activities, may find it difficult to create high enough financial returns to sustain borrowing at this cost.

2. SELECTION CRITERIA FOR FINANCIAL INTERMEDIARIES

8. Given the large number of FIs relending CABEI's SMME financing resources, the project will have to select a sample of representative banking and non-banking FIs to be included in the early phases of project implementation. It is important to experiment the designed financing incentives, their actual demand as well as effectiveness, before more widespread use is justified. Given the evident lack of proven demand at the moment, it is foreseen that all CABEI FIs should be made eligible as early as possible. The number and coverage can be increased along with the progress made and experiences gathered. It is planned that one to two banking and two to four non-banking intermediaries will be selected per country in the first phase. This would mean a total number of 10 banks and 16 MFIs would be targeted in the first half of the project period. The selection criteria include:

- Institutions are currently approved CABEI financial intermediaries
- Wide coverage in the country, especially areas relevant to BF activities (proximity to corridors, type of typical activities etc.)
- Good track record in financing SMME activities
- Willingness and readiness to actively promote and consider financing of BF business
- Sufficient structure and human resources to include new field of business and to absorb technical assistance
- Preferably prior experience in financing environmental projects
- Existence of critical mass of clientele basis relevant to BF business and criteria
- Readiness and capability of monitoring BD content and progress
- For banks, readiness to start introducing revenue based lending techniques in the tool-kit
- For MFIs, wholesale function if possible, or otherwise large enough client base

- For MFIs, readiness to adjust lending rates and share reward benefits with clients

9. The following tables clarify (i) the use of the SMME Facilities by country and (ii) the total exposure of CABEI towards the banking FIs.

Table 1: Use of SMME facilities, by country and bank: Total amounts disbursed through 19 November 2004

País	Nombre de la Institución	Total USD
GUATEMALA	BANCO G & T CONTINENTAL	14,400,000
	BANCO DE DESARROLLO RURAL (BANRURAL)	8,995,658
	BANCO REFORMADOR	2,500,000
	BANCO UNO,S.A.	5,000,000
	BANCO CUSCATLAN DE GUATEMALA	366,547
	BANCO DEL QUETZAL	500,000
	BANCO INDUSTRIAL	400,000
EL SALVADOR	BANCO DE AMERICA CENTRAL S.A.	14,442,857
	BANCO AGRICOLA S.A.	636,106
	BANCO CUSCATLAN S.A.	580,253
	BANCO DE COOPERACIÓN FINANCIERA DE LOS TRABAJADORES	464,515
	BANCO DE LOS TRABAJADORES DE SOYAPANGO	912,536
	BANCO HIPOTECARIO DE EL SALVADOR S.A.	30,803
	BANCO PROCREDIT EL SALVADOR	16,150,000
	BANCO UNO,S.A.	1,800,000
BANCO DE COMERCIO DE EL SALVADOR S.A.	185,000	
HONDURAS	BANCO ATLANTIDA	592,055
	BANCO DE AMERICA CENTRAL HONDURAS S.A.	232,729
	BANCO FINANCIERA CENTROAMERICANA S.A.	1,081,408
	BANCO FINANCIERA COMERCIAL HONDUREÑA S.A.	754,915
	BANCO GRUPO EL AHORRO HONDUREÑO - BGA	6,771,989
	BANCO MERCANTIL	8,521,835
	BANCO PROMERICA S.A.	339,554
NICARAGUA	BANCO DE AMERICA CENTRAL, S.A.	3,412,539
	BANCO DE CREDITO CENTROAMERICANO,S.A.	6,746,034
	BANCO UNO,S.A. NICARAGUA	3,351,268
	PROCREDIT	1,250,000
	BANCO DE FINANZAS S.A.	1,147,111
BANCO DE LA PRODUCCIÓN, S.A.	400,000	
COSTA RICA	BANCO CREDITO AGRICOLA DE CARTAGO	122,225
	BANCO LAFISE,S.A	8,087,865
	BANCO BANEX S.A.	1,595,168
	BANCO CATHAY S.A.	1,469,209
	BANCO DE SAN JOSE S.A.	10,793,480
	BANCO IMPROSA S.A.	17,788,353
	BANCO INTERFIN S.A.	3,426,433
	BANCO INTERNACIONAL DE COSTA RICA S.A.	2,944,388
	BANCO PROMERICA S.A.	9,263,495
	BANCO NACIONAL DE COSTA RICA	3,482,054
BANCO MERCANTIL	0	
BANCO BCT,S.A.	2,939,773	
	TOTALS	163,878,154

Table 2: Active portfolio, by programme and country as of 31 October 2004 (USD\$)

País/Programa	Promype	ICDF-Taiwán	Microcréditos España-BCIE	Total / Country	Percent
Guatemala	32,935,048	463,026	4,367,956	37,766,030	28%
El Salvador	29,259,409	0	4,550,795	33,810,204	25%
Honduras	6,335,946	3,712,680	5,517,047	15,565,673	12%
Nicaragua	17,759,152	952,701	8,411,698	27,123,551	20%
Costa Rica	13,020,955	5,178,485	2,832,853	21,032,292	16%
Total	99,310,510	10,306,892	25,680,348	135,297,750	100%
Percent	73%	8%	19%	100%	

3. TECHNICAL ASSISTANCE TO CABEI AND FINANCIAL INTERMEDIARIES

10. Based on interviews with the various banking and non-banking institutions in the region, it has become evident that two areas of technical assistance (TA) would be critical for the success of the project:

- TA to CABEI, the banks and the MFIs in promoting, appraising and monitoring of BD dimension of the proposed investment and business
- TA to CABEI and the banks in investment project appraisal and revenue based lending techniques and financing instruments suitable for BF-SMME financing

1) *TA in Biodiversity Friendly Activities*

11. As CABEI and the FIs have little or no experience in BF projects or activities, the program will provide them with orientation TA in various forms to facilitate the identification, appraisal and monitoring of the BD component of the investments and business. The TA would take the form of:

- Support in the definition of positive and negative lists for eligible BF financing targets
- Assistance in BF project identification through establishment of networks for FIs with BD promoting and oriented local and regional organizations
- Arrangement of regional and national workshops and training in financing of BF activities
- Development of guides and templates on standard BF projects and project formulation in the most common areas (coffee, timber, eco-tourism etc.)
- Hands-on assistance in establishing BF appraisal, monitoring and reporting system within FI

2) *TA in Project Appraisal and Revenue Based Lending*

12. Very few banking FIs have introduced project appraisal methodology in loan processing, as they primarily assess the creditworthiness of the client and her business as a whole, and not the merits of the project, the actual lending target. Just a few have recently moved to that direction within the context of the PROARCA/SIGMA clean production partial risk guarantee scheme. The introduction of the BF risk guarantee facility would mean that the banks have to take steps in moving away from first class collateral basis towards taking the risk of the project cash flow also. It is expected that this process will be adopted gradually. The Credit Management and Officers of the banks will be acquainted with the SMME project appraisal techniques, which they have not been applying so far. Project cash flow analysis, review of business plans, credit scoring and other methods will be introduced through seminars and on-the job training. Local training and TA providing institutions will be trained by the program team (a SMME financing and banking specialist) to continue to provide this TA once the program gets well under way, and will be able to take over the training function in the longer term. The MFIs are already applying to

large extent project appraisal methodology, as they rely on lesser collateral. Therefore, they currently provide this type of training to their Credit Officers. If need arises, such training can be extended to selected MFIs, too. Numerous other innovative financing instruments are being utilized by banks elsewhere in developing countries, not yet in use in CA. The program will develop, test and design tailored financing instruments for the participating banks and MFIs, in order to maximize the funding opportunities for BF business on a profitable and bankable basis. The se would be able to complement the instruments launched at the beginning of the program (risk guarantee and BF reward). The CABI professional staff of the SME Unit and the focal point officers in the regional offices would also be trained in these skills.

Part VIII: Relevant issues identified in National Biodiversity Strategy and Action Plans

Country	Credit / banking	Small and medium enterprises	Overall policy, regulatory & institutional framework / incentive policies
Costa Rica ⁸⁸ El Salvador			<p><u>Forestry</u> 3. Flora silvestre Proposal 3. Fomentar, mejorar y desarrollar otros usos conocidos y potenciales de las plantas silvestres de El Salvador.</p> <p>4. Recursos forestales Establecer incentivos apropiados para catalizar una reforestación extensiva,</p> <p><u>Fisheries</u> 6. Recursos pesqueros Fomentar la acuicultura con énfasis en policultivos</p>
Guatemala	<p><u>Forestry</u> 4. Estrategia de uso y valoración de las especies silvestres en Guatemala 4.5. Manejo productivo sostenible de bosques naturales 4.5.4. Identificación y promoción de fuentes innovadoras de financiamiento</p>	<p><u>Ecotourism</u> 3. Uso y valoración de las áreas silvestres 3.5. <u>Desarrollo de marco institucional y normativo</u> 3.5.3 - Regímenes de concesiones y licencias en áreas del estado: El desarrollo turístico en áreas silvestres del Estado, particularmente áreas protegidas, requiere de un normativo que facilite la inversión privada y garantice la sostenibilidad ambiental de las actividades, así como de regímenes que establezcan cuotas y cobros por los ingresos, concesiones y licencias. 3.7. <u>Sistema de apoyo a nuevos negocios en ecoturismo y recreación objetivo</u>: Establecer las bases que permitan desarrollar el potencial turístico y recreacional de las áreas silvestres de Guatemala. Para el desarrollo de productos es necesario generar un programa de apoyo que permita la inversión. El mismo debe incluir mercadeo, asistencia técnica, capacitación, asistencia financiera, desarrollo de infraestructura. 3.7.1. Programa de certificación 3.7.2. Promoción de sitios certificados 3.7.3. Programa de incentivos para nuevos negocios en ecoturismo 3.7.4. Programa de incentivos para nuevos negocios en la</p>	<p><u>Ecotourism</u> 3. Uso y valoración de las áreas silvestres 3.5. <u>Desarrollo de marco institucional y normativo</u> 3.5.1 - Creación de la Comisión de Ecoturismo: Se requieren de mecanismos ágiles de coordinación y enlace entre las organizaciones gubernamentales relacionadas con la gestión del turismo y áreas silvestres, así como entre éstas y la iniciativa privada. La Comisión tendrá como principal función la de coordinar y promover el desarrollo de la actividad turística en áreas silvestres, sean éstas protegidas o no, así como de articular las acciones de CONAP, INGUAT e IDAEH con la iniciativa privada.</p>

⁸⁸ To be finalized during Inception Phase.

Country	Credit / banking	Small and medium enterprises	Overall policy, regulatory & institutional framework / incentive policies
		<p>recreación 3.7.5. Capacitación de recurso humano</p> <p><u>Forestry</u> 4. Estrategia de uso y valoración de las especies silvestres en Guatemala 4.1. Derechos de propiedad y uso sobre los recursos naturales 4.2. Nuevos negocios basados en uso sostenible <i>ex situ</i> de flora silvestre 4.2.4. Certificación de los productos de flora silvestre producidos sosteniblemente 4.5. Manejo productivo sostenible de bosques naturales 4.5.1. Concesiones forestales comunitarias y empresariales 4.5.2. Fomento al desarrollo productivo a través de incentivos 4.5.3. Sistema de certificación verde para productos forestales 4.5.5. Capacitación y asistencia técnica sobre producción y mercadeo 4.6. Recuperación de tierras de vocación forestal 4.6.1. Programa de incentivos forestales para plantaciones forestales 4.6.2. Incentivos para proyectos agroforestales y silvopastoriles</p>	
Honduras	<p>“Concertación, con el Sistema Financiero Nacional de la incorporación de la variable ambiental como requisito previo al otorgamiento de créditos para proyectos relacionados con la diversidad biológica”</p> <p>“Fortalecimiento de los grupos artesanales mediante la capacitación técnica, transferencia de tecnología y acceso al crédito.”</p>	<p><u>General</u> “Elaboración del inventario de actividades económicas sostenibles”</p> <p>“Fortalecimiento de los grupos artesanales mediante la capacitación técnica, transferencia de tecnología y acceso al crédito.”</p> <p><u>Forestry</u> “Establecimiento de un programa de certificación forestal”</p> <p><u>Tourism</u> “Certificación de operadores turísticos enfocados hacia los componentes de la diversidad biológica”</p>	<p><u>Forestry</u> “Revisión, ajuste, concertación y aprobación de la nueva Ley Forestal con el objeto de lograr un aprovechamiento sostenible del recurso forestal.”</p> <p><u>Tourism</u> “Uso de los componentes de la diversidad biológica como atractivos turísticos, que tomen en consideración la capacidad de carga de los ecosistemas”</p> <p>“Actualización y divulgación del inventario de atractivos y potenciales turísticos.”</p>
Nicaragua		<p><u>General</u> “2.3.5 Fortalecer programas de fomento a la producción y</p>	<p><u>General</u> “2.2.2 Desarrollar y aplicar instrumentos económicos que</p>

Country	Credit / banking	Small and medium enterprises	Overall policy, regulatory & institutional framework / incentive policies
		<p>comercialización de productos no tradicionales.”</p> <p><u>Agroforestry</u> “2.3.4 Establecer programas con los productores y productoras de la frontera agrícola para promover el uso de sistemas de producción agrosilvopastoriles más estables (uso de abono verde, agroforestería, plantaciones perennes, entre otros).”</p>	<p>permitan la sostenibilidad y estimulen las prácticas amigables con el ambiente.”</p> <p>“2.2.4 Diseñar mecanismos de compensación directa a los propietarios y propietarias de fincas que producen servicios ambientales.”</p> <p>“2.3.6 Establecer incentivos fiscales a alternativas productivas agroforestales, utilización de los no maderables y no tradicionales.”</p> <p><u>Ecotourism</u> “2.3.1 Fomentar el ecoturismo responsable en áreas protegidas como un mecanismo para apoyar la conservación”</p>

**Part IX - Tracking Tool for GEF Biodiversity Focal Area Strategic Priority Two:
Mainstreaming Biodiversity in Production Landscapes and Sectors**

I. Project General Information

1. Project name: Central American Markets for Biodiversity (CAMBio): Mainstreaming biodiversity conservation and sustainable use within micro-, small, and medium-sized enterprise development and financing

2. Country (ies): Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua

National Project: _____ Regional Project: Global Project: _____

3. Name of reviewers completing tracking tool and completion dates:

	Name	Title	Agency
Work Program Inclusion	Andrew Bovarnick		UNDP-GEF
Project Mid-term			
Final Evaluation/project completion			

4. Funding information

GEF support: \$12.05 million
Co-financing: \$17 million
Total Funding: \$29.05 million

5. Project duration: *Planned* 7 years *Actual* _____ years

6. a. GEF Agency: UNDP UNEP World Bank ADB AfDB
 IADB EBRD FAO IFAD UNIDO

6. b. Lead Project Executing Agency (ies): Central American Bank for Economic Integration

7. GEF Operational Program:

- drylands (OP 1)
- coastal, marine, freshwater (OP 2)
- forests (OP 3)
- mountains (OP 4)
- agro-biodiversity (OP 13)
- integrated ecosystem management (OP 12)
- sustainable land management (OP 15)

Other Operational Program not listed above: _____

8. Project Summary: The project will support the mainstreaming of biodiversity conservation and sustainable use within small, micro- and medium-sized enterprise (SMME) development and financing in five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua). In doing so, it will generate biodiversity benefits by encouraging transformed productive and service sector practices and related investments that can positively impact biodiversity. It will work closely with, and help to bring together, three important service-provider networks, each of which will be associated with a specific project outcome. First, it will work with the region's financial sector network, namely the Central American Bank for Economic Integration (CABEI) and select members of its extensive network of financial intermediaries (FIs), to develop and extend new financial products that will generate substantial increased lending to biodiversity-friendly SMMEs (BF-SMMEs) for investments that create biodiversity benefits. Second, it will work with potential BF-SMMEs and in partnership with a range of national and international providers of business and technical services to ensure that SMME investments are made efficiently and in a manner that maximizes economic, social and biodiversity / environmental benefits. Finally, it will work with Governmental and inter-governmental institutions, including Ministries of Environment, relevant sectoral ministries (agriculture, industry, tourism, finance and commerce) and the Comision Centroamericana de Ambiente y Desarrollo (CCAD), a regional co-ordinating structure, to promote an enabling environment that will encourage BF-SMME growth over the medium and long run.

9. Project Development Objective: Micro-, Small-, and Medium-sized enterprises in Central America increasingly contribute to Sustainable Development and Environmental Protection by incorporating biodiversity concerns in their products and services

10. Project Purpose/Immediate Objective: Removing barriers in banking, business, and enabling environment to catalyze biodiversity-friendly investments in micro-, small-, and medium-sized enterprises in Central America

11. Expected Outcomes (GEF-related):

Outcome 1: The Central American Bank for Economic Integration (CABEI) and its Financial Intermediaries are providing loan financing to SMMEs for development of biodiversity-friendly business activities

Outcome 2: SMMEs working in a broad range of economic sectors are able to develop biodiversity-friendly business ventures and access new markets for their products and services

Outcome 3: Enabling environments have been modified to create greater incentives for developing biodiversity-friendly sub-sectors of national economies

Outcome 4: Learning, feedback and adaptive management, particularly relating to interactions amongst outcomes 1-3, are ensured

12. Production sectors and/or ecosystem services directly targeted by project:

12. a. Please identify the main production sectors involved in the project. Please put “P” for sectors that are primarily and directly targeted by the project, and “S” for those that are secondary or incidentally affected by the project.

- Agriculture P
- Fisheries P
- Forestry P
- Tourism P
- Mining _____
- Oil _____
- Transportation _____
- Other (please specify) _____

12. b. For projects that are targeting the conservation or sustainable use of ecosystems goods and services, please specify the goods or services that are being targeted, for example, water, genetic resources, recreational, etc

1. Recreational resources
2. Genetic resources (general)
3. Marine resources
4. Forest resources
5. Land, water and soil resources

II. Project Landscape/Seascape Coverage

13. a. What is the extent (in hectares) of the landscape or seascape where the project will directly or indirectly contribute to biodiversity conservation or sustainable use of its components? An example is provided in the table.

Targets and Timeframe	Foreseen at project start	Achievement at Mid-term Evaluation of Project	Achievement at Final Evaluation of Project
Project Coverage			
Landscape/seascape⁸⁹ area directly⁹⁰ covered by the project (ha)	150,000 ha. ⁹¹		
Landscape/seascape area indirectly covered by the project (ha)	750,000 ha. ⁹²		

⁸⁹ For projects working in seascapes (large marine ecosystems, fisheries etc.) please provide coverage figures and include explanatory text as necessary if reporting in hectares is not applicable or feasible.

⁹⁰ Direct coverage refers to the area that is targeted by the project’s site intervention. For example, a project may be mainstreaming biodiversity into floodplain management in a pilot area of 1,000 hectares that is part of a much larger floodplain of 10,000 hectares.

⁹¹ Based on following assumptions: (1) 200 banking sector loans covering an average of 500 ha. per loan = 100,000 ha. plus (2) 5,000 micro-loans covering an average of 10 ha. per loan.

⁹² Assumes that, on average, each loan will influence practices within an area equivalent to five times the affected area through locally promoting learning exchanges and dissemination of results.

14. Are there Protected Areas within the landscape/seascape covered by the project? If so, names these PAs, their IUCN or national PA category, and their extent in hectares

Given the nature of the project, it is not possible at the outset to present information regarding specific PAs to be covered. Nevertheless, such information will be closely tracked and submitted in subsequent tracking reports.

	Name of Protected Areas	IUCN and/or national category of PA	Extent in hectares of PA
1.			
2.			
3.			
4...			

III. Management Practices Applied

14.a. Within the scope and objectives of the project, please identify in the table below the management practices employed by project beneficiaries that integrate biodiversity considerations and the area of coverage of these management practices? Note: this could range from farmers applying organic agricultural practices, forest management agencies managing forests per Forest Stewardship Council (FSC) guidelines or other forest certification schemes, artisanal fisherfolk practicing sustainable fisheries management, or industries satisfying other similar agreed international standards, etc. An example is provided in the table below.

Targets and Timeframe	Area of coverage foreseen at start of project ⁹³	Achievement at Mid-term Evaluation of Project	Achievement at Final Evaluation of Project
Specific management practices that integrate BD			
1. Agro-forestry, e.g., shade-grown coffee production	40,000 ha		
2. Sustainable timber harvesting	49,000 ha.		
3. Sustainable fisheries practices	1,000 ha.		
4. Sustainable tourism	60,000 ha.		

14. b. Is the project promoting the conservation and sustainable use of wild species or landraces?

Given the nature of the project, it is not possible at the outset to present information regarding specific species to be conserved. Nevertheless, such information will be closely tracked and submitted in subsequent tracking reports.

⁹³ To be further broken down at country level during inception phase.

Name of the market that the project seeks to affect (sector and sub-sector)	Unit of measure of market impact	Market condition at the start of the project ⁹⁴	Market condition at midterm evaluation of project	Market condition at final evaluation of the project
		boxes +		
Sustainable forestry (timber processing)	Cubic meters of sustainably produced wood processed per year	TBD		
Tourism (eco-tourism)	US\$ of revenues from eco-tourism / yr; number of tourists/year; number of eco-tourism companies	TBD		
Marine products	US\$ of sales of certified marine products / yr (aquaculture and/or capture fisheries)	TBD		

15. b. Please also note which (if any) market changes were directly caused by the project.

V. Improved Livelihoods

16. For those projects that have identified improving the livelihoods of a beneficiary population based on sustainable use /harvesting as a project objective, please list the targets identified in the logframe and record progress at the mid-term and final evaluation. An example is provided in the table below

Improved Livelihood Measure	Number of targeted beneficiaries (if known)	Please identify local or indigenous communities project is working with	Improvement Foreseen at project start	Achievement at Mid-term Evaluation of Project	Achievement at Final Evaluation of Project
1. Increased access to micro-credit and associated income increases	5,000				
2. Increased access to banking sector lending and associated income increases	200				

VI. Project Replication Strategy

17. a . Does the project specify budget, activities, and outputs for implementing the replication strategy? Yes___ No x

17. b. Is the replication strategy promoting incentive measures & instruments (e.g. trust funds, payments for environmental services, certification) within and beyond project boundaries?

Yes___ No x

If yes, please list the incentive measures or instruments being promoted:

17. c. For all projects, please complete box below.

Replication Quantification Measure	Replication Target Foreseen at project start	Achievement at Mid-term Evaluation of Project	Achievement at Final Evaluation of Project
1. Number of 'biodiversity-friendly' loans provided by CABEI banking partners without need for reward or guarantee fund			
2.			
3...			

VII. Enabling Environment

For those projects that have identified addressing policy, legislation, regulations, and their implementation as project objectives, please complete the following series of questions: 18a, 18b, 18c.

An example for a project that focused on the agriculture sector is provided in 18 a, b, and c.

18. a. Please complete this table at **work program inclusion for each sector** that is a primary or a secondary focus of the project. Please answer YES or NO to each statement under the sectors that are a focus of the project.⁹⁵

Sector	Agriculture	Fisheries	Forestry	Tourism	Other (please specify)	Other (please specify)
Statement: Please answer YES or NO for each sector that is a focus of the project.						
Biodiversity considerations are mentioned in sector policy						
Biodiversity considerations are mentioned in sector policy through specific legislation						
Regulations are in place to implement the legislation						
The regulations are under implementation						
The implementation of regulations is enforced						
Enforcement of regulations is monitored						

18. b . Please complete this table at **the project mid-term for each sector** that is a primary or a secondary focus of the project. Please answer YES or NO to each statement under the sectors that are a focus of the project.

Sector	Agriculture	Fisheries	Forestry	Tourism	Other (please specify)	Other (please specify)

⁹⁵ Information to be provided at country level during inception phase.

Statement: Please answer YES or NO for each sector that is a focus of the project.						specify)	specify)
Biodiversity considerations are mentioned in sector policy	YES						
Biodiversity considerations are mentioned in sector policy through specific legislation	YES						
Regulations are in place to implement the legislation	NO						
The regulations are under implementation	NO						
The implementation of regulations is enforced	NO						
Enforcement of regulations is monitored	NO						

18. c. Please complete this table at **project closure for each sector** that is a primary or a secondary focus of the project. Please answer YES or NO to each statement under the sectors that are a focus of the project.

Sector	Agriculture	Fisheries	Forestry	Tourism	Other (please specify)	Other (please specify)
Statement: Please answer YES or NO for each sector that is a focus of the project.						
Biodiversity considerations are mentioned in sector policy	YES					
Biodiversity considerations are mentioned in sector policy through specific legislation	YES					
Regulations are in place to implement the legislation	YES					
The regulations are under implementation	YES					
The implementation of regulations is enforced	NO					
Enforcement of regulations is monitored	NO					

All projects please complete this question at the project mid-term evaluation and at the final evaluation, if relevant:

18. d. Within the scope and objectives of the project, has the private sector undertaken voluntary measures to incorporate biodiversity considerations in production? If yes, please provide brief explanation and specifically mention the sectors involved.

An *example* of this could be a mining company minimizing the impacts on biodiversity by using low-impact exploration techniques and by developing plans for restoration of biodiversity after exploration as part of the site management plan.

VIII. Mainstreaming biodiversity into the GEF Implementing Agencies' Programs

19. At each time juncture of the project (work program inclusion, mid-term evaluation, and final evaluation), please check the box that depicts the status of mainstreaming biodiversity through the implementation of this project with on-going GEF Implementing Agencies' development assistance, sector, lending, or other technical assistance programs.

Time Frame	Work Program Inclusion	Mid-Term Evaluation	Final Evaluation
Status of Mainstreaming			
The project is not linked to IA development assistance, sector, lending programs, or other technical assistance programs.			
The project is indirectly linked to IAs development assistance, sector, lending programs or other technical assistance programs.			
The project has direct links to IAs development assistance, sector, lending programs or other technical assistance programs ⁹⁶	x		
The project is demonstrating strong and sustained complementarity with on-going planned programs.			

IX. Other Impacts

⁹⁶ To be confirmed at country level during inception phase.

20. Please briefly summarize other impacts that the project has had on mainstreaming biodiversity that have not been recorded above.

PART X - Draft Investment Guidelines for Biodiversity Conservation

For use by the Central American Bank for Economic Integration (CABEI) and its Financial Intermediaries⁹⁷

1 Introduction

1.1 Purpose of the Guidelines

The credit line, partial risk guarantee funds and biodiversity reward scheme have been made available to support investments which will generate biodiversity benefits. These investment guidelines for biodiversity conservation are a tool for CABEI and the FIs to identify which SMMEs will have sufficient biodiversity benefits to be eligible for preferential financing.

Biodiversity benefit is extremely challenging to define, measure and demonstrate. This initiative recognizes that many investments will not have a clear biodiversity benefit and some may have both positive impact and negative impacts on their environment whereas others may already have a negative impact but have the potential to reduce the negative impact. Therefore it is proposed that any investment which will have a *net biodiversity benefit* should be viewed as eligible. This means an investment where the positive impacts are greater than negative impacts and negative impacts are reduced as much as commercially feasible. *Section 2* of this annex outlines the framework to define what is meant by biodiversity benefits and the types of investment that can generate that impact. This could mean a wide range of possible investments, from financing a forestry concession which introduces low impact logging to a hotel which improves its wastewater treatment facilities.

The guidelines should be used by the FIs and credit appraisal unit within CABEI, in conjunction with: (i) consultations with the CAMBIO environmental specialist, (ii) site visits if needed, (iii) local information provided by service providers (NGOs) and third party ‘verifiers’, (iv) sector specific guidelines provided by CAMBIO to the FIs and other organizations involved with land planning, regulation and certification.

The guidelines build upon those already developed by CI, TNC and IFC and also try to tailor general investment guidelines for biodiversity conservation to the ecological realities of the Meso-American region.

The guidelines attempt to balance the many competing interests that arise when financing a business investment which needs to be profitable and make a positive contribution to biodiversity. If the guidelines emphasize conservation impact too much, then SMMEs and FIs will not be able to provide or analyze the information and very few suitable investments will be financed. On the other hand, if the guidelines are too simple and superficial, they may result in the financing of investments which do not contribute to biodiversity conservation.

⁹⁷ Prepared by Andrew Bovarnick, Biodiversity Economist, UNDP GEF, for UNDP GEF project *Central American Markets for Biodiversity: Mainstreaming biodiversity conservation and sustainable use within micro-, small, and medium-sized enterprise development and financing* (CAMBIO), 2005

Therefore the guidelines have been designed to increase eligible investment opportunities and ask the minimum level of information from SMMEs yet at the same time provide confidence to CABEI that the FIs are lending to suitable investments. In this regard the guidelines start more open and flexible but are designed to become stricter over time in their expectation of biodiversity impact. This approach will have the following benefits:

- give FIs an opportunity to become acquainted with the concept of BD investments
- not be too restrictive in lending practices early on
- allow room for innovative types of investment
- provide an opportunity to learn from investments about potential BD impact, with lessons to be fed into stricter guidelines
- provide time for markets to develop and more ‘beneficial’ investment opportunities arise

The guidelines, at this Project Document stage, set the framework and principles, which are to be further developed and refined during project inception including a workshop that brings together bankers and conservationists. Ultimately, the goal is to emerge with a firm conceptual framework together with a practical set of operational procedures which will guide CABEI, FIs, SMMEs and other partners through the process of determining eligibility of investments for preferential financing.

1.2 How to use the Guidelines

It is intended that in the long-term the guidelines will be used by the FIs and the SMMEs. The SMME borrowers will have the ability to collect and provide the necessary information and the FI will be able and willing to assess the data to determine its contribution to environmental and biodiversity objectives.

However, it is recognized that the information required to ensure that an investment is biodiversity friendly is beyond the scope or ability of an SMME to provide or an FI to assess. Therefore, a system is required to fulfill *lender verification* of the investments.

The *lender verification* system could have various arrangements. It could use local NGOs/research institutes as third party verifiers or it could be operated by environment staff within CABEI’s country offices. The project will aim for the latter to be established and financed by CABEI. The use of local NGOs/research institutes will most likely be required in the early years of lending until the system is evolved and there are sufficient loans for CABEI to employ its own staff for *lender verification*.

There are three evident alternatives to having in-house capacity within CABEI. These would be to:

- (i) Build a team of independent consultants in each country who can be contracted by the SMME or FI to carry out *lender verification* on a contract basis either for individual loans or a group of them.
- (ii) NGOs or research institutes who could also be paid to undertake this work, but perhaps on a retainer basis.

- (iii) Establish a regional investment research center that specializes in *lender verification*.
- (iv) Each Ministry of Environment provides expertise to verify loans. This would be useful to connect governments with the investment programmes.

The system selected will need to be self-financing. The project will work to set up the *lender verification* system so that on-going operational costs will be as low as possible. This will mean that during the project, experts for *lender verification* will be trained, lessons and common themes emerging from early assessments will be synthesized and fed into the FI and the *lender verification* system and optimal arrangements for the system will be assessed and discussed with all stakeholders.

The lender verification process should rely where possible on existing sources of information which could indicate that a proposed business venture could have net biodiversity benefits. Sources of information which can complement the appraisal process include:

- Certification of a product (from a recognized certification system)
- Completion of an environmental impact assessment (EIA) and development of an environmental management system (EMS) to implement the EIA recommendations
- Land use plans and guidelines
- Tourism plans

Feeding into these sources of data will require coordination with a range of actors involved with planning, regulation, enforcement, industry associations, certification auditors etc.

Both the method of coordination between the lender verification process and these non-banking organizations and the degree to which these sources of information can be used will be further considered and clarified during project inception.

1.3 Composition of the Guidelines

The guidelines consist of two main parts. *Section 2* presents the biodiversity framework which identifies the ways in which SMMs can generate biodiversity benefits. *Section 3* builds on the framework and presents the operational process by which loan proposals are assessed to determine whether they contribute to the biodiversity framework. This will be used for both the release of partial risk guarantees and biodiversity rewards.

2 Biodiversity Framework

Broad Concepts for Biodiversity Conservation

The aim of biodiversity conservation is to conserve the maximum number of globally important species and their ecosystems. ‘Globally important’ is defined by species which are rare or endangered. In order to conserve them it is essential to maintain the integrity of the ecosystems in which they live. This goal in turn generates multiple benefits to people.

Critical elements of biodiversity conservation are reducing threats to biodiversity within protected areas and enhancing biodiversity in the production landscape. The former requires changes to economic activities, such as resource substitution. The latter requires in-situ changes to production practices and contributions to ecological connectivity.

In Mesoamerica, biologically important areas have already been mapped so that there are designated areas in which land use and economic activities need to be more oriented towards biodiversity than in other areas. These are designated by the Meso-American Biological Corridor (MBC) for terrestrial biodiversity and Meso-American Barrier Reef (MABR) for marine biodiversity.

In addition to production practices it is essential to stimulate market development for goods and services produced from biodiversity-friendly practices. Therefore conservation can be assisted not only through production but indirectly through changes across the supply chain and the world of consumers to stimulate market development.

2.2 Biodiversity Conservation Objectives: Meso-American Context

In the Meso-American context, there are five conservation objectives for investment opportunities CABEI and its FI network to which all investments must contribute in order to be eligible for preferential financing under the project:

1. Biodiversity friendly production or harvesting practices within or influencing the MBC to enhance biological connectivity between protected areas through ecological corridors or adjacent to the MBC to enhance buffering of the MBC.
2. Biodiversity friendly land and marine based production and harvesting practices influencing the MABR to enhance biological productivity and connectivity within and between marine protected areas.
3. Non-environmentally damaging investments within the MBC if linked to resource substitution and reduced degradation of protected areas and ecological corridors.
4. Non-environmentally damaging investments which may lead to resource substitution and reduced degradation of marine protected areas and connecting reefs and migratory corridors related with the MABR.

5. Biodiversity friendly production practices and related supply chain businesses anywhere which contribute to replication of the practice through demonstration effect and market development.

2.3 Investment Outcomes

A business investment can contribute to one or more of the five biodiversity conservation objectives through one or more of the following means⁹⁸:

1. Increase in-situ biodiversity on farms and forestry operations through improved habitat quality and quantity⁹⁹.
2. Reduce damage to marine ecosystems, fisheries and reefs through better harvesting techniques and limits (reduced by-catch, respect for no-take zones, sustainable harvesting).
3. Increase ecological connectivity between protected areas through improved habitat quality and quantity of land in corridors between the protected areas and improved marine corridors.
4. Promote sustainable harvesting of natural resources – fish, marine resources, NTFPs etc.
5. Reduce negative impacts on biodiversity from (i) avoiding forest conversion to pasture (ii) relocating factories away from biodiversity hotspots (iii) reducing pollution to watercourses and reefs.
6. Stimulate market development for biodiversity friendly products and services through promoting biodiversity friendly production systems, demonstration and replication, marketing, retail outlets, diversification of processed products, economies of scale etc.
7. Increase income potential from ecosystems to reduce the economic motivation to degrade or convert them to less environmentally friendly land uses.
8. Meet the needs of local communities for products extracted from natural areas through substituting them with environmentally sustainable or alternative means¹⁰⁰.
9. Support financing for protected areas, e.g., PA concession-related investments
10. Divert labor and/or capital away from biodiversity-damaging activities to non-damaging or conservation-friendly activities.
11. Generate sufficient income in productive landscapes (at the agricultural frontier) to reduce encroachment into natural areas (e.g. forests, wetlands or naturally occurring grasslands)¹⁰¹.

⁹⁸ Some investments will satisfy more than one of these objectives.

⁹⁹ Farms and forestry are specified because they are the main economic activities with direct impact on terrestrial biodiversity.

¹⁰⁰ The extent to which this practice may reduce the economic value of habitats to be conserved will have to be assessed.

¹⁰¹ Although this can also have a magnet effect if land tenure is not secure. This will have to be considered.

It is acknowledged that there are a variety of complex issues wrapped up in the above options, including the following:

- Difficulty in defining what is ‘improved habitat quality’ and what is enough ‘increase in habitat quantity’ is complex and requires further consideration, and quite possibly local assessments so that the improvements feed into the local ecosystem and wildlife requirements.
- For a business to stimulate conservation through changing resource use patterns is difficult and the following specific issues should be considered: (1) comparing potential income from different land uses; (2) linking the product to the habitat; (3) distributing benefits to those who depend on the resource; and (4) securing long-term benefits to the resource users.
- Any investment by itself may have a varying degree of impact on biodiversity as there are many other influencing factors. Such factors should be considered and addressed through coordinated actions by other programmes or groups. These investments should be viewed as aiding and strengthening conservation processes, not solving all the challenges themselves.

2.4 Types of Potential Biodiversity SMME Investments

The eleven desired investment outcomes can be categorized into four types of business investment opportunities which would in principle be eligible for financing under the present project.

1. A business that will change its production or processing system.

Changes in production practices of interest will contribute to one or more of the following:

- promote ecological connectivity between protected areas,
- promote buffering of protected areas,
- act as harbors for biodiversity in their own right,
- discourage further land conversion and/or encroachment through intensification,
- reduce hunting pressures for wild animals and collection of wild plants,
- maintain environmental services

Assistance could be provided to a business at any point along a supply chain which sourced products from biodiversity-friendly production practices and is not restricted to farming enterprises.

Examples of possible investments

Forestry, agricultural, agro-forestry, agro-pastoral and agro-silvo-pastoral land uses and fisheries (including shrimp farming) are common throughout the region and are potentially compatible with the biodiversity goals outlined in *Section 3*. However, the degree to which they are compatible depends greatly on the land use methods and production strategies adopted.

(i) Specific cultivated crops and processing systems

- Intensive and diversified agroforestry systems with integrated pest management. Coffee and cocoa will be prime products within these systems. Other potential products include:
 - o Horticultural production
 - o Timber
 - o Medicinal plants,
 - o Fruits,
 - o Ornamental plants and flowers
 - o Vegetables,
 - o Herbs and spices
 - o Sugarcane production in combination with strip plantations of multipurpose tree species
 - o Banana and citrus plantations
 - o Forest plantations
 - o Other vegetables and plants farmed in an extensive manner

(ii) Livestock

Silvopastoral systems incorporating multipurpose tree species in diverse silvopastoral arrangements, low-input cattle and dairy production,.

2. *A business that will stimulate markets for biodiversity-friendly goods and services*

This may be through one of the following practices:

- marketing
- selling goods
- demonstrating practices
- raising consumer awareness
- increasing accessibility to goods or markets

Examples of possible investments

- (i) Processors using biodiversity-friendly products to make added-value and new product lines. Examples include:
 - furniture manufacturers using sustainably harvested wood or wood ‘waste’ products
 - paintings using natural dyes
 - ice cream, jams and food products from BD-friendly agricultural products
 - handicrafts made from sustainably harvested natural products.
- (ii) Retailers such as supermarkets or furniture stores promoting biodiversity friendly products. Where the retailer specializes in such products financing for expansion will be eligible. Where the retailers only stock a portion of their products with biodiversity friendly products then financing will be eligible for investments used to increase the use of those products¹⁰².

¹⁰² Audits will be required to verify the retailers are using funds for this specific purpose.

- (iii) Tour companies who undertake ecological and/or market studies related to ecotourism and ecotourism opportunities.

3. *A business that, due to its nature or location, will lead to the reduced damage to biodiversity*

This may be because it will have one or more of the following impacts:

- rely on in-situ (wild) natural resources and hence increases value of natural habitat,
- assign value to protected areas,
- reduce pressure on harvesting and hunting of wild resources.
- help to monetize the use values of natural resources and areas, either through consumptive or non-consumptive means.

The benefit of the business will depend in part on complementary regulations and ecological requirements of the resources and habitats.

Examples of possible investments

- (i) Establishing a new ecotourism facility within or nearby a protected area.

Products and services potentially eligible for investment will include: Private nature reserves, hotels, resorts, guest houses, tour operations, handicraft, restaurants, bars, campsites, transportation, site infrastructure and management, construction of tourist facilities

- (ii) Finding new markets for the sustainable harvesting of a nature-based product that will generate value for keeping the natural habitat intact. Products could include:

- Live animal, bird and fish trade and rearing
- Wild fruits, nuts, mushrooms, rattan, bamboo, ornamental plants, spices and herbs, resins and gums, medicinal plants and grass.
- Processed products from wild resources¹⁰³, including:
- Tannins and dyes (e.g. forest plants such as Majitho and Chutro, used in natural pigments for dyeing cloth),
- Industrial oils (e.g. Tung oil for varnish), essential oils (e.g. Vetiver oil and Eucalyptus oil for fragrances and industry),
- Natural insecticides (e.g. Sassafras),
- Animal products (e.g. honey, horns, bones, feathers for use in paint, varnish, dye, electrical insulation)

- (iii) Carbon sequestration

The nature of these businesses will need to be assessed to verify they will be operated in a biodiversity-friendly manner. What it means to be sustainably harvested will have to be determined on a case-by-case basis.

¹⁰³ These could also be cultivated.

- (iv) A business that, due to its location near biodiverse areas, can reduce negative impacts to natural resources.

This could be any type of business from a hairdresser to a bakery which employs people that otherwise may be overly dependent on natural resources. These will often require suitable agreements and regulations to also be in place. Risks of creating a magnet effect also need to be managed.

4. *A business that will reduce its negative impacts on biodiversity*

Other economic activities, such as hotels, tourism operations and manufacturing, can have negative impacts on the environment and biodiversity for which financing could be provided to modify their practices to be more biodiversity neutral.

Investments could also be for cleaner production and pollution reduction if such actions can be linked indirectly to biodiversity impact, e.g., through impact on downstream ecosystems. This can also include environmentally-friendly technology such as solar dryers for coffee processing.

3. Operational Procedures for Assessing Eligibility of Investments and Monitoring Impact

3.1 Loan approval and monitoring process

The loan appraisal and approval process will have several stages which will then be followed up with monitoring and reporting, as follows:

Stage 1:	FI initial investment screening
Stage 2:	FI and CABEI loan appraisal against environmental criteria
Stage 3:	Optional supplementary detailed site assessment and verification
Stage 4:	FI and CABEI loan and partial risk guarantee approval and target setting for biodiversity reward scheme
Stage 5:	SMME reporting to FIs on biodiversity impact
Stage 6:	FI monitoring of loan impacts

The scale of the review will vary depending on the size of the investment in order to ensure the assessment and reporting procedures do not become overbearing particularly for micro businesses and loans and remove the incentive for businesses to and banks to participate in the scheme.

3.2 Description of stages

3.2.1 FI initial investment screening

This is a basic checklist to identify potentially eligible investments and filter out totally non-eligible investments. Any investment opportunity related to one of the types of investments listed in *Section 2.4* should make it through the screening along with any other investment which can demonstrate a reasonable link to the investment outcomes set out in *Section 2.3*. The screening is a basic process and should be done by the FIs.

The screening can filter out investments which are obviously not eligible. Once an investment passes the screening, the FIs should then undertake a more detailed assessment using environmental appraisal criteria. In addition, the screening can identify investment proposals which may require additional investigation in conjunction with the criteria appraisal.

The screening process will be conducted by the bankers and verified by CABEI. In the early years, an FI could contract a local environmental NGO to assist with screenings.

See *Annex 1* for a Draft Screening Checklist.

3.2.2 FI and CABEI loan appraisal against environmental criteria

FIs, by applying environmental appraisal criteria, can independently assess the biodiversity eligibility of the SMME investment proposals. The criteria will assist the FI to determine the degree to which an investment will contribute to the biodiversity goals detailed in *Section X*. The FI should seek assistance from CABEI and the project team during this appraisal process with appraisals in the first year being undertaken jointly.

The criteria are formulated to look for positive aspects of an investment to finance but also to ensure the investment does not have significant negative impacts. An investment proposal will not have to meet all criteria but demonstrate how it meets one or more criteria, which may be enough for eligibility. The number of criteria to be met will increase over time as biodiversity impact will be expected to increase as demand for the financial facilities increases.

The criteria will not ask detailed biodiversity-related questions that will necessitate undue work for the SMMEs or FIs. The criteria will rely where possible on proxy indicators of biodiversity benefit. For example, the criteria will rely heavily on location within the MBC as an indicator of potential contribution to conservation by an investment. The criteria will also rely on a typology of eligible production practices, such as the use of mixed trees, to indicate improvements in on-farm biodiversity. These were discussed above in Section 2.

Social and community considerations should also be taken into account when appraising the business investments to determine what impact they may have on the viability of the business or how they may influence the long-term biodiversity impact.

The FIs should seek assistance by CABEI and the project team during this appraisal process. Initial appraisals should be undertaken jointly. Even then, third party verifiers may be needed.

Micro loans and SME financing will need to be considered differently. The inception phase will adapt the criteria based on varying sizes of the loans.

There will be two sets of criteria – one for each type of eligible enterprise. See *Annex 2* for Environmental appraisal criteria.

Judging environmental appraisal

Whilst scoring is rigid and can get complex with weightings, the use of judgment can reduce standardization and transparency and could be too subjective. The project inception phase will develop a method for scoring and subsequently approving or rejecting investments based on the application of the criteria.

The project will finance these appraisals at least for the first year until they can be streamlined and operationalized by the FIs themselves. The inception phase will determine who will do them.

3.2.3 Additional detailed site assessment and verification

When an investment proposal has elements which may generate risks for biodiversity and the environmental appraisal process proves inconclusive, an additional investigation may be required. Investments over \$100,000 should also be investigated in more detail. Also sectoral investments which have higher risk to the environment, eg in manufacturing also may need further investigation.

Ecological field assessments may be requested, by the project team, CABEI and eventually by the FIs depending on the size and nature of the business and proposed location. The ecological field assessments will need to be undertaken by specialist and/or local environmental NGOs and institutions. The reports will be submitted to the SMME, the FI, CABEI and the project team. The funds for this can be requested from the project. This may include a site visit to assess potential risks and propose means for minimizing and mitigating the risk. The project will

finance these appraisals at least for the first two to three years until they can be streamlined and operationalized by the FIs themselves. The inception phase will determine who will do them.

For example, if an NTFP investment is proposed, the sustainable harvest plan will need to be assessed. This will require site visits, measurements, scientific knowledge about the species, etc.

See *Annex 3* for detailed sectoral checklists which will need site assessments.

3.2.4 FI and CABEI loan and partial risk guarantee approval and target setting for biodiversity reward scheme

The risk guarantees will be approved based on the results of the environmental appraisal and, where applicable, the additional detailed site assessments. The target setting for the biodiversity reward scheme will be set on a case-by-case basis with assistance from an environmental organization. This can be financed from the project for the first two to three years.

3.2.5 SMME reporting to FIs on biodiversity impact

SMMEs will not be required to undertake biodiversity monitoring in order to receive either a loan or a partial risk guarantee. This will be too cost-ineffective to do if real mainstreaming is to be achieved. Where an SMME will be requested to set up a basic biodiversity monitoring system is when it requests a Biodiversity Reward, which will only be paid out on evidence that biodiversity targets are met.

3.2.6 FI monitoring of loan impacts

It is to be assumed that if the loan is approved the investment will have a positive impact on biodiversity because it complies with the environmental criteria which should lead to biodiversity impact. There will be regular monitoring and evaluation studies which will sample loans to determine biodiversity impact across the portfolio to ensure this is the case or to revise the environmental criteria should businesses not be achieving biodiversity impact..

3.3 Additional tools for assessing eligibility and monitoring investments

There are a suite of tools which can be used by CABEI and FI credit analysts to determine whether the above types of investments will contribute sufficiently to biodiversity to warrant favorable financing. These include:

- Certification systems
- Maps of the MBC and MABR
- Guidance for community agreements

3.3.1 Certification systems

Introduction to certification

Where an SMME is certified by systems which include adequate biodiversity parameters, then the certification can act in conjunction with the environmental appraisal criteria to verify that the SMME would be eligible. Certification is important for three main reasons:

- it offers a methodology for demonstrating the existence and scale of biodiversity benefits ('certified benefits') through independent, third-party certifying bodies;
- it provides one set of criteria by which a given business, and in this context a potential borrower, may be judged eligible for access to a preferential financial facility ('certified eligibility');
- lenders, once they understand the price and market-access related advantages offered by certification, will be more interested to lend to the 'sector.'

For example, the set of nine general criteria areas used by Rainforest Alliance to certify agricultural production processes includes the following biodiversity-related criteria:

- *Ecosystem conservation* -- Farmers promote the conservation and recuperation of ecosystems on and near the farm.
- *Wildlife conservation* -- Concrete and constant measures are taken to protect biodiversity, especially threatened and endangered species and their habitats.
- *Integrated crop management* -- Farmers must employ Integrated Pest Management and strictly control the use of any agrochemicals to protect the health and safety of workers, communities and the environment.
- *Complete, integrated management of wastes* -- Farmers must have a waste management plan to reduce, reuse and recycle whenever possible and properly manage all wastes.
- *Conservation of water resources* -- All pollution and contamination must be controlled, and waterways must be protected with vegetative barriers.
- *Soil conservation* -- Erosion must be controlled, and soil health and fertility should be maintained and enriched where possible.

Those who have adopted standards of the Aquaculture Certification Council (ACC) have been certified to be following practices such as the following:

- no net loss of mangroves,
- strict effluent standards,
- sediment management,
- control of soil and water salinization and groundwater depletion,
- no use of wild postlarvae, and
- compliance with national regulations re. importation of native and non-native shrimp seedstock.¹⁰⁴

List of Acceptable Certification Systems

The number of certification schemes continues to increase. The following are acceptable and demonstrate investment eligibility. Other systems may be added later.

- Aquaculture Certification Council (ACC)
- Forest Stewardship Council (FSC)

¹⁰⁴ See <http://www.aquaculturecertification.org/ACC-PDFS/fgud504.pdf>

- Rainforest Alliance (RA) for coffee, citrus, bananas and other crops with certification standards
- Marine Stewardship Council (MSC)

3.3.2 *Maps of the MBC and MABR*

Maps of FIs and their geographic coverage will be provided during the inception phase to see which FIs disburse to potential clients in the MBC and in coastal areas of the MABR.

3.3.3 *Guidance for community agreements*

A business can be based on income from ecosystem products or services but this does not necessarily mean that the benefits will be shared with the members of the local community dependent on the resource for income. Even where new businesses increase income for a small group of local stakeholders, others who do not benefit may still extract the same resources in an unsustainable manner.

Therefore, when a business initiative increases the economic value of a conserved ecosystem, the financier needs to consider how this added value is distributed to a sufficient number of the main resource users. This should include considerations of how to increase individual household control over resources, and how to ensure that timing of income flow fits with seasonal income and expenditure patterns. These are necessary to ensure changes in resource use behavior by the communities. Such assessment will need to be carried out by NGOs or research institutions.

Community agreements will be needed by SMMEs trying to demonstrate that their investments will lead to reduced natural resource use within areas of biological interest. Community agreements can be useful to ensure natural resource-based businesses do not become a threat to conservation and lead to changes in behavior with regard to biodiversity-important resources. These agreements should take into account:

- ⇒ How many resource users can be included in the agreement and how this compares with the total number of local resource users.
- ⇒ The amount of resource users who will not benefit from new businesses and who may continue to significantly threaten the resources.

Annex 1: Screening Checklist

The operation must be completely legal and there must be no evidence that the borrower has broken any laws in order for an investment to be considered.

1. Basic eligibility requirements for further appraisal

- a. Is the investment located where it can have a positive impact on a protected area, buffer zone or biological corridor within the MBC or MABR?
- b. Is the investment in a sector identified as having potential for biodiversity benefit?
- c. Does the investment promote a change towards or maintenance of biodiversity friendly production practices or a process?

The screening will not require a borrower to demonstrate that there is any globally important biodiversity in the investment area. An *assumption* is made that conservation can be addressed if the investment either is located in MBC or MABR or in a sector which is known to have potential positive impact on biodiversity (such as tourism or agriculture).

If the answer to any of the three questions is yes, and none of the exclusionary principles (see next section) are applicable, then the investment can proceed to the appraisal stage.

2. Activities which lead to investment exclusion

These will be basic principles to help FIs avoid providing financing to environmentally damaging investments. Any borrower will be allowed to make a case as to why they should not be excluded if **any parts of their operations** are related to any of the following. Borrowers should also be encouraged to discuss with the CABEI team how they could modify their investment proposal to avoid any of these exclusionary principles.

Financing will not be provided to investments which include any of the following:

- Activities which generate land-based sources of pollution, including industrial pollutants and sedimentation linked to deforestation as these have important effects on inshore marine habitats, including the MBRS (see above), the second longest barrier reef system in the world.¹⁰⁵
- Marine aquaculture, particularly shrimp culture, which will result in habitat loss, particularly of mangrove areas.
- A significant negative impact on local communities: This may involve damages to legal or customary rights, property, intellectual property rights, land tenure, resources or livelihoods of local people, particularly low-income and indigenous peoples.
- Clearance or conversion of primary natural habitats.
- Loss of representative samples of ecosystems within landscapes.
- Introduction and/or extension of potentially invasive alien species.

¹⁰⁵ See Almada-Villela et. al, "Status of Coral Reefs of Mesoamerica – Mexico, Belize, Guatemala, Honduras, Nicaragua and El Salvador," Chapter 16 in Wilkinson, Clive, Ed. 2002. *Status of Coral Reefs of the World: 2002*. Australian Institute of Marine Science.

- Forest conversion to plantations or non-forest land uses.
- Large scale clear cutting.
- Use of biological control agents, including genetically modified organisms.

3. *Investments which will require detailed site assessments in addition to the environmental appraisal criteria*

Investments which will require detailed site assessments in addition to the environmental appraisal criteria include the following:

- Investments where land tenure and security is uncertain
- Investment which will include roads going into under-developed natural habitats.
- Investment requests for irrigation systems, particularly in areas of water scarcity, will be scrutinized for negative downstream hydrological and ecological impacts.
- Investment which will include deforestation or land conversion.
- Investments which will result in erosion and other impacts due to harvesting, road construction and other mechanical disturbances.
- Existence of site based environmental liabilities e.g., site contamination.
- If the company has a bad environmental history past practices.

Annex 2: Environmental Appraisal Criteria Checklist

Different investments will have different criteria relevant to them. Criteria checklists have been developed for investments which:

- Change production processes of existing business operations. This will be applicable to farms, forestry operations, fishery enterprises and aquaculture and mariculture businesses. This will also be applicable to tourism and manufacturing businesses looking to reduce their negative environmental impacts. Businesses along a supply chain of biodiversity friendly products should be assessed by the biodiversity impact of the products sold and the scale of sales.
- Have an indirect impact on resource use and habitat maintenance. This will be applicable to a range of businesses, due to their nature or location (see biodiversity framework, *Section 2*).

A positive assessment may be the result of the investment achieving one or more of the criteria listed below. The reviewer should tick or cross each criterion as applicable and provide a brief explanation to demonstrate validity.

Change Production Processes of Existing Business Operations

Is the investment promoting biodiversity within the location and geographic scope of the business¹⁰⁶?

- i. Will the production practices either: increase forest cover, reduce forest fragmentation or avoid conversion of forested land or increase forest connectivity?
- ii. Will pollution of rivers, stream and coral reefs by agrochemicals be reduced? To what extent will the use of (agro-) chemicals be reduced? Will chemicals be substituted in favor of integrated pest management?
- iii. Are provisions in place to ensure employees protect important wildlife?
- iv. Will there be a reduction in extraction of firewood, timber and other natural resources?
- v. Will the investment make efforts to control the introduction and spread of invasive species?
- vi. Will hunting be reduced?
- vii. How will the production practices conserve water? Will water extraction be reduced?
- viii. How will the production practices maintain water and soil resources? Will soil erosion be reduced?
- ix. Will the use of GMOs be stopped?
- x. Will fire regimes be affected?
- xi. Will the investment finance any infrastructure which may bring unintended environmental impacts?

Additional benefits

- Does the investment have potential for replication within the MBC? If so, can it have a demonstration effect to similar enterprises?
- Will it contribute to market development of biodiversity friendly products?
- Will it undertake any biodiversity monitoring?

¹⁰⁶ If some answers are negative ie negative impacts increase then net benefit needs to be assessed.

New business which may have an indirect impact on resource use and habitat maintenance

Will the investment result in reduced resource degradation within biodiversity hotspots?

- i. Will the investment increase the value of a natural habitat or protected area and hence build local support for its conservation?
- ii. Will any natural resource users (abusers) who may be threatening, the MBC or MABR be impacted by the investment? Is so, in what way? Will the investment create alternative livelihoods which will divert labor or capital away from biodiversity-damaging activities to non-damaging or conservation-friendly activities?
- iii. Will the investment meet the needs of local communities for products extracted from natural areas through substituting them with environmentally sustainable or alternative means?
 - Will it grow wood plantations or providing cooking gas to reduce dependency on fuel-wood from forests and mangroves?
 - Will it breed animals like iguanas to substitute for hunting endangered will animals?
 - Will it cultivate plants (eg medicinal) which will reduce pressures on wild relatives.
- iv. Will the investment generate sufficient income in productive landscapes (at the agricultural frontier) to reduce encroachment into natural areas (e.g. forests, wetlands or naturally occurring grasslands)?
- v. Does the investment promote sustainable management of a natural resource?
- vi. Will any natural habitat be degraded because of the investment?
- vii. Does the product to be financed need to be ecologically supported by natural habitat (eg a medicinal plant that only grows in a diverse forest or ecotourism)?
- viii. Is there a community agreement in place with respect to resource use? Has the local community been involved or consulted in the investment design or will it be during the investment operations (particularly for tourism operations)?
- ix. Will the investment reinvest a certain portion of income into the local communities and protected areas?

Additional benefits

- Are benefits from the project being gained largely by local communities and by priority groups, e.g., women, indigenous groups, etc.?
- Can the investment have a multiplier effect for the local economy and the sector?
- Does the investment have potential for replication within the MBC or MABR and act as a demonstration?
- Will biodiversity monitoring take place?

Annex 3: Additional Assessments for Investments by Sector

Forestry

Sustainable forest management will be eligible if assessed positively through the Screening Checklist and Environmental Appraisal Checklist. This promotes the harvesting and sale of timber whilst conserving the environmental functioning of the forest ecosystem. The following practices for logging in production forests which will enhance forest integrity are expected for any forest related investments¹⁰⁷:

- Detailed long-term (15 years) and short-term (annual) planning, to ensure harvest rates are in line with regeneration and growth rates of the forest
- Inventory and mapping of harvest blocks, including location of individual harvestable trees and future crop trees
- Planning and limited widths of road and skid-trail layout
- No roads or skid trails on slopes greater than a certain threshold
- Culvetting of stream and bridging of rivers
- No cutting permitted on slopes exceeding a certain threshold (eg 40%) or within a certain distance of a water course
- Post-harvest inventory of damage and regeneration
- Enrichment planting in areas where post-harvesting regeneration is below threshold levels
- Destruction of all bridges and access to the harvest blocks post-harvesting.
- Avoidance of large canopy openings
- Avoidance of damage to residual vegetation, ground cover and saplings
- Minimize invasion of vines and pioneer plant species
- Promote natural regeneration
- Maintain genetic, species and ecosystem diversity within the forest
- Low-impact production and harvesting methods to be employed
- Training labor force in and application of logging techniques to reduce felling and extraction damage
- Organic waste will be left in the forest to decay whilst non-organic waste will be disposed of safely

Additional benefits

- Improve the quality and quantity of timber in the forest
- Promote value-added processing of forest products to increase revenues from the forest
- Employ local community members

If the investment will undertake some of these but not others then further discussions with environmental specialists may be required.

¹⁰⁷ Multiple sources, including TNC.

Agriculture

The following practices are expected for any agricultural related investments:

- Agricultural expansion into natural areas needs to be halted
- Soil erosion and reduced soil fertility needs to be prevented.
- No use of GMOs
- Minimize or stop improper transport, storage and use of pesticides, insecticides and fertilizers, particularly near water courses.
- Apply organic fertilizers and increase soil organic matter and micro-organisms,
- Crop rotation is planned and promoted
- Use integrated pest management
- Increase efficient and intensive production to reduce need for agricultural encroachment into natural areas
- Plant vegetative strips and patches where possible for wildlife feeding, movement and nesting and to reduce soil erosion and runoff.
- Soil and water conservation practices are built into the farm practices, including: reducing evaporation and seepage from irrigation channels, using terracing, contour plowing, mulching to slow runoff, replanting trees and vegetation to improve soil and water retention.
- Water should be recycled and reused wherever possible.

Organic certified farming will be encouraged but will not be sufficient to warrant lending as it does not necessarily yield benefits to biodiversity. Rainforest Alliance certification will be sufficient.

Agroforestry

The two main commodities will be coffee and cocoa. These need to be produced within an integrated agroforestry system with integrated pest management.

Livestock

Silvi-pastoralism should be promoted.

Fisheries

The following practices are expected for any fisheries-related investments:

- promote sustainable harvesting and quotas
- respect no take areas and seasonal fishing bans
- equipment and processes are adopted to reduce by-catch
- by-catch of turtles and mammals is avoided..

Aquaculture

Aquaculture investments can have certain risks which need to be addressed. Investments in aquaculture therefore have to take into account and avoid:

- Destructive effects of pond construction on natural aquatic ecosystems – particularly mangroves and wetland areas,
- Escapees, which is particularly problematic with exotic and invasive species (eg Talapia).
- Fish food is fish meal stimulating the catch of small fish and hence disturbing the aquatic food chains.
- Changes to water quality in rivers and coastal areas,
- Pollution – both chemical and thermal – from fish waste and other inputs.
- Fish are vulnerable to disease, which can add risk to the ecosystem in the case of escapees

The following practices will also be expected:

- sediment management,
- control of soil and water salinization and groundwater depletion,
- no use of wild postlarvae, and
- compliance with national regulations re. importation of native and non-native shrimp seedstock.¹⁰⁸

Certification by the Aquaculture Certification Council (ACC) will demonstrate compliance.

Tourism

The following practices are expected for any tourism related investments:

- No change to local culture
- Visitor impact managed

Non Timber Forest Products (NTFPs)

The following practices are expected for any NTFP related investments:

- Harvesting or gathering of an NTFP must not exceed the sustainable yield of the ecosystem. This will require a botanist to undertake a carrying capacity study, which assesses regeneration patterns.
- Destructive harvesting techniques – to either the targeted species or species living in the area - are not to be used. This is difficult to monitor and may only become evident once damage is already done. Therefore harvest rates and productivity will need to be monitored and if they decline then harvesting techniques will need to be revised.
- Regeneration will be natural or planting will not alter the forest structure

¹⁰⁸ See <http://www.aquaculturecertification.org/ACC-PDFS/fgud504.pdf>

- Value-added processing of the products should be encouraged.

Annex 4: Influencing Labor Markets and Capital away from Biodiversity-Damaging Activities

One important way to reduce loss of biodiversity is to encourage local residents to reallocate labour away from undesirable activities towards desirable ones, in a substitutional manner. This is possible if new businesses provide income greater than the existing returns to labour and capital. However, even if some labour is attracted to new activities there will not necessarily be a reduction in available labour for environmentally damaging activities.¹⁰⁹ The ability to divert labour, particularly in low-income communities, faces four key challenges:

1. People do not have fixed-income targets. Instead of only substituting one economic activity for another slightly better one, a worker might try to do both to increase his or her income as much as possible. For example, one person may work on a plantation during the day and continue to hunt at night or early morning; another may work in tourism in the dry season and continue to log forests illegally in the wet season.
2. Where there is underemployment there will be surplus labour. It will therefore be difficult to develop economic activities that divert sufficient labour away from damaging activities. Surplus labour, or even inactive potential labour, such as children and women, may fill a labour need. If the area receives migrants, then new workers may take over activities previously abandoned by the locals for more biodiversity-friendly activities.
3. New activities that rely on technology and are not labour intensive will not divert much labour and therefore will not have significant impact on the labour market.
4. Cultural traditions and reluctance to take on more work for small incremental gain may make local communities less receptive to new business ventures, especially if they have already invested capital in existing activities and are concerned about the risk of failure. Without assistance to exit from existing activities, individuals may be unable or unwilling to transfer their labour to alternative businesses.

¹⁰⁹ Ferraro and Kramer, 1995

PART XI - List of All FIs With Branches and Operations in / or Near the Mesoamerican Biodiversity Corridor (MBC)

The Banks, the Finance Company and the Non-Banking Financial Institution (NBFI), are presented in order of importance based on their proximity to the MBC as follows:

GUATEMALA

Banks and Finance Companies

1. *Banco de Desarrollo Rural*
2. *Banco del Quetzal*
3. Banco Uno GU
4. Banco Reformador
5. Financiera Agromercantil
6. Financiera de Inversion

NBFI

1. *Fundación Tecnológica GENESIS EMPRESARIAL*
2. *FAFIDESS*
3. *ADEPH*
4. *Fundación para el Desarrollo Integral ASDESARROLLO*
5. *Asociación de Mujeres en Desarrollo MUDE*
6. *Cooperativa UPA*
7. *COOSAJO*
8. *Cooperativa de Ahorro y Credito Integral GUAYACAN*

EL SALVADOR

Banks and Finance Companies

1. *FEDECREDITO*
2. *Banco Procredit ES*
3. *Banco Hipotecario ES*
4. Banco Cuscatlan
5. Banco de America Central ES
6. Banco Uno ES

NBFI

1. *FUSADES*
2. *CC de San Vicente*
3. *Apoyo Integral*
4. *CAM*
5. *CC de Sonsonate*
6. *CC de Acajutla*
7. *CC Nueva Concepción*
8. *CC San Ignacio*
9. *CC de Santiago Nonualco*
10. *CC Concepción Batres*
11. *CC Chalatenango*
12. *CC Soyapango*
13. *CC de Aguilares*
14. *CC Jucuapa*
15. *CC de Usulután*
16. *CC de Tonacatepeque*
17. *CC Zacatecoluca*
18. *BANCOFIT*
19. *CC Metropolitana*
20. *CC de Cojutepeque*
21. *CC de Santa Ana*
22. *BANTSOY*

HONDURAS

Banks and Finance Companies

1. *Banco Atlántida*
2. *Banco de Occidente*

NBFI

3. *Banco Grupo el Ahorro Hondureño*
4. *Banco Mercantil*

5. Financiera Solidaria
6. Banco de America Central HN
7. Banco Financiera Centroamericana
8. Banco Promerica

1. *Fundacion Covelo*
2. *FAMA HN*
3. *Finca HN*

NICARAGUA

Banks and Finance Companies

1. *Procredit*
2. *Financiera Nicaragüense de Desarrollo*
3. Banco de la Producción
4. Banco de Credito Centroamericano
5. Banco Uno NIC
6. Banco de Finanzas

1. *PRODESA*

4. Cooperativa Ceibeña
5. Instituto Hondureño de Estudios y Desarrollo Integral de la Comunidad (INHDEI)
6. Fundacion para el Desarrollo de Honduras (FUNED)
7. CHF Internacional
8. COMIXMUL
9. ODEF

NBFI

2. *ASODENIC*
3. *FAMA NIC*
4. FJ NIEBOROWSKY
5. FDL
6. FIDESA
7. FINCA NIC
8. CEPRODEL
9. FUNDACION LEON 2000
10. FINANCIAS CAPITAL
11. FINDE
12. ADIM
13. FUNDESER
14. ASODERI
15. FUNDENUSE
16. COOPERATIVA 20 DE ABRIL
17. ACODEP
18. FODEM-CENZONTLE

COSTA RICA

Banks and Finance Companies

NBFI

1. *Banco Agrícola de Cartago*
 2. *Banco Nacional de Costa Rica*
 3. Banco Internacional de Costa Rica
 4. Banco Banex
 5. Banco de San José
 6. Banco Interfin
 7. Banco BCT
 8. Banco Improsa
 9. Banco Lafise
 10. Banco Promerica
 11. Banco Cathay
 12. Financiera CAFSA
 13. Financiera DESYFIN
 14. Financiera ACOBO
 15. Compañía Financiera de Londres Limitada
-
1. *CREDIMUJER*
 2. *ADRI*
 3. ACORDE
 4. FIDERPAC
 5. Cooperativa de Ahorro y Credito de Ciudad Quezada

PART XII – Response to Project Reviews

a) Convention Secretariat comments and IA/ExA response

None received

b) STAP expert review and IA/ExA response

b.1) - STAP Expert Review

Central American Markets for Biodiversity (CAMBio): Mainstreaming biodiversity conservation and sustainable use within micro-, small, and medium-sized enterprise development and financing

1.0 Summary of main points

The Draft Project Document sets out an innovative set of technical assistance and funding proposals designed to enhance biodiversity conservation in the Mesoamerican region in line with general GEF priorities and operational programmes 2, 3, and 4. The project addresses GEF Strategic priority II: “Mainstreaming Biodiversity in Production Landscapes and Sectors” by focusing on the use of GEF and UNDP support to remove barriers to biodiversity conservation, such as counter-productive governmental policies and incentive structures, limited market perceptions of the value of biodiversity, as well as the adverse impacts of non-sustainable production procedures in the private sector.

The reviewer was invited to comment on preliminary drafts of the proposal. Initial concerns were raised concerning the need for refinement of the goal and objectives, description of activities and outputs, and implementation arrangements. The project team has incorporated changes that have successfully addressed the majority of the critical comments and suggestions, and the reviewer is of the opinion that the proposed project is worthy of support by the GEF and UNDP.

The following paragraphs set out a series of more detailed comments based on standard GEF Technical Review Criteria:

2.0 Scientific and technical soundness of the project

2.1 Analysis of Issues Adversely Affecting Biodiversity

There is sufficient ecological information available to give the project a sound scientific base.

The Situation Analysis presents a rigorous analysis of the social, economic and governmental factors that form barriers to the conservation of biodiversity in the Mesoamerican region.

The manner in which the project is designed does not pose any threat to ecosystems or biodiversity. GEF support for the planned interventions will help to reduce the loss of habitats and species that would otherwise continue if the measures to remove barriers to biodiversity conservation did not receive international support.

2.2 Opportunities to Improve Biodiversity Conservation

The identification of the positive role that potentially Biodiversity Friendly (BF) SMMEs could play in improving biodiversity conservation appears to be sound. The project identifies a set of tools and corresponding suite of technical assistance and financial measures to reduce barriers to the transformation of SMME practices. The project design represents a perceptive, comprehensive and cost-effective approach to the use of GEF resources.

The three main tools for transforming SMME practices –1: Channeling capital to BF-SMMEs, 2: Business development and marketing support to BF-SMMEs, and 3: Creating an enabling environment to encourage BF-SMMEs are clearly set out along with an indication of the activities that stakeholders are engaged in that would complement GEF-UNDP interventions.

It should be emphasized that a key feature of the proposed interventions involves raising the awareness of banking and non-banking financial institutions of the value of biological diversity and then training staff to give greater emphasis to the assessment of the merits of proposed loans to Biodiversity Friendly SMMEs and the cash flows of the proposed investments.

The project Strategy identifies a series of innovative GEF funded financial interventions to overcome constraints that hinder the transformation of SMME practices. For example, the use of a “Partial Guarantee Facility” and “smart subsidies” to help in reducing perceived risks to financial institutions and in enhancing support for the start up of biodiversity friendly enterprises.

A further key point identified in the Situation Analysis is the need for access to technical assistance to raise the technical and managerial skills of the SMMEs to allow them to take advantage of improved financing.

The tools and proposed interventions are all technically sound. However, there are risks associated with this form of project in that it is attempting to address critical problems and issues spanning a wide array of natural resources based activities in five nations. The revised management arrangements for the implementation of the project address the majority of these risks and the reviewer considers the level of risk is acceptable given the potential improvements to biodiversity conservation the planned interventions should achieve. In essence, progress in biodiversity conservation in Mesoamerica would be greater with the project than without the project.

Two critical barriers identified in the Situation Analysis could pose some risk to the successful achievement of the planned outcomes; namely - 1) counter-productive incentive structures created by governmental policies, and 2) the limited extent to which markets have recognized and ascribed monetary value to biodiversity. While it is recognized that there are limits to what a single project can do, it would be helpful if the Project Document could identify other programs or projects that may be addressing these two barriers. This would help demonstrate the added value the GEF funding and the proposed activities of this project would bring to the conservation of biodiversity in the Mesoamerican region.

Specific points that would help in strengthening this proposal include:

1. Project Design

- It would be helpful if the potential of the project to support the Convention on Biodiversity and, in particular the Biodiversity Action Plans being developed by the 5 participating Central American countries, could be brought out in the documentation.
- It would be helpful to use a Logical Framework (LogFrame) to illustrate the linkage between the Goal, Objectives, Activities, Outputs and Outcomes. This would help further clarify the

logical sequence in the implementation of planned activities and how these activities would form the foundations for the stated outputs and projected outcomes.

- The manner in which the use of GEF funding would “leverage” substantial co-financing available under existing SMME credit lines needs to be explained. Otherwise, it would be difficult to defend this statement.

2. Project Implementation

- The project implementation arrangements appear very complex. UNDP is nominated as the Implementing Agency with the UNDP Honduras Country Office acting as the lead implementing county office, while CABEI will serve as the Executing Agency. The UNDP implementation arrangements embody other country offices and it would be helpful to know if this model has been used successfully in other projects.
- The explanation of how project interventions would be implemented needs to be more clearly set out. For example, how will the project engage the diverse range of stakeholders in achieving the stated goals and objectives.
- The project document gives strong emphasis to the competence and activities of a wide range of Stakeholders, but exactly how these groups or individuals would help the project to fulfill its objectives is not clear. Completion of the Stakeholder Involvement Plan would help clarify this important issue.

With the measures that have already been taken to strengthen of the Strategy for achieving the stated objectives, there are very good prospects for effective use of technical and financial resources provided by the GEF, UNDP and other partners in the achievement of the planned outcomes.

The identification of Objectively Verifiable Indicators and Monitoring arrangements are appropriate to the stated outputs, outcomes and objectives.

2.3 Other STAP considerations

- The project should not be considered controversial as it uses a combination of interventions designed to enhance biodiversity conservation that are proving effective in other regions. The strength of the project proposal lies in the combination of instruments designed to make it possible for the economic groups that are implicated in the loss of habitats and non-sustainable resources development to change their management practices and improve their livelihoods, thus allowing them to make a major contribution to biodiversity conservation.
- It does not introduce incentives that might lead to over-use of natural resources. It is innovative in that it incorporates a comprehensive set of activities and outputs designed to create a paradigm shift in the way financial institutions value biodiversity and assess the merits of efforts by small, micro and medium sized enterprises to improve the efficiency of their use of natural resources and production processes. This will allow both the Financial Institutions and the SMMEs to play a much greater role in helping to conserve biodiversity and promote sustainable use of ecosystems and renewable resources.
- As a benefit of the project there should be an increase in revenues rather than a decrease resulting from increased efficiency in the use of resources and greater added value to the products produced by the SMMEs. This in turn should reduce pressures for extensification of resources based activities and reduce the current rate of loss of habitats and ecosystem functions

- No doubt valuable lessons will be learned during the progress of the project that will help inform other initiatives designed to improve the conservation of the rich and diverse biodiversity in the Mesoamerican region and other areas. The project documentation contains sound plans for the dissemination of information and sharing of lessons learned among the participating nations and with the wider region.

3.0 GEF Policy Conformity and Identification of global environmental benefits

Potential complementary links to other GEF initiatives are identified on page 21. Although improvements could be made to the stated project Goal and Objectives, they appear to fit well with the GEF objectives, policies and broad operational strategy. However, the text on pages 32-34 is rather general and it would be helpful if the Strategy could more succinctly identify how the project interventions relate to the GEF objectives, policies and broad operational strategy. This would help demonstrate that the project is a strong and integrated initiative that directly addresses specific objectives in each of the 4 operational programs.

4.0 Regional Context

The project addresses issues of importance to the conservation of biodiversity and sustainable economic and social development within the 5 Central American nations by focusing on a range of issues and barriers to biodiversity conservation that are common in the Mesoamerican region. There is significant potential for transferring information gained through the various project activities and outputs among the 5 participating nations and with other countries in Latin America, the Caribbean, and elsewhere. There will also be cross-border benefits in respect to the reduction of pressures to convert habitats that span different county borders, such as montane forests, and in the management of habitats and corridors and features such as the coral reef systems along the Central American shoreline.

The project is supported by each of the 5 nations as can be demonstrated by the letters of support that will be attached to the ProDoc.

5.0 Replicability of the project

There is good scope for the replication of the planned activities in other parts of Central and Southern America and potentially in other countries based on the experience gained and lessons learned during the life of the project.

6.0 Sustainability of the project

This project offers a chance to achieve sustainable reductions in the barriers that constrain biodiversity conservation. There appears to be good potential for continuation of the outcomes the project aims to achieve as the project design incorporates measures for local participation, human resources development, and institutional strengthening.

There may be a risk of non-sustainability of the Partial Guarantee Facility where the initial grant may not be replaced by a fund built up from the profits from the SMME development efforts. This would reduce the positive incentive to FIs to allow them to reduce their perceived risk.

There are also issues concerning national policies and incentives that may continue to frustrate initiatives to promote effective biodiversity conservation. Having expressed this concern, there are practical limits as to how much one project can achieve in bringing about changes in government policies and incentive schemes, or in promoting greater harmony and integration among sectoral management plans and resources development arrangements. Others- including other GEF funded initiatives and UNDP projects -

are working towards improvements in these areas and these efforts should complement this CAMBio initiative.

In turn, the CAMBio initiative will help improve the prospects for success in these other initiatives. It may be helpful to consider whether progress towards improved biodiversity conservation in the 5 Central American nations would be better “with the project” versus “without the project”. Given the complexity of the challenge of improving biodiversity conservation in Mesoamerica, any incremental improvement in the contribution that the private sector can make - especially the domestic financial institutions and the multitude of SMMEs- should be seen as worthwhile and potentially of great value in the longer-term where sustainable results are achieved

7.0 Secondary issues

Linkage to other focal areas

The project design appears to be consistent with the stated operational strategies of the other GEF, UNDP, World Bank, Inter-American Development Bank and other donor focal areas, and avoids negative impacts in focal areas outside of the project. The proposed project activities appear feasible and cost-effective, and should contribute to global environmental benefits in other focal areas and in the cross-sectoral area of upland and coastal biodiversity conservation

Linkage to other programmes and action plans at the regional or sub-regional level

The project should illustrate how it will build upon past, ongoing and prospective GEF activities. The project design could be strengthened by making more explicit mention of how the planned activities would be coordinated with work of other GEF projects and their respective Implementing Agencies and other bodies. This should include how links would be established with relevant ongoing regional or sub-regional programs and action plans.

Other beneficial environmental effects

The project seeks to improve the management of ecosystems of importance to more than one sector of the economies of the 5 Central American nations. The planned measures should help reduce conflicts among agencies and economic entities seeking to maximize their respective use of the different ecosystems and their respective natural resources. Improved management of SMME activities should yield other ecosystem services and social and economic benefits to local communities and those in the wider region. It would be helpful to indicate how these could benefit other sectoral agencies whose cooperation is important to the successful implementation of the planned activities

Degree of involvement of stakeholders in the project

Stakeholder involvement is essential to the successful implementation of the planned outputs/activities. The “mainstreaming” of biodiversity as an essential element of long-term SMME development supports the GEF emphasis on the development of activities to promote private sector and community involvement in the management of biodiversity. The project design would benefit from further clarification of the measures to promote and maintain cooperation between the various groups of stakeholders, and transparent mechanisms to ensure the active participation of relevant stakeholders in the development, implementation and monitoring of project activities.

Giving greater emphasis to the role of the wide range of stakeholders could strengthen the project design as mentioned above. The project could also elaborate on the planned use of concepts such as the co-management of resources between SMMEs and communities as many SMMEs are based in rural

communities and can act as instruments of economic and social development as well as biodiversity conservation.

Capacity building aspects

The development of increased awareness of the value of biodiversity on the part of key stakeholders, training to enhance capacities to assess potential markets for goods and products derived from the sustainable use of ecosystems, and training to help SMMEs transform their production systems form main elements in the project design.

Peter Burbridge
January 14, 2005

b-2) Response to STAP Review

The project team would like to begin by thanking the STAP reviewer for his very careful and constructive review of the several drafts of the project proposal which were presented to him during a tightly circumscribed drafting period. His comments along the way have greatly helped and positively influenced the present document.

With respect to specific critical points raised in the review, the project team is pleased to reply as follows:

Issue	Response	Location in Doc.
Section 2.2		
<p>1. “Two critical barriers identified in the Situation Analysis could pose some risk to the successful achievement of the planned outcomes; namely - 1) counter-productive incentive structures created by governmental policies, and 2) the limited extent to which markets have recognized and ascribed monetary value to biodiversity. While it is recognised that there are limits to what a single project can do, it would be helpful if the Project Document could identify other programs or projects that may be addressing these two barriers.”</p>	<p>(1) Given the broad scope and the resilience of interest support for the status quo incentive structure, not all such issues can be addressed by the project. Nevertheless, the project design does seek to influence the incentive structure where possible and this attempt is now reflected in a more thoroughly developed Outcome 3. (2) One additional way in which market failures are being addressed within the region is through environmental service payments. While the project team has learned of such efforts, it has not had the opportunity to identify specific projects or policies in this regard. These will be identified during the inception phase and opportunities for possible synergies will be explored. On the other hand, it will be recognized that markets will never fully reflect biodiversity values and that there will always be market failure and some degree of policy intervention e.g., a subsidy, will always be necessary. The present project aims to have an important role in helping close the gap between market value and real biodiversity value.</p>	<p>see pages 41-42 of the ProDoc</p>
<p>2. “It would be helpful if the potential of the project to support the Convention on Biodiversity and, in particular the Biodiversity Action Plans being developed by the 5 participating Central American countries, could be brought out in the documentation.”</p>	<p>The project represents an important step in implementing the interest expressed repeatedly by the Conference of Parties to advance the involvement of the private sector in the Convention process. Of greatest relevance to the present project has been the effort to develop a global initiative on banking, business and biodiversity. These aspects have been incorporated into the Section on Policy Conformity.</p>	<p>see p. 31 of the ProDoc</p>
<p>3. “It would be helpful to use a Logical Framework (LogFrame) to illustrate the linkage between the Goal, Objectives, Activities, Outputs and Outcomes. This would help further clarify the logical sequence in the implementation of planned activities and how these activities would form the foundations for the stated outputs and projected outcomes.”</p>	<p>A full log-frame is presented in Annex B of the Executive Summary. In the improved log-frame, as well as throughout the text, additional efforts have been invested to ensure that linkages between the project’s components, and the Goal and Objective, are logical and are clearly understood.</p>	<p>Annex B of Executive Summary</p>
<p>4. “The manner in which the use of GEF funding would “leverage” substantial co-financing available under existing SMME credit lines needs to be explained. Otherwise, it would be difficult to defend</p>	<p>The term leveraging refers to the fact that, while the funds for SMMEs lending are available as part of CABEI’s existing credit lines, they do not presently go to biodiversity-friendly activities. However, the project through its actions will remove barriers so that this</p>	<p>Annex B of Executive Summary</p>

Issue	Response	Location in Doc.
this statement.”	existing funding will start flowing to SMMEs with interest in BF investments. This amounts to a ‘leverage’ through a transformation of the baseline use of these funds. This concept has been clarified in the Logical Framework Analysis.	
5. “The project implementation arrangements appear very complex. UNDP is nominated as the Implementing Agency with the UNDP Honduras Country Office acting as the lead implementing county office, while CABEI will serve as the Executing Agency. The UNDP implementation arrangements embody other country offices and it would be helpful to know if this model has been used successfully in other projects.”	At the encouragement of the STAP reviewer, great attention has been paid to improving the section on management arrangements. Nevertheless, the project team does recognize the inherent complexity of the project’s design and will continue to emphasise the need for all parties to be aware of how the implementation mechanisms will operate and to understand their own role therein.	see Section I Part III of the ProDoc, p. 48
6. “The explanation of how project interventions would be implemented needs to be more clearly set out. For example, how will the project engage the diverse range of stakeholders in achieving the stated goals and objectives.”	Substantial emphasis was placed on this issue in finalizing the stakeholder annex, which now clearly the roles of the various stakeholders.	See Section IV Part IV, p. 80 of the ProDoc
7. “The project document gives strong emphasis to the competence and activities of a wide range of Stakeholders, but exactly how these groups or individuals would help the project to fulfill its objectives is not clear. Completion of the Stakeholder Involvement Plan would help clarify this important issue.	See response to comment 6 above.	See Section IV Part IV, p. 80 of the ProDoc
3.0 GEF policy conformity and identification of global environmental benefits		
8. “...the text on pages 32-34 is rather general and it would be helpful if the Strategy could more succinctly identify how the project interventions relate to the GEF objectives, policies and broad operational strategy. This would help demonstrate that the project is a strong and integrated initiative that directly addresses specific objectives in each of the 4 operational programs.”	This text, which was the section on Policy Conformity, was incomplete at the time of the STAP review and has been completely redrafted.	See p. 31 of the ProDoc
6.0 Sustainability of the project		
9. “There may be a risk of non-sustainability of the Partial Guarantee Facility where the initial grant may not be replaced by a fund built up from the profits from the SMME development efforts. This would reduce the positive incentive to FIs to allow them to reduce their perceived risk.”	CABEI’s working principle, as explained in the project document, is to provide credit ceilings to FIs, based on universally approved banking principles. This means that FIs having bad loan rates exceeding 5% of the loan portfolio, will not be able to draw down from the funds. It is calculated that the partial risk guarantee of US\$ 3 million will take about 50 rounds of loans, before they are depleted. Even in an extreme case of a 10% bad loan rate by FIs, the guarantee fund would last for about 25 rounds of loans (averaging 5 years).	See Section IV Part IV, p. 80 of the ProDoc

Issue	Response	Location in Doc.
	The BD reward facility of US\$ 2 million will be an <i>ex post</i> subsidy reducing the price of the micro-loan to the client. The facility will create loans of 5-10 times the amount of the subsidy, depending on the level of the reward (10-20% planned at this stage).	
7.0 Secondary issues		
10. "The project should illustrate how it will build upon past, ongoing and prospective GEF activities. The project design could be strengthened by making more explicit mention of how the planned activities would be coordinated with work of other GEF projects and their respective Implementing Agencies and other bodies. This should include how links would be established with relevant ongoing regional or sub-regional programs and action plans."	A section has been added to the project document describing other related GEF projects in the region and how they will relate to the present project.	See p. 54 of the ProDoc
11. "Improved management of SMME activities should yield other ecosystem services and social and economic benefits to local communities and those in the wider region. It would be helpful to indicate how these could benefit other sectoral agencies whose cooperation is important to the successful implementation of the planned activities"	The project team recognized early on the project's multi-sectoral dimensions, including the importance of national Ministries of Environment engaging sectoral ministries in the process. This has been reflected in Outcome 3.	See p. 41 of the ProDoc
12. "The project design would benefit from further clarification of the measures to promote and maintain cooperation between the various groups of stakeholders, and transparent mechanisms to ensure the active participation of relevant stakeholders in the development, implementation and monitoring of project activities."	This comment has been reflected to a certain extent in the revised Stakeholder Annex. However, efforts will continue during the inception phase to elaborate these types of mechanisms and to gain further feedback from stakeholders concerning possible amendments.	See Section IV Part IV, p. 80 of the ProDoc (Stakeholder Annex)
13. "The project could also elaborate on the planned use of concepts such as the co-management of resources between SMMEs and communities as many SMMEs are based in rural communities and can act as instruments of economic and social development as well as biodiversity conservation."	The linkage between biodiversity conservation and social development goals is a central factor behind all UNDP's work in environment. The contribution of BF-SMME development to local economies is beyond question, but the project will further promote the linkage by including social factors in the approval process of loans to BF-SMMEs.	

c) GEF Secretariat comments and IA/ExA response

GEF Secretariat Comment	Response
<p>1. Project fit with each participating country's national biodiversity related plans and priorities have not been described in the proposal. Moreover, country specific information on the needs and opportunities related to the initiative has not been provided. Please provide brief description for each country.</p>	<p>Paragraph 72 (p. 28-29) refers to participating countries' NBSAPs and directs the reader to a new Part IX, which shows in detail how each country's NBSAP relates to: (i) credit/banking policy, (ii) SMME policy and (iii) sectoral policies and incentives. The NBSAPs, and particularly the items highlighted in the matrix, also provide a good indication of each country's needs and opportunities, e.g., by their emphasis on specific sectors such as ecotourism in Honduras, etc.</p>
<p>2. Endorsement letter is only provided by the CCAD, a regional body in Central America. GEF requires endorsement letter signed by the OFP from each participating countries. Pls provide letters from all five participating countries.</p>	<p>Endorsement letters from all five participating countries will be provided on or before 25 February</p>
<p>3. The project confirms with GEF's Operational Program 2, 3, and 4. No clear linkage was shown on OP1. Pls clarify and if necessary revise the OP linkage on the cover page.</p>	<p>The reference to OP1 on the cover page of the Executive Summary was erroneous and has been removed.</p>
<p>4. As agreed by the GEF Biodiversity Task Force, pls provide the duly completed SP2 Tracking Tool form as soon as possible.</p>	<p>Part X (p.96-105) consists of the completed SP2 Tracking Tool.</p>
<p>5. Demand for such a facility: As briefly noted in the proposal, it is not clear how much demand and interest exists among the private sector to such a loan facility at this stage. Please clarify how the estimated loan financing of \$22M has been identified by the CABEL and how feasible it is compared to the existing similar type of loan facilities.</p>	<p>(i) <u>How much demand exists within the private sector for such a loan facility</u>: The answer to this question can be broken down into two parts, in line with the principles of incremental cost analysis: (a) baseline demand and (b) alternative scenario demand.</p> <p>(a) <u>Baseline demand</u>: As described in the baseline analysis (see paragraph 60, p. 20), current demand for BF financing exists, despite being limited by various barriers. Thus, EcoLogic Finance has been able to establish BF financing of US\$13 million in 90 projects in Central America since 1999. EcoEnterprise Fund leveraged US\$ 18.4 million of BF financing (US\$ 3.7 m. of their own funds), much of it in the relatively difficult equity finance field. Both programmes are continuing to expand within the region. Nevertheless, they have expressed interest in co-operation and co-financing, as their financing is complementary to the proposed program with CABEL. In particular, they recognize the potential for GEF-supported technical co-operation to stimulate additional</p>

GEF Secretariat Comment	Response
	<p>demand for finance (see below). These examples clearly demonstrate the reality of the business potential and emerging demand for loan financing.</p> <p>(b) <u>Alternative scenario demand</u>: There is a critical mass of activities which already qualify, or can be made to qualify for BF loans, according to the BD criteria set for such financing, e.g. in the eco-tourism, certified coffee, timber and aquaculture fields. Certification networks are in place, as are market linkages, yet <i>financing remains a constraint serving to limit transformed production</i>. As explained in the main text, removal of various barriers which currently constrain the lending market is expected to have an important effect in terms of unlocking this currently dormant demand for loans. For example, micro-entrepreneurs, who have limited access to financing or who cannot afford the present interest rates, would have a chance and opportunity to gear their activities to sustainable technologies and approaches, if given the incentive. The program will be networking and forming strategic alliances with the players that are already there doing the BF business, in order to identify new business, new business areas and barriers to grass-roots level realization of such business. The demand will be created during the program (or more properly put, business proposals will be turned into BF opportunities for the private sector). Banks do not do this, but the project -- working with the relevant industry associations, NGOs (such as Rainforest Alliance) and other players – would be able to catalyze business eligible for financing under the CABEI network of FIs, beefed-up with the two financing incentives. The project will encourage BF-businesses through support to the enabling environment, business development and advice as well as financing incentives to mobilize existing and new funding to private BF business. It should be noted in this context that demand for financing of renewable energy and energy efficiency investment and business is already there. CABEI and the banks are aware of the demand and the prospects for financing it thanks to the GEF partial guarantee incentive in place. Public incentives are also in place (including the global Carbon Credit scheme). This is why this project has to work on all three fields to help put BF activities on an equal footing with the renewable energy field. Given the above, together with the scale at which the project will operate (five countries, several productive sectors, banking and non-banking institutions), there seems little doubt that the project will meet with adequate demand for its loan enhancement facilities (see paragraphs 231-235 [p.64-65] for details of assumed loan numbers per lending institution and country, average loan sizes., etc.)</p> <p>(ii) <u>Determination of the loan financing volumes</u>: This issue is</p>

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	<p>now discussed in greater detail in the incremental cost analysis (see project document, paragraphs 231-235). Following a reduction in the proposed project budget, the total amount of biodiversity-friendly loans expected to be generated by the project is US\$17 million.</p>
<p>6. It is unclear how this project and the recently approved UNDP/GEF Accelerating Renewable Energy Investments through CABEI in Central America Project are related and linked. The proposal notes about this climate change project, however, nothing is mentioned about potential collaboration and linkages, despite the similar nature of the project, history of both projects, and the fact that both projects are executed by the CABEI. Please clarify potential linkages between the two projects and cost effective collaboration, as well as CABEI's capacity to implement these two large scale projects at the same time.</p>	<p>1. <u>Potential linkages between the two projects</u> There are a number of factors which serve to limit the potential for co-ordination between these two projects. These include the following:</p> <ul style="list-style-type: none"> • All clients and most if not all financial intermediaries (FIs) are different. • Many of the technical co-operation activities are very specific and will be tailor made for each project. <p>Despite the above, there clearly are some opportunities for collaboration and achieving economies of scale between the projects, as follows:</p> <ul style="list-style-type: none"> • While both projects will be able to tap into several financing sources, a common source for both is FALIDES, which is CABEI's environment financing arm. • Some of the RE project's loans may go to SMEs, in which case experience sharing could prove useful. • There will be some overlap in terms of management within CABEI, the extent of which needs to be determined more precisely. Certainly, at country level, it is likely that the same person/people will be involved in handling both projects. For capacity building within CABEI, integrated events could be developed, e.g., with 'global environment' plenary sessions followed by renewable energy and biodiversity working groups. Similar methodologies will be applied in both contexts, including ideas about mainstreaming, barriers, developing business planning skills, etc. • Senior management of CABEI has committed to both of these projects, will be overseeing and supporting their implementation and are eager to see them succeed. • Monitoring and oversight mechanisms within CABEI could be harmonized and/or integrated. • At the level of UNDP Honduras backstopping and role as implementing agency, economies of scale will almost certainly be developed. This may involve, for example, locating a UNDP Honduras staff member within the CABEI offices. <p>2. <u>CABEI's capacity to implement these two large-scale projects at the same time</u> Operationally, much of the responsibility for the present project will rest with the Bank's SME department, which will only be</p>

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	involved in the RE project in cases where SMEs are the beneficiaries. In addition, it should be noted that CABEI is a fairly large entity, with a substantial Headquarters operation and country offices in each of the participating countries. As long as the commitment is there to apply the necessary resources to the tasks – and we believe that CABEI’s commitment is secure – then the question of capacity should not arise.
7. It is noted that there are already number of existing schemes and institutionalized financing facilities in Central America for SMMEs, and specifically for Biodiversity-friendly SMMEs. It is encouraging that many of these existing institutions will be involved in the implementation of the relevant component of this project, which could avoid potential duplication and learn lessons. In addition, it could be useful to see the feasible of having a forum/network among related institutions/ projects to share lessons under Outcome 4 (the current activities are focused more on a one way information flow from the project).	As noted by the Secretariat, there are a substantial number of partners to work with and important opportunities for synergies in this regard. The project document (see Part IV, p.73-75) has been revised to further emphasize both the steps already taken towards establishing effective partnerships and the approach to further fostering these relationships.
8. It is critical that the enabling activities, i.e. related policy, legislative, regulatory, and incentive reforms will be in place before the reward/guarantee facility of the project is exhausted. The proposal do not describe much about the current status of the regulatory framework in each participating country and how realistic it is to expect that these regulations are in place during the project period. Pls clarify.	Part IX (p. 93-94) , which is new to the present draft, provides significant information on national priorities relating to enabling environments affecting key project-related sectors (forestry, fisheries, agriculture and tourism). During the first six months of the project, the implementation status of these NBSAP priorities will be updated and priorities identified depending on which appear to offer the greatest potential for improving the enabling environment for BF-SMMEs. The project will agree on follow up measures within each country by the end of year 1, leaving several years to support adoption. By focusing at least in part on these already identified and agreed NBSAP priorities, the project expects to be able to have a quick impact while having synergistic effects on NBSAP implementation. Of course, an adequate budget for Outcome 3 will be an important determinant of success in this area.
9. The project involves a wide sector of stakeholders both private and public. It was not very clear how much consultation and analysis were made with the actual client SMMEs to design the project. Pls kindly clarify.	Due to changes in the project document format, the previous draft did not describe the consultations held while formulating the present proposal. These have now been summarized and appear as Section A. of Part IV (p. 73) .
10. From the project design and	The revised ICA (see paragraphs 231-234, p. 64-65) clarifies that

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<p>description made elsewhere in the project document, the finance to be provided by other sources, particularly by the CABEI (\$22M) seems to be a "leveraged resources" (as defined by GEF cofinancing paper), rather than a cofinance, which is going to be leveraged through project intervention once the project is implemented. Pls clarify.</p>	<p>the \$17 million from CABEI (reduced from \$22 million due to the proposed reduction in the GEF budget for the reward facility) represents a transformation of baseline financing.</p>
<p>11. Based on the provided financial plan, it is also not clear what the cofinancing resources other than one from CABEI is going to be utilized for, without a detail description. Please clarify.</p>	<p>Co-financing other than from CABEI has been redefined as Associated Financing while being increased from \$2.75 million to \$11.63 million. It is based on the following projects, with which the present project is expected to maintain very close relationships (see also comment 7 above and response):</p> <ul style="list-style-type: none"> ➤ <u>The Certified Sustainable Products Alliance (US\$3.6 million, funded by USAID through the Global Development Alliance)</u>: This three-year project is promoting the scale-up of sales of certified products in the timber, banana and coffee sectors, and provide a stream of economic, social and conservation benefits to producers, workers and their families in Latin America. Through a set of cross-promoted supply-side and demand-side activities, the Alliance is strengthening the competitiveness and sustainability of agriculture and timber operations that supply private sector Alliance partners, and improve these operations' access to international markets. Alliance partners will bring new investment and trade to Latin America while supporting sustainable practices. The project is focused in Mexico, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and Panama. Partners include international manufacturers and retailers (e.g. IKEA, Gibson Musical Instruments, Kraft Foods, Procter & Gamble, and Chiquita Brands International), and various brokers and importers (e.g. North American Wood Products, International Wood Specialties, Neumann Kaffee Gruppe, and Volcafe). The Alliance's goal will be to transform the way that the participating companies source products, establishing alternative ways of doing business that the companies can replicate after the completion of USAID-funded activities. During the project period, over 800,000 acres of forest and farmland will be certified as sustainably managed. Over 20 million board feet of certified timber, 90 million boxes of certified bananas, and 13,000 metric tons of sustainable coffee will be sold through valuable sourcing contracts provided to local operations. ➤ <u>International Accreditation System and Consolidation of</u>

GEF Secretariat Comment	Response
	<p><u>National Systems for Sustainable Tourism Certification to Facilitate Small and Medium Enterprises' Competitiveness and Market Access (US\$1.5 million, funded by the Inter-American Development Bank/Multilateral Investment Fund (IDB/MIF))</u>: The Rainforest Alliance is collaborating with IDB/MIF to increase the competitiveness and market access of sustainable tourism SMEs participating in internationally accreditable certification systems in Latin America. The project is facilitating the implementation of best practices and certification in sustainable tourism SMEs, and the harmonization and strengthening of internationally accreditable certification systems, and increasing global awareness of these practices. The project is implementing local, regional and international work. At the local level, the RA is developing general training modules on best practices, certification, marketing and M&E, tailored to address separately the technical needs of SMEs and community based operations. At the regional level, the project is engaging organizations working with certification in five pilot countries (including Costa Rica and Guatemala) to foster the participation of SMEs and community-based operations in the implementation of best practices and certification. The project is also developing an international cohesive marketing strategy for organizations working with certification efforts that could participate in a global accreditation process (a Sustainable Tourism Stewardship Council). This strategy will result in direct benefits to SMEs that had implemented harmonized baseline standards, by allowing them to gain competitiveness and market access.</p> <p>➤CATIE: CATIE is working on a number of related initiatives, as follows:</p> <ul style="list-style-type: none"> - BF-SMMES databases as integral components of its market intelligence systems Forest EcoBusiness and Agri-EcoBusiness and related activities contribute to this output and are worth an estimated US\$ 30,000 over the six-year period. - Eco-enterprise related project, training and consultancy activities throughout the region are an ideal platform to contribute to this output. US\$100,000. - Several project activities of CATIE seek to strengthen the technical capacities of SMMES regarding sustainable agriculture, agroforestry and forest management. US\$ 5 million

GEF Secretariat Comment	Response
	<ul style="list-style-type: none"> - Diploma on Rural Enterprise Development and technical assistance and training provided within the framework of different projects aiming at increased competitiveness of eco-enterprises throughout the region will contribute to this output. US\$ 600.000. - Supply chain analysis and integrated supply chain development are key topics in the portfolio of business development services provided by CATIE-CeCoEco. US\$ 500.000 - Two market intelligence systems provide web-based solutions in addition to on-the-ground activities. US\$ 200.000 - CATIE seeks to stimulate domestic and regional demand for SMME products and services within the framework of various projects. US\$ 100,000.
<p>12. Considering the above issues and having in mind that GEF has recently committed \$7 million to a similar project to be implemented by CABEI, the total size of the project may need to be reconsidered.</p>	<p><u>Need and opportunity</u></p> <p>Overall, when we talk about private sector investments in BD in CA, it should be emphasized that this intervention aimed at market-driven actors is complementary to the large majority of traditional GEF interventions, which focus on government-controlled, centrally planned interventions, e.g. within the scope of the Mesoamerican Biological Corridor. While GEF investments in these traditional projects in Central America have been very large, it could be argued that virtually all of them fail to seriously engage the private sector in conservation efforts. This is of course very significant, given that private sector activities have so much negative impact on biodiversity. Unless the GEF engages the private sector in conservation efforts, conservation will inevitably fail. Yet there are very few interventions which attempt to do just that. Ours is one of these few, which tries to complement government regulation and control with positive private-sector activism.</p> <p>It also bears noting that the possibility of turning CABEI, a development bank which is larger than either the IDB or the WB in terms of investments in the region, into a conservation powerhouse represents a hugely important opportunity which could prove the single most effective and efficient investment made in biodiversity in Central America. No other institution in Central America can have an impact on private sector activities comparable to that which can be achieved through CABEI. In the case of SMEs alone, CABEI has an outstanding loan portfolio of \$135 million in late 2004, with plans for continuing rapid expansion. Also, for CABEI's partner IFIs, CABEI represents just one source, albeit an important one, of their lending capital. This is truly the main stream.</p>

GEF Secretariat Comment	Response
	<p><u>Project scale by component</u></p> <p>This proposal represents an ambitious and complex effort to pull together three very different and very complex spheres into one coherent project intervention: Banking, Business, and Enabling Environment (policy, legal, incentives, etc.). The project would surely fail if it engaged only one, or even two, of the above. The fact that a holistic approach is necessary for success has been widely confirmed throughout the preparation phase. Nevertheless, each of the three spheres by itself is large enough in scope and scale to be a separate project.</p> <p>The project's <u>banking component</u> (outcome 1) will engage both commercial banks and non-banking financial institutions. This is complex in itself, but most of the proposed budget is actually not to transform the banking sector, but to soften loans to overcome specific barriers. The \$2 million proposed for a BD reward, and the \$3 million proposed for the risk guarantee mechanism, are directly linked to the magnitude of loan financing which can be generated. There is thus a direct relationship between the scale of this component and the amount of BF lending generated and the amount of co-financing expected. A \$3 million Guarantee Facility would transform approximately \$12 million in loans during the life of the project, while a \$2 million Reward Facility would transform \$10 million. While the latter facility thus offers a slightly higher leveraging ratio during the life of the project (5:1 vs. 4:1), the former would offer continuing benefits (and substantial leveraged co-financing) from multiple lending cycles following the project completion.</p> <p>The project team has therefore concluded that, given GEFSec concerns over the overall magnitude of the budget, it would be feasible to reduce the size of the reward facility to \$1 million, while leaving the budget of the Guarantee Facility at \$3 million. The team does not believe that it would be feasible to reduce the Guarantee Facility below \$3 million, given the number of countries involved in the project, as this would reduce the number of participating banking institutions and loans below an acceptable minimum needed to demonstrate adequately the success of the project's approach. The technical assistance component of Outcome 1, which involves technical support and capacity building to financial institutions, has been reduced in proportion to the reduction in the financing facilities (24%), with less support going to the non-banking sector involved with the reward facility.</p> <p>The project's <u>business component</u> (Outcome 2), had a budget of approximately \$4.76 million in the initial proposal. Given that the project is working with five countries, this is equivalent to the size of one MSP per country. The businesses are both established SMEs, as well as micro-enterprises. The heterogeneity and size of the target group requires a substantial and diversified training and</p>

GEF Secretariat Comment	Response
	<p>support intervention. Nevertheless, its size can be reduced, within limits, in equal proportion to the reduction in the scale of lending taking place. Thus, the revised proposal includes reduced funding for Outcome 2 from \$4,758,583 to \$3,158,583.</p> <p>The project's <u>enabling activity component</u> involves efforts across five countries to revise legal structures, incentive structures, regulation and policies. This includes only not Ministries of Environment, but also Ministries of Finance, Planning, Agriculture and so on. This is a very modest investment for a regional project of this nature, yet one that can have a potentially major impact if the private sector starts to behave in a different manner towards biodiversity. Nevertheless, the project has carefully considered this component and found ways to reduce the budget to \$1,438,583. Further reductions can be expected to jeopardize the overall impact of the project as they may leave key policy barriers unaddressed. Additional co-funding will be sought to re-strengthen this component.</p> <p>Finally, Outcome 4 has been re-examined from the point of view the reductions in Outcomes 1-3 and the conclusion is that its budget can be reduced from \$1,384,250 to \$869,250.</p> <p>Overall, the above changes have led to a reduction in the level of funding being requested from GEF from \$15 million to \$10.225 million.</p>
<p>13. Management Arrangement: Although the regional level coordination mechanism is clearly identified, it is not very clear how the coordination, implementation, and monitoring at the country level will be conducted and whether there would be any country level focal point/organization responsible on the issue. Pls clarify.</p>	<p>CABEI's national-level branches are expected to play central roles in this regard, with UNDP's network of Country Offices also providing support at country level. On the Government side, Ministries of Environment will be engaged through Outcome 3, and will help to create linkages with sectoral ministries.</p>

d) GEF Council Member Comments and IA/ExA response

Council Member	Comment	Response
Switzerland	<ul style="list-style-type: none"> • Will there be measurable impact in terms of biodiversity conservation? The generation of biodiversity-friendly investments does not imply necessarily that biodiversity conservation targets are achieved, nor that the project contributes to the conservation effectiveness of MBC and MBRS. There is an imminent risk that the numerous efforts of biodiversity-friendly investments are dispersed within the wide landscape of the project area and that it will be impossible to measure the impact of the project activities. There is a clear need to better define the project’s conservation targets, and to establish clear conservation priorities and criteria for future investments. The fact that the project is mainly of an experimental character and focuses on SMMEs does not free from the burden to define conservation targets and to specify the indicators for measuring the project’s impact. With reference to OPS 1 & 2, we underline the need for well-detailed impact indicators at the planning stage. Nevertheless, this issue is not satisfactorily resolved in the project documents. 	<ul style="list-style-type: none"> • The project has developed primary indicators such as number of hectares of agricultural production with improved BD management (including number of hectares RA or ecologically certified), reduction in contamination sources particularly affecting the MBR, implementation of clean production technology and reduced degradation of natural resources within PAs within the MBC and MPAs within the MBR. • As the project generates a more accurate overview of potential borrowers – both the rate of lending and the balance of the portfolio, targets will be formulated per industry area, e.g. thousands of hectares managed according to BD-friendly principles (including certification), reduction in specific contamination sources (including POPs), etc. These cannot be determined until the pipeline of bankable projects is developed. • To ensure loans will be directed to achieving the indicators and targets and based on this comment the project team developed Draft Biodiversity Investment Guidelines which are attached to the present draft (see Section IV, Part X). They will focus the loans towards production systems and businesses which have a positive impact on biodiversity within the Meso-American Biological Corridor and Meso-American Barrier Reef. These Guidelines, once finalized, will be key to ensuring and measuring impact. • However, it should be noted that the main thrust of the project is to catalyze markets and so a great amount of conservation impact is expected over the longer-term after the project finishes. • During the project portfolio-wide monitoring of investments and business activities will document loan impact and the evaluations will assess portfolio biodiversity impact.

Council Member	Comment	Response
	<ul style="list-style-type: none"> Very ambitious, with lack of prioritization: The project will become active in 5 countries and focuses on a project area of 420,000 km². It targets 200 small and medium producers and service providers, and several thousand micro-producers. It will provide targeted and incremental support for global benefits within the following sectors: agriculture / agro-forestry; sustainable forestry, including NTFPs; ecotourism and marine (including aquaculture and possibly sustainable fisheries). The scope of the project appears daunting and overly ambitious. We are particularly concerned about the fact that no thematic priorities are established. It implies a challenge for project management (requiring technical competences in several themes). The risk of excessive dispersion and dilution of activities seems real and would make it even more difficult to measure the impact of the project in terms of biodiversity conservation. 	<ul style="list-style-type: none"> The project designers chose to adopt a wide sectoral scope, to be responsive to market opportunities and ensure that the region's best biodiversity-friendly lending opportunities are identified and capitalized upon and to have a sufficiently large portfolio in the early years of the project. This approach offers the best chance of fully engaging the region's financial sector in the project. The sectors and eligibility criteria will be narrowed as the innovation and newness barrier is overcome and demand permits more selectivity. However, greater focus at the beginning of the project could severely limit investment opportunities and banking interest in the project and hence long term market development for a variety of biodiversity products and services. Certain sectors are expected to emerge as those with greatest investment opportunities such as agro-forestry and tourism. However, the project also wants to stimulate investments in additional sectors less targeted by the conservation community such as fisheries. The acknowledged difficulties of employing a broader thematic focus have been planned for by having multiple sub-contracts with Technical Assistance Service Providers, each providing the requisite specialist knowledge guided by a multi-disciplinary core team. Also, the project will have a specific geographic focus within the five participating countries. The project intends to target lending within ecologically significant areas, including areas within or in close proximity to the MBC and MBRS. CABEI partner lending institutions operating within these areas have now been identified (see Section IV, Part XI). The total landscape area to be covered will thus represent a small fraction of this 420,000 km². Additionally, investments outside the MBC and MBRS maybe selected if they have significant demonstration or catalytic impact for markets, producers or supply chain businesses. The Draft Biodiversity Investment Guidelines will also help ensure each loan has a direct biodiversity conservation impact. The M&E system will also keep a check on this and advise on needs for change and greater focus during project implementation.

Council Member	Comment	Response
Switzerland	<ul style="list-style-type: none"> Complexity of implementation arrangements: The STAP reviewer has already pointed out concerns regarding the complexity of the implementation arrangements. In its response to STAP, the project proponents try to show how the challenge of simplifying the implementation arrangements has been resolved, and we appreciate that management arrangements are well specified. But the implementation scheme remains overly complex and may not be conducive for successful implementation. 	<p>The project design has aimed to create the most straightforward implementation arrangements for an admittedly complex project. Since project approval the management arrangements have been more fully developed to take these concerns into account.</p> <p>With CABEI as the executing agency, the host of the Project Co-ordination Unit (PCU), the provider of the dedicated credit line and the bank with umbrella agreements with all the participating financial institutions the project will be tightly managed.</p> <p>The project core team will be located within CABEI's SME unit and will work directly and continually with CABEI's SME experts, investment officers and country teams. Since approval CABEI's Chief of the SME unit has been selected to be the Project Director. This will be invaluable to integrate the project into CABEI's mainstream SME support services and ensure CABEI staff take on project responsibilities. CABEI support for the project will make its management easier.</p> <p>At the country level there will be teams consisting of CABEI bank staff and the government task forces complemented by the specialist thematic organizations. The large core project management unit comprising a project coordinator, banking, SME, biodiversity and policy experts to manage the variety of activities will ensure the project is run efficiently and effectively.</p> <p>Furthermore the UNDP Honduras office which will support CABEI execution has strengthened its environment team for in order to provide daily support to the management of this project.</p> <p>Nevertheless, the project management will continuously monitor the details of the implementation arrangements in order to adapt them based on lessons learned through implementation.</p>

Council Member	Comment	Response
	<ul style="list-style-type: none"> • Very low levels of government buy-in as expressed through cofinancing It is rather obvious that the project will generate very substantial domestic benefits (among others through income and employment generation in participating enterprises). It is therefore surprising to note an almost complete lack of government co-financing (just 50'000 USD total!). More effort is clearly required on this front. Due to the characteristics of this project there should be significantly higher levels of government cofinancing at the time of final approval. This in turn would boost the prospects for sustainability of this project. 	<p>During the process of finalizing the project document, the project team and UNDP worked extensively with each of the Governments within the region and have been successful in reaching agreements totaling \$320,000 of co-financing, based primarily on inputs from high level policy makers in the key Ministries. This funding will support the establishment and operation of National Policy Task Forces (NPTFs). These task forces will be invaluable. They will be a key vehicle for the project's efforts to influence policy in favor of BF-SMMEs and represents great progress to integrate the project into government priorities. This combination of working closely with the banking sector and government agencies will create a valuable forum for policy dialogue for biodiversity market development. However, it should be recognized that as the project is market based the primary co-financing should come from the private sector.</p>
	<p>Further Comments The project will provide temporary "smart subsidies," namely partial risk guarantee and biodiversity reward instruments. We would appreciate additional information on:</p> <ul style="list-style-type: none"> • the selection criteria • the arrangements to guarantee repayments, • the modalities to resolve conflicts with clients • benchmarks to assess the performance of the risk guarantees (and the level of repayments) • reporting modalities to track progress with the risk guarantee instrument 	<p>Selection criteria</p> <p>The participating commercial banks for the partial guarantee program will be made on the following basis:</p> <ul style="list-style-type: none"> • banks are eligible CABEI financial intermediaries and their financial performance is thus closely supervised on a quarterly basis • the banks are willing to finance BF business and agree to accept lesser than first class collateral (normally 130-140% mortgage on fixed assets) and serve also SMME clients, if a partial guarantee is provided • the banks are ready to be trained in revenue based lending techniques to be used in project analysis under the guarantee program • the banks are prepared to supervise the fulfillment of the BD criteria and impact during the loan lifetime. <p>The participating micro-finance institutions are selected on the following basis:</p> <ul style="list-style-type: none"> • approved CABEI intermediaries • good coverage of potential BF clients and sufficient critical mass for larger lending volume and number of transactions • willingness to actively look for, help develop and analyse small and micro BF business

Council Member	Comment	Response
		<ul style="list-style-type: none"> • agreeable to share the reward benefit with the clients, i.e. provide BF loans at cheaper rates, as reflected by the reward • willingness to supervise and analyze the BD benefits and impacts during the loan life and at the final repayment <p>The projects will be approved in both cases on the following basis:</p> <ul style="list-style-type: none"> • by being offered the partial guarantee cover, the banks will have to appraise the bankability of the projects (i.e. cash flows, risks etc.) • decision to finance the individual project is that of the banks. The guarantee cover steps in, if the projects fulfill the BD criteria, and the banks are able to lower their collateral requirements correspondingly • are bankable, and can prove repayment of loans and interest on time • fulfill the BD criteria ex ante and during implementation (as explained in detail in the Draft Biodiversity Investment Guidelines • can present the BD case clearly and in a measurable fashion <p>Arrangements to guarantee repayments</p> <p>The guarantee provided through CABEI and the banks will only trigger in the case of non-payment of loan principal and/or interest by the client. The standard industry criteria will be used for bad loans, which is normally loans beyond 90 days of no servicing by client. If this happens, CABEI will pay from the guarantee fund the portion of the guarantee to the lender bank (50% is assumed as maximum in this connection). The lender bank will have to cover the other half. This makes them willing to a) analyze the projects well before approving the loan, and b) making all efforts to collect the loan before resorting to the partial guarantee. CABEI follows strict limits to the banks vis-à-vis bad loan rates. If the rates increase beyond 5% of the loan portfolio, the banks will be shut from CABEI's funding line, until the acceptable levels have again been reached. This guarantees that in actual fact, not more than 10% of the guarantees will be paid out by CABEI, confirming about 10 rounds of revolving guarantees that can be issued. The guarantees paid out are considered a grant. Once the successful loans are repaid, the corresponding</p>

Council Member	Comment	Response
		<p>guarantees can be reissued by CABEI to new BD projects.</p> <p>Modalities to solve conflicts with clients</p> <p>Both the business financed under the partial guarantee and the BD reward will be considered standard financing business among the intermediaries and the clients. Loan negotiations will be conducted among these players, including the business conflicts. The eligibility of the projects to the BD instruments will be made according to the appraisal and approval process, agreed among GEF/UNDP, CABEI and the banks, and in line of the process explained in Draft Biodiversity Investment Guidelines in this document. The project team is expected to mediate in cases of conflict and will refer to the Steering Committee in adverse cases.</p> <p>Guarantee benchmarks</p> <p>As explained above, it is expected that BF business should follow the general industry standards with regard to the loan repayment levels. Bad BD loan rates of 5-10% at the maximum should be allowed at any time (industry standard is a maximum of 3%). CABEI has an established process and strict supervision system (quarterly), and higher levels of bad loans would be automatically eliminates banks. Repeater BD loans would not be provided by such banks.</p> <p>Reporting modalities on the guarantees</p> <p>The participating banks will report the guarantee development as part of their routine extensive financial and operational reporting to CABEI on a quarterly basis. The project team will be providing specific reports on this basis to the Steering Committee on these instruments.</p>

Germany	<p>As regards sustainability of the project there might be the risk that the initial grant might not be replaced within the Partial Guarantee Facility. The challenge of the project will be to build up consciousness of the incremental improvement in the contribution that the private sector can make to Biodiversity Conservation in Mesoamerica and by creating good practises throughout the seven years of the project's duration.</p>	<p>Once the banking and business sectors have seen the benefits of lending to / investing in BF business opportunities, such practices should become self-financing without the need for guarantees.</p> <p>Note that this conclusion assumes that evolving green markets continue to recognize and adequately compensate the added costs of BF production. In other cases, continued public sector support may be required to correct ongoing market failures; in this case, it is hoped that other donors will over time supplement the financial instruments , once their overall utility has been demonstrated.</p>
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<p>United States</p>	<p>Did the project undertake a market study to estimate demand for biodiversity lending?</p>	<p>The design phase did not undertake a formal market study. A review of demand was carried out through consultations with regional Investment Funds and organizations with relevant experience and organizations involved with BD friendly sectors such as coffee. The results of the baseline and investment opportunity assessments are as follows:</p> <p>(a) <u>Baseline demand</u>: As described in the baseline analysis (see paragraph 60, p. 20), current demand for BF financing exists, despite being limited by various barriers. Thus, EcoLogic Finance has been able to establish BF financing of US\$13 million in 90 projects in Central America since 1999. EcoEnterprise Fund leveraged US\$ 18.4 million of BF financing (US\$ 3.7 m. of their own funds), much of it in the relatively difficult equity finance field. Both programmes are continuing to expand within the region. These examples demonstrate the business potential and emerging demand for loan financing.</p> <p>(b) <u>Future demand</u>: There is a critical mass of activities which already qualify, or can be developed to qualify for BF loans e.g. in the eco-tourism, certified coffee, timber and aquaculture fields. Certification networks are in place, as are market linkages, yet <i>financing remains a constraint serving to limit transformed production</i>. As explained in the main text, removal of various barriers which currently constrain the lending market is expected to have an important effect in terms of unlocking this currently dormant demand for loans. Thus financing demands are expected to be created during the program, through awareness raising of financial opportunities, market development and persuading conventional business proposals to build in biodiversity friendly aspects. CABEI and the banks are aware of the demand. Given the above, together with the scale at which the project will operate (five countries, several productive sectors, banking and non-banking institutions), it was assessed that the credit lines should be upto the amount dedicated to meet the demand.</p> <p>Based on these conditions and the number of banks the project could work with the project made calculations that it could expect to finance approximately 200 loans (av \$50-100,000) and upto 10,000 micro-loans over the lifetime of the project across all five countries. This translates to 4 SME loans per financial institution per year.</p>
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	<p>The project notes the importance of appropriate government policies to provide the right incentives to producers to adopt green practices. Since the project does not directly address government policy, are there GEF or other donor funded projects directly addressing this issue?</p>	<p>The project will directly promote policy reform this is the focus for Outcome 3: <i>Enabling environments have been modified to create greater incentives for developing biodiversity-friendly sub-sectors of national economies</i>. This outcome includes 3 outputs: (i) Policy, legislative and regulatory review and reform recommendations formulated (ii) Recommendations formulated and support provided for creating financial incentives (iii) Support for national adoption and implementation of recommended policy, legislative, regulatory and incentive reforms.</p> <p>To support this outcome, the project and UNDP, in developing this Prodoc, have secured commitments from each of the five participating country governments to develop high level inter-Ministerial task forces to promote dialogue and adoption of policy reform measures.</p> <p>The project will also directly affect policy through partnering with CCAD - the regional forum for the Ministers of each country. The project will also work with regional initiatives, many managed by CCAD, which are also addressing policy. A selection of these is described in the project brief.</p>
	<p>Will the project evaluate the impact on firms of sub-loans made by financial intermediaries? Is there any arrangement for follow up after the last GEF disbursement to see impact in terms of company revenue or quality of biodiversity labeling and standards.</p>	<p>The project will not evaluate impacts from all sub-loans as this is not cost-effective and too arduous for the project and for the FIs, and hence not sustainable. However, these impacts are recognized as key indicators of success for the project. So the project will undertake evaluation of representative samples of loans to determine impact as part of the lesson learning and feedback mechanisms proposed in Outcome 4.</p> <p>The project will also track loan repayments, which should in part be a good indication of company profitability.</p> <p>To best measure impact there is a possibility that the Final Evaluation could be one year after the project finishes. The timing of this will be determined in the mid-term evaluation once the length of time it takes to finance opportunities becomes more apparent.</p>

Part XIII - Institutional review of CABEI capacities to act as Executing Agency

Introduction

UNDP's programming strategy is a logical and natural framework for the design of capacity assessment strategies. The programme approach, involving a country strategy, national programmes, programme support documents, and specific programme implementation arrangements provides the practical framework within which capacity assessment methodologies can be applied and practical results achieved. This capacity assessment was carried out by UNDP's country office in Honduras to review the institutional competence of the Central American Bank for Economic Integration (CABEI) to execute projects under the National Execution modality.

Capacity assessment study of the Central American Bank for Economic Integration

Background

The Central American Bank for Economic Integration (CABEI) was founded in 1960 by five Central American countries: Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua to promote balanced economic integration and development in the region. In 1989 these five founding countries signed a Protocol of Reforms to the Constitutive Agreement which allowed the participation of extra-regional countries as partners of the Bank. In 1992 a modified Constitutive Agreement came into effect, according to which countries outside the region can join directly in the share the capital of CABEI. Since then CABEI has signed Adhesion Agreements with five non-regional countries: Mexico, the Republic of China, Argentina, Columbia and Spain.

In 2004 CABEI also approved the "Regulation for the Admission of Non-Founding Beneficiary Countries", allowing CABEI to extend operations to other countries. CABEI has incorporated the following regional non-founding beneficiary countries: Dominican Republic, Panama, Belize, Columbia and Argentina. CABEI's strategy of opening its capital to new countries and organizations is meant to fortify its image as a solid financial institution and contributes to its ability to go to the international markets as needed.

Identification and clarification of CABEI's Mission, Objectives and Current Strategies

CABEI's main vision is to improve the quality of life of the Central American population by assuming leadership in designing financial solutions for development. In August 2004, CABEI's Board of Directors approved the Global Strategy for the five-year period 2004-2009, which defines three main themes for the Bank's actions: (i) Fighting poverty, (ii) Regional Integration, and (iii) Globalization and Competitiveness.

The first theme, "Fighting Poverty," includes the following objectives: (i) generate opportunities that lead to the creation of formal employment, (ii) facilitate access to credit in the microfinance sector, (iii) support countries in the development of sustainable solutions for their basic needs in the health, education and housing fields, (iv) contribute to the strengthening of public

administrations, especially at the local government levels, (v) promote experience and knowledge transfer among the member countries of the Bank and the World.

The Bank's main focus is on providing integral support to micro and small enterprises, supplying financing, technical assistance, training and resources. CABEI will also consolidate its position through focused actions to develop financial instruments and services for micro and small enterprises, extension of rural micro-credits, training of non-governmental organizations and private development organizations that work in this field.

To this end and under the new strategic guidelines, a Micro, Small and Medium Enterprise Unit was created, to continue playing a leading role in the generation of employment opportunities through this fundamental sector for the development of the Central American countries. This unit will lead CABEI's execution of the project.

Under the regional integration theme, the bank has defined the following objectives: (i) Encourage the physical, economic, commercial and knowledge integration process in the region, in harmony with the environment; (ii) propel and strengthen the regional financial market; (iii) promote standardization of regulatory frameworks and adoption of best practices at the regional level; (iv) promote the best management, conservation and use of natural resources in the region. Under this vision, CABEI will support foreign trade oriented infrastructure projects to allow member countries to have a broader participation in the intra and extra regional trade. CABEI is also focusing its actions on the protection and sustainable management of watersheds and water resources, promotion of renewable energy sources recycling and solid waste management and the development of the emission reduction certificates market.

For the Globalization and Competitiveness theme, the objectives set forth by the Bank are the following: (i) Contribute to the improvement of the business climate in the region to promote direct foreign and domestic investment; (ii) promote competitiveness of the region for its appropriate insertion in the international markets; (iii) play a key role supporting countries in negotiation, ratification, implementation and sustainability of the free trade agreements; (iv) contribute in the mitigation of negative impacts that could result from globalization process.

Relation to UNDP's focus areas

CABEI has clearly demonstrated its commitment to the development and integration of its member countries. Its strategy is based on utilizing its competitive advantage as the leading wholesale financier in the region. The three main lines in its strategy and their objectives are clearly related to UNDP's focus areas. In its Millennium Declaration UNDP has set a goal of eradicating extreme poverty and hunger and CABEI has incorporated this goal in its strategy of fighting poverty. CABEI is also working towards ensuring environmental sustainability in promoting collaboration with governments to upgrade and apply environmental legislation.

Year 2005 is also the International Year of Microcredit and in its strategy CABEI has strongly focused on developing and promoting this instrument in the region. The financing provided by Micro, Small and Medium Enterprise Unit is channeled through a network of 139 intermediary financial institutions in the region. Through this emerging strategy, the Bank proposes

contributing to the creation of wealth and opportunities for a broad population sector. Microfinance is helping to transform the lives of millions of people – most of whom are women - helping to build businesses, create jobs and lift millions of people, men, women and children, out of poverty.

CABEI's Resource base

Administration

CABEI's top decision-making unit is the assembly of the governors that consists of the financial ministries from the five founding countries and different government representatives from other five member countries. They shape the policies and strategies of the Bank and thus directly enable the active role of member countries in the decision making.

CABEI's organizational structure was realigned in 2004 to endow the Bank with greater relevance and permanence in its three strategic themes. To support this strategic redefinition, objectives and actions were defined in CABEI's different operational fields, particularly, finance and portfolios, human resources, technology, processes and structure. In order to insure the execution of its strategy, CABEI consolidated the senior management structure, which at the present includes the following management divisions: Business, Credit, Financial, Institutional Risk, Human resources and Operations as well as the following staff areas: Legal Advisory, Chief Economist Office and Institutional Relations. New managers have been hired for key areas and at the same time the professional and support structure has been reduced to enhance efficiency and effectiveness of the institution.

CABEI's organizational structure was designed to cover the following aspects:

- institutional specific; considering its particularities in a realistic way
- dynamic; anticipates the future development
- orientation towards organizational objectives; they must prevail over the departmental ones
- assignation of the responsibilities; there exist corresponding authority for every responsibility
- relations of command and control: the matrix structure not only demands a considerable effort of the organization, but moreover, requires a high personal and cultural maturity, to work in the creation of the opportunities that allow the continued growth of the competitive advantage of the Bank.

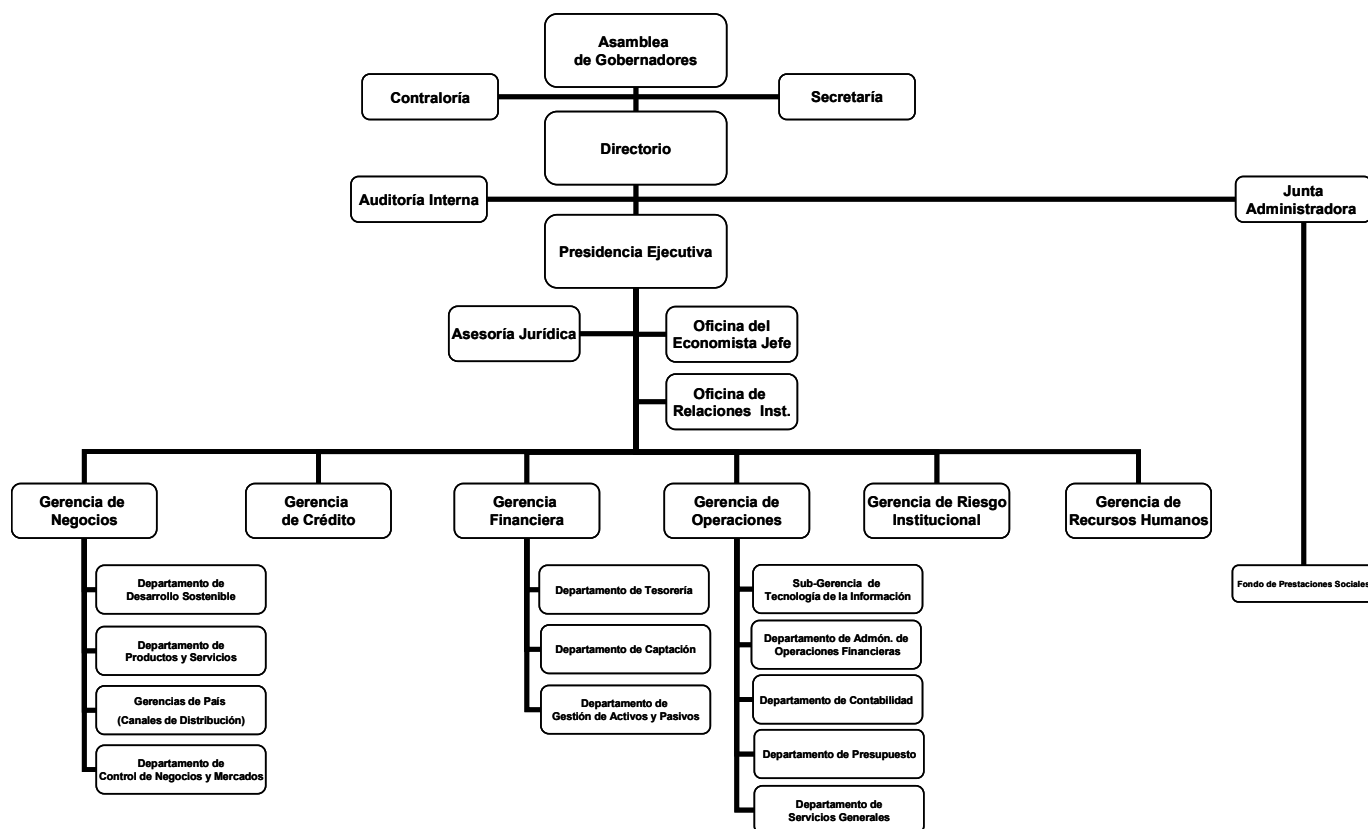


Figure 1: General organization chart of CABI

From the programme executing point of view, the most important units of CABI are legal advisor, operational management and human resource management. The roles and responsibilities of these units are well defined:

- legal advisor: To reasonably prevent and guarantee that the projects, programs and operations financed by the BCIE, as well as the respective legal acts and contracts (in the scope of active and administrative operations), are in accordance with the internal legal order
- operational management: To improve continuously the structure of processes and procedures and to maintain them aligned with the strategy of the Bank so that they support and facilitate the institutional management oriented to the quality and competitiveness
- human resource management: To review, update and propose the organizational structure, the optimal sizing of the posts, the distribution of work functions, the classification and valuation of positions; as well as the indicators of performance and the relations internal client/internal supplier.

CABEI's technical capacity

The credit programs of CABEI are targeted toward the following areas: (i) Generation of electric energy; (ii) Irrigation, drainage and soil conservation; (iii) Support infrastructure; (iv) Export of non-traditional products; (v) Tourism sector; (vi) Industrial recovery and modernization; (vii) Agro-industry; (viii) Sustainable Development and (ix) International trade. These programs vary in size and scope and are managed by CABEI's personnel and consultants hired by CABEI.

UNDP's country office in Honduras and CABEI have signed a subsidiary cooperation agreement, which defines the operation of the Technical Management Project. This project tries to strengthen the execution of activities and initiatives at the national level as well as those initiated by the Project to manage development projects in poverty reduction in a new national and regional context, defining a management system that allows transparent and efficient use of resources. Through this project, a technical unit of UNDP has been established within CABEI which will greatly help and facilitate CABEI in executing UNDP's projects.

In the context of the present CAMBio project, CABEI, in co-operation with UNDP Honduras and UNDP-GEF, will also establish a Project Coordination Unit (PCU) to work as a part of the organization for the duration of the project. This team will work with CABEI staff to build capacities in technical issues related to biodiversity as well as to participate in day-to-day operations, management and monitoring.

CABEI's managerial capacity

In its cooperation with CABEI, and in the preparation of the current project, UNDP Honduras has found that CABEI's personnel is qualified in project planning and management and has never had any problems in this respect. UNDP's technical unit within CABEI and the Project Coordination Unit will assume part of this responsibility as well.

CABEI and UNDP Honduras have agreed to sign a subsidiary cooperation agreement regarding the financial management of this project. This agreement will include in detail all the reporting requirements for procurement and disbursement of project's funds. CABEI's executing agency fee is 5%, which is considered to be a cost-effective option for project management.

CABEI's financial capacity

The performance of CABEI's financial resources are audited and evaluated every fiscal year according to international accounting standards. Independent audits and international ratings (Moody's A2 for example) clearly demonstrate that CABEI's situation is stable although always affected by the global economic conditions. CABEI's balance sheet is presented in Table 1.

At the moment there are 4 special funds for SMME and environment sectors established within CABEI. These include funds from different donors and CABEI itself and funds sum up to US\$ 64 million. The guarantee and reward funds totaling US\$ 3.5 million for biodiversity-friendly investments will diversify and complement CABEI's special fund portfolio.

Table 1. CABEI Balance Sheet



BANCO CENTROAMERICANO DE INTEGRACIÓN ECONOMICA

Balances de Situación
Al 31 de diciembre de 2004 y 2003
(Expresado en miles de dólares estadounidenses)

	<u>Dic-2004</u>	<u>Dic-2003</u>
Activo		
Efectivo en caja y depósitos en bancos sin interés (nota 3)	8.007	10.052
Depósitos en bancos que devengan intereses (nota 4)	259.051	237.985
Inversiones en valores (nota 5):		
Valores disponibles para la venta	371.337	438.116
Préstamos a cobrar	2.789.441	2.868.052
Menos provisión para posibles pérdidas	(109.527)	(109.870)
Préstamos a cobrar, neto (nota 6)	<u>2.679.914</u>	<u>2.758.182</u>
Intereses a cobrar (nota 7)	31.700	34.927
Inmuebles, mobiliario y equipo (nota 8)	29.597	28.245
Instrumentos financieros derivados (nota 17)	46.679	26.442
Acciones y Participaciones (nota 9)	22.805	20.633
Otros activos (nota 10)	10.108	13.112
Total Activo	<u>3.459.198</u>	<u>3.567.694</u>
Pasivo		
Préstamos a pagar (nota 11)	1.043.604	1.185.921
Programa de papel comercial	-	64.516
Bonos y documentos a pagar (nota 12)	590.901	493.378
Certificados de depósito (nota 13)	337.340	392.088
Certificados de inversión (nota 13)	62.235	60.792
Intereses a pagar	13.121	12.720
Instrumentos financieros derivados (nota 17)	6.220	12.759
Otros Pasivos (nota 14)	26.551	23.594
Total pasivo	<u>2.079.972</u>	<u>2.245.768</u>
Pasivos contingentes (nota 16)		
Patrimonio		
Capital pagado (nota 15)		
(capital autorizado US\$ 2.000 millones)	371.925	371.925
Otras utilidades integrales acumuladas (nota 20)	14.732	13.589
Utilidades retenidas	56.157	136.560
Reserva general	936.412	799.852
Total patrimonio	<u>1.379.226</u>	<u>1.321.926</u>
Total pasivo y patrimonio neto	<u>3.459.198</u>	<u>3.567.694</u>

Las Notas 1 a 21 forman parte de los presentes estados financieros

SIGNATURE PAGE

Country: Honduras

UNDAF Outcome(s)/Indicator(s):

Contribuir a las iniciativas de país encaminadas a lograr la sostenibilidad del Ambiente con énfasis en las áreas de: protección del ambiente y manejo de los recursos naturales; impulso al desarrollo rural sostenible; acceso a las tecnología de la información y las comunicaciones

Expected Outcome(s)/Indicator (s):
(SRF/MYFF goal and service line)

Capacidades de autoridades locales en manejo de biodiversidad aumentado

Implementing partner:
(designated institution/Executing agency)

Banco Centroamericano de Integración Económica (BCIE)

Other Partners:

Comisión Centroamericana de Ambiente y Desarrollo (CCAD)

Programme Period: N/A
 Programme Component: 3.5 Conservación y uso sostenible de biodiversidad
 Project Title: Central American Markets for Biodiversity
 Project ID: _____
 Project Duration: Mayo 2006 – Abril 2012
 Management Arrangement: NEX

Total budget:	\$27,545,000
Allocated resources:	
• Governments	\$320,000
• Regular	
• Other:	
○ GEF	\$10,225,000
○ BCIE	\$17,000,000
○	
• In kind contributions	N/A

Agreed by (Government): _____
 Agreed by (Implementing partner/Executing agency): _____
 Agreed by (UNDP): _____