

Investing in the Lungs of the Planet: The Economic Potential of the Peruvian Amazon

Andrew Ireland & Amanda Fernandez
Natural Resource Facilities, Palladium



Introduction

The value of the Amazon rainforest to the world is no longer in question. Its contributions to clean air have well-earned it its nickname, “the lungs of the planet”. As the home to over 3 million species of plants and animals, as well as 30 million people of 350 different ethnicities, the Amazon stores about 125 billion tonnes of carbon dioxide, making it a critical buffer in the fight against climate change.

The Amazon’s advocates have worked tirelessly over decades to save it from destruction using a variety of strategies that empower communities through protection, policy solutions, and economic growth. Despite these laudable efforts, destructive and illegal activities, such as mono-cropping, illegal mining, logging, cattle ranching, and coca production, far outweigh licit investments.

Simply put, illegal and destructive activities are highly profitable, and therefore have more active and prolific financial backers than legal and sustainable ones. In this environment, protection-only strategies are not enough. The result is the disappearance of 17 percent of the entire Amazon rainforest over the past 50 years, bringing it dangerously close to a tipping point from which it may never recover.

The 'villain' in this story is poverty, and the bad actors that feed off of the vulnerability of the Amazon's inhabitants living on large tracks of land. Poverty, combined with the region's remoteness, limited political power and inaccessibility to key services, make investing in the Amazon a risky and costly investment for financial institutions. Finding new ways to tip the scales from illegal and destructive Amazon investments towards a situation where it is "better business" to invest legally in the Amazon, is the key to saving the Amazon over the long term.

This is not an issue of money. Billions of dollars have been raised globally by a range of development finance institutions, governments, and private sector players to invest in climate smart solutions, new technologies, land protection, and regeneration efforts across the continents. But most of this money - once raised - is not placed. In Peru, 38 financial institutions operate in the Amazon, but the Amazon accounts for only 3.7 percent of national lending. Why this market failure?



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The refrain from financial institutions inside and outside of Peru is that they don't invest in the Amazon because there are "no investable deals". However, the fact is sustainable investments do exist to generate new value in the Amazon to effectively combat poverty, such as those to expand sustainable and more inclusive production of products on existing plots of land or on already deforested land - from coffee, cacao, sustainable palm oil, and tourism, to ginger, Brazil nuts, turmeric, tamu-tamu and heart-of-palm - generating new value for farmers and communities, with little to no impact on forest cover.

Growth in these economic sub-sectors also supports growth in ancillary goods and services, from agricultural inputs and cleaner energy, to transport and machine rentals and repairs. Private companies operating inside Peru and the Amazon are actively seeking assistance to build partnerships with sourcing communities, governments, civil society, and financial institutions to structure sustainable investments at scale.

So, if there is money, the technology exists, and there is demand for sustainable and protective investment, then why do the destructive activities continue to dominate the Amazon landscape in Peru? It's because putting investable deals in the Amazon together is complex, costly, and risky. Deal formation in the Amazon is not a "one actor solution"; it requires alignment of interests among a variety of stakeholders - from farmers to communities, deal packagers and financial institutions, to private company buyers and exporters and government entities - to be successful.

Blended Finance for the Amazon

A new program called CATALYZE Peru, funded by the U.S. Agency for International Development (USAID) and managed by Palladium, is now working to do just that. This ambitious initiative has been designed intentionally to organise and channel a variety of actors in a concentrated effort under a unified blended finance platform to mobilise more than USD100 million into licit enterprises and activities in the Peruvian Amazon, demonstrating that licit investment in the Amazon can in fact be “good business”. The investments identified by the CATALYZE Peru blended finance platform are selected for their ability to create sufficient new value to combat poverty while preserving and regenerating the Amazon.

Led by an all-Peruvian team, CATALYZE Peru will build partnerships across stakeholders - from households to communities, civil society, the private sector and government - to apply a combination of smart incentives and technical assistance to:

- Identify and package sustainable investment opportunities through Business Advisory Service Providers in the Amazon to present to financial institutions for potential funding
- Connect producers and small businesses with larger buyers who then invest in those suppliers and their sustainable growth
- Develop digital information systems that help private companies track their transparency and sustainability pledges from farm to store while supporting producers to develop credit histories and access finance
- Assist financial institutions with cash incentives and technical assistance to help them lower the costs and risks of investing in the Amazon by modifying their products and services to serve both new and underserved clients and economic sectors.



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CATALYZE Peru started with a series of assessments conducted in 2020, which identified more than USD 349 million annually in sustainable investments into a range of sectors (including agriculture, livestock, tourism, non-tree forest products, carbon, and infrastructure) in nine departments and dozens of municipalities throughout the Amazon. Since then, CATALYZE Peru has identified hundreds of private companies operating in or sourcing from Peru’s Amazon that are similarly concerned with protecting the Amazon so they can ensure sustainable sourcing of quality products and services, purchasing deals that can generate the conditions for financing product design at scale.

Licit, private sector actors bring their purchasing, processing, and exporting powers to the table of CATALYZE Peru and are supported by the project team to actively seek partnerships with communities, governments, and civil society to harness the latent productivity and value in the Amazon that can be used to protect, rather than destroy, the rainforest.

Establishing Sustainable Investments

The CATALYZE Peru team has already mobilised USD 2.75 million to date and has identified a pipeline of USD 210 million in sustainable investment deals that its stakeholder partners are currently structuring in the departments of Amazonas, Cusco, Huánuco, Junín, Loreto, Madre de Dios, Pasco, San Martín, and Ucayali.

Once opportunities are identified, the CATALYZE project team provides the framework and the guidance to support the development, implementation, and monitoring of the strategic partnerships between actors to bring these deals to closure. Deals which involve everyone from farmers to communities, buyers, financial institutions and exporters, ultimately producing more on the same amount of land to create new value, while protecting the precious resource that is the Amazon.

Similar capital mobilisation programs implemented by Palladium for USAID show that reaching ambitious financing targets in new contexts through these sorts of partnerships is possible. In Ghana, USAID's Financing Ghanaian Agriculture Program (FinGAP) program built a network of 56 transaction advisors and 39 FIs to mobilise USD 158 million in financing for agricultural businesses in Northern Ghana over four years, in sectors and regions that were previously considered too high risk, too expensive, and too challenging to serve.

This program formed dozens of strategic partnerships between producers, buyer firms, and financial institutions that unlocked financing for thousands of farmers through better access to markets, inputs, and credit. Farmers got the financing they needed to boost yields and incomes, companies secured a reliable supply of high-quality inputs for processing, and financial institutions doubled their agricultural lending portfolios.

Most importantly, all of this financing generated tangible impact for producers and households. Smallholder farmer sales increased by 280 percent, revenues by 57 percent, and profits by 74 percent. New financing generated resulted in an estimated 17,900 jobs, and the program helped 169,000 farming families in Northern Ghana improve their wellbeing.

In Kenya, USAID is working with Palladium on a similar project to mobilise financing into many sectors, from forestry and agriculture to health and clean energy. Over two years, this program (the Kenya Investment Mechanism, or KIM) has mobilised USD 263 million of new financing into mostly small and medium enterprises, including USD 48 million to women-owned businesses and USD 11 million to youth-owned businesses, through its network of 53 partner transaction advisors and 32 financial institutions.

These experiences - and Peru's many assets in the form of human, natural and financial capital - demonstrate that Peru has all the tools it needs to leverage the financing needed to transform the Amazon into a model of inclusive, sustainable growth.



Palladium is a global impact firm, working at the intersection of social impact and commercial growth. For nearly 60 years, we've been helping our clients to see the world as interconnected – by formulating strategies, building partnerships, mobilising capital, and implementing programs that have a lasting social and financial impact. We simply call this “positive impact”.

We work with corporations, governments, investors, communities, and civil society. With a global network operating in over 90 countries, Palladium is in the business of making the world a better place.

Contact info@thepalladiumgroup.com to learn more.

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