FROM SCIENCE TO ACTION

An FTA webinar series

Questions from the 'Innovations to overcome barriers to access to finance for smallholders, SMEs and women' webinar

Curated by Michael Brady, FTA and Bas Louman, Tropenbos International

1. **Did the report assess the role of informal mechanisms to access finance by smallholders?**

   No, it did not. It specifically focussed on access of SMEs to formal finance.

2. **Do you see a role for TBI to mitigate the risk of investments in SMEs? like through networks and capacity building maybe?**

   Yes, exactly. that is what we are focussing on at the moment in our own programmes. At the same time we work on case studies that show how some of the barriers that limit access to finance for SMEs have been reduced.

3. **Why were Microenterprises not part of the research? They represent in terms of labor the majority of rural workforce especially for women who form a small communal enterprise they are a key format and a format to access (commercial) loans.**

   We did not exclude microenterprises, but we focussed on SMEs since much has been written and done about microfinance, while work done on business models indicated that for SMEs finance remains an obstacle that has little been explicitly studied. On the other hand, it is sometimes hard to separate the two (micro and small), and in some cases, solutions for the SMEs also apply to micro enterprises and viceversa.

4. **Did the report identify and look at the Global Agribusiness Alliance digital finance platform 'Innovative finance for critical Agri-SMEs'? The tool is free of charge for the first 6 months w/e September 2020** **https://invest.globalagribusinessalliance.com/**

   No, we became aware of them quite late in the process and now are approaching them for follow-up activities in one of the landscapes where Tropenbos is working.

5. **Does the report identify and assess the critical role of in-country aggregators (technical and financial) to address the critical issue of 'scale and organisation' associated with the atomicity of smallholders across landscapes?**

   Yes, we do, one of our recommendations is to support that.

6. **Certification is just one of the standards to follow, but even plenty of financial standards provide similar barriers for communities; I was not surprised to hear that the example used came from Guatemala (or perhaps Mexico) - these cooperatives are well organised and at scale… but the majority of communities have not reached those levels - what can be done to help accommodate them?**

   Martin Ivo described a new initiative involving UNEP FI, CIFOR and GEF, which addresses your question.

7. **Did you come across successful outgrower mechanisms, with a lead company and smallholders as outgrowers?**

   Yes, see for example the interview series available at the Tropenbos website at: https://www.tropenbos.org/news/inclusive+finance+interviews:+summary+and+discussion

8. **I am very much interested to see examples of agroforestry business case (for investor and investees). Any cases like that?**

   We are working on that, should have an example available by mid 2021.

9. **Some Governments (e.g. India) do not make public forest extent data and they lead their management. While plantations are private, and privacy is a barrier to aggregated data. How can private climate finance address these two situations?**

   This is a challenge, in particular for private finance at scale. In some cases, working through intermediary organizations that work with individual plantation owners may help. However, internationally, climate finance requires transparency, so if the government or private owners seek climate finance, they will have to start looking for ways to be able to provide the data.

10. **After the financial instruments are developed and realized, are there any official way to check/control that the project is really realized?**

    There are different ways of monitoring, depending on type and size of projects. Different agencies have developed their own monitoring system which may or may not include remote sensing techniques, interviews with beneficiaries, field visits, etc. An interesting example is applied by IIX (case study forthcoming).

11. **How about making financial loans work better for SMEs instead of seeking new finance mechanisms? an SME in Uganda proposed that instead of reimbursing the loan to the lender, the lenders could sell the loan to other financial institutions (at the end of the loan term) so that the SME just has to worry about the interest rate and not about the capital (this way the SME can focus on scaling and growth instead than loans repaying). Could this work?**

    This is also one of our conclusions: current innovative finance mechanisms are oriented towards making finance easier/less risky for the investor, but have not addressed the problem of scale, so only few have been able to increase access for smallholders and SMEs. There is a need for more local financial institutions that reach out to potential customers, that are linked to (or have their own) support services (technical and financial/administrative) and that develop financial instruments, such as loans, that are appropriate for the local needs and conditions. What you suggest might be an option, but this would need to be negotiated with the respective financial institutions. We have not yet found a case such as that.

12. **The 'early mover' difficulties you alluded to wart TFFF were also features of some of the early BFFs. Moringa Fund, for example, looked at 400+ proposals before they took their first decision on a US$ 9m investment in coffee agroforestry in Central America. Is investor hesitancy also linked to a. the limited recognition of sustainable land use as an asset class esp. in emerging markets and b. the high costs of retrieving and monitoring loans to a dispersed smallholder population?**

    Yes, investors might be hesitant, especially for a virtually non-existing asset class, which is sustainable agriculture/forestry that delivers net positive env & social impact. I believe the market needs to be created through pioneers like Moringa and others. What is also needed is a form of standardisation in terms of how to define impact, measure impact and report on it. Market transparency is also needed - so we need a high degree of transparency/communication on novel deals so that more and more investors become comfortable with this. On B) yes, M&E costs in my view will ultimately have to be a tiny percentage of the transaction costs. At the moment the M&E related costs are donor-funded but this is not a sustainable model.

13. **One key element is the markets and value chains - that is a key criterion for many investors - did you consider that?**

    Very good observation. This was seen in Ethiopia. And we are now looking at particular cases where value chain actors have an integrated approach towards supporting their suppliers towards more sustainability.

14. **But most SMEs and smallholders are the bulk of the people lacking access to finance…**

    Agreed, see also the response to question 3.

15. **Ivo, do you feel that the results of the recent Climate in Finance Summit of the Public Development Banks have given some interesting directions and commitments? For example, the EDFI Statement on Climate and Energy Finance?**

    Dear Johannes, I did not attend that conference, but did have a recent discussion with EDFI. The commitment they launched apparently took a long time as the DFIs that fall under EDFI took it very seriously. Most of their focus will most likely lie in the energy and transport sectors - but I'd hope to work with them to see whether targets linked to sustainable land use / landscapes can be part of their focus.

16. **Access to finance is always challenge for MSME in particular in developing countries. what are your views to promote access to finance for MSME?**

    We suggest you take some time to read the document. We do not have a particular view yet, but are pinpointing to possible strategies that may improve access. We are now realizing a number of case studies that look at strategies that we think are working and will publish those late 2021.

17. **Large-scale capital for small enterprises that are not eligible for DFIs is exactly needed - again would like to learn about concrete examples how this is in the field.**

    Please see the answer before.

18. **In some countries such as Brazil, it is still the banks (BNDES) that are reluctant to finance alternative production systems (e.g., agroforestry palm oil) as i. returns on investment are perceived to be lower and b. await endorsement of the alternatives by national research organisations such as EMBRAPA.**

    Hopefully some of our ongoing work will help the bank decide to support alternative production systems.

19. **Many NGOs get approached by possible investors looking to put their funds in landscape restoration type of initiatives…. also, here a disconnect/misalignment is the issue (not only for smallholders/ SMEs) - speaking the same language.**

    Yes, this is agreed. Both NGOs and investors need to try and understand each other better. We hope that our report contributes a bit towards that understanding.

20. **Any recommendations/experiences on improving financial literacy of farmers and SMEs?**

    See: https://www.tropenbos.org/resources/publications/enhancing+financial+literacy

21. **How about policy development by governments to require private equities to avail data for sustainable financing of landscapes and climate? Though it can be quite a challenge due to different jurisdictions regulations.**

    This would definitely help, but as you say, will also be quite a challenge. At the moment the international financial sector is taking steps towards this, and for climate finance already international agreements exist in relation to disclosure of information.