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INVESTMENT CASES FOR INCLUSIVE FOOD SYSTEMS

HOW INTERNATIONAL FINANCE CAN BETTER MEET LOCAL NEEDS AND ASPIRATIONS

FRONTIERS OF CHANGE

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WHITE PAPER

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Introduction

Smallholder communities, co-operatives and small enterprises produce up to 60% of the world's food. They also meet their own demands for fuelwood, fodder and other tree and forest products, and trade surpluses locally and beyond. However, smallholders are rarely consulted when designing value chain- or conservation-driven investment initiatives, and such investments tend to benefit only those who directly contribute to company or donor goals. And though the local economy is stimulated, limited attention is given to 'the bigger picture', including the need to move towards social equity and sustainable landscape management. Farmers also have limited access to finance for improving and diversifying their production, which would discourage the need to move to frontier areas.

Previous landscape analysis of financial flows confirmed that landscape-level investments do improve average income, but they rarely contribute to maintaining or enhancing essential ecosystem services on which communities directly depend, and do little to enhance food security or the capacity to adapt to climate change. For example, Soanes et al. (2017) found that only one dollar of every US$10 of committed climate finance currently reaches local-level climate action. Based on earlier work, barriers were identified that restrict smallholder access to finance and hinder food system transformation, but few successful examples were documented (TBI and CIFOR, 2019).

Now, after co-ordinating seven case studies of locally led initiatives in 2021, we are able to see how locally driven initiatives have been able to overcome challenges of risk, scale, locally appropriate financial and non-financial services, etc. To better address how both local needs and international objectives can be achieved, results from selected case studies are used in this paper to answer two key questions.

a. How do we make local innovations complementary to internationally driven initiatives?
b. What investment mechanisms address the finance needs of all actors at the landscape level?

Ghana – the case of Touton SA

The company aims to apply an integrated approach that increases the sustainability of its resource areas, partnering with local NGOs and financial institutions (Lawrence and Louman 2021). Cocoa producers' main concern is the ability to sell, and Touton's guaranteed market and price premium enable smallholder farmers to maintain their household, save and re-invest in their farms. Touton and its partners developed a set of support models that tackle different barriers and risks perceived by smallholder farmers to developing climate-smart production systems. Thanks to better farming practices, cocoa yields increased from 8 to 12 bags per acre (20–30 bags/ha) and farmers received a higher price for their cocoa beans.

Most respondents were satisfied to very satisfied with the support received, although many also observed possible barriers to continued participation. Suggested improvements included more training, credit and loan associations, availability of farm inputs at reasonable prices, diversification opportunities to reduce dependence on cocoa, and promotion of the adoption of cocoa agroforestry. These are all areas in which both public and private third parties could collaborate with the existing multistakeholder platform to increase adoption. Men and women farmers experience different barriers, however, that must be addressed in order to move from sustainable production systems towards inclusive production systems. For example, four times more women than men requested further training on alternative sources of income.

Indonesia – the case of Semandang Jaya Credit Union

Credit unions offer finance to smallholders and small-scale entrepreneurs who may be otherwise excluded from formal financial instruments, and can support integrated landscape management by developing and expanding innovative financing schemes. The union in this study provides a range of locally appropriate financial products, and brings services to village level (Mawesti et al. 2021). External risks are a factor, however, and include falling commodity prices and low crop productivity. These require capacity strengthening of smallholders and small enterprises to improve production and quality, add value and encourage diversity, thereby ensuring they are more firmly included in supply chains.

Furthermore, credit unions, banks or other sources of capital must ensure that financial flows do not obstruct landscape objectives, by establishing sufficient safeguards before being disbursed. Integrating environmental, social and governance principles into the union's credit policy was seen as an important step to ensuring positive social and environmental effects while also improving long-term financial results. In this case, however, offering a range of financial products that meet farmer and small business needs was not sufficient to increase investments that are able to address challenges for smallholders and local businesses. So, a key strategy to addressing community needs while staying economically viable by reducing risks, is through constant training and technical assistance alongside financial support, such as improving technical capacity, financial literacy and access to market. However, the credit union has limited means to provide this support at scale and this remains a constraint to expanding its operations. Thus, multistakeholder approaches are necessary that involve government, financial institutions, CSOs and local communities.

Overcoming trade-offs between local needs and corporate or international agendas

In Ghana, the following five factors were identified for successful implementation of strategies that address risks and operational challenges of investments in cocoa production: (i) strong partnerships, (ii) capacity building in business and agricultural skills, (iii) locally tailored financial instruments and products, (iv) bundled financial and non-financial services, and (v) digital technology to meet producers' needs.

In Indonesia, the highest perceived risk for farmers was low crop productivity, followed by fluctuating prices. Financial service providers presented quite different risks. Looking at both crop productivity and prices, strategies were identified, grouped by risk type: (i) market risk – encourage diversification and establish downstream industries with marketing support; (ii) financial risk – provide farming insurance and financial education; (iii) liquidity risk -– provide loan schemes aligned with farming cycles, and savings products for personal emergencies; and (iv) operational risk – provide risk management training and capacity building for staff involved in loan disbursement.

Internationally driven climate finance initiatives must explicitly support locally driven innovation

Local stakeholders must be effectively included at all stages to achieve food system transformation. But this will also require quantum leaps in how some organizations and companies operate, including changes to financial systems. Bilateral development and international climate funds can help to deliver a 'triple win' – higher and more sustainable production at lower cost, developing local capacity and generating community benefits (Soanes et al. 2017). This is achievable only if local capacities that enable communities to invest in these changes are strengthened. One way of doing so is through support to local initiatives that use local combined savings to improve land use and meet conservation goals, as these generate additional incomes from either private or public finance, such as higher prices for products, or from compensation for their efforts to protect forests and biodiversity.

One example of such an initiative was found in Uganda, where the main risks and barriers were limited financial inclusion, high cost of capital, farmer attrition, failure to find carbon buyers and the short-term nature of donor funds. The study found that these were best overcome by (i) continuous training of farmers in business planning and investment, (ii) scaling up to ensure there are more farmers to increase volumes of production, (iii) varied sources of finance to cover a wider range of initiatives, and (iv) better access to the carbon market to assure a good price.

Uganda – the case of Trees for Global Benefit

This study describes a conservation finance mechanism implemented by Ecotrust, with US$6 of every US$10 reaching participating land users (Byakagaba et al. 2021). Following 12 key principles, it delivers long-term biodiversity and climate change investments at the local level where they matter most, through a blended finance model that combines public (donor) finance to leverage private-sector foreign direct investment, with Ecotrust's own funds and community contributions. Findings revealed that this promoted the integration of trees into farming landscapes, and met investor requirements. Confidence was also built between investors and smallholders, and it demonstrated that financial returns from restoration activities are attractive and worth investing in. Such blended finance is an example of how current funding gaps in support of conservation, climate action and sustainable development can be addressed, if designed to overcome the risks and barriers faced by all stakeholders (Louman et al. 2020).

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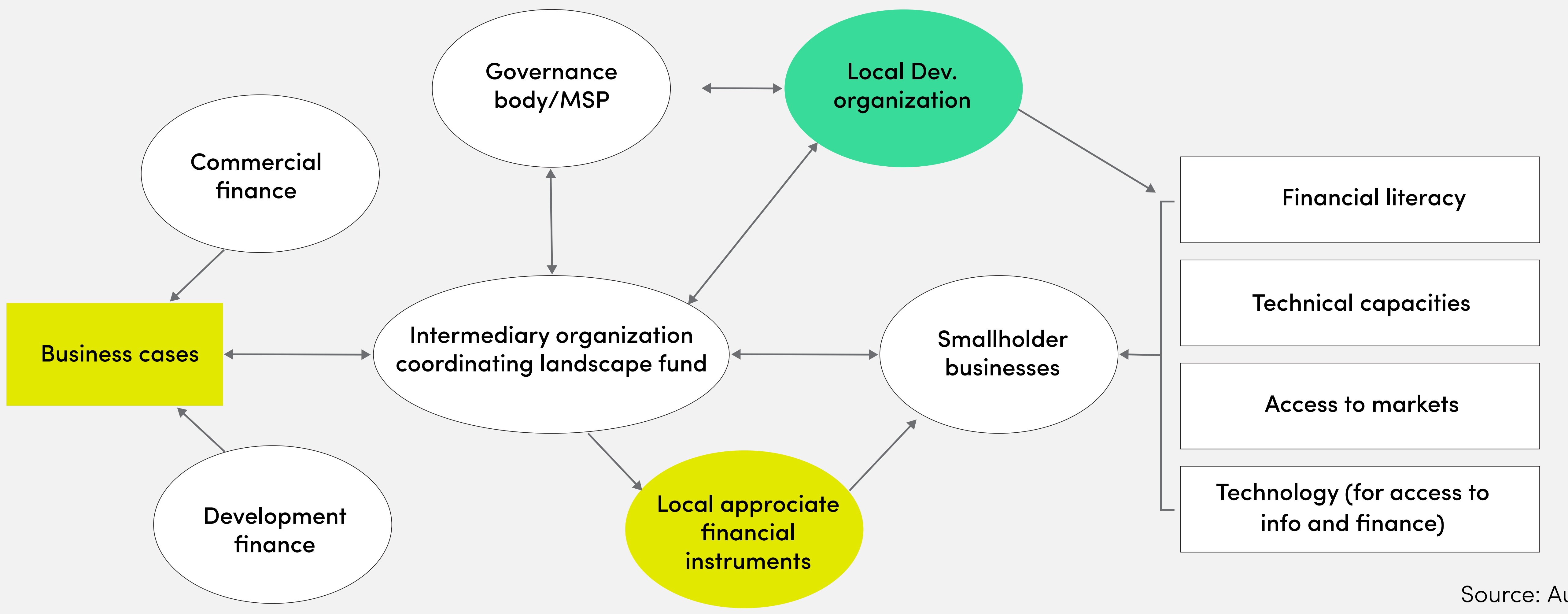
Conclusions

Critical factors in preventing and managing risks include (a) the need for social capital and good working relationships, (b) support to producer and savings associations, and (c) ensuring a free flow of information between farmers and the implementing agency. It is also important that all stakeholders understand the mix of flows and related risks in different investment phases, and the need for appropriate risk mitigation strategies. Honest brokerage is essential. The ex ante payment delivery model is also an effective incentive for building farmer confidence and enabling smallholders to sustain their ownership rights of trees from time of planting.



Source: Authors

Specifically, results from the case studies show the following.

(i) Locally driven investments broaden the group of people that may directly benefit.

(ii) Such investments are able to combine local, international and corporate goals.

(iii) Scaling such investments requires strengthening financial literacy of local recipients, especially women, youth and community groups, as well as financial service providers needing to have a better understanding of the sector and producer needs.

(iv) Inclusive value chain approaches are helpful for providers, but they do not always equate to a landscape approach if they do not include non-providers.

Similar findings have also been reported by CIFOR and the Forest Farm Facility (FFF), managed by FAO, IIED, IUCN and Agricord, when strengthening the capacities of community-based forestry and agribusiness producer groups to better access business knowledge products and private investment. Experiences have also helped to shape ongoing initiatives, including Green Finance for Sustainable Landscapes (GF4SL), which aims to support deforestation-free, sustainable commodity production, and other forms of sustainable land use.

Recommendations

It is essential to ‘leave no-one behind’ when linking investment and local needs.

- **National authority representatives** must strengthen enabling conditions for local innovation, and facilitate interactions between locally and internationally driven investments.
- **Companies and other value chain actors** must be made more aware of local initiatives that can help them to de-risk their supply chains.
- **Investors** have to define potential finance structures that promote interactions between locally driven actions and international/ value chain/conservation driven initiatives.
- **NGOs and CSOs** must be encouraged exchange their experiences, and to facilitate links between different initiatives.

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