

# LESSONS LEARNED ON DEVELOPMENT OF FINANCIAL MECHANISMS FOR LANDSCAPE RESTORATION ACTIVITIES



The Landscape and Resources Management to increase Carbon Reserves in Central America Program (REDD+ Landscape / CCAD), implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, pursues the objective of restoring the forest resources regarding landscape with the REDD+ approach in Central America.

The program expects to improve environmental services in the region within the context of Forest Landscape Restoration. In addition, new concepts of land use for cultivation and forest commercial operation will contribute to an increase in carbon reserves, reducing emissions for avoided deforestation and carbon enrichment.

The good development and structuring of the funding mechanisms for ecosystem services enables land users to obtain compensation payments for a sustainable agricultural and forest exploitation with which their long-term income can be improved. It is in this way that the identification and involvement of financial mechanisms in actions promoted by the Landscape Program allows fundraising at a higher scale making use of the pilot experiences offered by the program, strengthening institutional capacities and creating long-term sustainability for the management of forest resources.

A financial mechanism is an element that promotes or facilitates the systematic generation of projects capable of counteracting negative impacts on nature by supplying financial resources in a transparent, efficient and effective manner to key actors for them to develop landscape restoration actions within a previously established strategic planning framework.

Below are the key elements proposed for the development of any financial mechanism for the implementation of successful restoration actions:

## A. Implementation Capacity

This element gives meaning and direction to the compensation mechanism. The implementation capacity allows the mechanism to execute fundable actions in an easy and precise manner, with high efficiency and quality, generating results that relevantly impact the intervened communities and ecosystems.

To improve the implementation capacity of a financial mechanisms it is necessary to develop the following:

- **Organizational Strategic Framework:** for the establishment of guidelines, definition of strategies, selection of alternatives and courses of action.
- **Territorial prioritization:** It establishes the intervention places of the financial mechanism to generate the highest positive impact in the communities and ecosystems. This prioritization of the landscape topic is based mainly on scale and market.
- **Fundable Actions Package:** It establishes precise measures funded by the mechanisms that will contribute to reducing the environmental degradation and restore ecosystem services within a territory. These fundable actions have a defined impact potential, as well as a previously established investment cost.
- **Benefit Distribution:** It establishes the way and procedure in which resources from the financial mechanism (in cash and/or in kind) arrive to the beneficiaries.
- **Supervision and Follow-Up Protocol:** It establishes the technical-operational steps to guarantee the quality of fundable actions.



## B. Financial Management Capacity

This element from the mechanism management focuses in investment decisions, money management, funding sources, asset management, cost control and profit/benefit maximization.

To improve the financial management capacity of the landscape restoration mechanism it is necessary to develop the following:

- **Financial Administrative Processes:** it establishes the administrative steps for the operational functioning of the mechanism and fundable actions. It allows for the staff, acquisitions, contracts and subventions (to individuals and/or legal entities) processes to run in transparent and streamlined manner.
- **Liquidity:** keeps a balance between short, medium and long term balance and the resource availability to comply with the organization's immediate financial obligations.
- **Risk Control:** it establishes the procedures to reduce the risk in everything that has an occurrence probability (can or cannot happen); and if it happens, it can limit/affect (lightly, moderately or severely) the scope of financial goals and negatively affect the value of financial resources in an organization.
- **Sustainability Strategy:** it establishes the management strategies for additional resources, as well as alternative operations to generate income by the mechanism.

## C. Reporting Capacity

This management element contributes to the financial mechanism to making known the functioning state and investments done in solid and transparent manner. Reports direct the work to expected results improving performance at the same time they increase the credibility of the mechanism's efficiency, transparency and impact.

To improve the reporting capacity of a financial mechanism it is necessary to develop the following:

- **Measurement Scope:** it establishes the (technical, administrative, financial) areas, the (social, environmental. Economic) topics, the

(local, regional national) scale, the mechanism execution (results, effects, impacts) that will be subject to measurement based on the indicators.

- **Indicator Development:** it establishes the parameters and methods that will be used to represent the mechanism's functioning. Indicators allow to measure the change foreseen.
- **Technology:** it establishes the human, technical and IT equipment requirements to perform measurements with quality and efficiency criteria.

The financial mechanisms require that the implementation, financial management and reporting capability is developed within a process for continuous improvement.

The strengthening of implementation capacities allows the mechanism to perform relevant actions in a continued and systematic manner. The financial management capacity allows to have resource liquidity to implement actions, at the same time allowing it to be sustainable. Finally, the capacity to report measures the impact of its actions and improves its performance.

Because of the previously mentioned, it is important that the institutional strengthening provided from the financial mechanisms, develop these three areas in a balanced manner, as the first provides sense and direction; the second, sustainability and the third, credibility.

We hope these ideas are useful to design and prepare restoration actions, as well as helpful to identify opportunities to generate an added value to your initiative.

*For more information on the Program and available resources, please visit our web page [www.reddlandscape.org](http://www.reddlandscape.org)*