Doing good business

Scaling up investments that benefit smallholders and the landscapes they live in.

There is a growing belief that private investments in agriculture and forestry can and should be shifted towards generating positive environmental and social impacts. To make this happen, there is a need for aggregators that link groups of smallholders to large-scale investors. The recognition of the importance of aggregators was one of the outcomes of a special session at the 2017 Global Landscapes Forum in Bonn.

Companies are increasingly seen as key partners in scaling up efforts to achieve sustainable landscapes – that much became clear in Bonn, where around a thousand representatives of academic, public, private and civic organisations came together to discuss the future of landscapes and the role of forests and trees. “There is nothing wrong with making profit from saving the planet,” said Erik Solheim, Executive Director of UN Environment, in his opening address, “What *is* wrong is making profit from destroying it.”

Indeed, there is widespread evidence that investments in large-scale production of agricultural commodities have had negative effects on the environment and the livelihoods of smallholders in the tropics. But there are positive developments as well. More and more companies and financial institutions have been adopting social and environmental standards, for example to prevent child labour and deforestation. And now a growing number of private actors are going one step further; moving from doing-no-harm to doing-good.

In the context of agricultural and forestry production, a do-good approach means that commercial investments simultaneously improve the environmental integrity of the landscape and the livelihoods of the people living there, while making a profit. This requires long-term thinking and investments, including investing in stakeholder engagement and building relationships. Initially, this may result in higher opportunity costs, which makes such investments risky for the private sector. How then can a do-good approach be operationalised on the ground? This was the topic of a special session at the Inclusive Finance Pavilion in Bonn, organised by Tropenbos International and the CGIAR Research Program on Forests, Trees and Agroforestry. Five panellists and about 40 participants shared ideas about what a do-good approach means in practice and how it can be scaled up.

Bankable proposals

Based on a recent study “Improving the positive impacts of investments on smallholder livelihoods and the landscapes they live in” by FMO - the Dutch development Bank, HIVOS, KIT (Royal Tropical Institute) and Tropenbos International, Herman Savenije of Tropenbos International stressed the potential of a do-good approach for commodity producers and investors. “Collaborating with smallholders can be an attractive alternative to reach scale”, he said. “They may be small in size, but they are large in number”. The study he presented identified three main principles of doing good: recognising local rights, actively engaging smallholders, and adopting a landscape perspective. These have been elaborated in a series of key pointers for putting them into practice. Savenije believes there is no shortage of people and organisations with good ideas for businesses that are based on these principles. But what is often lacking, is the capacity to develop bankable proposals that allow smallholder organisations and entrepreneurs to access the necessary credit to make these ideas reality.

Marcelo Cardozo of the MINGA forest producer organisation in Bolivia shared an example of the importance of access to finance. Recently, coffee production started to decline because of changing rainfall patterns, and the small-scale MINGA farmers have found themselves no longer able to produce enough to export coffee to international markets. This also means that they no longer receive a premium price for their organic production practices. They want to counter their decreasing incomes by marketing other products growing in their agroforests, but this requires setting up whole new value chains, for which they need money. The MINGA farmers therefore decided to set up a commercial branch within their cooperative, which will make them eligible for bank loans. They plan to use these loans towards marketing wild almonds and about 20 other fruits growing in their diverse agroforests – some of which fetch premium prices as so-called *super foods*.

Photo credit: Roderick Zagt.

Filling the gap

Many smallholders and their organisations run into serious barriers when looking for money. The problem: A smallholder organisation may need a loan of 50.000 dollars, while international financial institutions who have the money are only interested in investments of one million dollars or more. One way to fill this financing gap is to have an aggregator, said Francesca Nugnes. Nugnes works for FAST International, which is an NGO that specialises in matching small and medium-sized enterprises to investors. In their experience, an aggregator can have many forms. It can be a commercial cooperative like the one established by MINGA, but it can also be a trader, a mill, a warehouse, or a small-scale investor – as long as it reduces the transaction costs and mitigates the risks for the large-scale financial institution.

Local financial service providers, such as local banks, also play a pivotal role. However, they often do not have the necessary skills and experience to engage with smallholders, and all too often there is a lack of trust between the parties. Carina van der Laan explained how the organisation SNV Indonesia has been trying to help local financial service providers invest in the sustainable production of palm oil by smallholders. Van der Laan has been working on the development of two tools. The first identifies areas that are suitable for oil palm plantations according to the international social and environmental standards. The second identifies farmers that comply with a set of minimum criteria indicating their bankability. These tools help credit providers oversee the risks, and should remove their reluctance to work with smallholders who want to invest in sustainable production.

Using public money to attract private investments

Paul Hol is the CEO of Sustainable Forestry Investments (SFI), an investment company with tree plantations in Ghana and Tanzania. He stressed the importance of stable and clear rights to the land,

and of good relationships with local communities and local authorities. This increases the security of the investment. But even with these conditions in place, there are still risks and uncertainties, mostly because the investments are long-term and involve many parties. This is a major bottleneck, said Hol. According to him, the way to get more private investments in sustainable and inclusive businesses, is to use public money to decrease the risks.

The possibilities of using public money to attract private investments are receiving increasing attention in global development circles, also at the Global Landscapes Forum. Although few seem to disagree with the basic premise, opinions differ about how public money would best be spent. For example, it could go directly to de-risking private investments, but it could also go to the development of aggregators, or to improving the enabling regulatory environment, for example by streamlining national and local regulations to make investments easier.

Teaming up
"We need to team up to reach scale." That was the take-home message for René Boot, director of Tropenbos International, who facilitated the session. According to him, the success of do-good approaches will largely depend on collaboration and connections: international and local financial organisations need to join hands, combining different instruments; farmers need to organise themselves and professionalise; investors need to adjust their requirements to smallholders; companies need to engage neighbouring communities and build trust; and aggregators are needed to connect smallholders to financial institutions. Local governments will need to be on board as well, to provide the enabling environment. Finally, scaling up do-good approaches will require private actors to adopt a new mind-set; approaching smallholders as entrepreneurs with potential rather than as potential victims, and factoring in the natural environment as the foundation for long-term viability, rather than as the sole interest of external action groups. Under such conditions, doing good makes business sense.

Photo credit: Roderick Zagt.

Interested in more details?
This session has been livestreamed via Facebook. Watch the interactive panel discussion [here](#).