Global Landscapes Forum

Luxembourg 2019

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White Paper

Breakthroughs in Sustainable Finance

Innovating finance to overcome current barriers towards sustainable landscapes

This White Paper was produced by **the CGIAR Research Program on Forests, Trees and Agroforestry** (FTA) partners, **Tropenbos International** and **CIFOR**. The content of this GLF white paper is the sole responsibility of the authors

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Background

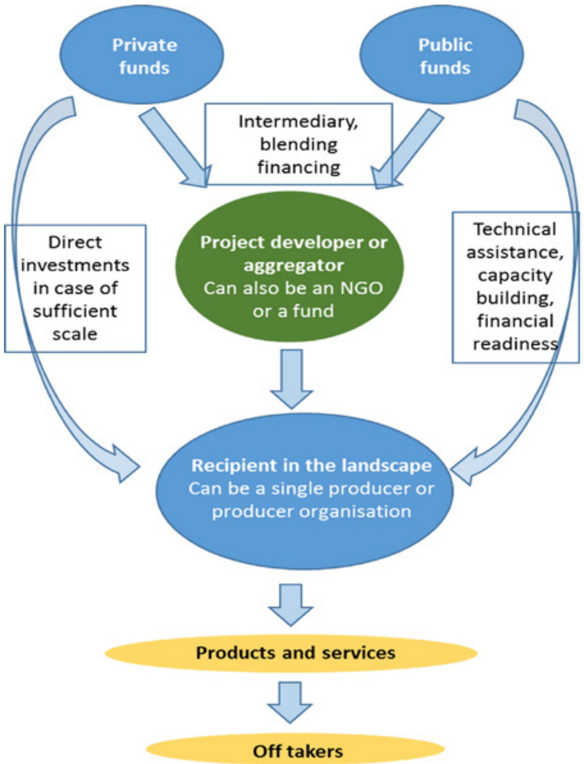
Agriculture and forestry are central to the implementation of the sustainable development goals (SDGs). Smallholders play an important role in this: nearly 60% of food production is produced by smallholders (<20 ha) many of whom are vulnerable to climate change. Small and Medium Enterprises (SMEs) have an important role to play in making smallholder agriculture and forestry economically viable. Smallholders and SMEs are, therefore, essential actors in any strategy that aims at sustainability and climate resilience in landscapes. They need finance to be able to shift towards more sustainable practices. At the same time, less than 3% of climate and conservation finance is assigned to agriculture and forestry and only a small proportion of ODA and climate finance reaches smallholders and SMEs.

Sustainable and inclusive landscapes are landscapes in which all stakeholders are engaged in the design and implementation of, and learning from, actions that increase the sustainability of that landscape. Finance flowing into such landscapes currently addresses mainly the needs for prime materials of large vertically integrated companies, including infrastructure for transport and processing plants. A growing proportion of these investments considers its social or environmental impacts on the landscape and people living in those landscapes, but in spite of that, the reduction in deforestation and forest degradation rates, as well as in poverty, hunger and inequity lag behind. Partially this is due to no or insufficient or only partial application of sustainability criteria in investment selection, partially and also to a lack of consideration of smallholder, SME and community (SSC) initiatives. New ways have been developed to unlock funds towards investments that efficiently and effectively contribute to sustainability and inclusiveness - **innovative finance**. Examples are blended finance and green bonds.

In spite of creating opportunities for reaching SSC initiatives, these new forms of finance still struggle with the same barriers as more conventional finance. Investors find few investible SSC projects, while SSC initiatives find it hard to access finance. In order to help narrow this financing gap, and mainstream inclusiveness and sustainability criteria in financial decision making, two of the partners of the CGIAR Research Program on Forests, Trees and Agroforestry (FTA), Tropenbos International and CIFOR, started a dialogue to identify the main barriers and seek examples of initiatives that overcame them.

This dialogue started with a set of interviews with key informants along the international flow of finance towards landscapes in low- and middle income countries. The results of these interviews were discussed in a digital summit with an investment manager, a representative of the forest governance and economics group of the FAO and an Ugandan NGO. During these interviews and discussions, a number of barriers, possible ways to overcome them and promising initiatives were described. A literature review complemented this information and resulted into a document which is currently being discussed by members of a community of practice set up for this purpose on the GLFx platform . In the panel discussion that FTA organizes at GLF Luxemburg (30 November 2019) we will build on this dialogue and propose some concrete steps that financial institutions, fund managers, NGOs and Civil Society Organizations can take in the short term to help to bridge the gap between SSC initiatives and available climate and SDG-related finance.

Main actor groups



Finance flows from different sources and through different tracks to the recipients in landscapes. Different sources have different expectations of the results, impacts and returns of their funds and may set up different structures to achieve them. Private sources, for example, generally emphasize financial returns, although more and more of these sources also include social and environmental objectives in their investment criteria (impact investors), and some even mainly aim at development objectives (for example philanthropic organizations). Recipients in the landscapes vary from single, often large-scale producers to producer organizations that group together a number of small-scale producers, SMEs or communities and that have or expect an income from selling produce or services. In an increasing number of cases, development funds (public and private) are used to strengthen the capacities of the recipients to implement the funded activities.

Main financial instruments applied

Primarily for financial returns (and impacts, if by a Development Finance Institution)	Primarily, but not exclusively, for sustainable development impacts
• Debt-based instruments e.g. bonds and loans (short, medium, long term) • Result-based instruments e.g. for products or services, or ecosystem services • Equity e.g. the purchase of a stake of an enterprise	• Direct, enabling investments e.g. for land restoration, green infrastructure or market development • Input and export subsidies • Tax incentives (or disincentives) • Concessional loans • Grants
Risk sharing mechanisms e.g. insurance (on production or on investment), guarantees, and off-take agreements, public-private partnerships	

(adapted from Shames *et al.* 2019)


Photo by Ricky Martin/CIFOR

Main barriers identified to access to finance and sustainability of investments, and how to overcome these

The following table summarises seven factors that can boost the uptake, impact and up-scaling, as identified in the review, and a further seven factors that can influence the extent to which investments actually achieve sustainability.

Enabling factors **that can stimulate access to financial services**	**Influencing factors** **that help achieve sustainability**
i. The nature of financial instruments e.g. application processes, documentary needs, legitimacy, transparency, and coherence of investor objectives with stakeholder objectives.	***i. Operational organization*** e.g. within and between different stakeholder groups along the value chain, producers, processors, wholesalers, retailers, etc.
ii. (ii) Adequate financial literacy of investees e.g. an understanding of key financial concepts, and the ability to make decisions based on financial information.	***ii. Risk management strategies*** e.g. perceived risk is a major limitation for investors, that can be reduced through better communication and understanding, insurance, etc.
iii. Aggregation of recipients e.g. to improve cost effectiveness and reduce risks, and increase opportunities to produce results and impacts at scale.	***iii. Knowledge and experience*** e.g. especially those related to market access, i.e. knowing where to go, what prices to expect, and how to negotiate.
iv. Appropriate policies and regulations e.g. national policies and regulatory frameworks and other enabling conditions for monetary transactions.	***iv. Certification and other frameworks*** e.g. to guide and monitor investee practices and their impacts, including through third-party certified products or services.
v. Access to technological innovation e.g. the physical distance to financial services, and the availability of and access to and mobile phones and required applications.	***v. Security of land and resource tenure*** e.g. financial institutions and their clients must respect existing legal and customary land rights to ensure sustainable practices.
vi. An ability to provide a contribution e.g. having at least some existing capital to be able to contribute to the total financial requirement of planned projects.	***vi. Access to markets and resources*** e.g. considering physical aspects, human aspects (information, skills), and social aspects (legal and customary rights, and equity).
vii. An ability to ensure sustainability e.g. of practices, including organization, risk management, effective use of knowledge and experience, and certification if desired.	***vii. Migration and urbanization*** e.g. create opportunities for sustainable livelihoods and apply due diligence to avoid added displacement linked to large scale farming.

Innovations in finance

Many investors consider that finance for sustainable and inclusive landscapes is an issue of scale, risk, rate of return, and measurable impact. But these cannot be addressed by simply changing the financial system. We looked at three instruments – blended finance, green bonds and crowd funding – that may offer opportunities to unlock finance for smallholders and the communities they live in, while addressing issues of scale, risk, rate of return and impact.

These three innovations build on existing financial instruments, the innovation being in changes in the rules, regulations and objectives of the instruments. All can increase accessibility to finance for smallholders, small businesses, communities and indigenous peoples, with more flexibility in return expectations, although they generally require an intermediary organization to facilitate the acquisition, management and distribution of funds. They attract a variety of investors including those with little capacity to invest, but the degree of the contribution to greater inclusiveness still depends on the enabling conditions and the degree to which funds of these mechanisms are being assigned to improve such conditions. However, they tend to be site specific. As such, one-size-fits-all solutions are unlikely to work. Nor do quick fixes exist. Initiatives that successfully achieved integrated approaches inclusive of smallholders and SMEs typically were long term processes (>10 years) supported initially mainly by public funds, while commercial finance was attracted with increasing strength of local organization.

Blended finance	Green bonds	Crowd funding
The strategic use of public or philanthropic capital to mobilize finance for development-related investments.	*A debt obligation that links funding to climate or environmentally friendly investments*.	*The pooling of small amounts of capital from a large number of interested individuals and institutions.*
Mixing development and commercial finance into specific funds can create opportunities to address issues of aggregation, network strengthening and technological innovation. Impacts are increased when accompanied by grassroots technical support from NGOs and CSOs that address local issues.	Proceeds can be used for a range of 'green' actions, and if the initial investment is 'patient capital', repayment is only needed when bonds mature. Requires strong local institutions or intermediates however, that can issue bonds and manage the proceeds according to international standards.	Suited to local scales, but needs investors with an affinity to the issues, locations or intended activities. Opportunities increase when umbrella groups and platforms in target landscapes and linked with developed countries groups, ensuring compliance with agreed sustainability criteria.

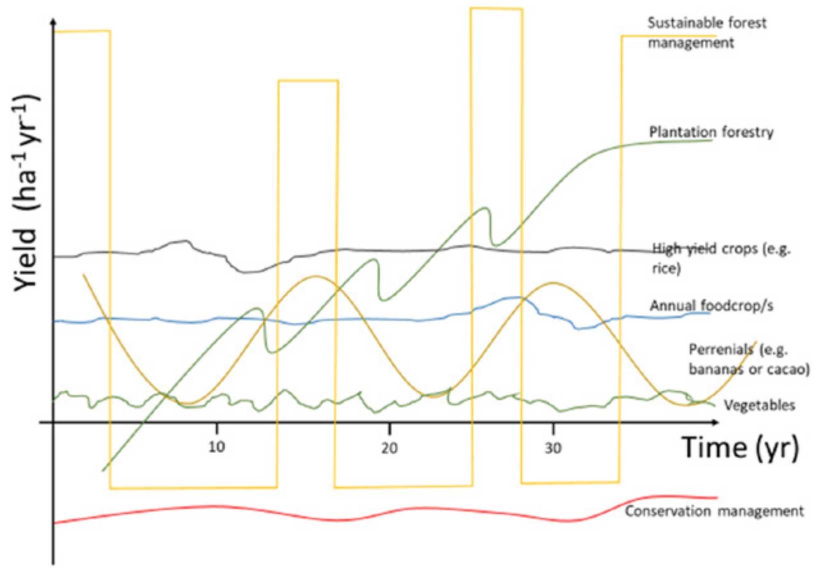
Integrated approaches are needed to scale up finance for sustainable and inclusive landscapes, including combinations of financial structures, mechanisms, instruments and conditions, supported by strengthening the capacity of those that influence the impacts of financed practices. Overseas development assistance for example, can help to address some conditions such as policy and regulatory frameworks, building skills and knowledge, and the infrastructure needed for mobile finance.

The way forward

If one strategy stands out for improving access to finance for small enterprises, it is collaboration between local groups and national and international CSOs and financial entities to create funds that can channel finance from different sources to the local actors, using different financial instruments applying locally appropriate criteria. In particular, creating or strengthening a locally based financial infrastructure (band, institution, union, association, etc) that can raise money in different ways appears to be a pathway towards bridging the gap between investors and smallholder investees that seek to expand their economic activities. Governance and ownership of such an institution is key to its success. If such an infrastructure is based on agreements between, and supervision by representatives of local stakeholder groups, it may be able to capture not only external finance through a range of different instruments, but also local investments. This could, for example, be in the form of contributions proportional to profits made by local stakeholders, as has for example been done at a national scale by coffee producers in several countries in Central America, but also at a landscape scale in the case of the association of forest communities in Guatemala (ACOFOP, see link). Access to the fund should be linked to agreements to provide contributions once the investment becomes profitable. Such proceeds can be used for reinvestments in the landscape or for provision of supportive services, creating better conditions for further investments. This is expressed in the figure below, with economic activities that generate incomes of different sizes and different frequencies.

Such a local financial infrastructure could originally be set up with the support of grant money, until local contributions are sufficient and the financed economic activities proof to be sufficiently financially viable to leverage external private finance for economic activities. At the same time development money (international and national) continues to enter the fund, supporting maintenance of public goods such as ecosystem services (for example water, carbon, pollination). At a later stage, once the infrastructure has proven to be strong and durable, it may be able to issue notes or bonds with longer payback periods, from which a range of landscape activities could be financed, that over time together will generate the money required to pay back.

The ACOFOP/FORESCOM experience shows that such a localized fund may facilitate the development of site-specific financial instruments that better meet the varying needs and conditions of the local actors.



Panel discussion

At GLF Luxemburg, we invited stakeholders to our dialogue that cover different sections of the "value chain of finance": a bank that is involved in setting up a large investment fund for agriculture, a fund manager, an NGO that has become an intermediary, channeling funds from investors towards initiatives in tropical landscapes that otherwise would find it difficult to get finance, and representatives of a multi-village association and its business arm who developed their own response to the difficulties in accessing finance in the conventional finance system. In this setting, FTA/CIFOR/Tropenbos play a role of knowledge provider and knowledge broker, analyzing the current barriers to inclusive finance and bringing stakeholders together to come to workable solutions tuned to their context.

Based on a presentation by the Guatemalan village association, this panel will discuss what international funds are doing (and not doing) to reach out to farmers in low and middle income countries, why international funds find it difficult to do so at a larger scale, whether a landscape fund is a feasible alternative in which they would invest and what would be necessary steps for villages, smallholder farmers, NGOs and fund managers to take to bridge the current gap of funds for scaling up inclusive and sustainable local agricultural and forestry operations.

FTA, CIFOR and TBI will follow-up these recommendations with pilots to be implemented with partners of the private sector and civic society, and by providing more evidence of their feasibility.

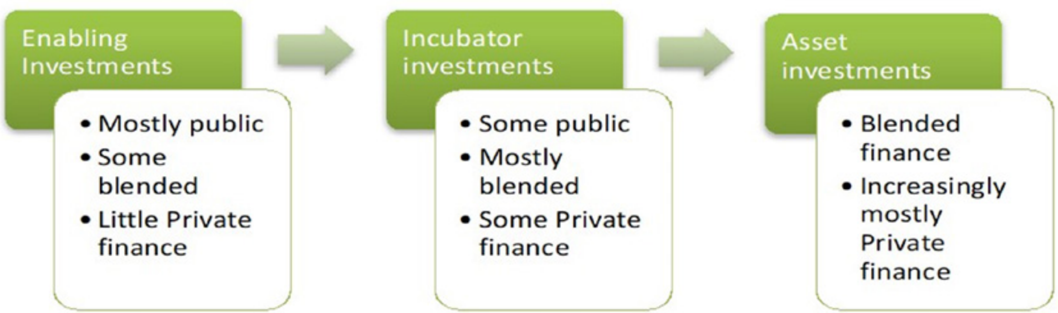


Photo by Tri Saputro/CIFOR

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