Guideline Note

Alternative Financing for Agroecology and Community-based Forest Management

Acknowledgements

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Introduction

This Guideline Note is aimed at creating an effective conceptual framework that supports Friends of the Earth (FoE) groups in understanding and facilitating initiatives around alternative financing models for agroecology (AE) and community-based forest management (CFM). It highlights financial stakeholders and the asset types that can play a role in promoting and respecting the practices for agroecology and community-based forest management. In addition, it seeks to underscore promising and emerging practices and/or stakeholders.

This Guideline Note focuses particularly on emerging markets and presents key considerations that should be taken into account when reviewing financial mechanisms for AE and CFM in such contexts. First, it addresses FoE groups perspectives and strategies on the financial sector, agro-ecology (AE) and community-based forest management (CFM). .

Following this discussion, the first section of the guideline note offers an overview of the different stakeholders and financial means existing in the field of AE and CFM. It first provides a high level definition and enumerates the key attributes of the relevant type of financial stakeholder. Each investment type will be defined and accompanied by examples of institutions to help understand how these function and can be utilized. Then, asset classes are introduced and their link to AE and CFM is determined, and finally key take-aways are summarized at the end of each asset class.

In the second section, several sector initiatives and financial frameworks that cut across asset classes or hold particular promise for developing AE and CFM fields will be presented. This section intends to showcase good practices from different countries, demonstrating the potential of finance to effect positive sector transformation.

In the third and last section, the main takeaways will be summarized and recommendations for further research and ideas on how to continue to work on alternative financing models will be presented.

The target audience are civil society organizations like Milieudefensie who are seeking to better understand the landscape of alternative financing models for AE and CFM. The paper also targets civil society that directly supports communities in developing AE and CFM and that organizes divestment - investment campaigns as well as lobbies for regulation of the financial sector.

Background

Civil society organizations, have increasingly targeted institutional investors[1] for financing companies involved in sectors such as palm oil and other agricultural commodities, that are driving deforestation, loss of biodiversity, soil degradation, human rights abuses, and land grabs or other activities contributing to this injustice. These campaigns have successfully pressured major banks and institutions in Europe, the UK, and the US, as well as companies and funds working in emerging markets, to adopt stronger lending and investment policies, to recognize deforestation as an investment risk, and to divest from companies contributing to the aforementioned problems entirely. At the same time, international fora, such as that subscribing to the 2017 Nyéléni Peasant Agroecology Manifesto has explicitly called for supporting the development of "alternative means of financing" to help develop healthier local food systems rooted in agroecology and community-based land management.

A good example of this are Climate activists, which have gradually shifted to a "divest-invest" strategy, focused not only on requesting divestments from coal, oil, and gas but also on promoting investments in solutions to climate change. A similar strategy could be developed in the agricultural sector, aiming to address four overlying objectives:

- Ensure that AE and CFM are applied to promote a rights based and responsible agricultural practice and food system and enhance biodiversity;
- Support the practices and the rights of Indigenous Peoples Local Communities (IPLC)), smallholder farmers, fisherfolk, women, and low-income communities in AE & CFM;
- avoid reinforcing Financialization of Nature; and
- Combat structural inequities and entry barriers for smallholding farmers.

The landscape of sustainable and responsible investments (SRI) is in rapid expansion; according to the Global Sustainable Investment Alliance, SRI grew by 34 percent between 2016 and 2018, reaching more than USD 30 trillion in the five largest major global markets. Sustainability-themed and/or Environmental, Social, and Corporate Governance (ESG) screened investments, within which agriculture would fall, are the two fastest growing global SRI strategies. In particular, a growing number of mission-aligned investor networks are explicitly seeking ways to invest in agroecology and regenerative agriculture[2]

1 According to Investopedia, institutional investors are pension funds, mutual funds, money managers, insurance companies, investment banks, commercial trusts, endowment funds, hedge funds, and also some private equity investors.

2 Including the Global Impact Investing Network, the Regenerative Agriculture Investor Network (RAIN), and numerous more.

Given the rapid expansion of the sustainable investment sector, FoE groups that work in financial sector campaigns believe to have a strong opportunity to shape the emerging field of responsible agriculture and forestry. FoE groups advocate for divestments from traditional agribusiness and investment in community based, regenerative, AE and CFM solutions respecting (IPLC rights and practices. In order to do so, viable sustainable investment opportunities need to be identified and alternative methods to investing in inclusive and responsible food and forest management systems need to be further developed.

Section One. Current Actors and Investment Methods in Sustainable Food and Agriculture

a) Credit suppliers

This section provides a high level overview of the financial services providers that are present in the agricultural and forest sector and how the interaction with these can be guided in respect to AE and CFM. In reality, the categorization is not always onefold and some stakeholders may belong to more than one of these categories.

These institutions are the primary lenders of an estimated USD 50 billion that are yearly lent to smallholding farmers in the global south (South and Southeast Asia, sub-Saharan Africa and Latin America)[3].

"Traditional" Banks

- Banks are supervised institutions allowed to receive deposits of money and offer loans. Retail banks and commercial banks offer those services to private consumers and companies.
- Traditional financial institutions are profit driven. This means that their business practices are underlined by profit maximization.
- Traditional banks are often focused on industrial or conventional agriculture. For these institutions smallholder finance can be introduced as a frontier market opportunity, which presents itself accompanied by emerging models and vast potential for expansion[4].
  Ex: Santander (Spain), RaboBank (Netherlands), HDFC Bank (India).

Alternative Banks

- As "traditional" banks, alternative banks provide basic financial services such as saving accounts and offering loans.
- Alternative banks are often purpose driven. This means that profit maximization is not their main driver, but they exist to support in combat wider societal challenges (e.g: poverty reduction) through their financial intermediation. This type of financial service provider (FSP) often has a long-term horizon, sustainability orientation and generally accepts lower-than-market rates of return in exchange for achieving social or environmental goals not easily quantified by the market[5].
- Management of alternative banks often involves more diverse stakeholders than traditional banks such as clients/members, employees, public officials and social and political representatives.

3 Initiative for Smallholder Finance & RAF Learning Lab, "Inflection Point: Unlocking growth in the era of farmer finance", RAF Learning Lab online, April 2016

4 ibid.

5 Von Mettenheim & Butzbach, "Alternative banking: theory and evidence from Europe", October 2011

- Alternative banks are the primary source of loans to smallholder agricultural farms. They are therefore a vital source of capital for the agricultural sector and crucial partners in expanding the adoption and innovation of financing models to support AE and CFM.
- In addition to making cash investments in these kinds of banks, any individual or institution could simply shift their entire banking relationship over to them to support environmental and social goals.

Some sub categories of alternative banks are presented below.

- Agricultural development or state banks
    - Agricultural banks usually provide credit specifically established to assist agricultural development. Their loans are often over longer periods of time than commercial banks.
    - In south and southeast Asia, agricultural banks are often funded by the state.
    - Agricultural development and state banks are the largest loan providers in many developing countries. These institutions loaned about USD 9 billion to smallholding farmers in South and Southeast Asia, sub-Saharan Africa and Latin America[6].

- Cooperative Banks and Credit Unions
    - Cooperative or mutual banks can offer the financial products that both retail and commercial banks provide. The only difference is that they operate on a cooperative basis, meaning that the bank's customers own a portion of the bank[7].
    - Cooperative banks and Credit Unions are often not-for-profit.
    - A credit union is a type of cooperative bank that is entirely member-owned.
    - Cooperative banks and Credit Unions traditionally focus on low and mid-income groups, small and medium enterprises (SMEs) and local communities.
      Ex: Vancity (Canada), Andhra Pradesh State Co-operative Bank (India), …

    - Rural banks. Rural banks are private banking institutions based in rural areas. They mainly offer credits to smallholder farmers and other rural-based economic actors. They often are profit oriented.
    - Their main capital source is the savings of their clients.
    - Rural banks tend to be deeply embedded in the communities they serve.
      Ex: Andhra Pragathi Grameena Bank (India), BDO Network Bank (Philippines), ...

- Microfinance Institutions (MFIs)
    - The goal of MFIs is to provide accessible and affordable financial products and services to people normally unbanked or underserved, focusing often on the population at the base of the pyramid, to sustainably increase their income level.
    - The definition of “small loans” depends on the geographical context. MFI loan sizes

6 Initiative for Smallholder Finance & RAF Learning Lab, "Inflection Point: Unlocking growth in the era of farmer finance", RAF Learning Lab online, April 2016

7 Jagran Josh, "What are the differences between Commercial Banks and Co-operative banks?", 11 May 2017

can vary from 50USD to several thousand.
- Microfinance and Microfinance Investment Vehicles (MIVs) offer a remarkable example of how public funding can crowd in private capital, thereby providing a link between the microfinance sector and capital markets.
- MFIs are profit driven, but usually aim for lower-than-market rates.
- MFIs provide about USD 3 billion to smallholding farmers globally.
  Ex: Grameen Bank (India), Bank Raykat (Indonesia), Banco Solidario (Ecuador)

Investment Funds

- Funds pool money from investors or other sources and collectively buy shares, bonds or other financial vehicles.
- Investors choose funds based on their goals, risk, fees and other factors, such as for example values. They cannot make decisions about how a fund's assets should be invested.
- Not all investment funds include ecological, social and governance (ESG) criteria in their investment strategy[8].
- There is a growing number of funds focusing on the agricultural sector. Some of these funds are considered Impact Funds. Impact Funds are funds whose goal is to implement investments with the intention to generate a measurable, beneficial social and/or environmental impact, in addition to a financial return[9].
  Ex: Triodos Microfinance Fund (Netherlands), Actis Africa Agribusiness Fund (England), Georgia Regional Development Fund (Georgia),

Other financial institutions, state support and development assistance[10]

- States, development banks, charities, foundations channel resources to combat acute problems such as extreme poverty, lack of education or food insecurity.
- State money and development assistance is redistributed in regions in need and aims to help vulnerable people, oftentimes leaving financial returns aside.
- As prominent public investors, multilateral organizations and development banks - e.g: the Green Climate Fund (GCF), the Food and Agriculture Organisation (FAO), the International Fund for Agricultural Development (IFAD), the World Food Programme (WFP), Asian Development Bank (ADB) have the potential to play a big role in supporting the transformation of food systems.
- Private financiers also play an important role in providing greater access to finance, particularly in the microfinance sector. These institutions also play an important role in keeping projects mission-oriented and in compliance of triple bottom line requirements. Examples of such institutions are: Oikocredit, Opportunity International, ProMujer.
- These types of institutions can also serve a role as connectors, bringing private, public, and

8 Environmental, Social, and Corporate Governance (ESG) refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business. These criteria help to better determine the future financial performance of companies (return and risk).

9 Global Impact Investing Network (GIIN) definition.

10 Global agriculture & food security program, "Empowering Smallholder Farmers", December 2018.

philanthropic actors together to coordinate agendas, share learnings, and mobilize action. They can also enable a proliferation of new models, services, tools, and products that change how Financial Service Providers engage with smallholder households and rural agricultural SMEs.

b) Asset types

This section presents the different asset types which institutional investors traditionally use, when investing in agriculture and forest management.

Each asset class sub-section starts with a short definition. Then, the pros and cons of each asset class are explained, in relation to the objectives defined above and possibilities to engage.

Fixed income (bonds or debt)

Fixed income are loans where the borrower pays fixed interest or dividend payments to the investor until its maturity date, the date at which the initial amount received by the borrower is reimbursed. Fixed income grants no ownership to the investor on the company borrowing money. Fixed income instruments may be private (private debt) or public, thus sold on public markets (bonds). Government and corporate bonds are the most common types of fixed-income products. They often involve longer investment terms and are typically used to undertake profitable projects, like research and development, buy property and equipment, or to hire employees. Most privately held companies and states have some debt[11,12]. It is important to note that debt is one type of fixed-income products, but a large number of other types exist (e.g. Mortgage-backed securities, guaranteed investment certificates (GICs), etc)

Investors wanting to achieve a positive impact with bonds oftentimes do so by selecting bonds emitted by municipalities, corporations, government agencies, or supranational development agencies that finance projects with social or environmental impacts that align with investors' mission-related concerns[13]. Once bought, the investor has no means to influence the activity of the investee, as fixed income does not provide ownership of the company. In that sense, bonds are often used to support organizations that cannot take equity capital, such as nonprofits, municipalities or co-operatives.

Green bonds only marginally target agriculture and forestry. Until 2018, financing from green bonds in agriculture or forestry was only USD 7.4 billion on the total amount of green bonds emitted since 2007, which was USD 744 billion[14]. Those tend to be from issuers in markets such as Brazil, international development financial institutions such as the World Bank Group, or multinational

11 PitchBook, "What is private debt?", 8 February 2021.
12 Investopedia, "Fixed Income definition".
13 Lang, K., Humphreys, J., & Rodinciuc, A., "Impact Investing in sustainable food and agriculture across asset classes", May 2021.
14 S&P Global, "Could Agriculture And Forestry Be The New Frontier For Green Bonds?", December 2019.

food and beverage companies, that have lacked any real relationship to regenerative agriculture[15]. In general, it can be difficult to measure the environmental and social effect of green bonds, but investor groups such as the Climate Bond initiative, are actively working on developing industry standards for the field of agriculture, forestry and land use. Finally, private debt also has its limits for financing cooperatives as these are often not investment-ready and regulations sometimes restrict foreign investments in such structures.

Private debt presents the best opportunities to invest in the principles of agroecology and forest community management, as it can be often focused on intentional investment. In this case, the lender lends capital financial service providers such as cooperative banks or credit unions or directly to smallholder farmers, often in the form of microcredit [16].

Micro-lending is a particular type of fixed income, intentionally providing capital to groups that usually do not have access to credit or financial services. This type of debt is often offered in developing economies, low-resource communities in developing economies or underprivileged areas and has the aim to help people start small businesses[17]. Globally, there is no definition on the minimum amount of a loan to classify it as microlending. Usually, loans range from USD 100 to USD 25,000. Interest rates are usually higher, due to higher risk of this type of investment for the lender, and have over the time sometimes led to over-indebtment of low-income households. To achieve systematic change using this strategy, patience is imperative as improvements in both the financial health of borrowers and the soil health of land are gradual.

Key takeaways:

- Level of Agro Ecology achievable[18]: 2 / 5
- Ownership of the land: the nature of fixed income makes that the ownership of the land stays in the hands of the smallholders or IPLC.
- Sustainability: It is only possible for investors to engage in ESG issues with fixed income by choosing the assets they buy. The impact of the private debt and bonds therefore depends on the criteria chosen for investing.
- Although there are currently a limited number of bonds focused on sustainable agriculture and forestry, investor demand for green bonds continues, it may be an investment opportunity in the future.
- Only a very small portion of bonds are invested with ESG standards.
- Microfinance can be a powerful tool to reduce poverty, if used properly. This practice exists all over the world and has a proven track record.

15 Roberto V., “Green Bonds: A New Financing Tool to Foster a More Sustainable Agriculture”, December 2017; and Climate Bonds Initiative and SITAWI, “Can Green Bonds Finance Brazil’s Agriculture?”, November 2018.
16 Initiative for Smallholder Finance & RAF Learning Lab, "Inflection Point: Unlocking growth in the era of farmer finance", RAF Learning Lab online, April 2016.
17 Harvold Kvangraven, I., & Dos Santos, P. L.,"Financial Inclusion and Its Discontents", April 2016.
18 According to the scala presented in: Gliessman, S., "Transforming food systems with agroecology”, Agroecology and Sustainable Food Systems, January 2016.

Equity investments

An equity investment is an operation where an individual or company buys shares, units of ownership of a private or public company to become a shareholder. Shareholders are entitled to a certain portion of the yearly profit (dividend). Shares can be bought either privately or publicly, depending on how the company is structured. Smaller companies tend to keep the ownership of their companies or to sell their shares only to specific investors (private equity). The most basic equity investment operation is the purchase of a publicly traded share (also called stock), but other types of equity investment exist.

Investors have two main ways to achieve impact through equity investments. First, by choosing which company they buy shares of, and second, by actively engaging with the companies they hold shares of[19]. An increasing amount of investors select the companies they invest into not only on economic criteria, but also on environmental and social criteria. Even though investors' profiles and interests are diverse, it is possible to identify a common set of drivers behind the increased interest in sustainable investing. On one side, private investors increasingly demand investments in line with their personal and moral values. On the other side, institutional investors see an increased demand from their clients to integrate sustainability considerations, need to comply with new regulations addressing ESG concerns and finally, increasingly acknowledge that ESG and climate-related risks influence the price of shares[20]

Public equity investments rarely target directly smallholding farmers, as those are not listed on public markets. When investing in agriculture, investors mainly channel their capital in medium and large size companies. But in the last years, investor and NGO activism on environmental and social issues ended up having an important impact on smallholding farmers, as they are ultimately the suppliers of large food and beverage corporations.[21]

Key takeaways:

- Level of Agro Ecology achievable[22]: 3 / 5
- Ownership of the land: the investor becomes partly owner of the assets of the investee. Therefore the ownership might get out of the hands of smallholders and IPLC.
- Sustainability: Investors can choose to invest in ventures with a better sustainability governance. Furthermore, they can then engage with the company on ESG issues.
- An increasing amount of investors include aspects of sustainability when buying shares.

Real Assets

19 Lang, K., Humphreys, J., & Rodinciuc, A., "Impact Investing in sustainable food and agriculture across asset classes", May 2021.
20 Uzsoki, D., "Sustainable Investing: Shaping the future of finance", February 2020.
21 Lang, K., Humphreys, J., & Rodinciuc, A., "Impact Investing in sustainable food and agriculture across asset classes", May 2021.
22 According to the scala presented in: Gliessman, S., "Transforming food systems with agroecology", Agroecology and Sustainable Food Systems, January 2016.

Real assets are per definition physical and have an intrinsic worth due to their substance and properties. In the case of agriculture and forestry, real assets can be land, real estate, commodities (grain / timber) or other natural resources. Investors usually outsource the day-to-day management of the land to an employed farmer. Investors in real assets typically generate income in two ways, capital appreciation[23] and income from working on the land itself[24]. Due to its physical aspect, this asset class also has a low correlation with other asset classes and the fluctuations in the financial markets, making it a good hedge, a protection against financial loss[25].

Land ownership often shifts to investors, rather than cooperative or community ownership. This type of investment works well in the United States and Europe or other countries where property rights are well enforced, but could be more problematic in the developing world.

Investing in real assets provides opportunities for impact. Farmland or Grassland can be converted to produce organic crops and livestock. It is especially important for long-term land owners who want to ensure the soil quality of their fields or longevity of the forests. Furthermore, a growing demand in carbon credits offers an opportunity for additional income. Carbon credits are certificates received for reducing the emission or capturing a ton of CO_2, that can be sold to companies that emit greenhouse gasses above allowed thresholds[26]. The system is widely criticized for its failure to combat climate change, its inherent gaps and negative social and environmental impacts.[27]

Real assets:
Rehabilitation of coffee trees in Peru
The Peruvian government has worked through coffee grower cooperatives to distribute long-term financing for coffee tree rehabilitation. Coffee trees have a productive lifespan of about 20 years, and some 70 percent of Peru's coffee production area needs rehabilitation, as coffee is one of Peru's main exports, sustainable supply is a national policy issue.

For smallholders, tree rehabilitation presents a long-term financing issue. They need about USD 1,100 per hectare to rehabilitate their trees—a sum on par with their annual short-term harvest financing needs. With 115,000 smallholder farmers in Peru, and assuming an average of two hectares per farm, this represents a total financing need of USD 250 million. Most smallholders have been unable to finance the rehabilitation; generally, only farmers with more than five hectares have been able to afford or finance it.

With the goal of increasing productivity, the government recently seeded a USD 7.5 million fund for smallholders seeking to finance the rehabilitation of their trees. The interest rate on these five-year loans, timed to the depreciation of a coffee plant, is 10 percent. The loans will be administered by Agrobanco, the state-run agricultural lender. To be eligible, smallholders must already participate in a producer organization. However, even with this USD 7.5 million fund, there is a large gap to meet the total need of USD 250 million.

Source: Dalberg, Catalyzing Smallholder Agricultural Finance

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23 Capital appreciation is an increase in the price or value of asset.
24 Investopedia, "Real Asset Definition".
25 Lang, K., Humphreys, J., & Rodinciuc, A., "Impact Investing in sustainable food and agriculture across asset classes", May 2021.
26 Rotenberg, A., & Bonsey, S., "Real Assets and Impact Investing: a primer for families", May 2016.
27 See for example: https://redd-monitor.org/ & https://www.bloomberg.com/news/features/2021-06-02/carbon-offsets-new-100-billion-market-faces-disputes-over-trading-rules

Key takeaways:

- Level of Agro Ecology achievable[28]: 3 / 5
- Ownership of the land: the investor becomes owner of the assets of the investee. Therefore the ownership gets out of the hands of smallholders and IPLC.
- Sustainability: Investors can choose to operate on their assets (land, forest, ...) in a sustainable manner.

28 According to the scala presented in: Gliessman, S., "Transforming food systems with agroecology", Agroecology and Sustainable Food Systems, January 2016.

Section Two. Innovative Financial Frameworks

This section describes several innovative financial frameworks or initiatives that cut across asset classes and hold particular interest for agroecology and forest management. These initiatives seem to be fueled by the understanding that systemic change is necessary, if a more sustainable future is to be achieved. These opportunities can mean more sustainable livelihoods, but they ultimately seek to begin the transformation of the financial system's mainstream models and practices to create long-lasting and large-scale improvements across the board. [29]

Although it still provides food and work for a large share of the population in emerging economies, agriculture and forest management are under-financed sectors. The reality of the terrain shows that on the one hand, smallholding farmers and communities are hard to reach and unorganized, marking it hard to establish a formal value chain finance[30]. Second, no unified product has been invented yet, matching the needs of such a large group. To bridge the lack of investment, financial stakeholders will need to tailor the solutions to the geography and culture in which they operate[31].

But the gap between the financial needs of smallholders and the supply of financial services is anticipated to remain significant. Combined formal and informal lending currently only provide approximately USD 50 billion of the more than USD 200 billion needed for smallholder finance in the regions of sub-Saharan Africa, Latin America, and South and Southeast Asia[32].

Sector Initiatives
The sector initiatives displayed here are examples of grouping of different actors, financial and non-financial, trying to achieve impactful results.
Sector initiatives offer a platform with which smaller actors can engage to voice their concerns and goals, to support ongoing initiatives, and to encourage sector initiatives participants to include AE and CFM in their investment considerations. These platforms also serve a purpose as spaces for connecting with like-minded institutions and those financial actors who are just initiating the journey and who might be prone to be influenced.

- Partnership for Carbon Accounting Financials (PCAF)
  PCAF is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose the greenhouse gas (GHG) emissions associated with their loans and investments. The harmonized accounting approach provides financial institutions with the starting point required to set science-based targets and align their portfolio with the Paris Climate Agreement. PCAF enables

29 Triodos Bank, "Towards ecologically and socially resilient food and agriculture systems", June 2019.
30 Dalberg Global Development Advisors, "Catalyzing Smallholder Agricultural Finance", September 2012
31 Triodos Bank, "Towards ecologically and socially resilient food and agriculture systems", June 2019.
32 Initiative for Smallholder Finance & RAF Learning Lab, "Inflection Point: Unlocking growth in the era of farmer finance", RAF Learning Lab online, April 2016.

transparency and accountability and will develop an open-source global GHG accounting standard for financial institutions.[33]

- UNEP-FI Principles for Sustainable Banking
  The Principles for Responsible Banking are a framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement.[34] 214 banks have now joined this movement, with the goal to promote the idea of a future in which the banking sector makes positive contributions to people and the planet. These banks represent more than a third of the global banking industry.

- Finance for biodiversity pledge
  On 25 September 2020, a group of 26 financial institutions from around the globe launched the Finance for Biodiversity Pledge. They called on global leaders and committed to protect and restore biodiversity through their finance activities and investments in the run-up to the Conference of the Parties (COP 15) to the Convention on Biological Diversity (CBD) in 2021. The number of Pledge signatories has grown since then and currently stands at 37.

- Scaling up Agroecology initiative
  This initiative was launched at the international symposium on AE in April 2018. The food and agriculture organization (FAO) of the UN wants to work with food producers, governments and other stakeholders to strengthen agroecology – as a promising approach –, harnessing a range of sustainable practices and policies, knowledge and alliances to achieve equitable and sustainable food systems in support of the Sustainable development goals (SDGs). The Initiative focuses its efforts and contains concrete targets on three areas of work. First, knowledge and innovation for sustainable food and agriculture systems, wanting to build the knowledge base and capacity on agroecology, improve the evidence base on agroecology and ecosystem-based approaches and collect relevant data. Second, policy processes for the transformation of food and agriculture systems, assisting countries in the development of policies for agroecology with the participation of non-state actors. And third, building connections for transformative change, to align all stakeholders, governments, producers' organizations, consumers, civil society, research and the private sector, and support networks and platforms for knowledge exchange and dialogue. The accomplishment of the SDGs relating to this initiative all contain ensuring an access to affordable and adapted financial services to IPLC[35].

Innovative investment types

The investment types displayed hereunder are examples of grouping of different investment types, trying to achieve impactful results which in some cases are linked to the strategies and objectives

33 PCAF, "About PCAF".
34 UNEP FI, "Principles for Responsible Banking".
35 FAO, "Scaling up Agroecology initiative", April 2018.

of various FoE groups. Innovative investment types bring new possibilities to offer financial services adapted to the needs of smallholding farmers, and IPLC.

- Integrated capital
  Integrated capital is the coordinated and collaborative use of different forms of capital, both financial and non-financial, to support a developing enterprise that's working to solve complex social and environmental problems. This encompasses equity investments, loans, government support, loan guarantees, etc. but also technical assistance, advisory or network support, often from different sources.

  Integrated capital addresses the funding challenges social enterprises face in a number of ways: It allows for longer development times by including some types of investment that don't need to make a return, such as grants. It gets enterprises through the "valley of death," where they have a promising business model, technology, product, or service, but need more capital to realize its potential and don't qualify for traditional financing. And when community foundations and local investors participate, integrated capital creates a community commitment to the enterprise's success. This approach is increasingly being identified as a way to finance food and farming systems transitions, where traditional financing may not be a good fit[36].

Example: ROOT CAPITAL (Kenya, integrated capital)
An application of the integrated capital approach is reflected in Root Capital's partnership Shalem Investments, a grain aggregator that was badly affected by the 2016 drought in Kenya. Shalem Investments primarily purchases and processes beans, soy, millet, and sorghum from 7,000 producers, the majority of whom are women. The lack of predictability around rain and changing growing seasons was having a significant impact on the farmers, who struggled with issues including failed crops and appropriate storage facilities. To overcome these challenges, Root Capital working with some foundation partners provided a grant of USD 20,000, plus training to advance women leadership, in addition to their USD 1.2 million investment. The grant was used to offer crop insurance, offer training in sustainable agriculture, organize credit and savings circles, and construct collection centers with refrigeration closer to the women. These technical assistance and support services served to mitigate risk for the farmers and increase the confidence in the viability of their crops. These measures meant that Shalem Investments could rely on regular supply of grains from their farmer network.

- Cooperative financing
  A financial cooperative is a type of financial institution where the members are the main owners and operators of it. The capital usually comes from the members of the cooperative. The objective of the cooperative is to offer similar services as a traditional bank to its members, while aiming for advantageous deals for both sides. The members of a cooperative are therefore lenders and might be recipients of loans at the same time.

36 Shaffer, D., "Integrated Capital for Social Enterprises", July 2014.

Cooperatives are essential in many developing economies, because by teaming up, smallholders become more visible and it reduces the risk, making them eligible for traditional finance loans in the long run.

- Blended Finance[37]
  According to Convergence, blended finance "is the use of catalytic capital from public or philanthropic sources to increase private sector investment in developing countries and sustainable development." Blended finance leverages capital from public or philanthropic sources to make an investment deal viable by reducing the risk to private investors. In other words, without partners that can take higher risk of losing their initial investment by providing guarantees or taking a subordinated debt position, for example, certain investments would not be feasible.

- Innovation:
  Financial institutions around the world are constantly innovating, creating new financial services to reach the poorest and underbanked communities in underprivileged regions. Innovative models often focus on the following key attributes, differentiating them from traditional services: proximity to clients, appropriateness of loan products and support services to clients' needs, wide set of supplementary customer services, and adaptation to local situations. Those types of solutions are often very local and hardly replicable in other parts of the world[38].

Examples: Customizing digital credit for smallholding farmers in Tanzania
Digital credit products represent an important financial inclusion opportunity for smallholder farmers in Tanzania, where close to 80% of the workforce is engaged in farming. Uptake of these products by smallholder farmers, however, remains limited. To address this challenge, Dalberg's Design Impact Group (DIG) used a human-centered design (HCD) approach across three regions of Tanzania to produce behavioral insights around smallholder farmers' interaction with, and demand for, digital credit products. Based on insights collected during their research, DIG designed and prototyped a new digital credit product for smallholder farmers and evaluated their response to it. This idealized digital credit product builds on existing products available in the Tanzanian market, but has five new components, each with multiple differentiated features, that meet the unique credit needs and behaviors of smallholders. These new components include:

- Design enhancements to the core product to make loan sizes and repayment terms more relevant and manageable for smallholder farmers
- Supporting features to improve customer engagement with the product

37 Convergence Finance, "Blended Finance".
38 FAO & ADA, "Innovations for inclusive agricultural finance and risk mitigation mechanisms", 2016

- Ideas to increase the effectiveness of marketing, customer training, agent support, and other functions that drive product adoption and usage

The DIG team designed this idealized product to encourage Tanzania's leading MNOs to customize their existing digital credit products to better meet the credit needs and behaviors of smallholder farmers. MNOs, financial service providers, and fintech companies that do not currently offer digital credit products can also adopt the new product's features as they enter this space.

Source: MasterCard Foundation - Rural and agricultural Finance Learning Lab

Example: Connecting small investors to smallholders

PlusPlus is an initiative of development organizations Solidaridad and ICCO, crowdfunding platform Lendahand and business booster Truvalu. The initiative seeks to connect small individual investors in the Netherlands to smallholders in the global south. At PlusPlus individuals can participate in the fund - targeting entrepreneurs in the agricultural sector and food supply chain - just by making a payment from their bank account or credit card for the amount they wish to invest. The idea is to gather a crowd of like-minded small investors to support the entrepreneurs. The entrepreneurs financed by the initiative are selected with the following criteria:

They work in the agricultural or food sector in Africa, Asia and Latin America. They are small and medium-sized companies with a maximum of 100 employees. They all have the potential to grow and innovate with a focus on people and the environment. The initiative supports entrepreneurs not only financially but also offers capacity building opportunities.

Source: Plus Plus

Conclusion

Although there are numerous powerful and inspiring initiatives around the world, the inflow of capital to finance AE and CFM covers only about a quarter of what is needed. Moving traditional investors to disinvest from large-scale agricultural and forestry firms and invest into AE and CFM will require long-term engagement and identifying viable alternatives.

Currently, most sustainable agriculture funds focus heavily on environmental criteria, leaving the social dimension often neglected. Furthermore, land is usually investor-owned, rather than cooperative- or community- owned. In that sense, most investments do not comprehensively apply FoE's principles. Nevertheless, as presented in this guideline note, examples of investments in line with FoE's objectives exist on a smaller scale. However, in most cases those entities or frameworks currently are not ready for the type of significant increase in capital that would occur if institutional investors materially shifted their investments towards them.

Within traditional asset classes, fixed income, equity or real assets investments all have tremendous potential, if the companies emitting the financial assets and the investors buying them commit to sustainable practices.

To accelerate the growth of finance to smallholding farmers, each type of stakeholder will need to fundamentally increment his activity. This includes traditional banks, but also alternative banks, corporates buying the products of smallholding farmers, states, communities, etc. Some parties have already performed in-depth research and analysis on this subject and produced resources that map solutions on this point specifically[39].

In order to continue building on the results of this work, it is crucial to create a consolidated global database of financial actors within the scope of FoE's ecosystem. Concurrently, FoE should refine the analysis of current and likely future trends in the AE and CFM financing space. This can in turn help building internally capacity on the subject.

In general, FoE should persist in gathering information and encouraging transparency so to effectively identify innovative alternatives to present to investors for a divest - invest strategy. This information will also allow FoE to connect with financiers and that are willing to replicate and scale existing financing models and strive for innovative approaches.

39 Initiative for Smallholder Finance & RAF Learning Lab, "Inflection Point: Unlocking growth in the era of farmer finance", RAF Learning Lab online, April 2016.

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