



AGRF SUMMIT 2020

8-11 SEPTEMBER
KIGALI, RWANDA

Partner Event Report - Creating Inclusive Food Markets by Linking Certification and Finance

Partner Event Number, Date and Time:
7 th September 2020 11-12.45pm CAT
Partner Event Title and Organizers:
Title: Creating Inclusive Food Markets by Linking Certification and Finance Organizer: International Institute for Sustainable Development (IISD)
Key speakers/presenters:
Speakers <ul style="list-style-type: none">• Mr. Tomas de la Serna, Agro Investment Analyst, Incofin• Mr. Wanjohi Ndagu, Partner, Pearl Capital Partners• Mr. Andre Ndikumana, Chief Finance Officer, National Agricultural Export Development Board of Rwanda• Mr. Jean Aime Niyonkuru, Acting Director, Sustainable Growers Rwanda• Mr. Rohith Peiris, Director General, Sorwathe• Ms. Oriane Plédran, ESG & Impact Officer, Moringa Fund Moderators <ul style="list-style-type: none">• Ms. Cristina Larrea, Lead, Sustainability Standards, IISD• Ms. Francesca Nugnes, Expert on SME Finance, IISD• Mr. Vivek Voora, Sustainability Standards Advisor, IISD
Main themes/issues discussed
<p>Agricultural producers in Africa's least developed countries (LDCs) are moving from subsistence farming to agri-business. Agricultural activities in Africa's LDCs are responsible for 68% of employment but only contribute 26% of total value added (UNCTAD, 2015). How can we build stronger agribusiness? Access to finance is a part of the solution. It is even more important as agricultural producers in Africa's LDCs, particularly women, tend to have less access to resources such as land, technology, training, and credit.</p> <p>Perceived risks in the agriculture sector can shape investment decisions. However, improving agricultural practices, farming businesses administration, and market linkages, can reduce investors' concerns.</p> <p>Sustainable certification can support sustainable agricultural production which can increase yields and improve farming income while protecting natural environments and reducing material risks. Certification can also lead to increased market access, which can be essential to paying back a loan. However, certification can also act as a barrier to trade for producers that are less export-ready. It is</p>



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expensive, requires up-front investment, while not always leading to improved farming revenues.

Is there a role for certification to strengthen agricultural producers' bankability and facilitate access to finance? What are the enabling factors that can increase investment in agricultural producers in Africa's LDCs? What is the role of government?

This session presents key research highlights from IISD's upcoming publication, *SSI: Standards and Finance*, and an expert discussion on these important questions.

Summary of key points

The following are main messages discussed concerning bridging the access to finance gap for agricultural producers in Africa's LDCs.

Private-public partnerships (PPPs) in Africa's LDCs are essential to advance sustainable agribusiness and close the access to finance gap of agricultural producers. SMEs cannot bear all the costs by themselves. Investors partnering with development finance institutions can give more leverage to investments (cost-sharing) and reach farmers in remote areas where risks are higher but can generate more positive impact.

Government has a role in building PPPs and in promoting investment in agricultural producers. Governments can facilitate the understanding of the agriculture export business the products and its associated risks among banks and farmers to bridge the farming access to finance gap. It can also inform farmers and exporters about the financial instruments available to them and provide access to expertise producers need to create professional business plans.

Governments can also play an important role to establish mobile payment infrastructure which helps ensure farmers are paid and the process of payment is safe.

It is becoming essential to work at the landscape level to advance sustainable forms of production in a zone/territory, rather than by farm. This cannot be done if governments are not involved to facilitate stakeholders' communication and coordination.

Financial products customized to the needs of the farmers should include finance for planting material, fertilisers, expansion loans, favourable interest rates, advance payments, and grants, which may be a better incentive for farming sustainably. When financial products are customized for farmers, there is a better chance for loans to be repaid and other positive impacts. But the financial product needs also to be financially sustainable for the investor.

Investors should also identify and understand context-specific social and environmental issues (risks) and incorporate them in their investment analysis, in the



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monitoring and evaluation frameworks and in the design of the financial product. To do this, investors require staff trained in E&S and agronomists.

Farming and value addition technical assistance

Boost farm's resilience and enhance agricultural producers' bankability by:

- a) Strengthening product quality and targeting premium markets (i.e. certified markets).
- b) Diversify agricultural products at the farm that can generate income. Structure the value chain for selling these products. Cultivating agroforestry systems can open up this opportunity.
- c) Provide training on topics including governance of the farming business, the importance of transparency and trust with business actors, financial literacy, how the entire value chain works, and what are consumer needs and preferences. Include women in the training process to increase effectiveness.
- d) Provide access to technology and training on innovative farming techniques. Incorporate technology for the use of producers, supply chain actors, and investors to share information in real time and aid forecasting (i.e. outputs/ risks), which can address investor concerns.

Role of certification in strengthening agricultural producers' bankability

Sustainability certification can lead to increased bankability. When getting certified, farmers organize themselves collectively, which can help with negotiations, knowledge sharing, training on good agricultural practices, and other market and certification requirements, all of which can contribute positively to their bankability profile. Certification allows farmers to incorporate social and environmental issues in farming practices and business management. This is useful for investors seeking to mitigate social and environmental risks, while contributing to impact. Certified farmers and SMEs tend to offer a higher level of professionalism as they are audited annually. Investors can worry less about food production, quality, safety, etc.

However, choosing to become certified should not be strictly based on access to finance. Certification needs to make sense for the farming business model.

Certification could also be used to structure the investment through a tripartite agreement (producer-buyer-investor, where the certification body intervenes indirectly). Direct relationships between investor and all parties in relation to the agricultural producers reduces risks. Certification needs also to strengthen its impact case.

Call to Action Key Points

We call for the following actions or best practices to close the access to finance gap for agricultural producers in Africa's LDCs, derived from examining eight investment cases. (*Upcoming IISD's publication, State of Sustainability Initiatives: Standards and Finance*).



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Organize and aggregate farmers

- Many small farmers aggregated
- Increase negotiating power
- Allow sharing of facilities (storage; quality checks; commercialization)
- Better monitoring of costs of production

Farming and value addition technical assistance

- Sustainable agricultural practices (i.e. soil management, agro-forestry systems, standards conformity)
- Business development (financial literacy, record keeping, governance, commercialization)
- Agro-processing (i.e. incorporation of technology, transformation of products; how the value chain works)

Support and leverage a financial ecosystem

- Private-public partnerships
- Investor's guarantees providers (i.e. 1st-loss investors)
- Philanthropic organizations (i.e. grants; blended finance)
- Extension services (i.e. provided by the governments, development organizations)
- Certification bodies (i.e. assurance systems; monitoring and technical assistance)

Know your farmers

- Who they are, and their socio-economic context
- Their financial feeds
- Their crop production calendar
- Their potential to contribute to positive social and environmental performance
- Social and environmental risks

Design Customized Financial Products (equities, loans, other hybrid forms)

- Long-term vision
- Advance payments to allow farmers to plan
- Flexibility in all its forms (i.e. disbursements./reimbursement, grace period etc.)
- Incentives for sustainability for both the investors and the investees
- Exit strategies to preserve impact (for equity investors)