



9 July 2019

Summary and discussion

Inclusive finance interviews

As part of the CGIAR Research Program on Forests, Trees and Agroforestry's (FTA) activities on inclusive finance, Tropenbos International (TBI) and the Center for International Forestry Research (CIFOR) have developed an interview series to increase our understanding of how different actors perceive inclusive finance for sustainable landscapes, possible strategies for the scaling up of inclusive finance, and the barriers to its implementation. Based on the series of interviews with a selection of actors, some common themes and areas where there is still divergence of opinion or thought have been identified. While interviewees have diverse opinions on what should be aimed at through finance for inclusive and sustainable landscapes, and on possible strategies for the way forward, they mention similar barriers.

Regarding our first question, “what is inclusive finance for sustainable landscapes?”, we identify a divergence of views and experiences. For example, the Association of Forest Communities of the Petén (ACOFOP) is a community-based forest management association. Through their commercial arm, FORESCOM, they work to solve access to finance for their members. However, although this would qualify as inclusive finance, they do not call this as such. Similarly, KOMAZA, a vertically integrated forest company that started out as a small- to medium-sized enterprise (SME), considers inclusiveness to be merely an academic term, but their strategy of partnerships with smallholder farmers has become a viable business proposition that increases income opportunities for farmers and is an example where finance contributes to inclusive and sustainable landscapes. Both local companies have resolved smallholder limitations to access finance, albeit in different ways. The first meets the needs of local farmers and communities through the creation of microcredit facilities, and the second provides inputs and technical assistance, thus reducing the need for finance by smallholders. The core of the business of both companies is a bottom-up approach – aggregation of small-scale operations.

The timber company FORM perceives inclusive finance in a similar manner as KOMAZA, pursuing commercially viable projects in which smallholders are involved. Benefits in a broader sense trickle down to local communities, but different from KOMAZA, the core of FORM's business case is large-scale plantations. Similarly, the Dutch Development Bank (FMO) invests more in large-scale plantations, although they require that these meet internationally agreed sustainability standards (such as IFC Performance Standards) and that

investees engage with local stakeholders. FMO assumes that local communities benefit through increased employment (which in turn will improve their bankability) and achieving a socially acceptable relationship with local people is the responsibility of the investees. New Forests, a sustainable forestry company with USD 5 billion invested, sees inclusiveness as the generation of value for all stakeholders in their business, including investors and communities, and the environment. This is largely achieved by designing an inclusive stakeholder engagement process prior to investments and has resulted in different forms of smallholder involvement around large-scale plantations, where a shared interest is created, for example, through revenue sharing.

Both the International Institute for the Environment and Development (IIED) and the United Nations Forum on Forests (UNFF) use textbook definitions of inclusive landscape finance, and aim to distribute this finance equitably among all stakeholders, with a particular focus on the most vulnerable – local communities, indigenous peoples, women, youth and the elderly.

In response to our second question, “what are some of the barriers to inclusive finance for sustainable landscapes?” a range of barriers were identified. These barriers consistently point towards the same main issues: there is a lack of financial literacy/business management skills in local communities and SMEs; a lack of understanding in (local) banks about the needs and requirements of local forestry enterprises; a lack of infrastructure that can attract and subsequently distribute funding; and a shortage of bankable projects of sufficient scale.

Furthermore, according to New Forests, smallholder timber production is typically geared toward the local market, with low-tech processing facilities, and low quality of timber products are often not suited to more commercial and industrial end uses. In sum, these barriers translate into an underdeveloped enabling environment for inclusive landscape finance.

The interviewees are already implementing a range of activities to overcome these barriers. Overall, the interviewees identify three general activities: creating infrastructure that can absorb an investment or loan; building partnerships to enhance mutual understanding; and increasing the financial literacy of beneficiaries. There is no silver bullet when it comes to the right infrastructure. This could be a commercial company that enters into partnership agreements with communities or smallholder farmers, employs local citizens, and/or allows them to deploy agroforestry-type activities. It could be a producer organization because they

increase the economic scale, the technological efficiency of transactions and offer credibility to investors, or it could be a commercial company financed by international development banks where benefits trickle down to local communities (such as FORM and New Forests). Often a blended finance structure provides the right incentives to pursue high impact and/or high risk projects. Furthermore, most respondents highlighted the importance of partnerships.

While all interviewees make or support considerable investments in different forms of sustainable tree-based production that involve local smallholder farmers, only New Forests explicitly states the importance of doing so in a context of sustainable landscapes applying principles for sustainable landscape investments. It is apparently wrong to assume that finance for landscapes that involve multiple stakeholders already presupposes that these multiple stakeholders convene and discuss how to improve landscape sustainability.

Finally, to absorb any sort of commercial loan or investment, SMEs (or other beneficiaries) must be taught basic business management skills. Whoever is the recipient of a loan or investment must be trusted by the bank or investor that their money is in capable hands. Another strategy is to work with an outgrower scheme, where the company becomes the aggregator and manager of investments. In such schemes, the level of inclusivity will depend on the willingness of the company to share benefits as well as risks and rights.

If the barriers described above can be addressed, then an organization is well positioned to scale an enterprise. The limit then is not the amount of funding an organization can attract, but the number of bankable projects that are possible within the carrying capacity of a landscape. The role of governments is not mentioned often, but clearly they play an important role. First of all, governments can step up to create an enabling environment. This can vary from starting “Farmer Field Schools” to develop new financing models (for example, to promote “Results Based Finance”), providing concessionary finance (including guarantees), or making it less attractive to trade forest and tree products sourced from unsustainable production models. One respondent highlighted challenges to the availability of climate finance, which is generally stuck at the central government level and is not trickling down to landscapes.

In conclusion, although the different respondents are not all aligned on what inclusive finance means to them, they all point to the same barriers to attracting landscape finance at scale.

Ensuring that finance is inclusive and contributing to sustainable landscapes, as some examples show, is certainly possible and can be achieved through different strategies. But now it appears to be more of an afterthought for some organizations, who seek a social license to operate, rather than a driving force for change and innovation that provides local societies with greater resilience to outside shocks.

For us this raises the following questions: Is it enough for investments to improve their environmental and social footprints, or should finance contribute to more transformative change in landscapes, strengthening local capacities to drive such change? What can be done so that finance contributes more to such landscape transformations? And, who is responsible for such strategies/actions?

Inclusive finance interviews

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