

## Patterns of Investing in Sustainable Landscapes: Investors and investment vehicles in developing countries

Prepared for The World Agroforestry Centre (ICRAF)

by

The Munden Project

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*This report provides a picture of investments in sustainable forestry and agriculture, suggesting where and how this picture can be improved. It also offers a focused assessment of investment and financial infrastructure in Cameroon, Indonesia, Peru and Vietnam.*

*The paper pays particularly close attention to sustainable producers, like smallholders, who are unable to access the largest source of investment: private finance. A series of barriers continue to inhibit investment at scale in these actors. The mapping exercise that follows indicates how different investors can address these barriers*

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## Executive Summary

### Introduction

Mapping capital flows to sustainable land use<sup>1</sup> (SLU) in emerging and frontier markets helps us to understand how to match activities to investors. It also provides insights into the way that we can sequence different kinds of investment to support the growth of such enterprises and take them to maturity.

The aim of this paper and the mapping process that informs it is to identify current patterns of sustainable land use investment, as well as changes over the last decades and possible future trends. We also consider the factors that drive sustainable land use investment and the barriers to scaled-up capital flows. In the process, we have identified a series of major data gaps. Developing an accurate picture of global sustainable land use investment in aggregate, particularly with a high level of geographic granularity, is simply not possible with currently available information.

It is evident that public money still dominates finance for sustainable land use. Private investment has been growing but from a very low base. Private finance that does enter this sphere is still driven in whole or in part by ethical considerations.

However, there are signs that sustainable land use investment is becoming more attractive to mainstream investors. There is growing recognition that sustainable land use has advantages from a risk management perspective, which makes it more attractive for investors. Targeted public support can help to reduce risk further, and open up an opportunity for scaled up private involvement in sustainable land use activities.

Our research reveals uneven progress in national efforts to catalyze private investment in SLU. But some progress was evident in each location, with a growing diversity of activities, actors and financial services. Advances in credit delivery notwithstanding, further efforts are needed in each location to provide smallholders with access to affordable and sufficient finance. Specifically, more innovative financial tools will be needed to plug this gap.

### Changes in investment patterns

Investments in SLU have grown rapidly in recent years. The number of funds (both public and private), the amount of capital invested, and the number of projects financed all show a positive trend. Investment levels in sustainable agriculture have increased since the global food crisis of 2008, while funding commitments and allocations for forest protection are accruing. There is a vibrant ecosystem of investors, philanthropists, governments, and mission-driven institutions that

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<sup>1</sup> UN Earth Summit defines sustainable land use as: “The use of land resources, including soils, water, animals and plants, for the production of goods to meet changing human needs, while simultaneously ensuring the long-term productive potential of these resources and the maintenance of their environmental functions” (<http://www.fao.org/nr/land/sustainable-land-management/en/>)

make up a growing SLU investment market.

The growing awareness of global environmental risks is reshaping the investment landscape for sustainable land use. Some investors are beginning to seek more than a financial return when providing capital to productive enterprises. Other investors now also recognize that investment returns in the sustainable land use sector make business sense, and can improve the overall risk/return profile of their portfolios<sup>2</sup>.

Public sector measures, such as infrastructure investments, enabling policy formulation and subsidies, have been a key factor in making SLU investments attractive to private finance. One common outcome is that these actions lower the perceived risk and thus improve risk-adjusted returns from the sector<sup>3</sup>.

Despite its limitations, the public sector must continue to invest in SLU, and ensure that the investments made incentivize further private investment. Public sector involvement should likewise focus on increasing private sector confidence in the performance of SLU practices, for example by developing profitable production systems and removing information barriers that impede private participation.

## **Current patterns of investment in sustainable land use and possible trends**

Data on sustainable land use financing is scarce and not systematically reported. This lack of information makes it difficult for capital providers to make intelligent investment decisions. It is harder still to define and track finance towards sustainable outcomes. Any systematic attempt to scale up investment in sustainable land use must address this data problem as a matter of urgency.

Data on market trends and the impact of these investments is largely non-existent. To complete the research for this report we had to rely on a number of proxies, using data from the universe of climate finance, conservation finance, smallholder finance and impact investment to illustrate salient points for this report.

Based on this information we have identified the following patterns of investing in sustainable land use:

1. SLU investments originate mainly from the public sector, with a smaller volume coming from private sources.

The public sector – including international development finance institutions, government bodies, and climate funds – is the dominant source of climate-related funding for

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<sup>2</sup> Principles for Responsible Investment (2012). Investing in the sustainable economy.

<sup>3</sup> United Nations Development Programme (2012). Chapter 5: Sustainable Agriculture. International Guidebook of Environmental Finance Tools: A Sectoral Approach. New York: UNDP.

sustainable land use in developing countries.

Out of \$23.4 billion conservation impact investments<sup>4</sup> from 2009 to 2013, public sector investments totaled \$21.5 billion, while private investments accounted for \$1.9 billion<sup>5</sup>.

More than \$8.7 billion was pledged to REDD+ and forest related funding for the period between 2006 and 2014. Of this amount, the public sector contributes nearly 90%<sup>6</sup>.

Private sources of finance for SLU include impact investments, innovative financing mechanisms and green bonds. Food and agriculture is the leading sector among impact investors who provide capital to emerging markets<sup>7</sup>, with the sector capturing around \$0.4 billion<sup>8</sup> of impact investments worldwide<sup>9</sup>.

Innovative financing<sup>10</sup> in agriculture and food security has mobilized approximately \$1 billion over the last three years<sup>11</sup>, while the green bonds market has issued \$0.1 billion green bonds in forestry in the first half of 2014<sup>12</sup>. It is likewise estimated that the private sector has only invested or contributed between \$600 and 800 million to REDD+ demonstration projects<sup>13</sup>.

## 2. Regional trends provide an indication of the distribution of financial activity by both

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<sup>4</sup> Conservation impact investments are investments intended to return principal or generate profit while also driving a positive impact on natural resources and ecosystems – specifically, decreased pressure on a critical ecological resource and/or the preservation or enhancement of critical habitat.

<sup>5</sup> NatureVest and EKO Asset Management Partners (2014). Investing in Conservation: A landscape assessment of an emerging market.

<sup>6</sup> Norman, M. and S. Nakhoda (2014). The State of REDD+ Finance. CGD Working Paper 378. Washington, DC: Center for Global Development.

<sup>7</sup> Saltuk, Y., A. Bouri, A. Mudaliar, and M. Pease (2013). Perspectives on Progress: The Impact Investor Survey. J.P. Morgan and Global Impact Investing Network.

<sup>8</sup> 57% of \$0.8 billion were invested to food and agriculture.

<sup>9</sup> Petley, S. (2013). Impact Investment and Sustainable Land Use. Woodlands and the Green Economy, Glasgow, May 1-2, 2013.

<sup>10</sup> Innovative financing mechanisms are approaches to mobilize resources and to increase the effectiveness and efficiency of financial flows that address global social and environmental challenges. Innovative financing instruments complement traditional international resource flows—such as aid, foreign direct investment, and remittances—to mobilize additional resources for development and address specific market failures and institutional barriers. It encompasses a broad range of financial instruments and assets including securities and derivatives, results-based financing, and voluntary or compulsory contributions. While new products dominate many conversations about innovative financing, most resources mobilized through innovative financing use existing products in new markets, such as guarantees and bonds, or involve new investors. Our definition of the “innovation” aspect of innovative financing includes the introduction of new products, the extension of existing products to new markets, and the presence of new types of investors.

<sup>11</sup> Global Development Incubator (2014). Innovative Financing for Development: Scalable business models that produce economic social and environmental outcomes.

<sup>12</sup> Bloomberg Finance (2014). Green Bonds Market Outlook 2014.

<sup>13</sup> Castrén, T., M. Katila, K. Lindroos, and J. Salmi (2014). Private Financing for Sustainable Forest Management and Forest Products in Developing Countries: Trends and drivers. Washington, DC: Program on Forests (PROFOR).

public and private investment sources.

Latin America accounts for the vast majority of private investments in sustainable forestry with \$1.5 billion invested into the region annually, or 83% of the global amount<sup>14</sup>.

In Sub-Saharan Africa, investment is concentrated in smallholder agriculture, with the region receiving more than 50% of smallholder focused development funding, mostly coming from multilateral organizations<sup>15</sup>.

Asia has increasingly attracted the attention of public and private funders alike. Since 2000, the region has been receiving two-thirds of the total Official Development Assistance to forestry<sup>16</sup>. At the same time, impact investors are taking greater interest in sustainable agriculture, particularly in South and Southeast Asia<sup>17</sup>.

### 3. SLU investments take the form of grants, debt and equity

The public sector delivered finance to projects mainly in the form of grants and low-cost debt - for example through climate funds - and a very small proportion of equity<sup>18</sup>. On the other hand, private sector investment in emerging markets is led by private equity, followed by loans and debt-like equity instruments<sup>19</sup>.

### 4. SLU investments are linked to globally recognized certification systems

Investments in agriculture favor SMEs that hold at least one certification from a sustainability initiative such as Fairtrade, Rainforest Alliance, UTZ Certified or Organic certified<sup>20</sup>. Most forestry funds adhere to one of the two leading sustainability certification systems in forestry, the Forest Stewardship Council (FSC) and the Programme for the Endorsement of Forest Certification (PECF) scheme<sup>21</sup>.

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<sup>14</sup> Castrén, T., M. Katila, K. Lindroos, and J. Salmi (2014). Private Financing for Sustainable Forest Management and Forest Products in Developing Countries: Trends and drivers. Washington, DC: Program on Forests (PROFOR).

<sup>15</sup> Pftizer, M., V. Bockstette, S. Meier, and J. Davies (2010), Smallholder Farmer Development International Donor Funding Trends: A Trend Analysis of the Corporate Leadership Coalition for Smallholder Farmer Livelihoods.

<sup>16</sup> Gondo, P.C. (2010). Financing of Sustainable Forest Management in Africa: An Overview of the Current Situation and Experiences.

<sup>17</sup> Doré, D.P., S. Yan, and J. Kong (2012). Asia Sustainable Investment Review 2012. Association for Sustainable & Responsible Investment in Asia (ASrIA).

<sup>18</sup> Buchner, B., M. Herve-Mignucci, C. Trabacchi, J. Wilkinson, M. Stadelmann, R. Boyd, F. Mazza, A. Falconer, and V. Micale (2013). The Global Landscape of Climate Finance 2013. Climate Policy Initiative.

<sup>19</sup> NatureVest and EKO Asset Management Partners (2014). Investing in Conservation: A landscape assessment of an emerging market.

<sup>20</sup> Larrea, C., S. Minteuan, and J. Potts (2013). Investing for Change: An Analysis of the Impacts of Agricultural Investments from Select FAST Social Lenders. Finance Alliance for Sustainable Trade.

<sup>21</sup> KPMG (2013). European Responsible Investing Fund Survey 2013.

## Barriers to positive change and some possible solutions

Despite the encouraging trend in SLU finance, global estimates of the level of funding needed to achieve sustainable development goals in land use still exceed the current volume of investments going to the sector. Private capital has a critical role to play in closing this investment gap. Yet in many developing countries, where most investment is needed, there are barriers at several levels.

In short, the major hurdles for accessing finance are the lack of credit history, “hard value” collateral, and capacity to scale up at the producer or enterprise level. The lack of organization by small producers makes it difficult to aggregate the supply and streamline the delivery of financial services to this sector.

Meanwhile, investors struggle to secure a consistent pipeline of opportunities to deploy capital. This is primarily due to the lack of information: SLU practices are not only unfamiliar, they have higher perceived risks for potential investors in the absence of a track record of consistent returns. The high initial costs of making the transition to sustainable practices call for financial returns that exceed typical loan tenors, and the opportunity costs and delayed benefits from these practices can further deter investors.

The complexity and perceived risks of SLU practices are further compounded by issues related to insecure land tenure, corruption, inconsistent regulation and weak governance in producer countries. Poor infrastructure and undeveloped rural economies further reinforce the reluctance by investors to venture into SLU.

There is currently little incentive for the private sector to engage sustainable producers and enterprises. Investment-ready opportunities are in short supply and a limited range of financing mechanisms is currently in use. As we have already written, the sustainable land use sector is dominated by public funding, but the supply of grant money is finite and insufficient. Private finance is still the major source of global capital and is best positioned to fill the financing gap for SLU.

We propose to address the financing gap for SLU by:

- Investing public resources in efforts to address external constraints such as unreliable regulatory and business climates, or poor infrastructure;
- Exploring patient sources of capital such as social investors, philanthropists or venture capitalists to finance the early/start-up phase and developing investment-ready enterprises that are attractive to mainstream investors;
- Utilizing private finance to scale up sustainable enterprises into profitable businesses;
- Launching innovative approaches to de-risking investments, distributing finance to smallholders, and forming collaborative efforts (i.e. public-private partnerships); and
- Developing appropriate interventions tailored to local contexts and requirements.

## Who Invests In Sustainable Land Use?

An increasingly diverse group of actors are investing in sustainable land use (SLU), each with different requirements and expectations. For example some private investors, such as banks, will only pursue low-risk opportunities that provide a reasonable return relatively quickly. Other actors, such as social lenders, are willing to accept lower returns over a longer period despite higher risk exposure, in pursuit of public goods.

Lower commercial expectations are normally balanced by higher hopes for positive social and environmental impact. However, the collective inability to develop an efficient and comparable means of assessing these impacts means that it is hard to find evidence of how these investments perform.

Understanding this diversity of investors and requirements is particularly important given the diverse characteristics of different SLU activities. More could be done to match specific activities to appropriate investment sources. But the public sector and impact investors can also do more to target investments towards creating an enabling environment for private finance.

This study covers four groups of investors:

- i. Private finance
- ii. Public finance
- iii. Impact investors and philanthropic funds
- iv. Non-traditional sources

### Trends in sustainable land use investing

The SLU finance market has seen significant growth of both public and private investments in the last decade, despite its small size relative to leading green sectors such as renewable energy. The public sector, including international development finance institutions and government bodies, are dominant sources of funding for sustainable land use for developing countries. A smaller volume of SLU investments come from private sources.

More than \$23 billion flowed into sustainable land investments in the last five years (2009-2013), with private investments accounting for just \$1.9 billion. Private sector investments appear to be small but dynamic, having doubled from 2004-2008 to 2009-2013. Conversely public finance has remained flat, and in some cases declined, over the same period<sup>22</sup>.

Some private investors appear to be looking for alternative investments that serve to diversify their

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<sup>22</sup> NatureVest and EKO Asset Management Partners (2014). Investing in Conservation: A landscape assessment of an emerging market.



portfolio. In particular, many investors from high and middle income countries are interested in increasing exposure to emerging and frontier markets in recognition of potentially higher returns due to lower costs of land and labor<sup>23,24</sup>.

There is a clear concentration of financial investments in Latin America. Aside from drawing the most private forest investment – more than 80% of the global total<sup>25</sup> – the region has also attracted significant amount of REDD+ finance. The region accounted for 33% of multilateral and bilateral funding pledges, while Asia and Africa will receive 31% and 16% of pledged REDD+ finance, respectively<sup>26</sup>. The number of agricultural SMEs receiving finance from impact investors is also highest in Peru, Bolivia, Mexico, Honduras and Nicaragua<sup>27</sup>.

However, as financing models for SLU investing mature, lenders and investors are expanding into new markets, as evidenced by a growing number of investments across Africa and Asia. Sub-Saharan Africa receives majority of funding – more than \$6 billion<sup>28</sup> – for smallholder agriculture, and the five largest multilateral funds specializing in climate change adaptation finance have disbursed US\$40 million per year for agriculture in Africa over the last 10 years<sup>29</sup>.

In Asia, impact investors show great interest in sustainable agriculture, particularly in South East Asia and South Asia, where it may be perceived that these regions will need a bigger allocation of investment in the future<sup>30</sup>.

Private financing mechanisms are marginally more developed for sustainable forestry than for agriculture. Forestry has traditionally been an important sustainable asset class for many investors due to consistent, long-term, competitive returns, and this distinction is manifested by the volume and type of investments to the sustainable forestry sector.

Private investment in sustainable forestry and timber grew from \$504 million in 2004-2008, to

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<sup>23</sup> Miller et. al. (2010). Agriculture Investment Funds for Developing Countries. Food and Agriculture Organization (FAO).

<sup>24</sup> Asen, A., H. Savenije and F. Schmidt (eds.) (2012). Good Business: Making Private Investments Work for Tropical Forests. ETFRN and Tropenbos International, Wageningen, The Netherlands.

<sup>25</sup> Castrén, T., M. Katila, K. Lindroos, and J. Salmi (2014). Private Financing for Sustainable Forest Management and Forest Products in Developing Countries: Trends and drivers. Washington, DC: Program on Forests (PROFOR).

<sup>26</sup> Norman, M. and S. Nakhouda (2014). The State of REDD+ Finance. CGD Working Paper 378. Washington, DC: Center for Global Development.

<sup>27</sup> Larrea, C., S. Munteuan, and J. Potts (2013). Investing for Change: An Analysis of the Impacts of Agricultural Investments from Select FAST Social Lenders. Finance Alliance for Sustainable Trade.

<sup>28</sup> Pftizer, M., V. Bockstette, S. Meier, and J. Davies (2010), Smallholder Farmer Development International Donor Funding Trends: A Trend Analysis of the Corporate Leadership Coalition for Smallholder Farmer Livelihoods.

<sup>29</sup> <http://newclimateeconomy.report/land-use/>

<sup>30</sup> Doré, D.P., S. Yan, and J. Kong (2012). Asia Sustainable Investment Review 2012. Association for Sustainable & Responsible Investment in Asia (ASrIA).

\$710 million in the four year period to 2013<sup>31</sup>. However, the rate of growth in this sector is now sluggish compared to the rapid increases in sustainable agriculture investments. Private investment in sustainable agriculture grew by more than 600% from \$67 million (2004-2008) to \$472 million in 2009-2013<sup>32</sup>.

SLU finance is closely related to the development of certification systems and the demand for sustainably produced and sourced goods. A 2013 survey of investment data by members of the Finance Alliance for Sustainable Trade (FAST) showed that the majority of SMEs in receipt of sustainable agriculture investments had at least one certification from a globally recognized sustainability initiative (i.e. Fairtrade, Rainforest Alliance, UTZ Certified or Organic Certified)<sup>33</sup>.

## Factors driving investment in sustainable land use

In general, most SLU investment is led by two types of motivation. The desire to deliver public goods remains the key driver, particularly for governments and philanthropists. But many investors, particularly in the private sector, see sustainable practices as a way to mitigate risk at both a project and portfolio level, and thus maximize return. In between these two ends of the spectrum are actors motivated by blended incentives of revenues and positive outcomes.

Some capital providers are primarily motivated by the desire to deliver societal or environmental benefits<sup>34</sup>. Governments, donors and philanthropic investors allocate public resources towards both local goals, such as improving incomes for a particular population, or global objectives, such as mitigating climate change. These investors often require a robust measurement of positive social and environmental impacts to justify their involvement.

As noted previously, a growing proportion of investment in SLU is now driven by hard-headed commercial considerations. SLU activities can be quite profitable: one study calculated the target internal rate of return (IRR) by private investors from sustainable land use investments to range from 5-10%<sup>35</sup>. Another simulation exercise found that 17 different land use practices in 11 countries bundled into a long-term (10 year) portfolio, could deliver IRRs between 12 and 20%<sup>36</sup>.

Investors are also motivated by the fact that SLU practices can reduce project-level risks, such as water shortages, soil exhaustion and local unrest. This reflects growing recognition of the fact that

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<sup>31</sup> NatureVest and EKO Asset Management Partners (2014). *Investing in Conservation: A landscape assessment of an emerging market*.

<sup>32</sup> Ibid.

<sup>33</sup> Larrea, C., S. Minteuan, and J. Potts (2013). *Investing for Change: An Analysis of the Impacts of Agricultural Investments from Select FAST Social Lenders*. Finance Alliance for Sustainable Trade.

<sup>34</sup> Portfolio 21 (2013). *Approaches to Environmental Investing*.

<sup>35</sup> NatureVest and EKO Asset Management Partners (2014). *Investing in Conservation: A landscape assessment of an emerging market*.

<sup>36</sup> The Munden Project (2013), *The Cat's Meow: Making the Case for Private Investment in Sustainable Land Use in Developing Countries*. Center for International Forestry Research.

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good labor and environmental practices are often associated with improved productivity, farm stability and resilience<sup>37</sup>.

Since SLU activities show a low correlation with traditional portfolio constituents, they offer larger capital providers opportunities to diversify and balance their investments<sup>38</sup>. An example is the Luxembourg-domiciled Sustainable Resources Fund, which is looking to gain diversified exposure in the asset class across agriculture, biomass, farmland and forestry<sup>39</sup>.

Finally, some investors, such as public-facing corporations, are primarily driven by reputational concerns. SLU in a value chain can now be used as a marketing and branding tool, but equally businesses risk damaging sales if they become embroiled in controversy. Hence multinational buyers, like Nestlé and Unilever, have a powerful incentive to invest in SLU.

## Public sources of finance

Investor Type	Major Financing Players
<b>Public Finance</b>	<b>Government agencies</b> are the primary channel of direct disbursement of public funds. Government typically provides funding for key infrastructure, including rural transportation and communication to facilitate entry of, or share risks with, private investors who wish to undertake sustainable investments.
Public funding refers to domestic and international government owned assets used to stimulate private development.	<b>Multilateral (development) agencies</b> , where multiple donor countries work together on specific development issues, are involved in providing Overseas Development Assistance (ODA) that place an emphasis on addressing environmental and social issues. They are an important finance source for investment in sustainable land management and conservation, particularly in removing key structural barriers to investment.
Government capital sources are funded by tax revenues and typically motivated by a broad range of political and economic interests.	<b>Development banks</b> are financial institutions established by governments to provide financing for the purposes of economic development. Different sources include national development banks, multilateral banks, regional development banks, and other international financial institutions. They seek to leverage private investment, by reducing interest rates, and focus on public policy and regulatory systems, as well as market and private sector development.

<sup>37</sup> Rainforest Alliance and the Citi Foundation (2012). *Sustainability as Key Factor for Mitigating Risk in Agricultural Supply Chain Finance*. Summary Report: January 30, 2012 Workshop.

<sup>38</sup> Principles for Responsible Investment (2012). *Investing in the sustainable economy*.

<sup>39</sup> Blue and Green Tomorrow (2012) "The Guide to Sustainable Investment". *National Ethical Investment Week*, October 2012.

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At least \$3 billion of the total global climate investments reported in 2012 that went to land use (agriculture, forestry, land use management and livestock management) came entirely from public sources<sup>40</sup>. The public sector has access to specialized knowledge that could facilitate greater access to finance through their local counterparties or intermediaries<sup>41</sup>. Hence, they are central to the distribution of global resources for SLU.

Public sector finance generally focuses on creating an enabling environment for investments in sustainable land use. For example, national governments and international donors typically provide funding for key transportation and communications infrastructure. They also try to improve the business environment by improving transparency and enhancing regulatory effectiveness. Similarly they promote specific investment initiatives, such as pilot production trials, marketing trials and extension activities that are useful to test and introduce new production systems and innovations.

Public donors can also help to connect SLU practitioners to finance. For example, they provide concessionary funds where neither repayment of the principal nor financial return is expected, but there are clear expectations for the non-financial impact of the donation<sup>42</sup>. Multilateral, regional and national development banks are particularly active in the provision of soft loans and interest-free credits<sup>43</sup>. These efforts are assisted by bodies like the Global Mechanism<sup>44</sup>, which provide technical support rather than direct funding.

Some public funds show the potential to leverage investments from other sources. The Global Environment Facility has invested \$345 million<sup>45</sup> to projects related to land degradation, while leveraging \$2.4 billion as co-financing. Nearly 60% of this capital is allocated to Africa, while 17% and 9% were allocated to Asia and Latin America and the Caribbean, respectively<sup>46</sup>.

As one might expect, public capital is also focuses on sectors that do not attract significant amounts of investments due to perceived risks and information barriers. Smallholder agriculture provides a good example. The majority of this funding, in the case of smallholders at least \$8

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<sup>40</sup> Buchner, B., M. Herve-Mignucci, C. Trabacchi, J. Wilkinson, M. Stadelmann, R. Boyd, F. Mazza, A. Falconer, and V. Micalé (2013). The Global Landscape of Climate Finance 2013. Climate Policy Initiative.

<sup>41</sup> See the role of mass organizations in the intermediation of financial services in the Vietnam case study.

<sup>42</sup> Credit Suisse (2014). Conservation Finance: Moving beyond donor funding toward an investor-driven approach.

<sup>43</sup> Development finance institutions, like the International Finance Corporation (IFC), accounted for \$21.5 billion investments in SLU over the last five years (Investing in Conservation).

<sup>44</sup> The Global Mechanism provides specialized advisory services, i.e. investment structuring, dialogue/partnership facilitation, to build national or regional capacity for integrated financing of sustainable land management.

<sup>45</sup> amount invested during GEF Phase 4 (2006-2010)

<sup>46</sup> Global Environment Facility. Investing in Land Stewardship: GEF's Efforts to Combat Land Degradation and Desertification Globally.

billion, comes from multilateral development agencies, in particular the World Bank and the International Fund for Agricultural Development<sup>47,48</sup>.

## Private sources of finance

Investor Type	Major Financing Players
<p><b>Private Finance</b></p> <p>Private finance is provided to a business as a debt, equity, or cash investment by private entities, such as institutional funds, banks or private companies.</p> <p>Investment is overwhelmingly aimed at obtaining financial profit.</p> <p>The sources of private finance are varied, ranging from banks to asset managers to microfinance institutions.</p>	<p><b>Banks</b> are licensed financial institutions that channel receipts of deposits into lending activities by connecting clients with capital needs to those with surpluses. Commercial/retail banks – manage deposits and withdrawals, provide mortgages, and short-term loans to individuals and SMEs. Investment banks – manage and provide corporate services to institutional clients, foundations or high net worth individuals.</p> <p><b>Private equity</b> consists of investors and funds that make investments directly in private companies. Capital is raised from retail and institutional investors, and can be used to fund new technologies. Equity funds may target the capital needs of larger and established producer and processing companies, or provide high-risk growth capital to weaker businesses to increase its value. Profit is made by reconfiguring the acquired (distressed) business, or through returns generated at sell-off, thus require a longer holding period.</p> <p><b>Microfinance institutions</b> provide finance services to individuals and groups of entrepreneurs and small businesses that lack access to traditional banking or related financial services. Microfinance products tend to be lower value than those offered by regular banks. Microfinance institutions often use non-traditional methodologies, such as group lending or other forms of collateral not employed by the formal sector.</p>

Private finance is needed to plug the huge gap to make land use sustainable. However, there are too few saleable and investable projects, and too few asset classes that satisfy a clear investment objective<sup>49</sup>. Private investors reported that they have least \$1.5 billion of uninvested capital that can be deployed in 2014-2018, provided that more SLU investment opportunities match their risk-reward expectations<sup>50</sup>.

<sup>47</sup> Pftizer, M., V. Bockstette, S. Meier, and J. Davies (2010), Smallholder Farmer Development International Donor Funding Trends: A Trend Analysis of the Corporate Leadership Coalition for Smallholder Farmer Livelihoods.

<sup>48</sup> See Appendix for IFAD's Adaptation for Smallholder Agriculture Program.

<sup>49</sup> Credit Suisse (2014). Conservation Finance: Moving beyond donor funding toward an investor-driven approach.

<sup>50</sup> NatureVest and EKO Asset Management Partners (2014). Investing in Conservation: A landscape assessment of an emerging market.

Sub-Saharan Africa and Latin America and the Caribbean are the geographic focus of private impact investments<sup>51</sup>, with food and agriculture being priority sectors for emerging market investors<sup>52</sup>. A total of \$1.3 billion was committed to sustainable food and fiber production by private investors in the period 2009-2013, where 55% and 37% were committed to sustainable forestry and sustainable agriculture, respectively<sup>53</sup>.

Banks can provide working capital and asset-backed loans to sustainable producer enterprises. Their initial engagement in the SLU sector was originally motivated by Corporate Social Responsibility (CSR) strategies, and managing portfolios for foundations or high net worth individuals seeking sustainable investment opportunities.

There are banks with an explicit environmental focus, such as the Rabo Groen Bank, which is the largest green bank on the Dutch market. Rabobank has €1.9 billion in outstanding green loans used for financing greenhouses, wind energy, geothermal, organic farmers and sustainable buildings<sup>54</sup>. Some retail banks have extensive networks that allow them to provide loans to many sustainable enterprises and organizations, in a way that private investment banks cannot.

Private equity funds often target the capital needs of larger, established production and processing companies, or provide high-risk growth capital to weaker businesses and then offer hands-on engagement to increase its value. The investor makes a profit by reconfiguring the business while it is in the portfolio or through returns generated at sell-off. The Terra Capital Fund, for example, is a US\$15 million private equity fund that invests in private enterprises generating conservation benefits through sustainable use of biodiversity in Latin American countries<sup>55</sup>.

Microfinance institutions have recently become an important source of financing for smallholder producers engaged in sustainable practices in many developing countries. BRAC, a leading microfinance institution in Bangladesh, developed a product for farmers that bundles access to finance, training, productive inputs and business support to enable them to set up sustainable agricultural enterprises<sup>56</sup>.

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<sup>51</sup> Private impact investments referred here is not made exclusively to SLU, but covers a wide range of sectors including food and agriculture, healthcare, financial services, education, housing, energy, etc.

<sup>52</sup> Saltuk, Y., A. Bouri, A. Mudaliar, and M. Pease (2013). Perspectives on Progress: The Impact Investor Survey. J.P. Morgan and Global Impact Investing Network.

<sup>53</sup> NatureVest and EKO Asset Management Partners (2014). Investing in Conservation: A landscape assessment of an emerging market.

<sup>54</sup> <https://www.rabobank.com/>

<sup>55</sup> [http://www.ecosystemmarketplace.com/pages/dynamic/organization.page.php?page\\_id=987&](http://www.ecosystemmarketplace.com/pages/dynamic/organization.page.php?page_id=987&)

<sup>56</sup> <http://microfinance.brac.net/agriculture>

## Impact Investors and Philanthropic Funds

Investor Type	Major Financing Players
<p><b>Philanthropic Funds and Impact Investors</b></p> <p>Philanthropic funds engage in charitable giving for humanitarian purposes. They tend to have strong inclinations towards a specific impact - for example towards health issues, education or environmental issues.</p> <p>Traditional philanthropic support is provided through grant making, however, new approaches for philanthropic investing move donor institutions to seek investments where they could regain their capital, and those that offer a lower risk adjusted rate of return than would be sought under a mainstream investment.</p>	<p><b>Charitable trusts and foundations</b> are legally categorized as non-profit organizations, which either donate funds and support to other organizations, or provide the source of funding for its own charitable purposes. However, effective measurement of impact is critical to foundations' investment decisions.</p> <p><b>Civil society organizations</b> are non-state, not-for-profit, voluntary organizations formed by people in that social sphere together to advance their common interests through collective action. Large international CSOs mobilize significant public and private resources for providing medium- to long-term financial aid to stakeholders that include smallholder producers, in support of rural livelihoods, food security and climate change.</p> <p><b>Social lenders</b> are lending institutions with explicit social organizational goals, missions and objectives. They provide impact-driven smallholder lending that is primarily driven by social and environmental intent to support smallholder farmers, likely with lower than risk-adjusted net market returns.</p>

Philanthropic organizations are often willing to take higher risks than mainstream investors, so long as it increases the chance of pursuing their wider social or environmental agenda. Philanthropists invest to accomplish public benefit goals through grants made to various sustainable initiatives.

Charitable trusts and foundations channel finance to civil society organizations, independent, academic and research institutions and, to a limited extent, governments. Foundations are responsible for 7% or \$0.8 billion of the total smallholder-focused donor funding<sup>57</sup>.

While the contribution is small compared to public investments, foundations tend to focus their investments on producers and projects operating on a much smaller scale, than those assisted by bilateral or multilateral funds. The Bill & Melinda Gates Foundation, for instance, is a primary driver in this sector, with funding for smallholders involved in sustainable production being one of

<sup>57</sup> Pftizer, M., V. Bockstette, S. Meier, and J. Davies (2010), Smallholder Farmer Development International Donor Funding Trends: A Trend Analysis of the Corporate Leadership Coalition for Smallholder Farmer Livelihoods.

the largest initiatives in its portfolio<sup>58</sup>.

Foundations use program-related investments to achieve intended impacts, such as bridge funding for time-sensitive land-protection opportunities and supporting sustainable businesses. They provide finance in a number of ways – loans, equity, and guarantees – as long as these investments have a clear charitable purpose and the expected returns are below market rate<sup>59</sup>.

Civil Society Organizations, particularly those operating at the international level, mobilize significant resources from public and private sources to provide medium- to long-term financial aid to a target clientele, including small-scale farmers and producer groups. Their aim is to support rural livelihoods, agriculture, forestry, food security and climate change.

"Socially oriented lenders" is a term that relates to lenders in developed markets, local commercial banks and credit institutions across the developing world that have made explicit commitments to work with small-scale producer groups. Social lenders provide impact-driven smallholder lending, with below market returns. However, social lenders have concentrated on select geographic and crop markets, particularly the coffee industry in Latin America<sup>60</sup>.

Unlike public funds, which may be focused on infrastructure and enabling environment investments, philanthropic funding is predominantly targeted at the direct provision of goods and services to smaller producers<sup>61</sup>. Charitable funds are also often utilized for market development initiatives, such as building commodity certification systems and supporting the development of investment impact metrics<sup>62</sup>.

## Non-traditional sources of finance

Investor Type	Major Financing Players
Non-traditional Sources	<p><b>Trade finance facilities</b> offers innovative trade finance products to producers with a specific focus on sustainable agricultural value chains and fair trade.</p> <p>Trade funds can pre-finance a certain percentage of the contract value, depending on the cashflow needs of the</p>

<sup>58</sup> <http://www.gatesfoundation.org/What-We-Do/Global-Development/Agricultural-Development>

<sup>59</sup> NatureVest and EKO Asset Management Partners (2014). Investing in Conservation: A landscape assessment of an emerging market.

<sup>60</sup> Carroll, T., A. Stern, D. Zook, R. Funes, A. Rastegar, and Y. Lien (2012), Catalyzing Smallholder Agricultural Finance, Dalberg Global Development Advisors.

<sup>61</sup> Pftizer, M., V. Bockstette, S. Meier, and J. Davies (2010), Smallholder Farmer Development International Donor Funding Trends: A Trend Analysis of the Corporate Leadership Coalition for Smallholder Farmer Livelihoods.

<sup>62</sup> NatureVest and EKO Asset Management Partners (2014). Investing in Conservation: A landscape assessment of an emerging market.



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exporting enterprise, up to as much as 60%. Other facilities provide credit guarantee schemes to help producer groups develop a credit history and establish partnerships with local financial institutions.

**Environmental funds** were created to address the need for additional and more effective financing to confront environmental problems. Environmental funds manage a relatively limited amount of financial resources compared to traditional sources of financing, but play an important role in catalyzing and coordinating resources for co-financing. These funds tend to have finite lifetimes and a specific sectoral focus, such as renewable energy, climate change adaptation, or forestry.

**Multinational purchasing companies** facilitate financing using purchase contracts as collateral or use their relationships with producers to originate loans, assess risk and collect payments. They provide financing to smallholders engaged in their out-grower schemes; emerging models include warehouse, in-kind and direct-to-farmer lending. Aside from finance, multinational buyers provide additional support services, such as marketing or technical assistance, or processing capacity to smallholders to enhance local productivity and competitiveness.

**Certifying bodies** certify against standards of competence, credibility, and employment of suitable quality and ethical procedures. Assistance provided can be in the form of a full range of loan types, and technical assistance in the renewal of certification/accreditation, or to offset costs of transitioning to certified production practices.

There are certain alternative sources of finance for specific activities within SLU production. One approach perceived to have high prospects for success, particularly in sustainable agriculture, is value chain finance, where buyers or traders provide short-term credit to producers that is linked to the subsequent sale of the produce. Important providers of trade credit to sustainable producers include multinational agribusiness companies and specialized trade finance facilities.

For example, Root Capital, a non-profit social investment fund, provides a form of value chain finance to small and growing businesses in developing countries, secured by signed purchase agreements from buyers, primarily in North America and Europe. In 2010, Root Capital had disbursed more than \$250 million in credit to 320 businesses, with loans ranging from \$25,000 to

\$2 million.

Producer organizations that want to add value to their produce can turn to certifying bodies for support. These certifying bodies provide assistance to producer organizations that have been certified or are applying for certification by granting subsidies or by linking them to organizations that are willing to subsidize the cost of certification. The Fairtrade Access Fund and the Forest Stewardship Council (FSC) Smallholder Fund are examples.

Environmental funds provide grants, funded primarily by international donors, debt-for-nature swaps<sup>63</sup> and private contributions. Several different types of environmental fund have been introduced, including national environmental funds, forest funds, conservation trust funds, community-based funding mechanisms, land conservation trusts, climate funds and private sector investment funds.

The majority of environmental funds have been established in the Latin American and Caribbean region. Examples of forest funds in Latin America include FONAFIFO in Costa Rica, PROFONANPE in Peru and ECOFONDO in Colombia.

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<sup>63</sup> A debt-for-nature swap is an arrangement by which an indebted developing country undertakes, in exchange for cancellation of a portion of its foreign debt, to establish local currency funds to be used to finance a conservation programme. (OECD)

## How are Investments in Sustainable Land Use Made?

There are a diverse range of financial instruments that can be used to finance sustainable land use. In recent years, we have seen growing complexity and innovation in this ecosystem. This creates opportunities to tailor financial instruments to the specific needs of sustainable practices. Additionally, we can now construct a ladder which connects sustainable activities to a series of financial instruments as they become more mature.

More concerted efforts are needed to connect some SLU practitioners to finance. For example, smallholders struggle to gain access to affordable capital. They are too small for equity investors and most VC actors. Since grants are limited, the only viable option appears to be debt financing. Initially this must be supported by patient capital. But there are also options to aggregate credit payments into bonds to scale up private sector investment. This is the kind of innovation that will be required to fill the financing gap in SLU.

Instrument	Description	Risk Profile	Examples
<b>Grants</b>	Grants are non-repayable cash transfers or in kind for which the recipient incurs no legal debt. Governments, foundations, corporations, not-for-profit organizations and individual donors often disburse grants. However, the availability of grants and the continuity of receiving this type of funding is highly uncertain. Most grants are made to meet specific project goals and so require bespoke monitoring and reporting.	-Grants are the 'most risky' type of financial instrument in the sense that it guarantees total capital loss from the part of fund providers. -Investment can pursue projects that maximize social return and sustainability.	<b>First People's Worldwide</b> Grants provides grants from \$500 to \$20,000 to support grassroots projects of indigenous organizations including indigenous land use, management of natural resources, climate change, food security, among others.
<b>Patient capital</b>	Patient capital is long-term investment with no expectation of immediate financial returns, provided at below-market interest rates. It is used to finance start-up costs, early stages of enterprise development and a portion of infrastructure investments required by SMEs. Investors may provide management support to drive new business models, and may	-Greater risk tolerance than traditional investment capital. -Blends financial return with social impact, thus willing to forgo maximum financial return. -Invest over longer time horizon for return on investment	<b>AgDevCo</b> invests patient capital to create commercially sustainable agriculture and agribusiness ventures, thereby supporting emergent commercial and small-scale farmers to increase productivity and incomes.

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	seek partnership with private sector through co-investment.		
<b>Venture capital</b>	<p><b>Venture capital</b> refers to financial capital provided to start-ups with high growth/innovation potentials. Venture capital firms focus on early stage investment and usually exit from or drastically reduce the shareholding once the start-ups have grown up to certain scale. During the investment period, social venture capital firms are usually heavily engaged in building the organizational capacity of their investees. <sup>64</sup></p>	<ul style="list-style-type: none"> <li>-Structured using a range of securities; debt; debt with equity features (e.g., convertible debt); to common stock.</li> <li>-Generally require a share/equity for financial risk undertaken.</li> </ul>	<p>The <b>Terra Capital Fund</b> is a US\$15 million private equity fund that invests in and catalyzes private enterprises that generate conservation benefits through sustainable use of biodiversity in Latin American countries. Terra Capital's commercial objective is to realize long-term capital appreciation investments in biodiversity-benefiting enterprises and thereby demonstrate to entrepreneurs and investors that such enterprises present viable opportunities.</p>
<b>Equity</b>	<p>Equity financing is the process of raising funds through the sale of an ownership interest in an enterprise. Through ownership and shareholding, the equity investor is entitled to a share of the future profits of the enterprise. The investor may also exercise control and voting rights over the management of the investee.</p>	<ul style="list-style-type: none"> <li>- Relatively high risk investing tools that typically seeks to purchase or gain control of entire companies or enterprises.</li> <li>-Considered to be illiquid, following a holding period that averages between five to seven years.</li> </ul>	<p><b>Global Environment Fund (GEF)</b> invests in forestry companies in Africa, South America and Southeast Asia. All portfolio companies use sustainable forestry techniques and all timber-products are FSC-certified. GEF manages companies to international environmental standards to reduce risk, improve financial performance and increase value to investors upon exit.</p>
<b>Debt / loans</b>	<p>Debt is a contractual arrangement where the borrower agrees to pay the lender back the principal sum over a specified time interval, usually with interest. Debt financing instruments include secured and unsecured loans, bonds, and standby and overdraft facilities.</p>	<ul style="list-style-type: none"> <li>- Low risk tolerance - may require upfront fees and collateral, in addition to regular payments to help guarantee repayment and reduce risk.</li> <li>-Usually requires a track record of</li> </ul>	<p><b>African Agricultural Capital Fund</b> provides debt, quasi-equity and equity to agricultural small- and medium- enterprises in East Africa and neighboring countries. Investment period is up to 5 years and investment size range from \$200,000-2,500,000.</p>

<sup>64</sup>Yuen, T., F.Ngai, O.Kan, R.Yeung. 2011. Money for Good: Global trends and local potentials in engaged giving and social investing. Social Ventures Hong Kong.

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	Loans are generally used to fund the purchase of fixed productive assets, as well as for supplying working capital.	financial activities and credit history before approval
<b>Green bonds</b>	<b>Green bonds</b> are tradable financial instruments. Typically, the holder receives regular interest payments at fixed intervals (coupon), and the original loan amount invested (principal) at an agreed date (maturity) <sup>65</sup> . The distinction with traditional bond instruments is that green bonds are supposed to raise money for environmentally beneficial purposes only.	<p><b>World Bank Green Bonds</b> support projects that meet specific criteria for development activities that help lower global carbon emissions. World Bank green projects, like all World Bank projects, are designed to reduce poverty and improve local economies, with focus on tackling climate change issues that directly impact developing countries. Eligible Projects may include projects that target climate-resilient growth or “adaptation projects” including forestry.</p> <p>-High interest rates and inflation can lead to a fall in demand leading to a fall in the bond value.</p> <p>- There is a real default &amp; liquidity risk in corporate bonds, which should be reflected in the bond yield.</p>

## Maturity

In the early stages of developing an SLU practice, up-front funding should be secured, ideally in the form of grants or small loans<sup>66</sup>. Not all sustainable enterprises can become financially viable, but many would do if they could get past the initial rough years. Smaller enterprises can first access concessional loans provided by the public sector, as a way to establish a credit history, and later access market-rate loans or microcredit from formal financial institutions. Loan programs may also require collateral to help guarantee repayment and reduce risk<sup>67,68</sup>.

To assist immature enterprises, some investors provide “patient capital” or “first loss” equity funds that expect profit, but only over the long haul<sup>69</sup>. This patient capital is generally used to finance

<sup>65</sup> Green Growth Action Alliance. 2013. The Green Investment Report: The Ways and Means to unlock private finance for green growth. World Economic Forum. Geneva, Switzerland.

<sup>66</sup> Funding for smallholders, for example, often in the form of grants, subsidies or in-kind loans for agricultural inputs to allow smallholders to improve yields (Smallholder Development Donor Funding Trends).

<sup>67</sup> Yuen, T., F.Ngai, O.Kan, R.Yeung (2011). Money for Good: Global trends and local potentials in engaged giving and social investing. Social Ventures Hong Kong.

<sup>68</sup> United Nations Development Programme (2012). Chapter 5: Sustainable Agriculture. International Guidebook of Environmental Finance Tools: A Sectoral Approach.

<sup>69</sup> Yuen, T., F.Ngai, O.Kan, R.Yeung (2011) Money for Good: Global trends and local potentials in engaged giving and social investing. Social Ventures Hong Kong.

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start-up costs and a portion of infrastructure investments required by small and medium-sized enterprises. Sustainable land-use practices in agriculture, agroforestry and forestry tend to produce cash flows anywhere from 2 to 10 years after the initial investment, and as such they require financing with longer maturities and more flexible repayment schedules.<sup>70</sup> Lending instruments in sustainable forestry projects are characterized by more patient terms, compared to those invested in agriculture<sup>71</sup>.

Other financial instruments, such as debt, can be important for SLU activities to bridge liquidity gaps caused by either the lead-time or temporary disruptions in production. Stable and predictable cash flows are necessary in order for borrowers to satisfy periodic principal and interest payment set by lenders. An increasing number of financial instruments offer a fixed amount of capital for a set of specific company or project investments for a holding period of around six to ten years<sup>72</sup>. Climate finance originating from development finance institutions were mostly in the form of low-cost project debt and market-rate debt<sup>73</sup>.

## Size

For many investment instruments, such as bonds, the average deal sizes in SLU are too small<sup>74</sup>. Similarly, traditional private equity firms' average investments are estimated at \$36 million. Compare this to the size of deals made by the likes of Moringa, Althelia Climate and Eco Enterprise funds at around \$3-10 million<sup>75</sup>. Overhead and due diligence costs for late-stage financing instruments are likewise at a level that only large projects can be effectively selected<sup>76</sup>.

Green bonds are an emerging source of finance to fund investments in environmentally beneficial projects. Green bonds are widely believed to have significant potential as a means to access deep pools of relatively low-cost capital, and could be backed by sustainable projects, mainly energy and infrastructure. To date, of the \$16.6 billion green bonds issued in the first half of 2014, \$100

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<sup>70</sup> Forests Asia Summit (2014). Theme 2: Investing in landscapes for green returns. Background brief. April 2014.

<sup>71</sup> United Nations Development Programme (2012). Chapter 5: Sustainable Agriculture. International Guidebook of Environmental Finance Tools: A Sectoral Approach.

<sup>72</sup> Shames, S., M.H. Clarvis, and G. Kissinger (2014). "Financing Strategies for Integrated Landscape Investment: Synthesis Report," in Financing Strategies for Integrated Landscape Investment, Seth Shames, ed. Washington, DC: EcoAgriculture Partners, on behalf of the Landscapes for People, Food and Nature Initiative. 2014.

<sup>73</sup> 2012 climate finance flows from development finance institutions, \$67 billion were low-cost project debt, \$49 billion were market-rate debt, and only \$5 billion were invested as grants, equity and other financing instruments.

<sup>74</sup> Canby, K., and C. Raditz (2005). Opportunities and Constraints to Investment in Natural Tropical Forest Industries.

<sup>75</sup> Shames, S., M.H. Clarvis, and G. Kissinger (2014). "Financing Strategies for Integrated Landscape Investment: Synthesis Report," in Financing Strategies for Integrated Landscape Investment, Seth Shames, ed. Washington, DC: EcoAgriculture Partners, on behalf of the Landscapes for People, Food and Nature Initiative. 2014.

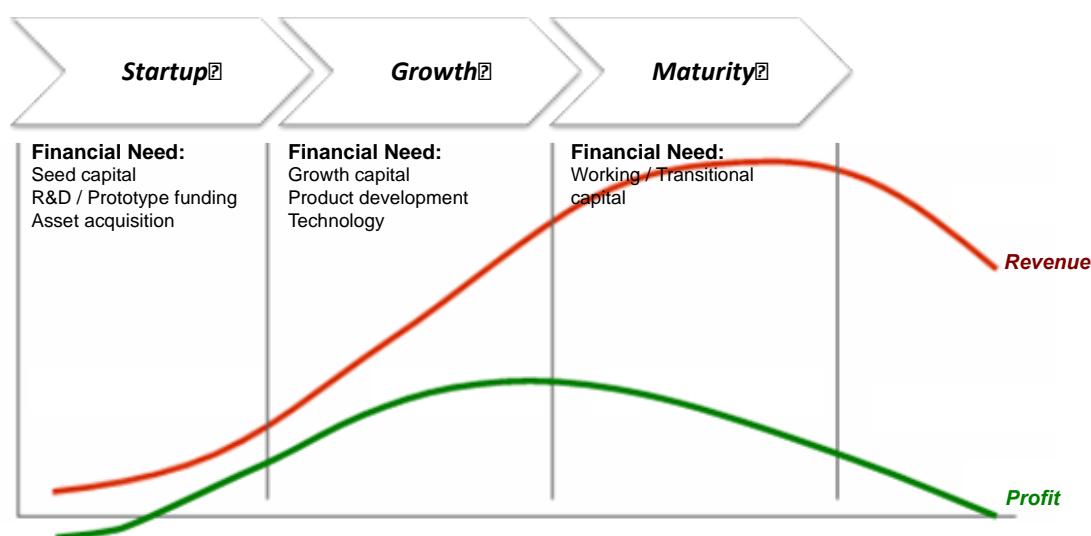
<sup>76</sup> Investments in Sustainable Forestry in Emerging Markets: Bridging the gap between investors and projects. Leusden, November 4, 2010 the Netherlands.

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million went to forestry projects<sup>77</sup>. However, these are only suitable for large investments of several tens of millions of dollars, as the costs of issuing and administering green bonds are quite high. Any attempt to connect this mode of finance with smallholder SLU practices would require an initial step of aggregating the loans to reach a much larger investment size.

## Sequencing of financial investment

Different kinds of capital are appropriate to different producer enterprises, depending on the nature of production activity and its stage of development. This typically follows a path through incubation or start-up, growth and expansion, and maturity or maturation stage. Each life cycle stage requires different financing.



In emerging economies, SLU investments divide relatively evenly among projects in the development, growth and mature stages. Investments for project development were primarily in REDD+ and other carbon-related projects. Growth stage investments were made mostly to agricultural companies in Latin America, while investments in mature companies were made exclusively to sustainable forestry enterprises<sup>78</sup>.

Early stage financing of sustainable enterprise is usually high-risk and requires an investor with a medium- to long-term investment horizon. For this reason, capital at this stage will most likely be found among philanthropists, civil society organizations, specialized environmental funds or trusts,

<sup>77</sup> Green Bonds Market Outlook 2014. <http://about.bnef.com/white-papers/green-bonds-market-outlook-2014/content/uploads/sites/4/2014/06/2014-06-02-Green-bonds-market-outlook-2014.pdf>

<sup>78</sup> NatureVest and EKO Asset Management Partners (2014). Investing in Conservation: A landscape assessment of an emerging market.

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and the public sector<sup>79</sup>. Public and philanthropic investments usually provide the foundation for building the enabling conditions that improve the competitiveness of early stage sustainable enterprises<sup>80</sup>. The role of development finance institutions is critical not only to providing affordable, early-stage capital, which is often accompanied by technical support services. A combination of public and philanthropic capital could help reduce market risk and create market demand for SLU projects.

A solution could be to develop investment structures that layer capital so grants, program related investments, public funding, and market-rate investments work in synergy. SLU investments lean towards some form of public-private partnerships to be able to overcome a range of barriers related not only to capital constraints, but also policy, information and production technology. SLU projects often require more capacity and expertise than are present in any single organization or institution. These arrangements allow public and private actors to achieve greater impact than they could on their own.

As potential financial returns increase for sustainable enterprises, new financial institutions will begin to see investment opportunities. Private investors become more willing to back the businesses when they are more investment-ready and the management team is proven.

In addition to lowering risk for private investors, this structure would help to increase transaction size for private investors, since more developed business opportunities tend to require larger amounts of capital for growth compared with those in the seed-stage phase. Larger transactions are also more attractive to private investors because of reduced transaction and due-diligence costs. The presence of financial vehicles that deploy a wide range of investment products can help ensure that the right kinds of capital will match up with the right kinds of sustainable producers and projects. In many cases, no single financial tool is adequate to fully finance a sustainable land use project from cradle to grave. A bundle of financial tools may be the best and most sustainable approach<sup>81</sup>.

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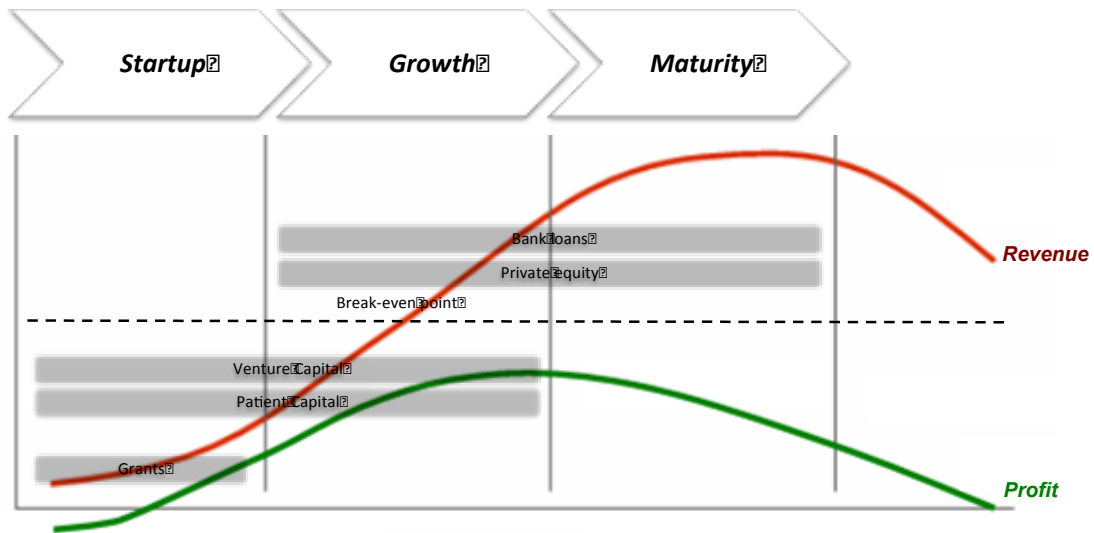
<sup>79</sup> Credit Suisse (2014). Conservation Finance: Moving beyond donor funding toward an investor-driven approach.

<sup>80</sup> Shames, S., M.H. Clarvis, and G. Kissinger (2014). "Financing Strategies for Integrated Landscape Investment: Synthesis Report," in Financing Strategies for Integrated Landscape Investment, Seth Shames, ed. Washington, DC: EcoAgriculture Partners, on behalf of the Landscapes for People, Food and Nature Initiative. 2014.

<sup>81</sup> United Nations Development Programme (2012). Chapter 5: Sustainable Agriculture. International Guidebook of Environmental Finance Tools: A Sectoral Approach.



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It is important to differentiate between the types of capital, the types of institutions best positioned to provide that capital and the types of investment instruments suitable to address differing financial needs. Each investment requires the involvement of different actors, specific finance mechanisms and different types of financiers, with varying expected timeframe of returns, investment size and risk appetites.

## Case studies: Indonesia, Peru, Cameroon and Vietnam

To complement our global mapping exercise we have conducted in-depth reviews of SLU financing in some of ICRAF's priority countries. These examples support the broad regional trends we have identified.

Peru, like many Latin American countries, is relatively active for SLU investment. Cameroon, like many African countries, has seen the least private investment but is the focus of many public sector initiatives. Indonesia and Vietnam have seen more investment than Cameroon, but still lag behind most Latin American countries.

In every instance we say similar barriers to smallholder finance for SLU. We have seen a number of attempts to address this situation, none of which have been particularly successful. In each instance more could have been done to address the risks and transaction costs that repel private investment.

However, much of the infrastructure needed to support smallholders – from technical service providers to local facilitation networks – are maturing, suggesting that the missing element is the right financial design.

### Indonesia

#### **Investment climate**

Indonesia currently has an investment grade sovereign credit rating from Fitch and Moody's<sup>82</sup>. However, both domestic and foreign investments in sustainable forestry and agriculture have remained relatively low compared with the importance of these sectors to the Indonesian economy.

Foreign direct investment in particular is constrained by increasing restrictions on foreign ownership and a complicated land tenure system. The existing regulatory framework governing private investment is similarly complex. Indonesia has a large inventory of laws and regulations that are often overlapping and inconsistent, which may deter investors, especially since changes to the legislation are also unpredictable.

Decentralization in Indonesia has introduced another layer of bureaucracy for firms to navigate, resulting in costly red tape. The decentralization process has generated higher uncertainty and increased transaction costs for investors who must deal with various levels of the government for licensing and administrative procedures. Corruption is a major issue, evidenced by constant anti-government protests and demonstrations, and acts as a major deterrent for investment. Effective governance is highly complex, considering that the country is an immense archipelago, with people

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<sup>82</sup> <https://www.fitchratings.com>

<https://www.moody.com/>

of very different cultural and religious backgrounds.

Inadequate infrastructure is another major obstacle that discourages investment in Indonesia. High transport and logistics costs are a serious constraint on commercial operations, as are the lack of reliable electricity and poor condition of irrigation facilities.

Most private investment in Indonesian land use is channeled to large-scale palm oil plantations. Investment in biofuels has also increased, driven by government subsidies and mandatory requirements for the use of biofuels in transportation and power generation<sup>83</sup>.

## **Access to finance**

The lack of formal land registration and the consequent inability to put up land as collateral remain the major obstacles to accessing finance. A number of government programs and regulations are in place to facilitate access to credit by micro-, small and medium enterprises and smallholders, including relaxing collateral requirements and providing insurance and guarantee schemes.

Despite these initiatives, Indonesian farmers are still largely excluded from formal financial services, and where they are available the cost of finance is high due to dysfunctional international or local financial markets. Hence, majority of credit goes to larger, commercial producers and plantations<sup>84</sup>.

## **Investment types and sources of capital**

The two largest contributors to sustainable land use financing in Indonesia are the government and multilateral/bilateral donors. The Government of Indonesia implements subsidized credit programs for sustainable forestry and agriculture, lending directly to farmers and producers via state-owned banks<sup>85</sup>. Other government financing programs require the organization of farmer groups or associations to be eligible to receive funding support.

The government has put up a number of specialized funds, such as the Reforestation Fund (Dana Reboisasi)<sup>86</sup> and the Indonesia Climate Change Trust Fund (ICCTF), which provide grant funding to qualified projects.

Active donors in Indonesia, including the International Fund for Agricultural Development and the International Finance Corporation, are focusing on the introduction of sustainable agricultural technologies for specific crops or commodities in particular locations, improving access

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<sup>83</sup> OECD (2012), OECD Review of Agricultural Policies: Indonesia 2012, OECD Publishing.

<sup>84</sup> International Finance Corporation (2012), Indonesia Agri-Finance: Promoting Financial Inclusion for Farmers.

<sup>85</sup> P.S. Srinivas and D. Sitorus (2004), The Role of State Owned Banks in Indonesia. Jakarta, Indonesia: The World Bank

<sup>86</sup> Barr, C., A. Dermawan, H. Purnomo, H. Komarudin (2010), Financial governance and Indonesia's Reforestation Fund during the Soeharto and post-Soeharto periods, 1989-2009: a political economic analysis of lessons for REDD+, CIFOR Occasional Paper no. 52. Bogor, Indonesia: Center for International Forestry Research (CIFOR).

to market for smallholders, establishment of sustainable forest plantations, and the development and roll-out of credit products for producers in agriculture or forestry<sup>87</sup>.

Special multilateral funds have also come into play. For example, the Forest Investment Program administered by the World Bank seeks to leverage private sector resources for promoting sustainable forest management and engaging sustainable forestry enterprises<sup>88</sup>.

Some private companies have organized themselves into network organizations with the aim of promoting sustainable production of specific commodities such as tea, through the Ethical Tea Partnership<sup>89</sup>, or palm oil through the Roundtable for Sustainable Palm Oil. These networks foster linkages with international development agencies to provide financial, certification or technical support to sustainable producers and smallholders.

Investment through private-public partnerships is a growing trend in Indonesia. In these arrangements a private company leads work with local governments and communities to support sustainable value chains. They most frequently do this by increasing farmers' capacity, through technology or finance, and access to markets.

Nestle, for example, has worked with the local government of West Sulawesi and other international private partners<sup>90</sup> under the Sustainable Cocoa Production Program. The program enables cocoa farmers to improve the productivity and quality of their cocoa cultivation. The program also allows smallholder farmers to be trained in sustainable production practices and to be linked to sustainable markets and financial institutions providing access to finance.

## Funding channels and intermediaries

Funding for sustainable agriculture and forestry in Indonesia is channeled through three groups of intermediaries:

- i. Financial Institutions

These are categorized into bank and non-bank financial institutions.

**Bank intermediaries** can be state-owned banks, through which government funds are channeled to organized farmer groups, while individual producers may seek funding directly through the rural banking sector. Bank Rakyat Indonesia (BRI) is an extensive source of SLU finance through its BRI units (unit desa system), where the *mantri* or village agriculture officer/rural account officer is instrumental to reaching individual farmers.

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<sup>87</sup> International Finance Corporation (2010), Sustainable Forestry: An IFC Commitment.

<sup>88</sup> Climate Investment Funds (2013), Forest Investment Program Indonesia Factsheet.

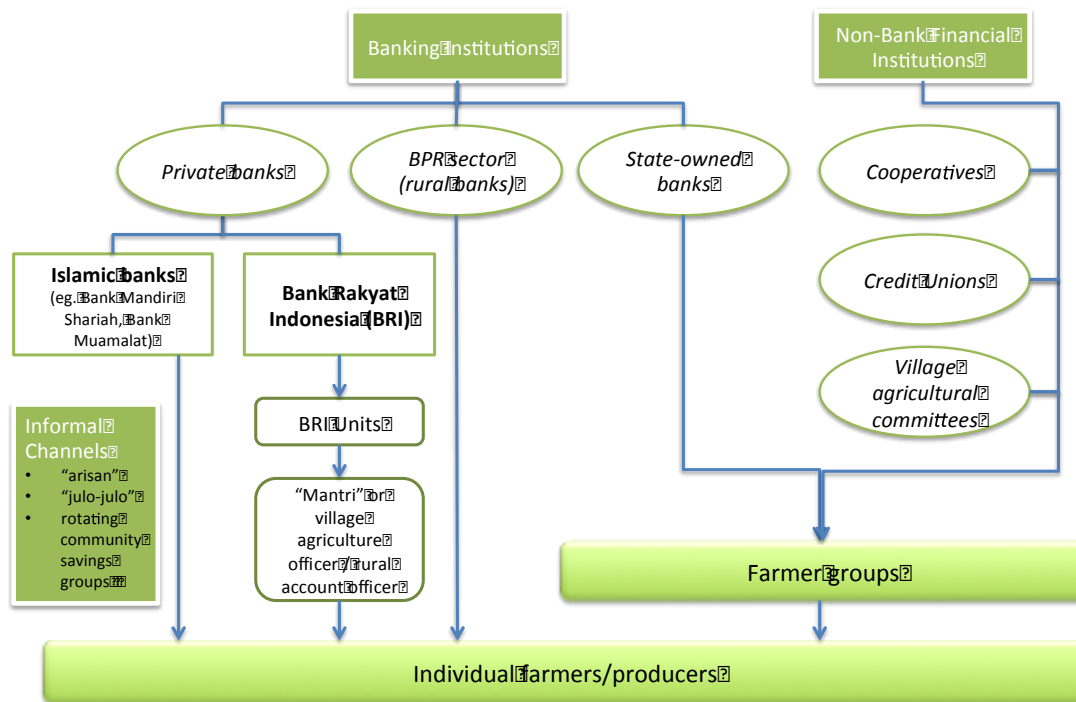
<sup>89</sup> Ethical Tea Partnership, Improving the livelihoods of smallholder farmers, Indonesia.

<sup>90</sup> The West Sulawesi Stakeholders Forum include Nestle, Swisscontact, the Swiss State Secretariat for Economic Affairs SECO, the West Sulawesi provincial government, the Mamuju local government, IDH, BT Cocoa and Syngenta.

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Islamic banks are also coming into play, particularly in agriculture finance, with an increasing number of sharia compliant financial products provided to smallholder farmers.

*Non-bank financial institutions* include member-owned credit organizations such as cooperatives and credit unions. Farmer groups also access funding by requesting assistance from village agricultural committees.



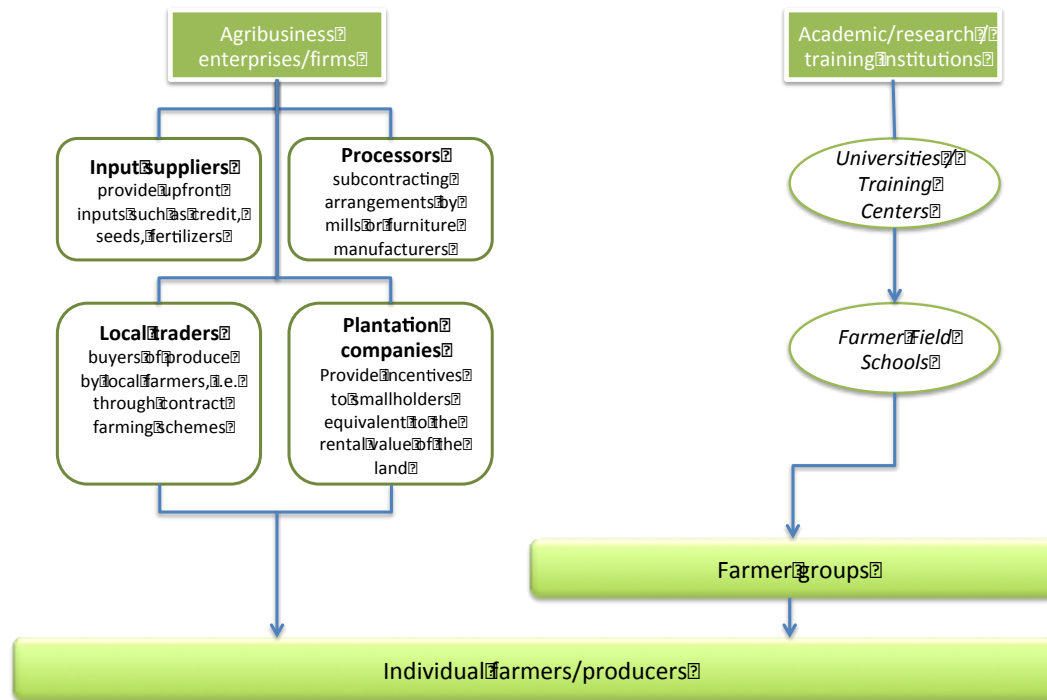
- ii. An array of *commercial service providers* play a part in smallholder farmers' access to finance. Agribusiness suppliers offer credit upfront in the form of inputs such as seeds, fertilizers and other planting materials.

Some agribusiness firms who are buyers of sustainable produce provide finance under contract farming schemes with individual farmers. Processing companies, such as certified wood furniture manufacturers, or mills for organic grains, enter into subcontracting arrangements with smallholders, which provide these companies with raw produce or semi-processed products for a pre-agreed price.

- iii. *Technical service providers*, such as training or research institutions are likely channels of funding due to their regular interaction with producers. Some universities and training centers implementing projects related to sustainable land use can perform intermediary functions through farmer extension and service networks.

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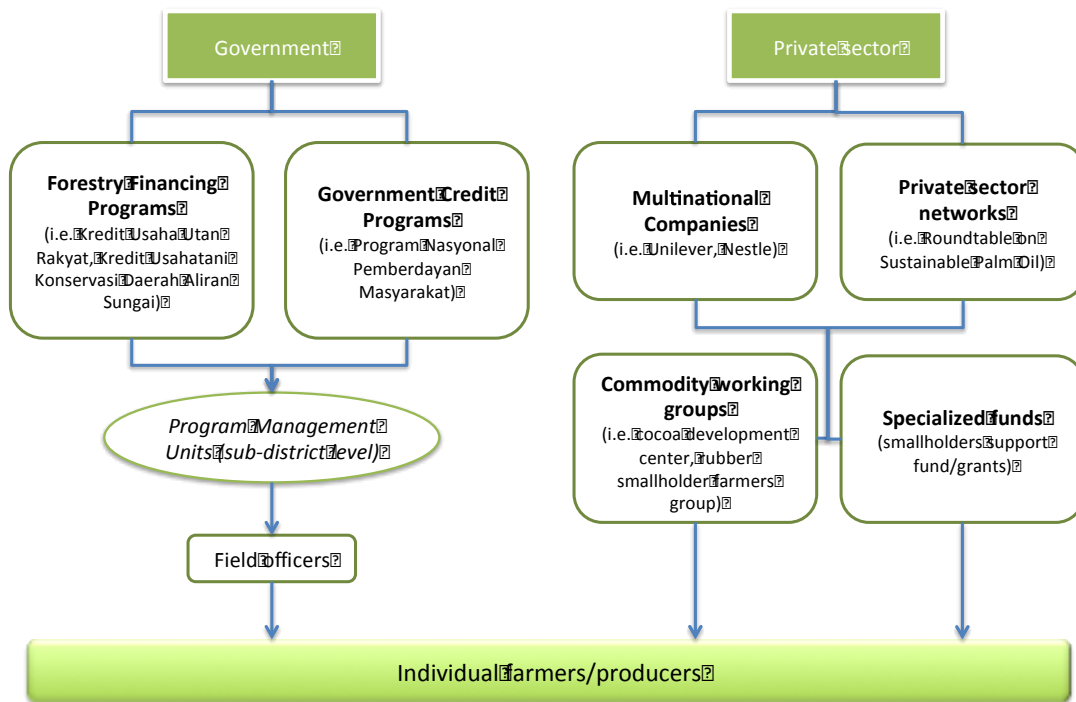
Non-profit and environmental organizations, like Telapak and WWF, while not directly financing producers, have built partnerships with companies involved with cooperatives in both the forestry and agribusiness sector. Such partnerships help to promote sustainable farming and forestry practices and ensure that commodities are produced and processed using ecologically beneficial methods.



- iv. Various SLU initiatives at the national level trickle down to the farmer-level through the organization of *local facilitation networks*.

Government financing programs in forestry and agriculture create project management units at the sub-district level, where field officers operate in proximity to farmer-stakeholders. Multinational agribusiness companies, the likes of Unilever and Nestle, set up local consolidation hubs for specific commodities such as cocoa, so these companies could be assured of a stable supply to meet production requirements. Other private-sector led networks, e.g. the Roundtable for Sustainable Palm Oil, put up specialized funds where smallholders may access financing.

# The Munden Project



## Peru

### Investment climate

Peru emerges as one of the fastest growing and most stable economies in the Latin American region, with real GDP growing at an average of 6.5%<sup>91</sup>. Investment in Peru has been growing rapidly too, with FDI tripling over the last decade<sup>92</sup>.

The Peruvian government is committed to an investor-friendly policy climate. The standards of treatment of foreign investment in Peru are based on the principle of “national treatment”, that is, foreign investors having the same rights over their investments as a local investor<sup>93</sup>. The country is now considered to have one of the most open investment regimes in the world.

Peru has maintained an investment-grade credit rating since 2009. Its banking system is considered generally sound, thanks to lessons learned during the 1997-1998 Asian crisis, and is progressively revamping operations, increasing capitalization and reducing costs. Peru ranks number one in microfinance worldwide because of its sophisticated legal and regulatory framework and competitive microfinance sector<sup>94</sup>.

Nevertheless, Peru also has its regulatory challenges. Although many of the central government regulators have relatively transparent and predictable procedures, delays and the lack of predictability in the rulings of these institutions have been impediments to doing business in Peru<sup>95</sup>. Political violence against investors occurs at times, particularly in extractive industries, causing significant delay in project implementation.

As a whole, Peru is a country with a favorable investment climate and a suitable legal framework to invest and conduct economic activities<sup>96</sup>. In recent years, the Peruvian government has focused its attention and resources on improving the competitiveness of its agriculture and fishing sector and on developing the economic productivity of the Andean highlands.

Peru, however, needs to strengthen the institutional framework associated with building the infrastructure <sup>necessary</sup> for sustainable land management. The irrigation infrastructure, for example,

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<sup>91</sup> Zevallos, P., Castro, R., Paz Cigaran, M., Figari, A., Tubbeh, R., Ramos, A., Parra, C., Gracia Aguilar, M., Carrasco, D., Naidoo, C., Dimsdale T., Jaramillo, M. and Amin, A. L. (2014), Towards a national financing pathway for climate action in Peru, Lima and London: Libélula Comunicación Ambiente y Desarrollo and E3G.

<sup>92</sup> Han, F., J.A.P. Perez-Salmon, M. Tashu, and S. Vtyurina (2014), Peru: Selected Issues Paper IMF Country Report No. 14/22, Washington, DC: International Monetary Fund.

<sup>93</sup> PronInversion (2013), Doing Deals in Peru.

<sup>94</sup> 2013 Investment Climate Statement Peru. <http://www.state.gov/e/eb/rls/othr/ics/2013/204714.htm>

<sup>95</sup> 2013 Investment Climate Statement Peru. <http://www.state.gov/e/eb/rls/othr/ics/2013/204714.htm>

<sup>96</sup> Estudio Ehecopar (2014), Doing Business in Peru, Lima: Estudio Ehecopar member firm of Baker & McKenzie International.



still faces many technical, institutional and financial constraints.<sup>97</sup>

## Access to finance

Peru has a vibrant and diverse financial sector. Government strategy aims to strengthen the competitiveness of small producers to achieve greater profitability and take advantage of market opportunities by supporting them in terms of natural resource management, technology transfers and agricultural research, increased productivity, and local and foreign market access. By providing competitive markets and socially inclusive rural development policies, Peru targets investments in sustainable agriculture, climate change mitigation, and helping smallholders make the transition from subsistence to rural entrepreneurship<sup>98</sup>.

However, smallholder access to affordable finance from the formal financial system is limited, since banks perceive risks and transaction costs to be high as a result of the small size of the producers<sup>99</sup>. Several financing programs have been established to support small producers thanks to a greater awareness of environmental issues and the importance of rural people in environmental stewardship and sustainability. While some Peruvian non-governmental organizations have attempted to fill the gap, they can only supply a trickle of finance.

Even the formalization of land titles has not increased collateralized lending. Only a small percentage of producers with land titles have used them as collateral, perhaps because of the lack of credit institutions willing to work with indigenous communities, or because the demand for credit by most smallholders is for small operational loans in amounts not suitable for mortgage.<sup>100</sup> As a result, much of the potential impact of available investments for promoting natural resource management remains unrealized.

## Investors and sources of capital

Many countries in Latin America, including Peru, are using a wide range of financing sources and mechanisms to support sustainable land management. Foremost of these is the national government. An example of a government fund is the state-owned National Development Bank or *Corporación Financiera de Fomento* (COFIDE) that manages sustainable investment programs such as BIONEGOCIOS, which provides co-financing for “green” businesses. Similarly, the National Environmental Fund (FONAM) is an intangible Trust Fund created through a law enacted by the Peruvian National Congress to promote investment in the sustainable use of natural resources.<sup>101</sup>

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<sup>97</sup> World Bank (2013), Peru needs to modernize its irrigation systems to ensure competitive, sustainable agriculture, September 17, 2013.

<sup>98</sup> 2013 Investment Climate Statement Peru. <http://www.state.gov/e/eb/rls/othr/ics/2013/204714.htm>

<sup>99</sup> Groeneveld, H. (2012), Cooperatives and Rural Financial Development: Great Opportunities and Surmountable Difficulties, Netherlands: Rabobank

<sup>100</sup> USAID Country Profile: Peru. [http://sustainableurubambavalley.org/?page\\_id=40](http://sustainableurubambavalley.org/?page_id=40)

<sup>101</sup> Zevallos, P., Castro, R., Paz Cigaran, M., Figari, A., Tubbeh, R., Ramos, A., Parra, C., Gracia Aguilar, M., Carrasco, D., Naidoo, C., Dimsdale T., Jaramillo, M. and Amin, A. L. (2014), Towards a national financing pathway for climate action in Peru, Lima and London: Libélula Comunicación Ambiente y Desarrollo and E3G.

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At the local level, Peruvian law requires municipalities to allocate 10% of their investment budget to land use production, which communities could request from local authorities. However, the domestic public finance sector in Peru does not have sufficient capacity to support the country's transition to sustainable land use. International development finance thus has a key role to play in complementing national resources for this effort.

Multilateral institutions and bilateral cooperation agencies are major providers of loans, grants or technical assistance support for sustainable land management initiatives in Peru. The World Bank, IFAD, the Inter-American Development Bank, the OPEC Fund for International Development, and FAO are all very active in Peru. North American bilateral agencies USAID and CIDA are naturally especially active, but so are several of the European bilateral development agencies, including Finland, Germany, the Netherlands, Belgium, UK and the Spanish Agency for International Cooperation and the European Union, with projects on sustainable agriculture and sustainable management of forest resources.

Social lending in Peru has likewise proven effective in increasing farmer incomes and catalyzing other finance opportunities for smallholder producer organizations. Social lenders dominate the supply of financing for coffee producers in Peru. In 2011, they issued \$80 million in loans to coffee cooperatives at rates significantly more affordable than those of credit cooperatives and microfinance institutions. Social lenders in Peru include Root Capital, Alterfin, ResponsAbility, Rabobank, Shared Interest, Etimos, Verde Ventures and Oikocredit.

Environmental funds and other types of specialized funds are visibly active in Peru, working through producer organizations such as farmers' associations and cooperatives. Examples include the Fairtrade Access Fund, Peru Opportunity Fund, Fondo de Promoción de las Áreas Naturales Protegidas del Perú (PROFONANPE) and the Rainforest Conservation Fund. These funds offer a full range of loan products to meet a variety of producers' financial needs, or provide technical assistance to producer organizations, or provide technology and seed capital that will help increase farmers' productivity and access to markets. The Peruvian Trust Fund for National Parks and Protected Areas – PROFONANPE – was created in 1992 as a private non-profit organization to promote long term financing of the natural protected areas of Peru.<sup>102</sup>

There are also investments made by philanthropic institutions or by private companies for purely charitable purposes, for example by the Canadian charity International Conservation Fund of Canada investing in the Madre de Dios region in southeastern Peru, or by the Walt Disney Company investing to protect forests in the Peruvian Amazon.

Even private capital is slowly making its way to Peru's sustainable landscapes. An excellent example is Small Enterprise Assistance Funds (SEAF). SEAF is an investment management group

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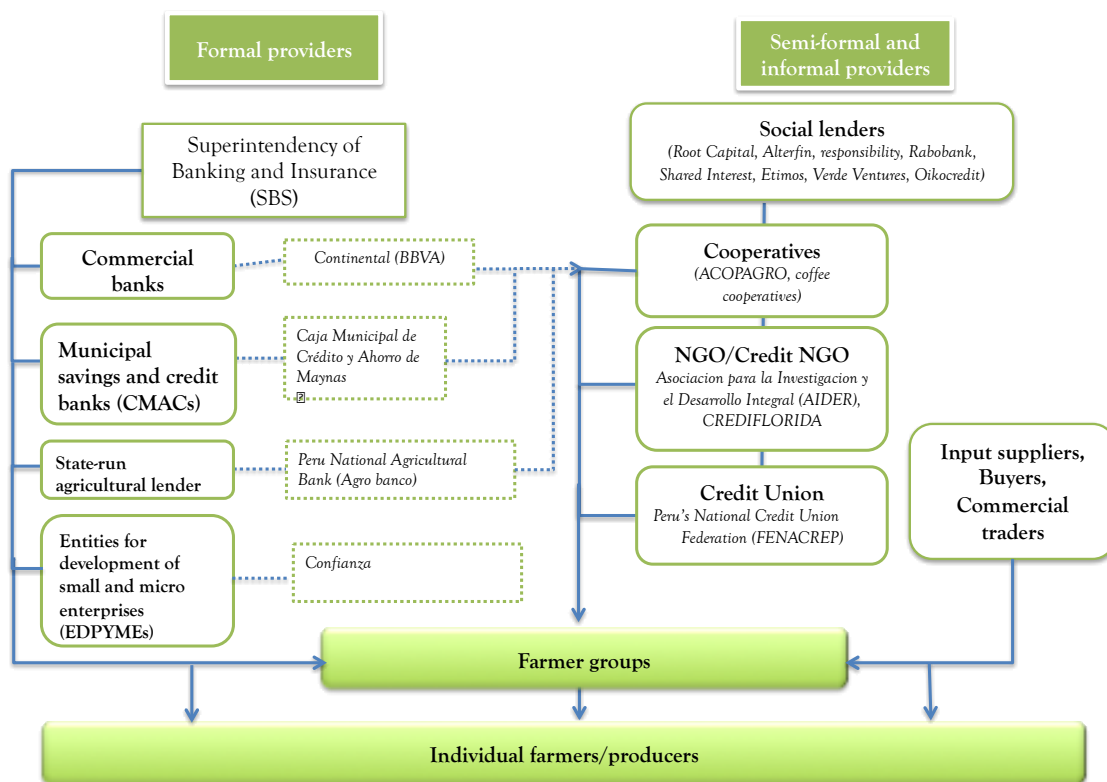
<sup>102</sup> Holopainen, Jani and Marieke Wit (eds) (2008), Financing Sustainable Forest Management, The Netherlands: Tropenbos International.

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that provides various types of growth capital and business assistance to small and medium enterprises in emerging and transition markets underserved by traditional sources of capital. Bosques Amazonicos, a Peruvian sustainable forestry and carbon sequestration company, is a recipient of an equity investment made by SEAF, through its investment vehicles Latam Growth Fund and Latam Peru Fund.

## Funding channels and intermediaries

Funding and support for sustainable agriculture and forestry are directed through formal providers, semi-formal and informal providers. Formal providers include commercial banks, Municipal savings and credit banks, a state-run agricultural lender, and entities for development of small and micro enterprises. Meanwhile, semi-formal and informal providers are comprised of NGOs, credit union and cooperatives, and social lenders. The formal group are regulated by the Superintendency of Banking and Insurance.



Commercial banks such as Continental (BBVA)<sup>103</sup> offer credit to cooperatives. These cooperatives (eg. *Cooperativa Agraria Cafetalera El Quinacho* and ACOPAGRO) then reach out to their individual farmer members. Commercial lenders now issue loans to producer organizations at rates comparable to those of social lenders. ACOPAGRO, a cooperative that represents small-scale

<sup>103</sup> Carroll, T., A. Stern, D. Zook, R. Funes, A. Rastegar, and Y. Lien (2012), Catalyzing Smallholder Agricultural Finance, Dalberg Global Development Advisors.

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family producers that harvest cacao and coconut, provides access to finance for its member producers, serving 1,800 farming families within its regions of operation.

Municipal savings and credit banks, which are created and owned by municipal governments with participation of civil society offer wide range of savings and credit products, also public services, but mostly to urban clients. For instance, *Caja Municipal de Crédito y Ahorro de Maynas* extends credit lines to small forest concessionaires up to a maximum of \$16,000 for the acquisition of the portable saw mills and related accessories.

Another formal provider of financial credit in Peru is its national agricultural bank, AGROBANCO. It is the main instrument of state financial support for the agriculture sector in the country. AGROBANCO provides credit access to individual producers, small and medium-sized farming associations, and large-scale agricultural businesses.

Entities for development of small and micro enterprises such Confianza also work with agricultural processors to lend to farmers. When the market price is clear, Confianza offers interest rate discounts as a result of their reduced costs associated with the loan evaluation. Longer-term fixed asset loans for investments, such as irrigation and tractors, are important to increase agricultural productivity. In fact, having access to water for irrigation is a requirement of Confianza's agricultural lending, because of the higher chance for a successful harvest.

NGOs, credit unions, and cooperatives also deliver credit facilities and other services to farmers. For instance, cooperatives like CREDIFLORA and Mountain coffee help their members to access small loans who are underserved by commercial financial service providers. Meanwhile, NGOs Association for Research and Integral Development provide technical assistance to small-scale local farmers, enhancing local capacity to improve livelihoods, protect the environment and mitigate ecosystem degradation in Peru's tropical forests<sup>104</sup>. The group helps farming communities implement sustainable forest management projects, in some cases in communally held territory.

On the other hand, Peru's National Credit Union Federation links credit unions with producers in rural areas who lack strong relationships with key markets and the necessary financing required.

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<sup>104</sup> United Nations Development Programme (2012), Association for Research and Integrated Development (AIDER), Peru, New York: Equator Initiative.

## Cameroon

### Investment climate

Cameroon struggles to attract foreign investment, despite being more stable politically and economically than its neighbors in Central Africa. The counterintuitive attitude of overseas investors is neatly explained by Santander, a European commercial and investment bank, with extensive experience of investment in emerging economies:

*The Cameroonian economy, which has the potential to become one of the most prosperous and best placed to receive foreign direct investment in Africa, is currently at the bottom of the table in terms of FDI attractiveness. The country indeed has many natural resources (oil, forestry, fisheries), as well as fertile land, on which to build, however, Cameroon has to improve and simplify its administration in order to boost entrepreneurship, and fight against corruption which has reached endemic proportions<sup>105</sup>.*

It seems that the barriers to entry for large investors are in fact very similar to those faced by the smallholders we interviewed in Efoulan<sup>106</sup> for Phase 1 of this project, including endemic corruption, poor infrastructure and the extreme difficulty of establishing a business. This helps to explain why Cameroon is given a sovereign credit rating of B – below investment grade – by both S&P and Fitch<sup>107</sup>.

High levels of corruption, weak and onerous regulation along with difficult labor markets are major restrictions to investment<sup>108</sup>. Cameroon consistently ranks as one of the most corrupt countries according to Transparency International's Corruption Perceptions Index<sup>109</sup>, and currently sits 24 places behind Central African Republic<sup>110</sup>.

Private investment is further hampered by endless red tape – it takes 37 days to register a company, for a cost of nearly 150% of the per capita annual income<sup>111</sup>. Indeed, Cameroon is 158<sup>th</sup> out of 189 economies assessed in the World Bank's 2014 Doing Business rankings<sup>112</sup> – two places below Iraq.

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<sup>105</sup> Santander Trade Portal: [https://en.santandertrade.com/establish-overseas/cameroon/investing?&actualiser\\_id\\_banque=oui&id\\_banque=44&memoriser\\_choix=memoriser](https://en.santandertrade.com/establish-overseas/cameroon/investing?&actualiser_id_banque=oui&id_banque=44&memoriser_choix=memoriser)

<sup>106</sup> The Munden Project (2014): *Secured Landscapes: Financial modelling for sustainable land use*

<sup>107</sup> 2014 ratings, sourced from Trading Economics <http://www.tradingeconomics.com/cameroon/rating>

<sup>108</sup> World Bank (2006), *Summary of Cameroon's investment climate assessment*, Africa Region Private Sector Unit series ; no 31, Washington, DC: World Bank.

<sup>109</sup> <http://www.transparency.org/>

<sup>110</sup> Santander, op.cit.

<sup>111</sup> Santander, op.cit.

<sup>112</sup> World Bank Doing Business (2014): <http://www.doingbusiness.org/rankings>

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Perhaps the most important obstacle for financing and expanding sustainable land use practices in Cameroon is its woeful lack of basic infrastructure. Barely 10% of all roads in Cameroon have been paved<sup>113</sup>. This not only makes it operationally difficult to sell the goods produced, but also renders it virtually impossible for foreign investors to reach the practices. The inability to see the business or talk to the people to whom one is lending money goes against every prudential elements of investment practice.

Realistically, one cannot expect private finance to reach smallholder SLU practices until some or all of these obstacles have been removed. That means that Cameroon's government must be focused on alleviating corruption and bureaucracy, and public money channeled into developing infrastructure<sup>114</sup>.

Agriculture and forestry are economically and politically important sectors in Cameroon<sup>115</sup>. This is reflected in the 2009 Growth and Employment Strategy (GESp), which prioritizes agricultural development. In addition, the government committed to the development of a sustainable Locally Resourced Materials (LRM) supply chain for communities engaged in sustainable practices<sup>116</sup>.

This political support for SLU is now matched by several pieces of legislation that facilitate and de-risk investment. For example, Law No. 2013/004 (18 April 2013) provides incentives for private investments in the country. And in 2011, the Cameroon National Assembly adopted the Land Use Orientation Law (cited as Law N° 201/008 of 6 May 2011), which provides the framework of land use, regional planning and sustainable development in Cameroon.

However, there are also certain barriers specific to SLU investment in Cameroon. In particular, the country lacks a coherent land use or zoning plan that delineates different land uses. This is believed to be the cause of emerging conflicts over land use. The contractual rights given to investors in land are inherently unreliable where there are competing claims<sup>117</sup>.

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<sup>113</sup> [https://www.cameroon-tribune.cm/index2.php/index.php?option=com\\_content&view=article&id=84455:tackle-business-climate-wholly-to-attract-sustainable-investments&catid=2:conomie&Itemid=3#contenu](https://www.cameroon-tribune.cm/index2.php/index.php?option=com_content&view=article&id=84455:tackle-business-climate-wholly-to-attract-sustainable-investments&catid=2:conomie&Itemid=3#contenu)

<sup>114</sup> These problems are well recognized, and programs are being pursued by multi-lateral development organizations including the World Bank (<http://www.worldbank.org/en/country/cameroon/overview#2>) and African Development Bank ([http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/CAMEROON\\_2010-2014%20COUNTRY%20STRATEGY%20PAPER.pdf](http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/CAMEROON_2010-2014%20COUNTRY%20STRATEGY%20PAPER.pdf)) among others.

<sup>115</sup> <http://www.our-africa.org/cameroon/economy-industry>

<sup>116</sup> World Bank (2014), *Cameroon Agriculture Investment and Market Development Project Appraisal Document*.

<sup>117</sup> The Post Newspaper (2014), *WWF reports poor land utilization to MPs*, August 30, 2014. <http://mobile.cameroonweb.com/wap/article.php?ID=309917>

## Access to finance

Very few of Cameroon's smallholder farmers have access to affordable credit, insurance<sup>118</sup> or even a banking services. The IMF has described access to financial services in the country as follows:

*The indicator of banks per inhabitant underperforms the estimated statistical benchmark. Only 15 percent of the adult population has a bank account and barely 3 percent received their wages directly through their bank account. This explains the limited amount of retail banking because banks focus their lending on customers that have monthly paycheck deposits<sup>119</sup>.*

This being the case, it is hardly surprising that access to finance is severely restricted for rural smallholders. Even if they had access to a bank, interest rates and collateral requirements are simply too high for the majority of small producers. Similarly, loans for enterprise development are plagued by long and complicated procedures.

Informal credit is available but is generally expensive or exclusive to specific groups, such as intontines or rotating savings groups<sup>120</sup>:

*More than half of the adult population that has saved money in the past year has done so through an MFI or a savings club. Similarly, the vast majority of loans are obtained through family and friends followed by private lenders<sup>121</sup>.*

The microfinance sector has been growing and displacing some informal credit, but still covers a small proportion of the smallholder population, and is hindered by an unsupportive regulatory framework<sup>122</sup>. The IMF has this to say about Cameroon's microfinance industry:

*The microfinance sector is insufficiently supervised. The large number of MFIs raises governance and profitability concerns, because the regional supervisor (COBAC) is not appropriately staffed to monitor such a large number of institutions effectively. The situation of individual MFIs varies greatly, in size and access to refinancing. A few of the larger MFIs are able to get refinancing from commercial banks, but for most MFIs access to refinancing remains a major issue<sup>123</sup>.*

It is notable that the main problems for MFIs seem to be poor governance and lack of connection

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<sup>118</sup> Overall access to credit in Cameroon remains well below average in the Economic and Monetary Community of Central Africa (CEMAC)

<sup>119</sup> IMF Cameroon: 2013 Article Iv Consultation IMF Country Report No. 13/279  
<http://www.imf.org/external/pubs/ft/scr/2013/cr13279.pdf>

<sup>120</sup> Tahsoh, J.T. (2001), *Financing of Small and Medium-Size Enterprises in Cameroon*, African Journal of Finance and Management Vol.9(2) 2001: 8-18.

<sup>121</sup> Ibid.

<sup>122</sup> <http://www.mfw4a.org/cameroon/financial-sector-profile.html>

<sup>123</sup> IMF, op.cit.

to central banking networks, which are echoes of the structural problems of corruption and poor infrastructure at the national level.

There is a prospect for the situation to change through technology. Mobile banking is a growing phenomenon in Cameroon, and provides huge potential for widening access to financial services. The entrance of new players into the highly concentrated mobile telecoms market should drive down prices and make phones more affordable to the rural poor. New entrants are expected to increase mobile phone use from roughly half to as much as 85% of Cameroon's population in the next few years<sup>124</sup>.

To facilitate this expansion, financial innovations must match technological advances by improving the way that smallholders are aggregated for investment. The success of microcredit delivered through mobile banking services such as M-PESA<sup>125</sup> in East Africa can be taken as a template for similar services in Cameroon.

## Investors and sources of capital

Public sector finance still dominates investment in SLU in Cameroon. Multilateral organizations are the largest single capital providers for smallholder farmers and SLU in Cameroon. The World Bank recently approved a US\$100 million credit for the Agriculture Investment and Market Development Project<sup>126</sup> from the International Development Association. This will help smallholders growing cassava, sorghum, and maize by linking them to more lucrative agricultural and food markets.

In addition, Cameroon receives significant funding for SLU from the Congo Basin Forest Fund and the Congo Basin Forest Partnership. Similarly, funding for sustainable forest management has been provided by the Global Environment Facility (GEF) Trust Fund. Finally, Cameroon's Readiness Preparation Proposal (R-PP) for REDD+ was approved for funding by the Forest Carbon Partnership Facility in January 2013<sup>127</sup>.

Agence Française de Développement and its private sector financing arm PROPARCO finance are the largest bilateral donors for SLU in Cameroon. But they often cooperate with one of the following organizations: the European Union, IFAD, FAO, UNEP and the German and Canadian Cooperation.

A limited number of philanthropic funds contribute to SLU projects in Cameroon. Examples

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<sup>124</sup> <http://www.ventures-africa.com/2014/01/cameroonian-businessman-seme-noungon-to-launch-first-indigenous-telecom/>

<sup>125</sup> <http://www.mobiletransaction.org/m-pesa-kenya-the-lead-in-mobile-money/>

<sup>126</sup> The World Bank (2014). *World Bank Group finance to link small farmers to market opportunities in Cameroon*. September 25, 2014. <http://www.worldbank.org/en/news/press-release/2014/09/25/world-bank-group-finance-to-link-small-farmers-to-market-opportunities-in-cameroon>

<sup>127</sup> <http://www.wri.org/our-work/project/governance-forests-initiative/cameroon>



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include the German Volkswagen Foundation and the Netherlands-based Turing Foundation, which finance projects in forestry and sustainable agriculture respectively. However, their impact is small and they do not provide a viable path to SLU at scale.

At the domestic level, efforts are being made by the Ministry of Environment and Protection of Nature to mobilize financial resources for SLU through national budgets as well as development assistance from bilateral and multilateral donors<sup>128</sup>.

The national government has created state-owned companies and institutions to support smallholders producing specific commodities including rice, wheat, dairy, fruits and cattle. However, most of these have collapsed due to weak governance<sup>129</sup> and emphasis on sustainability in these programs is inconsistent.

Some private companies provide technical assistance and training to smallholders in an effort to improve livelihoods while improve the stability of supply. With support from its local brewing partner, Diageo-Guinness launched the Cameroon Sorghum Project with \$250,000 from its Corporate Social Responsibility budget. The African Enterprise Challenge Fund later matched this funding. Asda and Noha Nyamedjo Company provide other examples of private companies trying to improve the social and environmental footprint of their value chains.

What is common to all of these existing sources of finance is that they are primarily focused on delivering money at the producer level, meaning that they are quite specific in their construction and goals. This is not scalable, although individual projects could provide vital guidance for the future development of scalable solutions, if only they were collecting the kind of data needed to make such judgments.

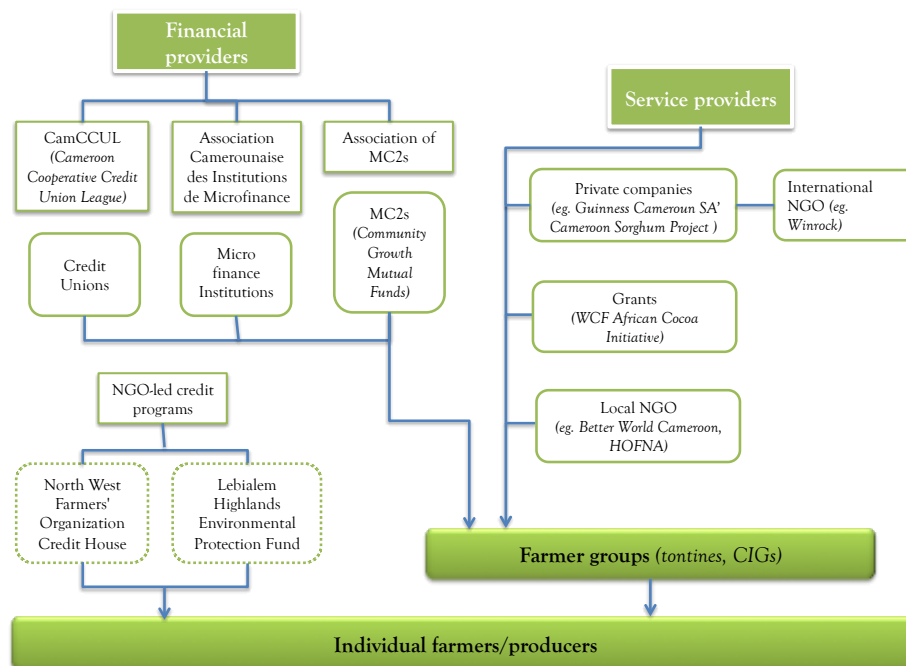
The current focus on specific, fragmented projects contrasts strongly with the urgent need for public money to be targeted at improving the conditions for private investment by developing infrastructure (see above). There is a need to plug the gap with some other source of finance, so that public money can be concentrated on the things for which it is best suited.

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<sup>128</sup> The Global Mechanism of the UNCCD. *Increasing finance for sustainable land management: Cameroon*.

<sup>129</sup> Cameroon Country Report on the Right to Food 2010. [http://www.rtfn-watch.org/uploads/media/ANoRF\\_Cameroon\\_-\\_Country\\_Report\\_on\\_the\\_Right\\_to\\_Food.pdf](http://www.rtfn-watch.org/uploads/media/ANoRF_Cameroon_-_Country_Report_on_the_Right_to_Food.pdf)

## Funding channels and intermediaries



### Financial providers

Cameroon's financial sector is highly concentrated, with 15 banks in total and the largest three of these controlling 70% of all commercial banking assets<sup>130</sup>.

There are a limited number of financial institutions that provide financing for smallholder farmers. The largest include groups like Credit Agricole Bank and the Investment Fund for Agricultural and Community Micro-enterprises. Smaller, private capital providers in Cameroon include the African AgriLand Fund, African Development Bank Group, TunInvest-AfricInvest Group and the Africa Financing Partnership.

Rural financial intermediaries in Cameroon include credit unions, cooperatives and village banks. Microfinance institutions also exist under the umbrella organization, Association Camerounaise des Institutions de Micro finance (ACIM). According to ACIM, MFIs in Cameroon have a client base of around 300,000<sup>131</sup>.

*Mutuelles Communautaires de Croissance*, or "MC2s" offer an alternative route to accessing credit. MC2s are community growth mutual funds that offer savings and credit facilities at lower than market interest rates. Each mutual fund is an association of village members, working with its own

<sup>130</sup> IMF op.cit. <http://www.imf.org/external/pubs/ft/sct/2013/cr13279.pdf>

<sup>131</sup> SOS Faim (2001). *The Mutuelles Communautaires de Croissance (MC2) – Cameroon*. Zomm Microfinance No. 6, November 2001.

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governance bodies. The MC2 network has over 60,000 members in rural areas, and its own apex structure, the Association of MC2s.

While the Association of MC2s provides economies of scale and at times arranges the procurement of non-financial services<sup>132</sup>, local MC2s have a certain amount of discretion over products. Thus they have been able to expand outreach in rural areas by adopting a flexible and non-exclusive approach to providing services to village members. For example, MC2s have successfully included tontines, which are informal savings and loan groups affiliated with local agricultural and women's associations, in their credit programs.

The Cameroon Cooperative Credit Union League (CamCCUL) is the umbrella organization of cooperative credit unions in Cameroon. CamCCUL is registered as a microfinance institution under the COBAC (Commission Bancaire de l'Afrique Centrale) and is the largest MFI in the region. Presently, there are 218 credit unions affiliated with CamCCUL, with close to 1.5 million people benefiting from its services<sup>133</sup>.

With co-financing from AgriFin<sup>134</sup>, CamCCUL is developing a new agriculture finance strategy using a value-chain-centered approach to target commercially oriented smallholder farmers and SMEs. At the same time, CamCCUL is developing manuals, systems, procedures and products to facilitate and expand agricultural lending.

Some NGO-led microfinance programs, such as the North West Farmers' Organization Credit House, provide group loans to Common Initiative Groups (CIGs) in Cameroon. CIGs are channels for spreading agricultural innovation. They are often formed by aspiring farmers to support local ownership and undertake joint farming activities such as farm preparation, planting, weeding and harvesting<sup>135</sup>.

Environmental organizations are getting involved in credit delivery for SLU. An example is the Environment and Rural Development Foundation (ERuDeF), which is piloting an innovative community-based led micro-credit system called the Lebalem Highlands Environmental Protection Fund (LHEPF). This fund provides loans for ecologically beneficial and income generating micro projects provided they do not poach or crop on marginal lands and/or log illegally. In addition, ERuDeF is helping to organize the communities into constituted community-based institutions that should help increase access to this credit.<sup>136</sup>

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<sup>132</sup> Serge, D.K. (2008). *Mutuelle Communautaire de Croissance (MC2s), Cameroon: Decentralized Community Banks for Remote Outreach Case Study*. Reaching the Hard to Reach: Comparative Study of Member-Owned Financial Institutions in Remote Rural Areas.

<sup>133</sup> <http://www.mixmarket.org/mfi/camcul>

<sup>134</sup> AgriFin's aims to increase access to financial services for farmers and other enterprises in rural areas. Its objective is to demonstrate to a broad set of stakeholders, particularly banks, that the agricultural value chain can be financed profitably

<sup>135</sup> <http://communitypassionblogspotcom.blogspot.com/2011/10/common-initiative-groups-in-cameroon.html>

<sup>136</sup> <http://www.erudef.org/index.php/our-programs/conservation-finance>

## Vietnam

### Investment climate

Vietnam's investment climate provides a marked contrast to that of Cameroon. Despite sub-investment grade sovereign credit ratings<sup>137</sup>, Vietnam has emerged as an attractive destination for foreign investment – FDI reached 8.2 billion USD in 2013.

This is largely down to open government policies, good connection to global supply chains, and abundant, low-cost labor resources<sup>138</sup>. Subsequently, Vietnam ranks 78<sup>th</sup> of the 189 countries in the World Bank's Doing Business list<sup>139</sup>.

The government has been at pains to attract foreign capital into agricultural production. Over the past ten years, a number of laws have been passed to create preferential treatment for investors in agriculture, including tax incentives, guarantees and subsidized credit<sup>140</sup>.

It seems, however, that the country is beginning to lose its appeal to international investors who have voiced concerns that the once favorable investment climate has deteriorated. This comes as a result of weak legal infrastructure, financial instability, inadequate training and education systems, and conflicting bureaucratic decision-making<sup>141</sup>.

Government interference is undermining the private sector. For example, the 2012 anti-trust Law on Prices was ostensibly a measure to curb price manipulation by private companies, but in fact allows the government to force companies to pay higher prices under certain scenarios. According to one commentator:

*If these measures are not executed under strict control, this will lead to state pricing decisions for the business as the centrally-planned economy. Furthermore, if the state controls only the output price of particular items and does not guarantee the price of inputs (such as materials, fuel, forwarding, etc.) then businesses will face the risk of losses as production costs are not covered by the stated price<sup>142</sup>.*

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<sup>137</sup> Trading Economics <http://www.tradingeconomics.com/vietnam/rating>

<sup>138</sup> KPMG Vietnam (2011). *Investing in Vietnam*.

<sup>139</sup> World Bank Doing Business <http://www.doingbusiness.org/rankings>

<sup>140</sup> UN FAO (2010) *Agriculture Investment Trends-The Role Of Public And Private Sector In Vietnam*  
[http://www.fao.org/fileadmin/templates/tci/pdf/CorporatePrivateSector/Vietnam\\_-\\_Private\\_Sector\\_Investments\\_in\\_Agriculture\\_\\_Final\\_Report.pdf](http://www.fao.org/fileadmin/templates/tci/pdf/CorporatePrivateSector/Vietnam_-_Private_Sector_Investments_in_Agriculture__Final_Report.pdf)

<sup>141</sup> 2013 Investment Climate Statement Vietnam. <http://www.state.gov/e/eb/rls/othr/ics/2013/204760.htm>

<sup>142</sup> Dr Nguyen Anh Tuan (August 2012), *Vietnam: The Law on Price*. Retrieved from  
<http://www.mondaq.com/x/191868/Trade+Regulation+Practices/The+Law+on+Price>

These policies are perceived to benefit state-owned enterprises while undermining non-Vietnamese companies and workers.

Corruption, regulatory uncertainty and frequent changes to the law also hamper investor confidence. Poorly developed infrastructure, high start-up costs and confusing land acquisition and transfer procedures are obstacles that the government has yet to address.

## Access to finance

While Vietnam has a relatively diverse and well-established banking sector, its activities are significantly skewed towards large business and away from retail customers. In 2012 domestic credit to the private sector amounted to 125% of GDP, while only 21% of adults in the country had a bank account<sup>143</sup>. A further breakdown shows that only 6% of Vietnam's poorest 20% hold bank accounts<sup>144</sup>.

Rural smallholder enterprises in Vietnam have further difficulty accessing credit services due to high collateral requirements, high interest rates and complex lending procedures by financial institutions<sup>145</sup>. The unequal treatment between state-owned and privately-owned enterprises is also apparently a factor for some SMEs.

Loan applications by small-scale enterprises are commonly rejected due to the lack of a credible credit profile and larger transaction costs compared with larger enterprises. The global economic recession has created further challenges for SMEs in accessing finance because of tightened monetary policy<sup>146</sup>.

The government land reforms that facilitated "Land Rights Use"<sup>147</sup> for individual farmers provided an asset base for some smallholders that could give them to access credit for farm production. There is also a range of formal and informal options for farmers to forward contract their crop, such as coffee, to access farm credit<sup>148</sup>.

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<sup>143</sup> CGAP (2012) *Measuring Financial Exclusion: How Many People Are Unbanked?* <http://www.cgap.org/blog/measuring-financial-exclusion-how-many-people-are-unbanked>

<sup>144</sup> Asli Demi Rgüç-Kunt and Leora Klapper, World Bank (2012) *Measuring Financial Inclusion: Explaining Variation in Use of Financial Services across and within Countries* [http://www.brookings.edu/~media/Projects/BPEA/Spring%202013/2013a\\_klapper.pdf](http://www.brookings.edu/~media/Projects/BPEA/Spring%202013/2013a_klapper.pdf)

<sup>145</sup> World Bank (2011). *Enterprise Surveys: Running a Business in Vietnam*. Country Note No. 13.

<sup>146</sup> Vo, T.T., T.C. Tran, V.D. Bui and D.C. Trinh (2011). 'Small and Medium Enterprises Access to Finance in Vietnam', in Harvie, C., S. Oum, and D. Narjoko (eds.), *Small and Medium Enterprises (SMEs) Access to Finance in Selected East Asian Economies*. ERIA Research Project Report 2010-14, Jakarta: ERIA. pp.151-192.

<sup>147</sup> In 1993, the land law was amended to allow for farmers' 'Land Rights Use' (LRU) to be traded, inherited and used as collateral, although actual ownership remained with the state. The LRU comes in 2 forms known locally as either the Red Book or Green Book. Red Book LRU is for private land and is assigned for up to 50 years for perennial crops like coffee. Green Book LRU are granted to farmers on liberalized state farms. They have a shorter time frame and have a limited right of transfer as the state farm must approve any transfer of ownership.

<sup>148</sup> Marsh, A. (2007). *Diversification by smallholder farmers: Vietnam Robusta Coffee*. Agricultural Management, Marketing and Finance Working Document No. 19. Rome: Food and Agriculture Organization of the United Nations.

## Investors and sources of capital

The state-owned Vietnam Bank for Agriculture and Rural Development (Agribank) is the largest supplier of credit for the agriculture sector, both by value and volume of loans. Besides financing producers, Agribank works on various national programs in agriculture and rural development.

Despite its size, Agribank's customer base is highly diversified, from large producers right down to smallholders: it has 2,300 branches and reportedly serves over 10 million customers<sup>149</sup>. Agribank provides loans for conditional to required collateral, which is usually in the form of Land Use Right Certificates (also known as 'Red Books'). Agribank also offers group loans to clusters of clients located in the same area, which allows the bank to avoid high transaction costs while increasing its client base.

On the public side, the government of Vietnam has made major investments in sustainable forestry. Prime examples include the 5 Million Hectare Reforestation Program and the Vietnam Forestry Development Strategy. Similarly, the Forest Sector Support Partnership is a collaborative effort by the government, international donors and NGOs, local civil society groups and private sector investors.

Support for the sustainable management of Special-Use Forests is being provided by the Vietnam Conservation Fund (VCF), funded by the Global Environment Facility and European Union. The VCF is a component of the larger Forest Sector Development Project, which receives significant support from the World Bank.

Existing public commitments to preserving forest land could conceivably extend to supporting agroforestry practices that have an explicit forest protection element, provided that the right reporting is made available.

One example of such an extension is already up and running. The Agroforestry Partnership Fund is sponsored by the Green Growth Action Alliance; it will seek to deploy \$500 million into 25 sustainable agroforestry practices in Vietnam.

*G2A2 serves as the platform to help the government of Vietnam attract leadership and financing from the private sector to kick start green growth through its Climate Smart Agriculture Working Group over the next year. This working group will also collaborate with the New Vision for Agriculture initiative<sup>150</sup>.*

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<sup>149</sup> FAO. Agriculture investment trends – The role of public and private sector in Vietnam. [http://www.fao.org/fileadmin/templates/tci/pdf/CorporatePrivateSector/Vietnam\\_-\\_Private\\_Sector\\_Investments\\_in\\_Agriculture\\_Final\\_Report.pdf](http://www.fao.org/fileadmin/templates/tci/pdf/CorporatePrivateSector/Vietnam_-_Private_Sector_Investments_in_Agriculture_Final_Report.pdf)

<sup>150</sup> World Economic Forum Green Growth Action Alliance (G2A2) in collaboration with the New Vision for Agriculture Initiative (2013) *Financing Climate Smart Agriculture in Vietnam* [http://ccafs.cgiar.org/sites/default/files/financing\\_csa\\_in\\_vietnam.pdf](http://ccafs.cgiar.org/sites/default/files/financing_csa_in_vietnam.pdf)

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Interestingly, the Fund explicitly intends to approach the question of monitoring, reporting and verification in a systematic way:

*The fund has developed a set of environmental, social, and governance metrics to evaluate the projects. These include social and food security indicators, greenhouse gas mitigation, reduced carbon emissions, crop resilience, and likelihood to generate environmental and social co-benefits<sup>151</sup>.*

This is a nascent project and we have not found reference to investments already made under the initiative. Nevertheless it offers some indication that there is good will to scale up finance for sustainable land use in Vietnam and we shall monitor its progress with interest.

Private companies already investing in sustainable agriculture in Vietnam include Monsanto, Archer Daniels Midland, Bunge, Cargill, Dupont, METRO Group, Nestlé, PepsiCo, Swiss Re, Syngenta, Unilever and Yara International. These companies, together with the Vietnamese Government, have jointly formed a public-private task force to advance sustainable agricultural growth by coordinating and leveraging public and private sector investments. A number of these have also been identified as possible partners for the work of the Agrofresty Partnership Fund described above.

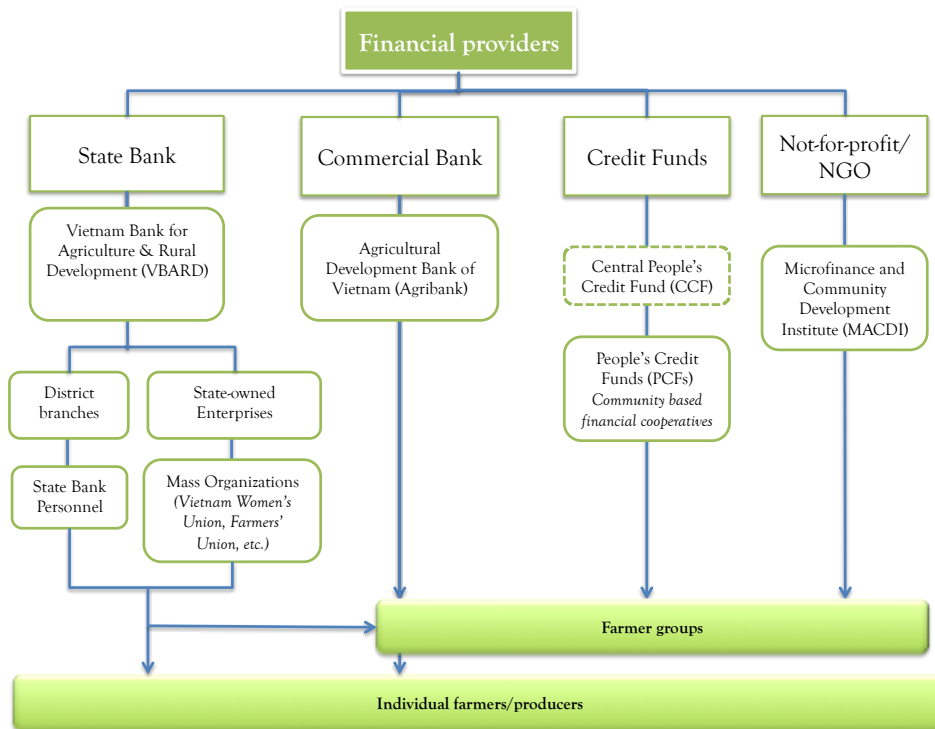
## Funding channels and intermediaries

Funding and support for sustainable agriculture and forestry in Vietnam are directed through banks, state-owned entities, credit institutions and microfinance NGOs.

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<sup>151</sup> [http://unfccc.int/secretariat/momentum\\_for\\_change/items/8318.php](http://unfccc.int/secretariat/momentum_for_change/items/8318.php)

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One key form of intermediary, central to rural finance in Vietnam, is the Mass Organization. These community-based organizations work as guarantee mechanisms for state bank loans. They play a key role in rural credit provision, and are a major intermediary for Agribank (also known as VBARD):

*VBARD uses brokerage services of mass organizations, which targets borrowers unable to provide collateral. Under this system, loans are channeled through 'guarantee groups' composed by members of mass organizations, which are responsible for their organisation. Collaterals are not required as the sponsoring mass organization provides guarantees to VBARD for loan repayment. Moreover, group members are jointly liable for repayments<sup>152</sup>.*

Mass organizations help lenders to overcome many of the problems associated with information asymmetries, uncertainty over risk and high transactions costs. Among these groups are the Vietnam Women's Union, Farmer Union, Youth Union, Veteran Union and Gardener Union.

Another group of financial intermediaries bridging the gap between banks and smallholders in Vietnam are the People's Credit Funds (PCFs), which are community-based financial cooperatives that are owned, operated and governed by shareholding members. In 2007, there were 982 PCFs operating in 56 provinces and cities in Vietnam. The Central People's Credit Fund serves as central apex institution for the network of PCFs.<sup>153</sup>

<sup>152</sup> Banking with the Poor Network [http://www.bwtp.org/arcn/vietnam/II\\_Organisations/MF\\_Providers/VBARD.htm](http://www.bwtp.org/arcn/vietnam/II_Organisations/MF_Providers/VBARD.htm)

<sup>153</sup> Banking with the Poor Network (2008). Vietnam Industry Assessment: A Report on the Vietnamese Microfinance Sector.



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NGOs and not-for-profit organizations in Vietnam offer financial or service support to farmers. The Microfinance and Community Development Institute (MACDI) through its microfinance program has been providing loans to low-income sectors of the population, primarily women, since 2008.

MACDI undertakes a wide range of development interventions including sustainable agriculture, environmental protection, food security, biogas and climate change. It provides short-term loans through joint liability groups used for purchasing agricultural inputs and animal husbandry.

## Appendix: Investor Examples

Below we provide examples of the various potential sources of capital from each of the categories described in the main report<sup>154</sup>.

### Public Funding

Public funding refers to domestic and international government owned assets used to stimulate private development. Government capital sources are funded by tax revenues and typically motivated by a broad range of political and economic interests.

CATEGORY	EXAMPLE
<b>Government Funds</b>	Brazil's National Environment Fund (Fundo Nacional do Meio Ambiente) mission is to contribute as a financing agent to the implementation of Brazil's National Environmental Policy with social participation. Through the fund, the Brazilian Government finances environmental projects that promote rational use of natural resources and the maintenance, improvement or restoration of the environmental quality of the distinct Brazilian ecosystem <sup>155</sup> .
<b>ODA/Multilateral Funds</b>	The International Fund for Agricultural Development (IFAD), a specialised agency of the United Nations, was established as an international financial institution in 1977. Rural finance is considered by IFAD as a vital tool in poverty reduction and rural development. Most of IFAD's target groups are small producers engaged in agricultural and non-agricultural activities in areas of widely varying potential. <sup>156</sup>
<b>Development Banks</b>	KfW is a German government-owned development bank whose "green savings books" aims to develop sustainable forest management systems and reduce poverty. KfW's forestation programme in Vietnam has invested funds over 160EUR million (77.0EUR million in composite financing – KfW portion, and 87.5EUR million in interest-reduced loans) in 13 provinces in northern and central Vietnam. A total of 130,000 hectares have been reforested and 86,000 families have taken part in the project to date <sup>157</sup> .

<sup>154</sup> Please note that the institutions listed here are for illustrative purposes only – they do not by any means comprise an exhaustive list.

<sup>155</sup> <http://www.mma.gov.br/fundo-nacional-do-meio-ambiente>

<sup>156</sup> <http://www.ifad.org>

<sup>157</sup> <https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/>

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## Private Finance

Private finance is provided to a business as a debt, equity, or cash investment by private entities, such as institutional funds, banks or private companies. Their investment is overwhelmingly aimed at obtaining financial profit.

The sources of private finance are varied in both form and function, ranging from banks to asset managers to microfinance institutions.

TYPES	EXAMPLES
<b>Bank</b>	<b>Rabo Groen Bank</b> is the largest green bank on the Dutch market, with €1.9 billion in outstanding green loans. Investment categories financed include greenhouses, wind energy, geothermal, organic farmers and sustainable buildings <sup>158</sup> .
<b>Private Equity</b>	<b>African Agricultural Capital Fund</b> is a USD 25 million fund managed by Pearl Capital Partners that primarily invests in small- and medium-sized agricultural enterprises to improve the livelihoods of smallholder farmers in East Africa. It will focus on making investments ranging from USD 200,000 to 2.5 million <sup>159</sup> .
<b>Microfinance Institution</b>	<b>BRAC</b> is a microfinance organization providing agricultural microfinance products that bundle access to finance, training, productive inputs and business support, enabling farmers to set up sustainable agricultural enterprises. Over the past 12 years, BRAC's microfinance projects in agriculture have reached approximately 660,000 farmers, and have disbursed over USD 280 million. Each project achieves a loan repayment rate of 98% <sup>160</sup> .

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<sup>158</sup> <https://www.rabobank.com/>

<sup>159</sup> <http://www.feedthefuture.gov/model/african-agricultural-capital-fund>

<sup>160</sup> <http://microfinance.brac.net/>

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## Philanthropic and Impact Investors

Philanthropic funds engage in charitable giving for humanitarian purposes. They tend to have strong inclinations towards a specific impact - for example towards health issues, education or environmental issues.

Traditional philanthropic support is provided through grant making, however, new approaches for philanthropic investing move donor institutions to seek investments where they could regain their capital, and those that offer a lower risk adjusted rate of return than would be sought under a mainstream investment.

TYPES	EXAMPLES
<b>Charitable Foundation</b>	Irwin Andrew Porter Foundation funds innovative projects that foster connections between individuals, communities, the environment and the world at large. The Foundation's international grant making includes projects for agriculture, natural resources and grassroots conservation. Grants range from \$30,000 to \$500,000 per year for projects of 1-2 years. <sup>161</sup>
<b>Corporate Philanthropy</b>	The Monsanto Fund is the philanthropic arm of Monsanto Company. The fund is focused on strengthening farming communities to improve people's lives around the world. Grants of \$25,000 or more are provided in support of agricultural communities and organizations for projects that include farmers' education and training. <sup>162</sup>
<b>International Civil Society Organizations</b>	The <b>Climate and Land Use Alliance (CLUA)</b> is an initiative, over \$32.7 million, of the ClimateWorks Foundation, David and Lucile Packard Foundation, Ford Foundation and Gordon and Betty Moore Foundation. The Alliance aims to tap into the potential of forested and agricultural landscapes to mitigate climate change, benefit people and protect the environment.

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<sup>161</sup> <http://www.iapfoundation.org/>

<sup>162</sup> <http://www.monsantofund.org/>

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## Alternative Sources of Finance

Numerous alternative routes to financing have sprung up over the past couple of decades, the result of pressure from consumers, regulators and good conscience for large organizations to make a contribution to more sustainable land use. A few of them are described below.

TYPES	EXAMPLES
<b>Trade Finance Facilities</b>	Triodos Sustainable Trade Fund lends to agricultural exporters dedicated to organic production and/or fair trade principles who are located in Africa, Latin America or (Central) Asia. The purpose of its trade finance facility is to assist agricultural exporters to pre-finance their export contracts with foreign buyers - providing them with the cash they need to bridge the (pre)harvest and shipment season. Export contracts form the basis of each loan, which normally coincides with the start of the harvesting season and may continue until the last shipment of the exported products. Triodos lends between USD 300,000 and USD 3,000,000 (or the equivalent in Euros), and up to 60% of the value of the export contract(s). <sup>163</sup>
<b>Certifying Bodies</b>	Forest Stewardship Council Smallholder Fund is a project-bound small grant scheme that was created to improve smallholders' capacity to achieve and maintain FSC certification, to strengthen their ability to benefit from the FSC system, and to increase supply of FSC certified materials. The Smallholder Fund is awarded annually and provides resources directly to smallholders, who can be either FSC certified or in the process of becoming certified, and must meet eligibility criteria for small, low-intensity or community production. <sup>164</sup>
<b>Environmental Funds</b>	The Congo Basin Forest Fund (CBFF) is a US\$165million multi-donor fund set up in June 2008 to take early action to protect the forests in the Congo Basin region. It aims to support transformative and innovative projects to be complemented to existing activities, which will develop the capacity of people and institutions of the Congo Basin to enable them to preserve and manage their forests. It provides a source of accessible funding, and encourages governments, civil society, NGOs and the private sector to work together to share specific expertise. <sup>165</sup>

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<sup>163</sup> <http://www.triodos.com/>

<sup>164</sup> <https://ic.fsc.org/>

<sup>165</sup> <http://www.cbf-fund.org/en>