

Sustainability of forest investments



CASE STUDY ON ECO.BUSINESS FUND IN EL SALVADOR



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1 INTRODUCTION

Green stocks are gaining popularity, and policy initiatives aim to align investments with Sustainable Development Goals. The Global Nature Fund (GNF) and OroVerde - the Tropical Forest Foundation are investigating the market for forest investments in Germany as part of their joint project "Investments for forest and biodiversity conservation - Developments and trends". In this context, GNF and OroVerde conducted case studies on selected investment offers in forestry projects in Canada, Indonesia and El Salvador to examine them more closely in terms of ecological, social and economic sustainability. This case study focuses on the eco.business Fund and its contributions to the agroforestry sector in El Salvador. After portraying the Fund's general structure and approach, three funded business projects are examined regarding ecological and social performance. The analysis is based on document review, interviews, and site visits. All three businesses cultivate coffee in agroforestry systems, potentially offering various ecological co-benefits, such as habitat creation, water retention, and prevention of soil erosion.

The business relationship between the eco.business Fund, its El Salvadorian partner institution (a commercial bank) and their end-borrowers consists in the eco.business Fund providing a credit line to its partner institution, which uses it to give out loans to end-borrowers holding a fund-approved voluntary sustainability certification or implementing economic measures, which have been pre-approved as sustainable by the fund. As part of the investment process, the eco.business Fund assesses the bank's capacity to manage potential environmental and social (E&S) risks at the client level and can provide technical assistance. The bank regularly reports to the fund, both on the use-of-proceeds and the E&S performance, which the fund utilizes for impact and E&S reporting. In this case study, eco.business Fund financing was used to finance efforts to rejuvenate coffee plantations as agroforestry systems.

The study assesses the efforts made by the end-borrowers the eco.business Fund and their partner institution, to contribute to sustainable practices and positive environmental impact through dedicated financing and technical assistance.



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2 THE INVESTMENT: LOANS FOR THE AGROFORESTRY SECTOR IN EL SALVADOR

► The eco.business Fund

The eco.business Fund aims to promote business and consumption practices that contribute to biodiversity conservation, the sustainable use of natural resources, mitigation of climate change and adaptation to its impacts. It uses safeguards to manage and mitigate potential harm of its activities on social & environmental factors. As an umbrella fund, the eco.business Fund includes two separate sub-funds, one operating in Latin America and the Caribbean and the other in sub-Saharan Africa.¹ The case study is limited to the sub-fund for Latin America and the Caribbean. The eco.business Fund provides debt financing to businesses that fulfil its criteria for sustainability and positive environmental impact (“use-of-proceeds”-criteria, see below). It primarily invests indirectly through financial intermediaries (“partner institutions”, in the majority banks from target countries), and, to a limited extent, also directly (see Figure 1). In both cases, financing is focused on businesses engaged in sustainable practices in agriculture and agri-processing, forestry, fishery (including aquaculture), and tourism. The funding could potentially be expanded to other sectors. Financial resources are provided to the partner institutions through senior debt, subordinated debt, bond issuances and tailor-made products.

Use-of-proceeds-criteria relate to the type of end-borrower, the sector and the measures to be financed. End-borrowers as well as direct investees of the fund must be active in one of the priority sectors and either hold an eligible sustainability certification or implement a sustainable business practice included on the eco.business Fund’s “Green List”. Measures included on this list have been screened for their positive contribution towards the Sub-Fund’s sustainable investment objective.

In addition, investments have to follow the Fund’s environmental and social (E&S) Exclusion List, which prohibits financing activities with inherent or elevated sustainability risk, such as those related to the coal, oil and gas sectors, and activities involving child or forced labor or the destruction of high conservation value areas, among others.

As part of due diligence procedures, the eco.business Fund assesses the partner institution’s capacity and commitment to address and mitigate potential environmental and social risks and to adhere to the fund’s environmental and social requirements. These requirements include obligations to manage potential adverse impacts: The fund requires its partner institutions to carry out their activities in compliance with the eco.business Fund Exclusion List, national laws and regulations, the eight fundamental Conventions of the International Labor Organization (ILO)² and relevant International Finance Corporation (IFC) Performance Standards.³ Partner institutions have to provide regular reporting on both the actual use-of-proceeds and their environmental and social performance. Beyond financial support, the eco.business Fund provides tailored capacity building and technical assistance to enhance positive impacts and help investees manage and mitigate potential adverse effects.

The sub-fund for Latin America and the Caribbean aims to invest at least 85 percent of its total net assets in sustainable investments under the EU Sustainability Finance Disclosure Regulation⁴ on an annual average basis. The remaining portion may be held in cash and cash equivalent instruments (such as cash placements and money market instruments) to ensure operational stability and optimize short-term liquidity.

► The business network of eco.business Fund

As shown in figure 1, the eco.business Fund directs financial resources of its investors to financial institutions like their partner institution as dedicated financing in the form of senior debt. The financial institutions use these financial resources to provide loans in line with the fund's requirements to the target groups, for example the three end-borrowers analyzed in this case study.

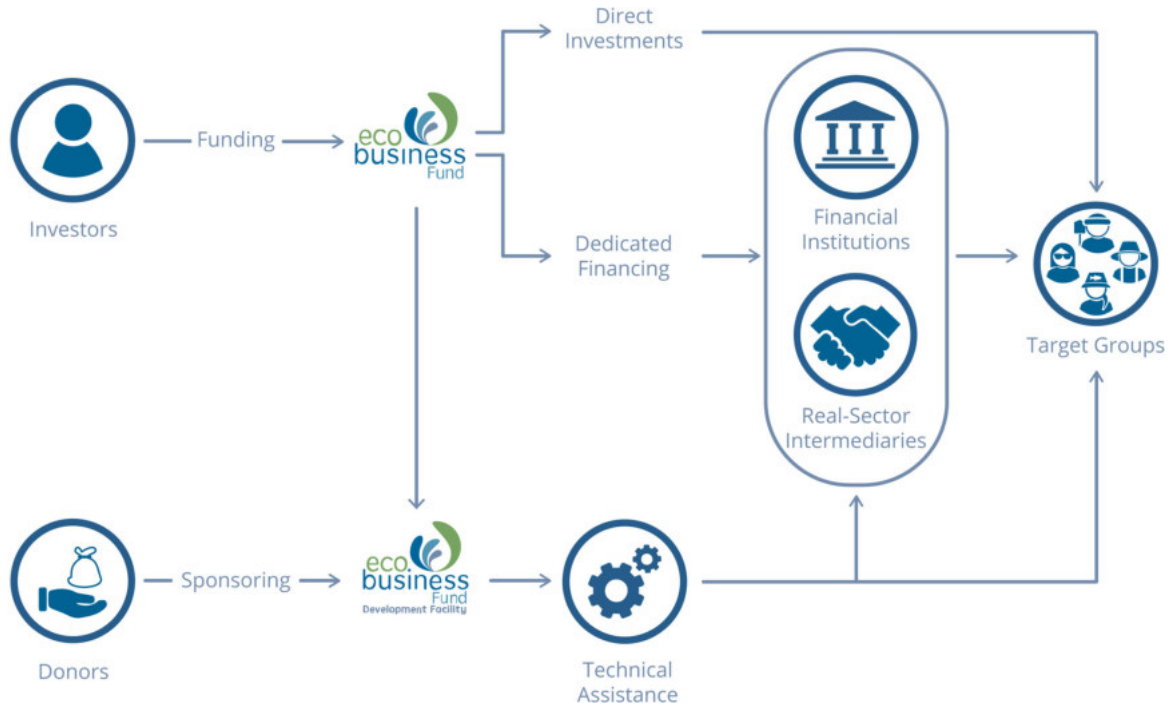


Figure 1: The eco.business Fund's structure⁵

The eco.business Fund has several important partners on the fund-level:

- Finance in Motion (FiM) is an asset manager advising the fund's Board of Directors and Investment Committee. Its services include investment management, risk management, impact and E&S management and reporting, as well as transaction management. FiM initiates and coordinates technical assistance projects according to the needs of partner institutions or end-borrowers, often via third parties.
- The eco.business Development Facility operates alongside the fund, providing technical assistance to the fund's financial partner institutions and end-borrowers to enhance the impact created by the fund's investments.⁶ The activities of the Development Facility are largely sponsored by donors, but also co-financed by the beneficiaries.
- Advisory companies (e.g., Unique Land Use GmbH, NINT, Zamorano University, Futuris Consulting) collaborate with the Development Facility for the implementation of technical assistance projects, for example through deforestation studies prior to investments in a new country.
- Ernst & Young provides external auditing services.
- Citi Offers portfolio administration and serves as asset custodian.
- Innpac acts as general secretary, ensuring efficient corporate governance by managing and operating the fund.

► The end-borrowers

In this case study, three end-borrowers in El Salvador were analyzed through a combination of document review, interviews, and field visits in July 2023. All three are coffee producers. They received loans ranging from 182,000 US-Dollars to 458,430 US-Dollars from the partner institution, which in turn received a total of 25 million US-Dollars as senior debt from the eco.business Fund in 2016 and 2019.

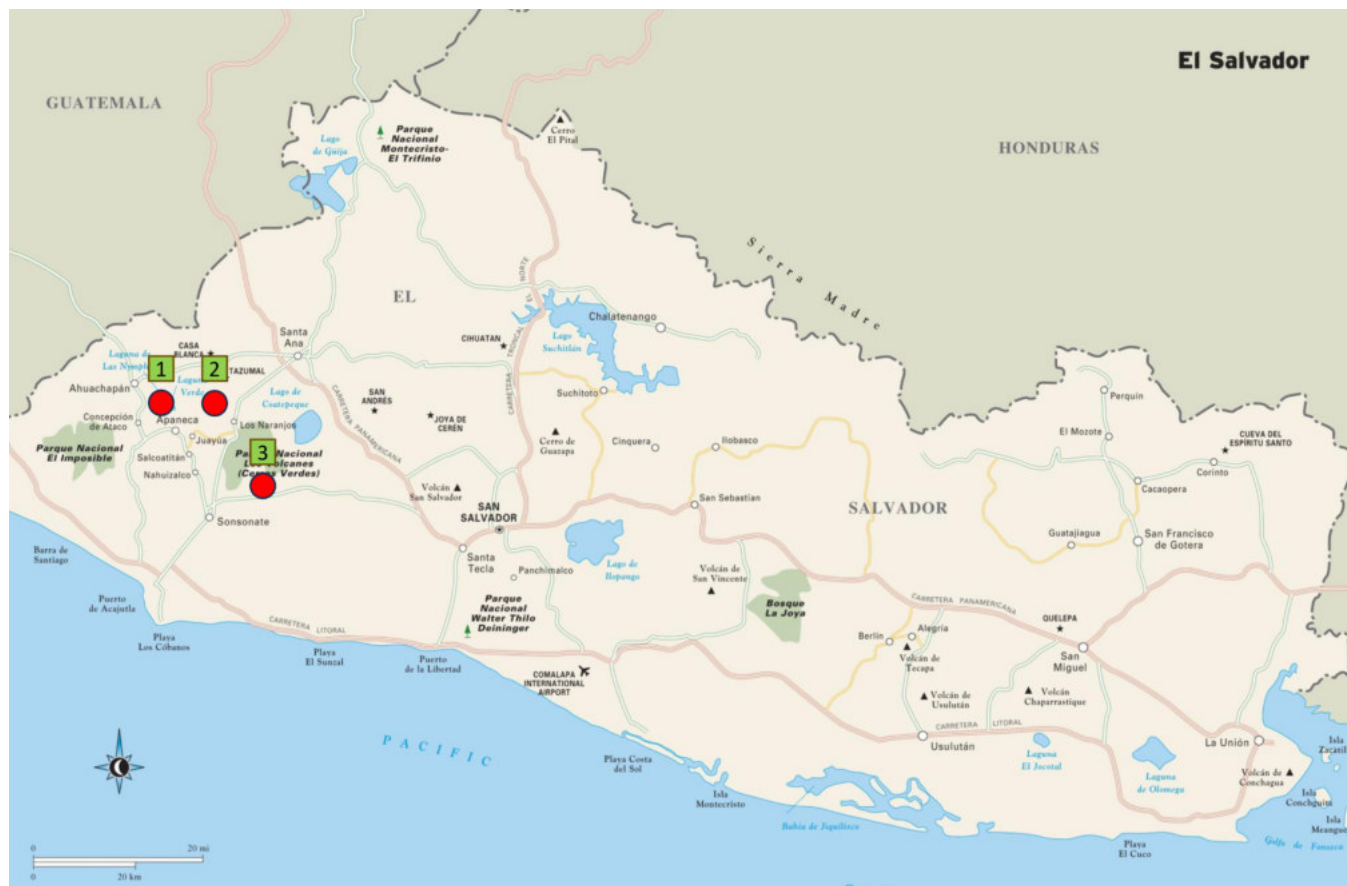


Figure 2: Map of the farms of clients 1, 2 and 3⁷

End-borrower	Location	Staff	Size (ha)	Foundation	Certification
Client 1 (S.A. de C.V. - Limited liability corporation with variable shares)	Apaneca, Ahuachapan	150	526 ha total area: 420 ha of coffee production 100 ha of natural forest 6 ha of infrastructure	Approx. 1950	C.A.F.E. Practices
Client 2 (Cooperative)	Izalco, Sonsonate	209 active members (+ 103 retired members)	2,103 ha total area: 1582 ha of coffee production (629 ha current production area, the rest needs to be restored) 371 ha of sugar cane 105 ha of native forest 41 ha of tourism project 4 ha of infrastructure (including coffee mill)	Approx. 1980	Fair Trade
Client 3 (S.A. de C.V. - Limited liability corporation with variable shares)	Juayua, Sonsonate	20	139 ha total area: 95,5 ha of coffee plantation (78,5 ha current production area, the rest needs to be re- stored) 29,5 ha of natural forest 14 ha of cypress plantation	Approx. 1920	None

Table 1: General information on end-borrowers

The examined areas have a long-standing tradition in coffee cultivation (see table 1). There have been no significant land-use changes in the past decades, except for the conversion of a few grass plots to coffee plantations at Client 1 in 2007. Similarly, there have been no major alterations in the cultivation systems, apart from the transition to more resistant and climate-adapted coffee varieties.

The three end-borrowers used the loans to purchase new crops for the rejuvenation of coffee in agroforestry systems. In these rejuvenated areas, coffee varieties with improved resilience to drought, resistance to common pests, and higher productivity are planted.

Involvement of end-borrowers with other institutions is limited. However, there is cooperation with standard-setting organizations (Fairtrade and Starbucks C.A.F.E. Practices) that control compliance with their respective criteria and provide suggestions for improvement in their audit reports. Furthermore, in the specific case of Client 2, there is a long-term cooperation with a local environmental non-governmental organization that supports the management and monitoring of on-site protected areas.

The eco.business Development Facility has collaborated with eco.business Fund end-borrowers to support them increasing the adoption of sustainable practices. This has included workshops on the importance of sustainability standards and the relationship between soil, nutrition, and coffee quality; mapping of their farms including features such as forest cover, slope and altitude; the sponsorship for attending the Producer & Roaster Forum; and the App Mi eco.pedia café[®] for sustainable coffee production.

3 THE PROJECT REGION: COFFEE CULTIVATION IN EL SALVADOR

In El Salvador, coffee cultivation areas are concentrated mainly in the central and western regions of the country, specifically in the departments of Ahuachapán (23,000 ha, location of Client 1), Santa Ana (31,000 ha), Sonsonate (22,000 ha, location of Client 2 and Client 3), La Libertad (28,500 ha) and Usulután (17,000 ha).⁹ Coffee production in El Salvador has declined in recent decades due to fluctuating prices and the spread of pests and diseases. Despite this, the coffee industry still generates approximately 113.4 million US-Dollars annually and sustains around 45,000 jobs.¹⁰

Productivity of smallholder plots ranges from 300 to 420 kilogram per hectare, while larger plantations yield between 480 and 720 kilogram per hectare. This difference in productivity can be attributed to larger plots having a higher plant density, as well as to better management practices. Falling coffee prices have reduced the income of farmers, resulting in decreased incentives to invest in farms. This has led to aging plantations (around 40 years in average), which are more vulnerable to unsuitable climatic conditions, pests and diseases.

Aside from coffee prices, farmers' investment decisions are influenced by factors such as input costs, public policies, government programs, security, and labor availability. Access to markets is another challenge faced by remote or economically disadvantaged farmers. Buyers often overlook El Salvador in favor of countries like Honduras or Nicaragua which produce larger quantities of coffee.

► Agroforestry systems

Agroforestry systems are the most prevalent coffee cultivation system in El Salvador, having higher significance than intensive monoculture or coffee intercropped with low-growing fruit trees.¹¹ In agroforestry systems, trees provide a natural canopy that shields the coffee plants from direct sunlight, mimicking the natural habitat of coffee plants.

The presence of a variety of different tree species provides habitat for birds, insects, and other wildlife that may serve as natural pest control. Thanks to this more balanced system, the need for chemical fertilizers and pesticides tends to be reduced, lowering production costs. Shade trees also help preventing soil degradation and erosion as well as enhancing water retention.

While sun-growing may be optimal for production yield, the shade canopy regulates temperature and light intensity, resulting in superior quality and flavor profiles thanks to the extended maturation period. This could provide better access to specialty coffee markets that offer top prices for premium quality coffee grown in agroforestry systems, although not all farmers in El Salvador have access to this specialized niche market.



Figure 3: Coffee plants growing in the shade of the canopy of natural tree species on the lands of Client 2

Moreover, agroforestry coffee systems have a long-standing significance as cultural heritage in El Salvador. Coffee grown in such systems is also often associated with sustainable and ethical farming practices, as well as contributions to the socioeconomic well-being of local communities, for example by providing additional sources of income through sales of wood or fruits.

Though offering numerous benefits, the main disadvantage of coffee grown in agroforestry systems is its lower short-term productivity in comparison to sun-exposed schemes. As a result, some farmers in El Salvador have transitioned to sun-grown or partially shaded coffee production to increase yields and meet market demands.¹²

4 ANALYSIS

The eco.business Fund specifies production practices that are eligible for investment in a “Green List”¹³ and through established sustainability certifications. Examples given for sustainability standards accepted by eco.business Fund are the Fairtrade, Rainforest Alliance and Forest Stewardship Council (FSC) certifications. However, as of the date of this publication, eco.business Fund has not made the complete list of accepted standards publicly available. The Green List contains “Agro-forestry measures” and “Renovation of plantations under shade plantation” as eligible investments. The cases examined here fit into these categories. Additionally, all investments must comply with the Fund’s Environmental and Social Exclusion List („E&S Exclusion List“).

FiM shares both lists with investors and, upon request, with prospective investors. The eco.business Fund does provide public information on the most commonly reported measures in its annual impact reporting, while the complete lists are considered proprietary information, to protect the conceptual work invested in them. Both lists have reasonable criteria to take environmental sustainability aspects into account when selecting investments.

GNF and OroVerde nonetheless consider that making the Green List, Exclusion List as well as a complete list of accepted sustainability certifications publicly available - for example via the homepage - would increase the transparency of the investment and its key environmental and social criteria.

GNF and OroVerde would also appreciate improvements like the definition of a minimum of tree species in agroforestry and shade systems. The Fund Advisor points out that it would be very challenging to include a general minimum number of tree species as appropriate standards would depend on local conditions like geography, climate, ecosystem, among others.

Social sustainability aspects are not the focus of the screening criteria as they concentrate on environmental benefits. GNF and OroVerde would welcome more ambitious social criteria, which could improve sustainability of environmental conservation measures.

External verification, whether by Fairtrade Certification¹⁵ (Client 2) or by Starbucks C.A.F.E Practices¹⁶ (Client 1) undoubtedly has a positive impact on compliance with national legislation and international agreements. Client 3 specializes in growing and directly exporting specialty coffees but possesses no sustainability certification. However, all their coffee is cultivated under shade.

Regarding transparency, examined end-borrowers provide inspecting or auditing institutions access to documentation. In the case of Client 2, self-inspections are undertaken by the cooperative’s board, the supervisory board, and the cooperative’s certification coordinator. None of the studied businesses has explicit statements or policies on combatting corruption.

According to national legislation, environmental impact assessments are only required for coffee projects that exceed a certain size and scope or contribute to land-use change. The coffee growing area on the three fincas has not been expanded over the years, except for the planting of shade-grown coffee on some grassland plots, and none reaches the size criteria. Therefore, all three are exempt of this obligation.

The management of all three end-borrowers confirmed a long-term vision for their respective business. A change in ownership is not planned at any of the sites. OroVerde and GNF view this as a prerequisite for all aspects of sustainability.

4.1 ECOLOGICAL ASPECTS

The three examined end-borrowers show varying extents of documentation regarding the state of biodiversity and ecosystems on their sites. It is important to consider that the end-borrowers visited are commercially operating coffee farms, who are committed to implement sustainable practices, yet - in the current market environment - might not have the same capacity or focus as pure conservation projects.

The managements of Clients 1 and 2 keep written documentation about endangered species, but the corresponding habitats or distribution sites have not been mapped. Client 2 additionally has compiled lists of endemic species. In the case of Client 2, identification and mapping of high conservation value, high carbon stock and protected areas was carried out and validated as part of its Fairtrade certification. The identified areas equal 5 percent (105 hectares) of the total farm area. At Client 1, 100 hectares (20 percent of total farm area) of native forest were defined as having high conservation value by the farm administration. However, no external party has confirmed or mapped this. Potential high carbon stock areas have not been considered.

Contrary to this, Client 3 has neither records of endangered or endemic species nor documentation on high conservation value or high carbon stock areas. Nevertheless, farm management sees potential for both in the natural forests (29,5 hectares) and planted cypress forests (14 hectares) of the site. Together, these account for approximately 31 percent of the farm area.

All end-borrowers have created buffer zones around areas excluded from commercial use or adjacent protected areas. However, representatives of Client 2 stated that their buffer zone is not strictly enforced, which they aim to improve. In the case of Client 1, the maintenance of buffer zones is verified by C.A.F.E. Practices.



Figure 4: Natural forest make up 105 ha (5%) of the lands of Client 2

Client 3 has no written documentation on ecosystem services. The same is true for Client 2, where, however, it was affirmed that the description of ecosystem services will be carried out in the future as part of their agreement with the eco.business Fund partner institution. Only the management of Client 1 already keeps records on ecosystem services. The services were described for a C.A.F.E. Practices report by an external auditor with input from the farm management. The Ministry of Agriculture and Livestock maps all watersheds in El Salvador. It is noteworthy that only the management of Client 3 was aware of the existence of this data.



Figure 5: Lagoon at production site of Client 1 surrounded by natural forest buffer zone

► **Climate change: mitigation and adaptation**

Shaded plantations tend to foster more consistent microclimates, acting as a buffer against temperature and humidity fluctuations resulting from climate change. Thus, by using shade trees on their plantations, the three farms have strengthened their climate resilience.

Calculations regarding carbon stock, emissions and sequestration are still not common practice among coffee producers in El Salvador and are not undertaken on any of the visited sites. Undertaking such assessments could provide potential co-benefits, such as entering into voluntary carbon markets. Yet, such carbon credit certification is quite complex, requiring specialized resources.

The expert who carried out the field visits identified no possible or expected adverse project impacts.



Figure 6: Preparation of pesticide application at the farm of Client 1 according to the C.A.F.E. recommendations

To mitigate risks arising from climate change and pests during farm rejuvenation at the project sites of Clients 3 and 1, coffee varieties resistant to the coffee-leaf rust fungus and better adapted to climate change impacts are used, such as Catimor (Client 3) or Marsellesa (Client 1).

As fires started by neighboring communities are a common risk at the project site of Client 2, the cooperative has set up a team of firefighters with support from the local authorities.

► Biodiversity Conservation

From the interviews conducted with farm managers, it is evident that several measures related to biodiversity conservation are common practice in shaded coffee cultivation. These practices include the management – through continuous rejuvenation - of a diverse range of native shade trees, with varying ages. These trees not only serve as habitat but also contribute to organic matter enrichment through pruning. The density of shade trees per hectare varies from 28 trees per hectare (Client 3) to 189 (Client 1), and 200 (Client 2). On the coffee plantation of Client 1, not only native but also appropriate non-native species (such as *Acrocarpus fraxinifolius*) are used as shade trees.

Only Client 1 has a risk management plan that identifies possible threats and defines countermeasures to prevent adverse effects on biodiversity based on the recommendations of the C.A.F.E Practices report (for implemented measures for biodiversity protection see chapter 3.3).

C.A.F.E practices standards encourage biodiversity-friendly measures for soil and productivity conservation and prohibit the use of pesticides listed as extremely (class 1a) or highly (class 1b) hazardous by the World Health Organization based on their toxicity, or are banned according to national laws.¹⁷ Even though Client 3 has not systematically identified risks, they are particularly aware of the potential risks for local biodiversity posed by pesticides and fertilizers. Countermeasures, reducing the use of both, such as the accumulation of organic matter between furrows to prevent the proliferation of grasses or using insect traps instead of insecticides are being implemented.

Native tree species found on the farms include oak (*Quercus segoviensis*), conacaste (*Enterolobium cyclocarpum*), Balsam tree (*Myroxylon pereirae*), mahagoni (*Swietenia* spp), and walnut (*Juglans olanchana*), different species of the genus *Inga*, breadnut (*Brosimum alicastrum*), quenip tree (*Melicoccus bijugatus*), avocado (*Persea americana*), *Diphysa* (*Diphysa carthagenensis*), Mexican cypress (*Cupressus lusitanica*), Tempisque (*Sideroxylon capiri*), and *Perymenium* (*Perymenium grande*). The protection of natural forests and other on-site ecosystems, such as the lagoon (see picture 3) on the farm of Client 1, is prioritized. The use of genetically modified organisms is strictly prohibited in El Salvador, a stance affirmed by all farm managers. As shading is an integral part of the cultivation approach, clear-cutting is ruled out on planted areas. Likewise, no clear-cutting occurs in the natural forest areas. Although reduced impact logging was not mentioned, the long-term usage of existing forest roads implies that such practices are prevalent, even if not explicitly categorized as such.

All three end-borrowers implement regeneration measures after removing coffee or shade trees from their agroforestry systems to close gaps and maintain shading. Client 3 uses trees from their own nursery for this purpose. Client 1, meanwhile, transplants naturally regenerated trees to the area as needed. Moreover, neither fire nor heavy machinery is utilized in the cultivated areas for pre- or post-planting activities. In addition, measures to prevent soil erosion are implemented, for instance by establishing living barriers with Copalchi-bushes (*Hintonia latiflora*) as observed at Client 3.

It is important to mention that all measures described above are common cultivation practices specifically for coffee grown in agroforestry systems. This is underlined by the fact that heavy machinery and controlled burning are indeed used by Client 2 when it comes to the cultivation of other crops such as sugar cane.



Figure 7: Dead wood such as the branches of pruned trees are left between the rows of coffee plants at Client 3's farm to add organic matter to the soil

All farms rely on chemical fertilizers, fungicides, insecticides, and herbicides to protect their crops, with usage limitations dictated by the standards under which each site is certified. The management of Client 2 emphasizes that fertilizer application is based on soil analysis to ensure precise nutrient application. Efforts are made at all farms to handle waste in a responsible manner, with coffee pulp being used as fertilizer and husks utilized for energy generation in coffee mills. Agrochemicals are collected at central locations and disposed of by specialized companies. Clients 1 and 3 reported on-site wastewater treatment: Client 1 purifies wastewater with the help of calcium compounds, Client 3 uses a biogas plant for this purpose.

OroVerde and GNF welcome the biodiversity enriching practices that are common practice in shaded coffee cultivation and also applied on the visited farms. These practices also help to reduce pest pressure and consequently pesticide use. Especially the use of diverse native tree species to provide shade provides a habitat of many different plant and animal species.



Figure 8: Long-term forest roads are used to avoid unnecessary soil compaction

Farm managers also reported various additional activities aimed at safeguarding biodiversity, such as:

- employment of watchmen to prevent illegal logging, poaching, and epiphyte extraction,
- establishment of wind barriers,
- protection of nests and burrows,
- installation of signs to communicate prohibited activities.

► **Biodiversity monitoring**

None of the visited farms have an established monitoring plan to systematically track changes in biodiversity and evaluate the effectiveness of protective measures for endemic or threatened flora and fauna. However, two of three end-borrowers have initiated some efforts in this direction. The management of Clients 3 and 1 have reported engaging in monitoring activities in collaboration with universities and private companies. Notably, Client 1 used an innovative approach to biodiversity monitoring in cooperation with a university, a specialized consultant firm and the financial partner institution to measure and analyze human impact on the environment and biodiversity in coffee agroforestry systems. The results of this study are not yet available, but it is anticipated that it will contribute new data that helps to better define high conservation value sites. Additionally, the eco.business Development Facility is in discussions to develop a follow-up project.

Client 2 in turn highlights its collaboration with a local environmental non-governmental organization that supports the management and monitoring of on-site protected areas.

OroVerde and GNF consider the cooperation with local non-governmental organizations in management and monitoring of areas that the companies set aside for conservation commendable. The development of innovative monitoring tools with actors who can contribute specialized technical expertise is beneficial, as well. Monitoring could be enhanced by the other operators engaging in similar cooperations. It would be desirable to involve local non-governmental organizations also in the management and monitoring of cultivated areas.

In conclusion, some good practices are in place. However, GNF and OroVerde consider that mapping, documentation and verification of endemic and endangered animal and plant species, as well as important areas for conservation and ecosystem services could be improved at all three sites to substantiate contributions to biodiversity conservation. The active use of ecosystem services and natural ecosystems to improve adaptation to climate change might also provide added ecological and economical value.

4.2 SOCIAL ASPECTS

► Clarification of land use issues

All the visited coffee plantations have a long history. Conflicts relating to land use have not been observed.

It is important to note that El Salvador's history includes serious human rights violations against indigenous people, including major massacres in different moments of the twentieth century.¹⁸ As a result, certain cultural traits that typically identify an indigenous person, such as language, customs and traditional clothing, have faded.

This explains why individuals may not necessarily identify themselves as indigenous - although all the regions visited during this case study are inhabited by communities of people with multi-ethnic backgrounds.¹⁹ Thus, local communities with indigenous ancestry were only identified by Client 2. Since there is no presence of groups who self-identify as indigenous, other requirements concerning affected indigenous peoples, such as free prior and informed consent to projects that affect them or their territories were not implemented by any of the three farms.

All farm managers affirm that they currently maintain good relationships with local communities and that farming activities do not encroach upon adjacent private or cooperative lands, or negatively affect rights of way. Furthermore, Clients 2 and 1 affirm to respect cultural and religious sites, whereby the management of Client 3 reported that no locations of cultural or religious importance were identified on their plots.

Within the cooperative of Client 2, specific procedures are in place for conflict resolution in the event of any land rights complaints, with the general assembly serving as a platform for addressing such issues. The management of Client 2 emphasizes that constant communication and open discussions are fostered, given the cooperative's significant size and the involvement of a majority of community members. While they do not categorically rule it out, none of the farm managers anticipate resettlements to happen as a result of their activities. Clients 2 and 1 state that, in the hypothetical case that such a situation should arise, the initial step would involve consulting with the affected families. There is no information on how the process would continue after these consultations.

► Consideration of the interests of the local population

The documentation of socio-economic data varies across the visited farms. At Client 2, detailed socio-economic information is readily available, particularly regarding the cooperative members. These constitute a significant portion of the local population. In the case of Client 1, although there is an understanding of the general situation of the population due to long-standing cooperation, this information is not formally recorded. Client 3 considers such data less relevant as there is no immediate population residing within the farm's vicinity. Laborers commute from neighboring villages. While the management is aware of the worker's general socio-economic conditions, these are not formally documented.

Despite the absence of anti-discrimination or gender policies, all visited farms demonstrate awareness of anti-discriminatory practices. Their referencing the proportion of female employees or cooperative members serves as an indication of such awareness. Approximately 40 percent of the workforce at Clients 3 and 1, and approximately 30 percent of cooperative members of Client 2 are women. Notably, the Client 2 highlights that women are also represented in various decision-making bodies, including the board of the cooperative.

Since all three farms have a long history, possible negative impacts of the businesses on neighboring population groups were not recorded at the start of operations. Consequently, systematic monitoring of these potential impacts does not exist. However, the farm managements assert their commitment to implementing mitigation activities should any negative impacts become apparent. The cooperative of Client 2 mentions the openness of committees to addressing these issues, while Client 1 management expresses a willingness to listen to concerns and complaints from community members. None of the farms has a formalized mechanism for lodging complaints related to negative impacts or other grievances.

All representatives of the end-borrowers confirm their respect for traditional knowledge and allow the continuation of traditional practices. For instance, Client 2 supports the cultivation of beans and other food crops for subsistence purposes in the cooperative fields. In the event of introducing new initiatives, such as the expansion of services for tourists, the utilization of new types of motorized equipment, or the conduction of trainings, the surrounding population is informed in advance by Client 2. However, there is no formalized participatory process in place.

While Client 3 does not offer benefits to its workers other than stable wages, Clients 2 and 1 offer several additional co-benefits. Both provide training opportunities and support the community through initiatives such as providing construction materials for the local school. Additionally, Client 1 has provided five houses for workers, some of which are equipped with solar panels. The management of Client 2 highlights that energy independence may be a next step for community development.

Table 2 illustrates the differences among the three farms regarding their consideration of interests of the local population.

Criteria	Client 1	Client 2	Client 3
Groups of people directly affected by the farm area and key (local) stakeholders are identified in advance (taking gender aspects into account) and actively involved during implementation.	No, as site was established 70 years ago.	No, as site was established 40 years ago.	No, as site was established 100 years ago.
If groups are adversely affected by the farm, binding mechanisms are established (e.g. in an agreement/contract/grievance mechanism) for lodging complaints, for conflict resolution and, if necessary, for compensation.	There are no binding mechanisms for filing complaints.	Cases of complaints or disputes may be discussed with the cooperative's board. There are no binding mechanisms such as compensations, though.	No information on binding mechanisms.
Traditional knowledge of local and indigenous groups is respected and agreements regarding use (e.g. compensation payments) are fixed in writing in advance.	The traditional knowledge and support of local communities is respected. There are not agreements or compensatory payment policies.	Respecting traditional knowledge of the local communities is considered part of social policy. The right of community members to grow maize and beans on cooperative land is ensured.	No disrespect was identified for nearby communities.
The farm management describes objectives in terms of socio-economic co-benefits for the local population.	The farm management focuses on efficiency in the coffee production, creation of jobs, and improvement of workers' capabilities. It also supports local schools with construction material, offers health access, community support, and housing with solar energy.	The cooperative's goals include access to education, agriculture yields, training, community development, job creation, food security, and health promotion. Mainly the cooperative's members and their families are supported. Energy independence is identified as a next potential step.	The focus lies on job creation.

Table 2: Consideration of interests of the local population in project development and implementation

OroVerde and GNF view the long history of the three companies as potentially positive for the sustainability of forest investments. While the level of inclusion of local communities differs across the three farms, this could be another success factor for forest investments. The establishment of a formalized grievance mechanism on all three farms would be recommendable. This would allow community members to lodge complaints anonymously, thereby ensuring that all relevant concerns can be raised.

► **Addressing the socio-economic situation of the local population**

The commitment to local communities varies greatly among the three visited farms. Client 2 supports food security by allowing members to grow subsistence food on cooperative fields. The cooperative actively engages in community projects, often in collaboration with local organizations, as part of the Fairtrade certification requirements. The Fairtrade premium price is used to implement community projects. The cooperative also supports local value chains through purchases of inputs. Local services and products are promoted via social media channels. The management of Client 1 is less involved in community life, with very limited promotion of social programs and local value chains. Client 3 contributes to and supports the local economy through purchasing input locally. It is worth noting that the different legal structure of Client 2 may have a significant influence: Due to its nature as a cooperative it is more strongly involved in the life of the local community than the two commercial firms.

The use of natural resources on the farms is primarily regulated by national legislation rather than by the respective farm's management. Activities like hunting are widely prohibited by law and are not traditionally practiced. Fishing is also not seen as important (some sites lack water bodies). However, the collection of other resources, such as firewood or mushrooms (for example Tenquique), for personal use or for sale on local markets and restaurants is permitted by the managements.

In order to adapt to climate change, Client 2 has introduced flexible working hours, following Fairtrade guidelines, and ensured the provision of drinking water. At the other farms, no concrete adaptation measures were observed. However, Client 1 is actively pursuing mitigation activities, such as the utilization of renewable energies.

GNF and Oro Verde welcome the approach of Client 2 regarding food security, as well as the promotion of local value chains. These measures foster a long-term positive impact of the investments on the livelihoods of the community.

► **Working Conditions**

There are some discrepancies between the findings of our field visit and an assessment by the partner institution. Therefore, working conditions are not evaluated here.

► **Monitoring of social aspects**

None of the visited sites had a monitoring plan for social conditions. However, at Client 2, various committees, such as the occupational health and safety committee, are known to address social issues and take action if imbalances are identified. Social monitoring also occurs during Fairtrade audits with regard to the social criteria of the Fairtrade standard.

Regular reports by the Ministry of Health are conducted, although the specific criteria used in these reports are unknown.

To verify no significant harm is done through a green loan, the companies and the financial partner institution monitor social do-no-harm requirements. OroVerde and GNF recommend a more systematic monitoring.

5 CONCLUSIONS

In conclusion, from the perspective of GNF and OroVerde, the following aspects are worth highlighting from the case study:

► **Verification and monitoring of compliance with environmental and social standards**

The eco.business Fund has sound regulations in place to monitor its partner institutions comprehensively and diligently in terms of environmental and social concerns. Since they follow the same cultivation concept, the visited areas showed similar approaches to biodiversity protection.

However, significant differences were observed regarding social aspects. This may be attributed, on the one hand, to the different legal forms of the end-borrowers, but also to the social requirements imposed by certification organizations. Although the coffee grown in agroforestry systems is generally associated with positive environmental impacts, due to the lack of direct monitoring the specific impact of the given loans cannot be consistently proven. As it is uncommon for commercial coffee producers to monitor environmental variables such as carbon storage and biodiversity indicators, many actors in the impact investing industry estimate their impact using other data sources. For the eco.business Fund the fund advisor Finance in Motion estimates positive impacts based on eligibility criteria, use-of-proceeds and third party data.²⁰

The eco.business Fund conducts environmental and social due diligence, requires annual reporting and supports its partner institutions through technical assistance projects. Additionally, the eco.business Development Facility supports the partner institution in the management of environmental and social risks. For clients who possess some kind of sustainability certification, third party verifications of standards implemented at the farm, also play a role in safeguarding environmental and social requirements.

Due to the discrepancies mentioned in section 4.2, working conditions were not analyzed in this case study.

► **Selection of investments through certifications, Green and Exclusion Lists**

The granting of loans to companies based on compliance with the Green List or certifications deemed eligible by the eco.business Fund, as well as the Exclusion List seems ecologically sensible for coffee grown in agroforestry systems. The Exclusion List also contains social minimum criteria. Compliance is monitored through an environmental and social (E&S) due diligence and management system, based on the use-of-proceeds-criteria, environmental and social performance of clients.

► **Environmental conservation**

Regarding environmental conservation, there is relatively good knowledge at the species level (lists of endangered and sometimes endemic species). However, maps that provide indications of where exactly these species can be found (although this may be locally known) are lacking. Furthermore, the identification of ecological concerns is largely limited to endangered species. There is comparably little knowledge regarding ecosystem services or high carbon stocks. This could be important in measuring and communicating the contribution of farming activities to climate change mitigation and adaptation. It is worth mentioning that the primary activity of the three end-borrowers is coffee cultivation. Consequently, it is challenging to expect similar ecological characteristics as in conservation projects.

► **Agroforestry as a valuable approach**

Investment in diverse agroforestry systems as a sustainable land use management practice offers potential for many positive ecological and social impacts. The case study shows that positive ecological aspects are reached by refraining from clear-cuts and the strong focus on permanence. Furthermore, the intercropping with different endemic species has a very positive influence on biodiversity.

6 TRANSFERABLE ASPECTS: APPROACHES FOR SUSTAINABLE FOREST INVESTMENTS

GNF and OroVerde have identified some transferable aspects from the case study that can guide sustainable forest investments:

▶ **Legal structure is crucial**

The legal structure of the visited farms plays a crucial role. The cooperative's structure and goals contribute to a better work environment, control functions, documentation practices, and opportunities for participation as compared to the two limited liability companies.

In this context, it should be noted that employees of Clients 1 and 3 are more dependent on the discretion of management. For example, costs for health services may be covered by the two companies upon request. However, there are no clear policies in place.

▶ **Environmental protection: Using local knowledge and creating co-benefits**

To ensure the success of environmental conservation efforts, some crucial elements can be identified from the case study. The local community exhibits high knowledge of endemic species, and this has been documented in lists. A key aspect of conservation lies in actively involving farmers in monitoring and tracking efforts.

Moreover, additional activities at Client 2, such as utilizing their area for tourism, can stimulate interest in conservation activities. This multi-faceted approach fosters environmental protection but also generates positive economic incentives for sustainable practices.

▶ **Certification as a monitoring tool**

Certification with standards recognized by the eco.business Fund holds significant importance in this case study. The Fairtrade-certified cooperative demonstrated particularly strong social performance. Certifications also involve regular external audits, which in some cases can serve as substitutes for own social and environmental monitoring systems. Given that none of the visited entities had specific biodiversity or social monitoring in place, certification becomes crucial for verifying compliance with legal or self-imposed standards. Certification can also effectively enforce adherence to those standards. The managements of Clients 2 and 1 highlight that suggestions for improvements often arise from certification standards reports.

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