

Program related investment initiative for climate change adaptation

Project K: RedLAC-CAFÉ Knowledge for Action Project

Fund:

Forever Costa Rica

Country:

Costa Rica

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Case study

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1. Executive Summary

The Forever Costa Rica Association (FCRA or the Association) is the administrator of the Second Debt-for-Nature Swap between Costa Rica and the United States. Since 2010, FCRA pursues the conservation of terrestrial and marine ecosystems in perpetuity through the management of this fund, in addition to the Association's private trust. Buoyed by the success of this work and the strategic mission-based alliances it has forged, the Association is launching a Program Related Investment (PRI) Initiative that will catalyze investments, with capital procured from the Debt-for-Nature Swap, in small and medium scale enterprises (SMEs) or businesses developing sustainable use programs within and surrounding the Second Debt-for-Nature Swap prioritized geographical areas.

PRIs allow foundations to increase the scope of their work by making investments (most often in the form of low interest loans or guarantees) in charitable activities that increase the impact of the organization's work. Using this approach, FCRA is in a unique position to further its mission in alignment with Costa Rica's sustainability and economic development goals by supporting the creation and growth of green businesses rooted in social, economic, and environmental standards.

After obtaining approval of the Oversight Committee (OC) of the Second Debt-for-Nature Swap, FCRA launched its PRI Initiative that consists of the reallocation of \$1 million to support innovative entrepreneurs whose businesses are generating financial returns while positively impacting the environment and the livelihoods of those associated with them.

The Association's PRI Initiative is the first of its kind in Latin America and represents a forward-thinking way of using Conservation Trust Funds (CTF) to finance mission driven, sustainable SMEs. It is made possible because prior to this Initiative's pilot phase, FCRA's existing portfolio of green SMEs received capacity building grants from the Association to strengthen their business and financial plans and operational structures, making them attractive to investors. Connecting these small businesses with future PRI makers, identifying funding gaps, making loans to the PRI Initiative's

pilot investments, and expanding the work's scope are all key milestones that FCRA's Initiative hopes to achieve. In this way, FCRA's work is catalyzing sustainable business finance opportunities by convening and coordinating the green investment and SME sectors through the leveraging of relationships and available funding.

To date, the Association has screened and scouted investment ready pilot SMEs procured from its green portfolio. It has also developed monitoring and evaluation tools and indicators to measure PRI mission related impacts and researched lessons learned and best practices for other international PRI making foundations. Furthermore, it staged the Green Economy Investment Summit in Costa Rica in conjunction with the National Stock Exchange. The Summit was a milestone event highlighted by the signing of an agreement between FCRA and the National Stock Exchange to develop joint actions to promote Costa Rica's green economy. The event and partnership produced the Green Economy Principles Declaration which was adopted by 60 private and public institutions, opening a window of opportunity for companies, public institutions and other key stakeholders, and therefore developing the stepping stones to promote the green economy movement in Costa Rica.

2. Background (context)

Private foundations are increasingly searching for new ways of using their assets to enhance the impact of their missions. A PRI is one such tool that allows foundations to increase the scope of their work by making investments in charitable activities that involve the potential return of capital within an established time frame. Done correctly, PRI making allows foundations to increase the amount of money available to the social sector, while simultaneously building stronger and more socially-minded entities (e.g., businesses, non-profits).

Based on this concept, FCRA began developing its own PRI Initiative in 2017. The Association aims to increase its mission's impact by utilizing funds from the Second Debt-for-Nature Swap between Costa Rica and the United States (of which it is the administrator) to launch its PRI Initiative¹ and promote positive change through the private and financial sector. The Initiative will catalyze investments involving the potential return of capital in SMEs developing sustainable use programs within and surrounding the country's conservation areas.

FCRA's PRI Initiative represents the first environmental fund in Latin America used to invest in SMEs that are contributing, through their productive practices, to en-

vironmental conservation and climate change adaptation strategies. As part of this Initiative, FCRA is building and diversifying its portfolio of green investment ready businesses and identifying its niche and the eventual role it will assume within the PRI space and Costa Rica's emerging green economy. With nearly a decade of experience in making grants that build conservation and sustainable management capacity, the Association holds a track record in working with cross-sectoral partners to design and implement innovative programs and projects that achieve socio-economic, environmental, and financial goals. Its scientific and technical expertise and approach to conservation enable the Association to engage in SME capacity building, as well as develop best practices and monitoring and evaluation (M&E) assessment tools. FCRA is also economically sustainable because it uses interest accrued from the CTFs it manages to support, in perpetuity, sustainable natural resource management and conservation work. This institutional sustainability, or staying power, is a major reason why FCRA attracts and maintains public-private partnerships and government covenants.

Over the Initiative's course to date, the Association has received approval of the Oversight Committee (OC) of the Second Debt-for-Nature Swap, as well as the Treasury Department of the United States to use \$1 million of the fund, to support SMEs that contribute to terrestrial conservation and climate change mitigation or adaptation in Costa Rica. The Association created an Advisory Committee (AC) comprised of experts in the investment field, to oversee the development of the PRI and give recommendations to the OC regarding the selection of a financial institution, the design of the M&E system and the development of the green portfolio, among other responsibilities. After several meetings with over 10 banks, Banco Promerica was selected as the financial institution to manage the investments of the PRI. At same time, the Association liaised with multilateral and financial institutions, as well as development organizations in order to generate alliances. As a result of this process, FCRA and the National Stock Exchange developed a cooperation agreement.

The PRI Initiative's work is enhanced by its stakeholders including the aforementioned National Stock Exchange and Banco Promerica that work with FCRA to develop green finance strategies, with national non-profits interested in supporting these strategies, and with Blue Earth Consultants (Blue Earth), a Division of Eastern Research Group, Inc. (ERG) that researched PRI best practices, strategies, and fundraising options for the Association.

3. Pilot Goals

FCRA's Initiative has positioned itself as a trailblazer of sustainable finance opportunities related to conservation in Costa Rica through coordinating green invest-

¹PRI making happens when an organization (often a private foundation) provides economic assistance (often in the form of a low interest loan) to a recipient (often a business), as defined by: Carlson, N. (2006). Program Related Investing: Skills and Strategies for New PRI Funders. GrantCraft, Foundation Center, 25 pp.

ments and convening SME sectors. The Initiative's pilot phase is driven by the following goals:

- Diversify Second Debt-for-Nature Swap resources through a PRI mechanism in which 1 million USD will be invested in SMEs that are contributing to environmental conservation and climate adaptation strategies.
- Develop a green portfolio of investment ready SMEs and M&E tools.
- Select a top financial institution to manage the resources for the investments.
- Establish alliances with other stakeholders for the purpose of scaling up.
- Develop a PRI fundraising and concept strategy.
- Identify the PRI Initiative's niche and role as an accelerator-catalyzer.

The Association's work towards attaining these goals produced a series of outcomes. To begin, FCRA requested and received extraordinary permission from the Oversight Committee (OC) of the Second Debt-for-Nature Swap and the United States Treasury Department to allocate 1 million USD for investment in sustainable SMEs. The Association established an Advisory Committee and also developed M&E tools to measure its PRI mission related impact, as well as identified a robust portfolio of potential green investment ready pilot SMEs. FCRA forged an innovative alliance with Costa Rica's National Stock Exchange that is allowing both entities to develop a portfolio of green SMEs together to scale up the initiative. This partnership and other initiative activities allowed the Association to define its role and niche as an accelerator-catalyzer, developing non-traditional funding opportunities and facilitating innovative partnerships that drive Costa Rica's green economy forward. Along these lines, it also entered into a strategic relationship with Banco Promerica through which it will issue low interest loans to qualifying SMEs that will range between \$USD 100.000 and \$USD 300.000. Additionally, FCRA effectively communicated its initiative's objectives to Costa Rica's finance community via its inaugural Green Economy Investment Summit.

In addition to these outcomes, FCRA identified lessons learned, best practices, and successful approaches from other foundations with PRIs around the globe. This learning process also included a review of the basic building blocks for preparing a successful PRI scheme, and how these lessons can be applied to other CTFs. To facilitate these outcomes, FCRA worked with Blue Earth to produce a PRI Lessons Learned and Best Practices document that included a list of recommendations for launching PRIs, a PRI Concept Note that provided an overview of the PRI initiative strategy and approaches for pitching to donors, and a Fundraising Plan and database of potential

donors. These products allowed the Association to have a deeper understanding of the impact investment landscape and successful mission-based PRI methods used by international foundations in different global regions

4. The Process and Approach

FCRA is working with a number of internal committees, Initiative stakeholders, and key partners to increase awareness of its PRI Initiative and ultimately its impact. The following is a list of these entities:

- Oversight Committee
- Advisory Committee
- Financial institutions
- Banco Promerica
- Costa Rican non-profits and multilateral institutions
- Blue Earth
- National Stock Exchange

Oversight Committee

At the Initiative's onset, FCRA requested and received permission from the Oversight Committee (OC) of the Second Debt-for-Nature Swap and the United States Treasury Department to allocate 1 million USD for investment in sustainable SMEs to support innovative entrepreneurs whose businesses are generating financial returns while positively impacting the environment, climate change adaptation and the livelihoods of those associated with them. Over the course of the PRI, the OC has been presented with the developments and outcomes of the project, which has been instrumental to the approval and the advancement of the initiative's following steps.

“ Private foundations are increasingly searching for new ways of using their assets to enhance the impact of their missions. ”

Advisory Committee

FCRA established an Advisory Committee for the PRI Initiative with the role of overseeing the proper implementation of the project and giving recommendations to the OC. The AC provided guidance during the financial institution selection process, and gave advice in the process of identifying a list of potential pilot SME investments. To date, the AC is made-up of top specialists in the impact investment field who are willing to share their knowledge for the process and collaborate on the PRI Initiative's activities.

Financial Institutions

FCRA held several meetings with ten banks to present the PRI initiative which received little attention. After this initial challenge, Banco Promerica and BAC San José showed willingness to develop the PRI. In the case of Banco Promerica, the institution expressed interest in the possibility of placing FCRA's investments within its existing portfolio of clients and among the Association's portfolio of green SMEs. BAC San José proposed to use the funds to guarantee its current green loans.

Banco Promerica

The AC revised both proposals during its first session and recommended Banco Promerica as the PRI financial institution based on the attractiveness of its green loans initiative and its alignment with the PRI Initiative's objectives. During the AC's second working session, its members analyzed the first selection of potential green pilot SMEs and reviewed the M&E tools that FCRA consultants developed to measure the impact of the pilot. The AC recommended the SMEs be presented to Banco Promerica.

Costa Rican non-profits and multilateral institutions

The Association reached out to potential partner organizations and explored points of cooperation and fundraising opportunities throughout the PRI Initiative. These partners include Fundecooperación, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the Costa Rica USA Foundation (CRUSA). During the World Ocean Summit by The Economist in March 2018, FCRA presented its PRI Initiative's vision, objectives, and



workplan to a representative of the Inter-American Development Bank's Multilateral Investment Fund (IDB-FO-MIN). The engagement led to the Association submitting a proposal soliciting technical cooperation from the Latin American investment bank.

Blue Earth

The Association also hired Blue Earth to strengthen its PRI Initiative by developing various components that aim at bringing more strategic partners to the table who are willing to commit funds and invest in blue-green businesses. Blue Earth's specific deliverables from this partnership and participatory process included the following:

- [PRI Lessons Learned and Key Findings Report](#)
- [PRI Fundraising Plan](#)
- [PRI Funder Database](#)
- [PRI Concept Note](#)

National Stock Exchange

FCRA developed an important alliance with Costa Rica's National Stock Exchange. Recently, the National Stock Exchange launched its Green Bonds Initiative, one that includes financial principles that associated with the PRI Initiative's mission driven impact objective. Both FCRA and the National Stock Exchange signed a formal cooperation agreement in September 2018 during the Green Economy Investment Summit. In this event, the Green Economy Principles Declaration was presented and endorsed by 60 companies. Taking advantage of these synergies, the two organizations will work together to 1) develop a portfolio of investment ready SMEs, 2) create synergies and change the investment culture in Costa Rica, and 3) promote the implementation of the Green Economy Principles.

5. The Challenges

Despite Costa Rica's green reputation, there are very few financial opportunities that support green investments. Because of this, the Initiative's main challenge was to increase buy in and stimulate the interest of financial institutions specifically in its PRI Initiative and investing in green SMEs. The relevance of this PRI initiative cannot be understated because it demonstrates how green investments, identified through an established portfolio of SMEs, can produce triple bottom line -economic, environmental, and social- returns on investment.

According to FCRA and Blue Earth's research, it typically takes 18 months to develop a PRI to the point where the organization is ready to make investments. FCRA had far less time to accomplish this and was additionally saddled with the reality that its stakeholders were operating in an environment devoid of a green economic culture. This caused challenges to Initiative buy-in

and support. Delays in OC decision-making – caused by compliance issues concerning the transfer of funds from the financial institution in the United States to Banco Promerica in Costa Rica – set the Initiative's timeline back at least three months.

Early in the Initiative's pilot phase, setbacks also occurred in terms of timing when engaging with qualified financial institutions that met both the Association's terms of reference (TOR) and the Forest Conservation Agreement's (FCA) international standards. Being an innovative and unique investment tool in Costa Rica, significant effort in the form of additional meetings and conversations to engage these organizations was required. As a result, the decision to enter into a formal agreement with Banco Promerica took longer than anticipated.

6. Remaining challenges

FCRA performed innovative "outside the box" work and moved the green investment needle in Costa Rica an astonishingly great distance in a very short period. However, Project K funding for the PRI Initiative will end in October 2018 and challenges remain in the face of limited human and financial resources, including:

- [How to scale the PRI Initiative.](#)
- [How to create a permanent program and sustain its work over time both programmatically and operationally.](#)
- [How to financially support ongoing PRI Initiative work after Project K funding ends.](#)
- [How to better define and strengthen FCRA's role as an accelerator-catalyzer.](#)
- [How to strengthen Costa Rica's new green economy principles.](#)
- [How to continue scouting and screening pilot SMEs in lieu of ending consultant contracts.](#)

Although the Association has made great strides with its PRI Initiative and understands the process of how to solve these challenges, without available human and financial resources these restraints remain present. The Association will undertake future activities that are currently unfunded, not originally planned, but nonetheless important to the PRI Initiative's future success. This work will better define its role and that of other regional CTF brokers in the impact investment marketplace, it will also develop the Association's Investment Thesis (what FCRA hopes to accomplish with its partners through the PRI Initiative), and further flesh out its operational and programmatic plans.

7. Results

FCRA carried out the following activities under the original workplan/Initiative timeline as part of its PRI Initiative:

- Procured approval to use Debt-for-Nature funds for a PRI.
- Selected PRI financial institution.
- Screened and scouted of pilot SMEs procured from FCRA's green portfolio and further developed investment portfolio.
- Defined the investment criteria.
- Developed M&E tools and indicators to measure PRI impact.
- Developed a PRI Lessons Learned, Fundraising Plan and database, and Concept Note.
- Developed and staged the Green Economy Investment Summit in conjunction with the National Stock Exchange.
 - *Event featured the signing of a cooperation agreement with the National Stock Exchange for the purpose of developing joint actions to promote Costa Rica's blue-green economy and the presentation of the Green Economy Principles, signed by 60 organizations.*

Procured approval to use Debt-for-Nature funds for a PRI

FCRA received approval from the Oversight Committee and the United States Department of the Treasury using 1 million USD from the Second Debt-for-Nature Swap between Costa Rica and the United States for a PRI. The United States Government sent a no objection letter to the OC that granted the Association approval to move forward with its PRI Initiative and to pursue a loan agreement with a Costa Rican based financial institution -as per local legal requirements- to define the finance structure of the investment mechanism. The United States Treasury's willingness to support the use of its Debt-for-Nature Swap endowment to financially back SMEs that contribute to natural resource conservation and climate change adaptation in Costa Rica was a ground-breaking decision and set in motion a series of activities.

Selected PRI financial institution

The United States' approval to use funds in this manner also allowed FCRA to meet the FCA's investment guidelines, which state that the funds on deposit in the FCA Endowment Account shall be invested with the objectives of maintaining their real, inflation-adjusted value, in perpetuity, and employing best efforts to achieve real, inflation-adjusted after-tax return averaging five percent (5%) annually in Dollars over ten years cycles, considering market conditions. A legal analysis was developed to ensure that these guidelines were met. After conforming to these guidelines, the Association developed the TOR

that stated the financial institution selection criteria and expected role within the PRI Initiative. Once drafted, the AC approved the TOR and began to analyze the capability of Costa Rican financial institutions to develop a green portfolio of SMEs with the potential to further FCRA's mission. Ten Costa Rican financial institutions met the FCA's international standards and the AC's TOR, and all were invited to apply for the Initiative. These institutions included: Improsa, Lafise, Banco General, Banco Cathay, Davivienda, BAC San José, Banco Promerica, Scotiabank, and Banco BCT.

Originally, only BAC San José responded to the call for proposals. Because of the low turn-out, FCRA granted an extension to promote the TOR, with Banco Promerica subsequently stating its interest in the Initiative. FCRA held meetings with Promerica and BAC to explain the purpose and scope of the PRI. The negotiation process between the two banks allowed FCRA to explore all available market options, and to ensure that all the FCA guidelines were met.

In early 2018, Banco Promerica and BAC San José submitted their proposals explaining how each would invest the 1 million USD from the Second Debt-for-Nature Swap. Both plans included a strategy that would place investments within their own portfolios, as well as with SMEs in FCRA's green portfolio.

Banco Promerica was ultimately selected as the financial institution responsible for managing the funds. The decision was based on Promerica being a category A bank, its development of a green investment program aligned with the PRI objectives, and its interest in developing a successful pilot that will offer a 4% return on investment. After several more meetings between the bank and the Association, a contract was developed. The agreement strengthened the finance community's interest in FCRA's green portfolio of socially responsible and environmentally sustainable SMEs. The Association is continuously taking steps to bolster the potential impact of these businesses.

Define Investment Criteria

In conjunction with the Advisory Committee a set of basic criteria was developed and agreed to identify the green portfolio candidates:

- Contribution to prioritized geographical zones (areas of influence within and surrounding protected areas).
- SME level of interest in obtaining five year, 100,000 - 300,000 USD loans.
- Income and profit capacity to repay loans.
- Total number of hectares of conserved or sustainably managed land.

- Implementation of sustainable practices/technologies.
- Capability of generating employment and/or better wages, benefits for SME workers.
- Contribution to local economies/communities through employment, purchase of supplies, production chains, multiplying effect, etc.

Screened and scouted pilot SMEs procured from FCRA's blue-green portfolio and further developed investment portfolio

Simultaneous to the financial institution selection process, the Association hired two consultants to perform key PRI Initiative activities. One of them, a respected professional with Root Capital experience to develop investment opportunities in rural areas. The consultancy included the screening and scouting of the ventures that comprise the Association's portfolio of over 35 green SMEs to filter them into a more manageable pool of pilot business candidates. FCRA's screening and scouting activities of potential pilot investments determined that the Association would focus its PRI Initiative on community-based SMEs. Twenty-one prospect businesses were identified from the Association's portfolio, all of which are developing sustainable practices in an array of industries that include the following:

- Agriculture: Coffee, banana, pineapple, honey, sugar cane, cocoa.
- Livestock.
- Sustainable tourism.
- Aquifer management.
- Forestry.

All of these businesses are located in the Second Debt-for-Nature Swap's priority conservation regions and landscapes that include: Costa Rica's northern region and related protected areas, the southern Talamanca Mountain Range including La Amistad International Peace Park, the Osa Peninsula, the central highlands, the Nicoya Peninsula including the Guanacaste Volcanic Mountain Range.

After reviewing this list of 21 SMEs in the investment portfolio, FCRA's consultants narrowed it down to a short list of 10 candidate businesses. The Association then researched these further to verify whether they met FCRA's environmental conservation and social development criteria and Banco Promerica's financial viability and credit requirements. The in-depth process identified the following well positioned and investment ready pilot SME options:

- COOPEASSA, <http://www.coopeassa.com/> 100% Organic agriculture
- ASOPROLA, <http://asoprola.com/> 100% Organic agriculture. Rural community tourism



- CACH, <http://www.cachforestal.com> Reforestation, environmental services, coffee, livestock
- ASOMOBI, <http://asomobi-costarica.com/> Rural community tourism and coffee

These initial SMEs will be reviewed by the AC to verify if they comply with its criteria. During the screening and scouting process, consultants also refined the M&E assessment tool that will measure the pilots' social and environmental impacts.

Developed M&E tools and indicators to measure PRI impact

FCRA's consultants developed M&E tools, in the form of impact indicators and verification methods, for the four components that all SMEs in the Association's green portfolio share (environmental, social, financial, geographic influence). The process identified a baseline upon which individual SME impact could be measured.

Developed PRI Lessons Learned, Fundraising Plan and Database, and Concept Note

Lessons learned and Best Practices

Blue Earth reviewed and evaluated 10 lessons learned and best practice case studies and organized the information into the following key themes relevant to FCRA's PRI Initiative:

- Foundations leading in the PRI space and examples of successful programs.
- Operational and programmatic best practices for launching pilots and initiatives.
- Guidelines for the Association to launch a successful PRI Initiative.

Blue Earth then produced a report with key lessons learned and recommendations the Association could use to guide its PRI Initiative start-up activities. Furthermore, it identified the essential PRI development steps put in place by successful PRI making foundations.

Fundraising Strategy and Funder Database

Blue Earth also developed a Fundraising Strategy and Donor Database for FCRA. Once FCRA approved the Donor Database framework, which included categories such as PRI priorities, relevant investing priority areas, and PRI strategies, the consultants reviewed relevant websites to gather information about funding sources that could potentially finance FCRA's PRI start-up and its launching activities with private, public, and multi-lateral donors. Blue Earth organized this data, including contact information, in an Excel spreadsheet that the Association can use in the future to research potential financial avenues. Blue Earth then further populated the database with additional funding options focused on supporting the Association's catalyzer concept. The Fundraising Plan contains an overview of these findings, a list of priority funding sources suggested for FCRA to target to support both the launch of its PRI Initiative, as well as the development of best practices and capacity building for SMEs, and suggested approaches for the Association to pitch to those funders (e.g., areas of alignment, information gathered from interviews regarding process, priorities, etc.). Blue Earth conducted semi-structured interviews with private and public donors, in addition to two bellwether interviews of prominent PRI foundation executive staff whose organizations (David and Lucile Packard Foundation, GEF Programming Unit and Special Climate Change Fund) have provided seed funding to establish new PRIs globally. Blue Earth then used this information to enrich its report.

Concept Note

In addition to this deliverable, Blue Earth produced a Concept Note that outlined FCRA's PRI Initiative high

level strategy. As part of this process, it first interviewed FCRA staff and board members to draw-out key themes for incorporation into the note. Blue Earth then developed a strawman proposal with specifications on the content that each section of the Concept Note should contain and presented a draft PowerPoint presentation to FCRA staff and board members via webinar. Blue Earth then developed the full Concept Note based on feedback received during the webinar.

The Concept Note defined the problem and need for PRIs in Costa Rica and identified the opportunities that exist for this kind of investment approach. It explained FCRA's niche within the country's various sustainability initiatives and the role of Conservation Trust Funds in these efforts. Furthermore, it presented the PRI Initiative goals, strategies, outcomes, and indicators of success along with a description of possible pilot SMEs, strategies for scaling, and the next steps FCRA will take moving forward. Blue Earth also integrated the PRI best practices (e.g., risk management and M&E) presented in the Lessons Learned and Key Findings Report into the Concept Note.

The Concept Note featured the Association's need to develop an investment thesis. FCRA will use an investment thesis to evaluate what its PRI Initiative will accomplish with its partners. The thesis will allow the Association to differentiate risks that make sense to accept from those that are likely to undermine its mission, as well as how to balance mission impact with return on investment. The Concept Note's strategy also contains a list of next steps that FCRA will consider when further developing its PRI Initiative.

Developed and staged the Green Economy Investment Summit in conjunction with the National Stock Exchange

Perhaps FCRA's most significant step forward in its pursuit to develop a PRI as a tool to promote green economy finance in Costa Rica is the strategic alliance it entered into with the country's National Stock Exchange. The agreement was signed during the inaugural Green Economy Investment Summit organized by both parties. Staged at San José's green conference center, the event was widely attended by members from the national and international finance sector, non-profits, SMEs, and government officials. It featured the National Stock Exchange's unveiling of its Green Bonds Initiative, a presentation of Costa Rica's green economy principles signed by 60 public, private and academic organizations, and FCRA's PRI Initiative which contains similar investment principles to those of the National Stock Exchange. The partnership will allow the Association to create awareness within the financial sector of environmental issues

and the benefits of investing in the green economy. The Summit also proved to be a great opportunity to showcase the PRI Initiative’s potential and to develop strategic alliances with additional Initiative stakeholders. At the event’s conclusion, it was clear that FCRA positioned itself as a convener of the financial sector’s blue-green investment initiatives. Moving forward, the Stock Exchange and the Association are developing an agreement of common principles that will guide blue-green economy investments and a roadmap that supports these initiatives.

The PRI Initiative’s activities put FCRA at the center of an alliance-building process between financial institutions and SMEs carrying out blue-green initiatives. This network is detailed in Figure 1.

Although the Association planned all the Initiative’s activities to date, FCRA does foresee undertaking future activities that build upon the original scope of work and further develop the PRI Initiative.

8. Benefits Observed

FCRA’s portfolio of green SMEs is an assemblage of high-quality businesses that are benefitting the environment. But while their economic activities are contributing to conservation and climate change adaptation, the level of ecological impact will take years to properly measure. FCRA will apply its M&E methods throughout the duration of the five-year PRI loans to assess these impacts, though a true understanding of how much each

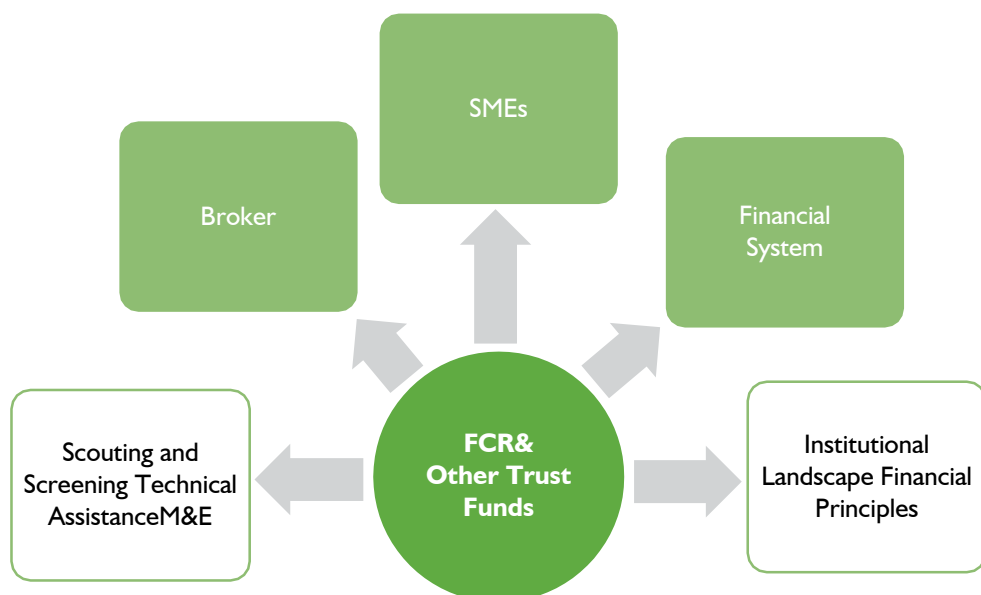
SME is contributing to natural resource conservation will take some time to assess.

The Association’s PRI Initiative is giving SMEs better access to debt and equity funding options. Moreover, FCRA’s development of its green portfolio of businesses is giving investors more opportunities and guidance when it comes to supporting sustainable businesses in Costa Rica. The work has given FCRA the opportunity to liaise and establish alliances with the finance community and educate its members on how to invest in the green economy.

Additionally, the steps the Association has taken to evaluate potential pilot investments and build on an M&E framework that will measure the selected pilot SMEs’ level of social advancement and environmental protection impact have given it the unique opportunity of emerging as a broker between the financial system and blue-green businesses themselves. In this way, FCRA’s current work is a powerful tool that investors are using, and will use even more frequently in the future, to identify blue-green SMEs. Likewise, the Association’s knowledge of SME identification experience has created synergies among the investment community that will add value to investors’ portfolios and increase the social and environmental impacts that Costa Rica’s green SMEs are capable of having.

For FCRA, this initiative has represented an opportunity to open new fundraising venues with nontraditional donors. It is also an opportunity to explore new financial

Figure 1. FCRA’s PRI Initiative Network



Source: Self-made, FCRA.



mechanisms for investing endowment funds, thus providing CTFs with new tools for expanding their conservation impact. The fundraising strategy will be important to ensure that new sources of funding are sought. The returns from Promerica bank will be reinvested in the Second Debt-for-Nature endowment fund, thus these returns will not directly benefit the Association.

The Association's PRI Initiative represents an advancement in green finance tools not only in Costa Rica but regionally as well. The Costa Rican Green Economy Investment Summit was a milestone event attended by 160 representatives from the finance, private business, non-profit, and government sectors, which has enabled opportunities for future PRI Initiative activities to communicate the Summit's message of investment partnerships and sustainability, through the implementation of the green economy principles in the private sector, through businesses associations.

Lessons Learned

Developing the PRI Initiative to the point it is currently at has taken longer than FCRA thought it would, yet faster than what has been experienced by other PRI making organizations based on literature. Staff have spent considerable effort identifying the PRI Initiative's niche and the role it will assume within the impact investing space and Costa Rica's green economy.

Through this process, they have learned that identifying and piloting their niche and role for the PRI Initiative

are fundamental components of future success. This has resulted in the Association realizing the value of its green portfolio, one that contains organizations that have received capacity building grants from the Association to strengthen their business and financial plans and operational structures, making them attractive to investors. This understanding helped it identify its PRI Initiative role as an accelerator-catalyzer with the ability to connect its portfolio's SMEs with future PRI makers. Correspondingly, the Association has learned to reach out and learn from other successful PRI accelerators as a way of defining and moving its strategies forward.

Developing a PRI Initiative is a long process that has taught FCRA to have a learner's mentality, to be flexible, and to think differently about how it achieves its mission. It requires clearly defined goals and a sound methodology in place that identifies and defines principles and criteria for green investments. It has also learned that PRI making requires time and effort, in addition to three sets of skills: programmatic, financial, legal. The learning curve to develop these skills is also quite steep and the Association realized the value of its alliances and partners during the difficult stages of implementation.

Since launching the PRI Initiative has taken longer than originally planned, the final pilot SMEs mentioned earlier in this Case Study have not officially been selected to receive PRI loans. This process is ongoing and will continue after the Association's work with Project K ends through the Blue Challenge initiative, which

consists of an effort to mobilize financial and technical support for innovative approaches in sustainable tourism and fisheries. The aim of this initiative is to shift the funding paradigm to promote sustainable development in our oceans by connecting the financial sector with local entrepreneurs and producers, providing blue economy opportunities.

Further, with funding from Project K, the Caribbean Biodiversity Fund, the Mesoamerican Reef Fund, and PACIFICO have been able to work together to share their experiences through a mentoring program which resulted in the identification of common challenges in governance and in the advancement of conservation goals in the 16 countries where they work. The most important challenge that was identified is building a scalable impact investment ecosystem for a sustainable blue economy in Central America and the Caribbean. There is a need for identifying promising deals, connecting them

to appropriate capital sources, and ensuring that business models and investor intentions are aligned with sustainability principles and standards.

The solution envisioned by the aforementioned regional funds is the Blue Challenge, which they have been developing for the past year. All three funds recognize that there is an unprecedented international interest in Blue Economy investments in the region and thus have joined efforts with Seafood Watch, Encourage Capital and Sustainable Travel International, to shift the funding paradigm to focus on sustainable development in the oceans, thus seeking ways to connect these lessons in green economy within a blue economy scheme. Funding for the Blue Challenge has been secured from the Packard Foundation and will be complemented with the matching funds from this project, in order to build a bridge between both initiatives and expand the impact by promoting regional initiatives for a sustainable blue economy.

