GLF AFRICA
DIGITAL
CONFERENCE
15.9.2022

HOW TO
BUILD AN
EQUITABLE,
RESILIENT
FOOD FUTURE

© Ollivier Girard / CIFOR

MOBILIZING FINANCE AT SCALE TO BOOST SUSTAINABLE AGRICULTURE IN AFRICA

#GLFAfrica

Document developed in the context of the 'Luxembourg-GLF Finance for Nature Platform'

THE GOVERNMENT
OF THE GRAND DUCHY OF LUXEMBOURG

Supported by:

Federal Ministry
for Economic Cooperation
and Development

based on a decision of the German Bundestag

WHITE PAPER

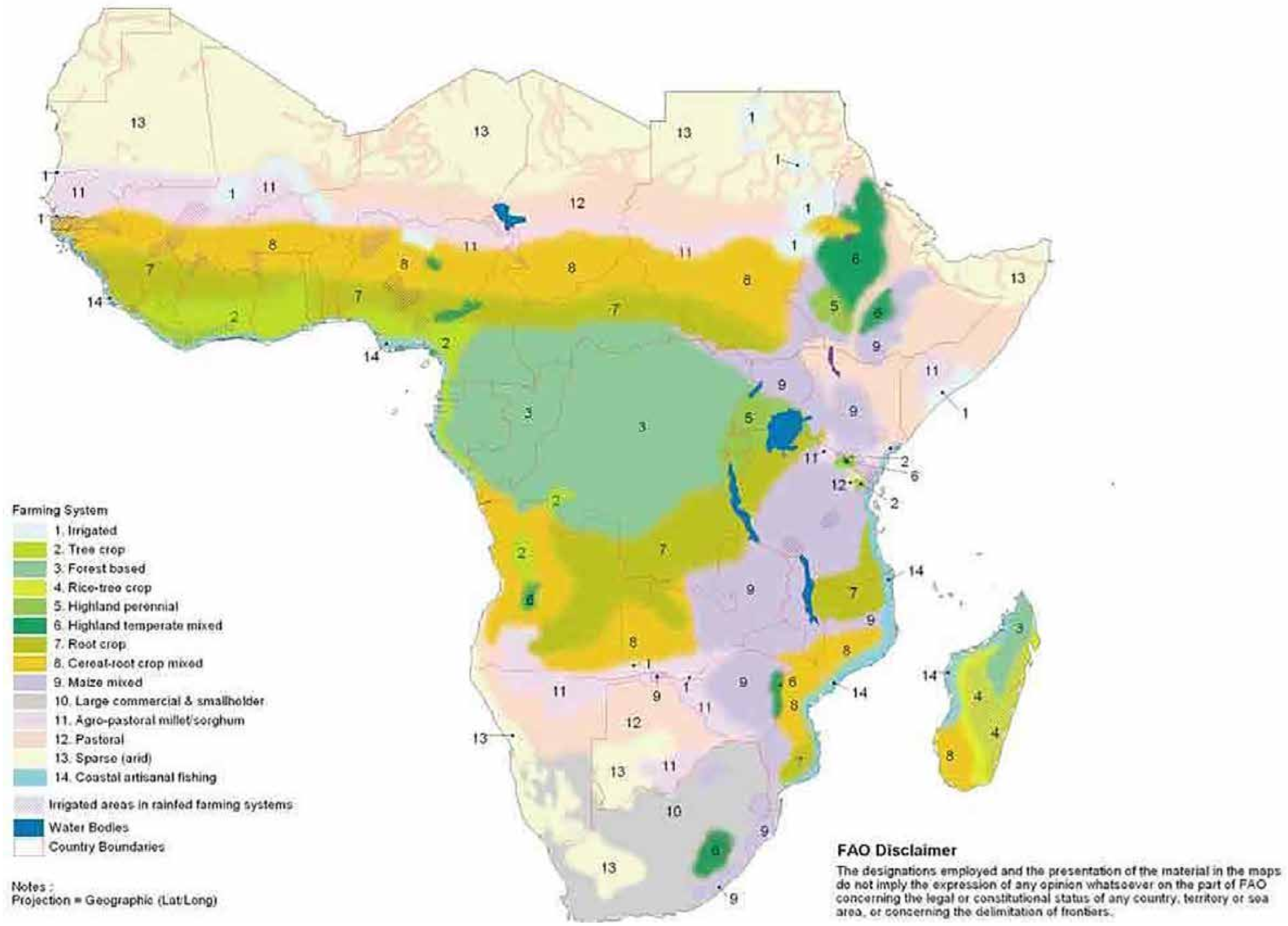

Figure 1. Major farming systems of sub-Saharan Africa map 1.

Agriculture is vital to Africa's economy and provides the main source of income for most people on the continent (World Economic Forum 2016). Yet the effects of climate change and unsustainable farming practices have left about 45% of the region's land surface in a state of degradation, while an alarming 3.9 million hectares of forest ecosystems is lost each year from logging and land clearance, mainly for agriculture (UNEP no date).

Smallholder farmers, who contribute at least 70% of Africa's food supply, face several obstacles that hamper livelihoods, undermine nutritional diets and diminish the incentive to adopt sustainable farming practices. These impediments include poor access to markets, policy inaction, and technology deficits that limit productivity gains and profitability.

FUNDING SHORTFALL

Africa currently receives only 3% of climate finance even though it is one of the continents most affected by climate change (Napier 2021). The financing gap for agricultural small- and medium-sized enterprises in sub-Saharan Africa is estimated to be USD 106 billion a year (ISF Advisors 2021).

This is where sustainable finance can make a difference – improving land use for African food systems and creating green value chains for commodities like cattle, cocoa, soy, palm oil, fruit and vegetables. These benefits also have positive knock-on effects for climate change, biodiversity, water use, rural poverty and gender inequality.

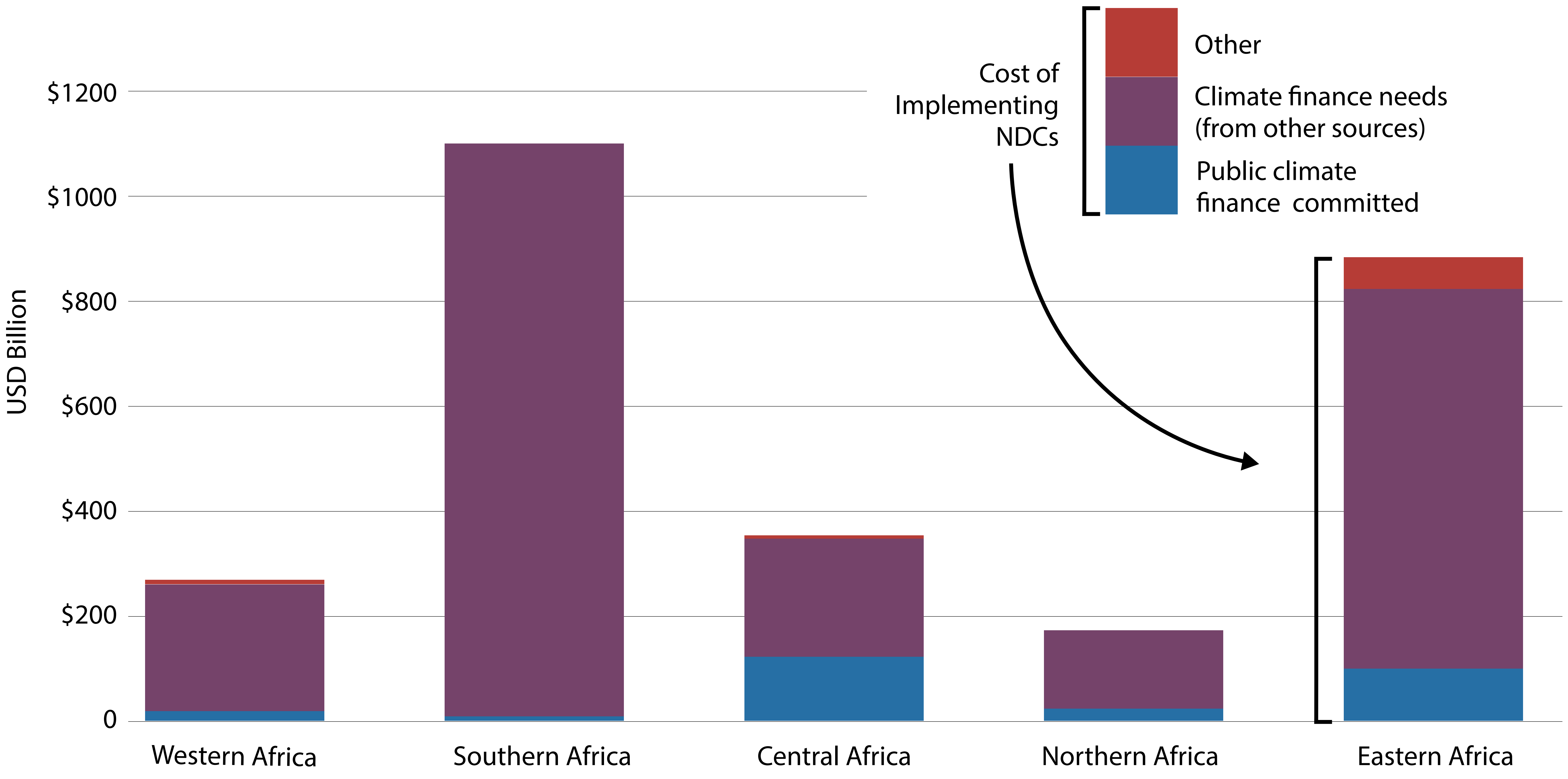

Figure 2. Cost of implementing NDCs (2020-2030), USD billion.

WHAT IS SUSTAINABLE FINANCE?

Sustainable finance means making investment decisions that consider social and environmental impacts rather than just financial returns. This includes:

(i) *Green finance* that promotes economic growth while excluding companies that may damage people and/or the planet. This involves a negative screening of so-called ESG factors:
- Environmental: greenhouse gas emissions, biodiversity loss, pollution, water usage
- Social: Human rights, inequality, labour relations and health/safety
- Governance: executive pay, transparency, board independence, shareholder rights.

(ii) *Impact investing*, which aims to generate financial returns while making a positive social or environmental impact. This may also include positive ESG screening, which selects only the best performers for a portfolio; or norms-based ESG screening, which uses international standards (such as the UN Global Compact) for the selection process.

(iii) *Carbon finance*, which is a funding tool that places a financial value on carbon emissions. Companies can offset their own emissions by buying carbon credits earned from sustainable projects. This also benefits people living in Africa and other parts of the developing world through the financing of projects that support sustainable agriculture.

HOW CAN THE PRIVATE SECTOR HELP SCALE SUSTAINABLE AGRICULTURE IN AFRICA?

Finance needs to flow toward land-use models that are sustainable, equitable, inclusive and profitable, supporting Nature-based Solutions (NbS) and catalysing private-sector engagement in Africa's agricultural sector. For this to happen, sustainable finance must become more attractive to private investors. This can be achieved in various ways if the parties listed below agree to absorb much of the risk associated with a green project:

- Banks and other local financial institutions, such as microfinance institutions, can provide financial products that are most suitable for farmers, for example, with repayments following harvesting seasons.
- International financial institutions and green funds can place themselves at the bottom of the hierarchy of shareholders and debtors. This means they are repaid last in the event that a project goes bankrupt or is liquidated, while private investors are at the top of the list for repayment.
- Guaranteed loans are a method of green financing that involves a third-party guarantor, which agrees to repay investors if a green project is unable to pay off its debts. This can be provided by central banks, international organizations like the World Bank, development organizations and donors.
- Development organizations, impact investors and donors can provide technical assistance in addition to financing to strengthen the capacity of management to scale the business and thereby reduce the risks of green projects.

WHAT OTHER MEASURES ARE RECOMMENDED?

- Provide smallholder farmers with better access to early-stage and long-term finance in the agriculture, forestry and land use (AFOLU) sector.
- Update land tenure policies for farmers so they can use their land as collateral to gain finance for farming equipment, irrigation systems and storage facilities.
- Remove regulatory and administrative 'red tape' for projects on public and community-owned lands in order to make them more attractive for investors.
- Give smallholder farmers and agribusinesses technical training in advanced agricultural and forestry techniques so they can increase the quality and quantity of production.
- Improve communication with local private investors and political institutions around the main barriers to investments in specific countries. This can help raise awareness and inform targeted action by governments to create suitable investment conditions.

KEY QUESTIONS

- What is needed to scale and more widely adopt sustainable agricultural practices?
- What is the role of impact investing in supporting green commodities value chains?
- How can more investments in sustainable agriculture and green value chains be encouraged?

REFERENCES AND FURTHER READING

World Economic Forum. 2016. *70% of Africans make a living through agriculture, and technology could transform their world.* https://www.weforum.org/agenda/2016/05/70-of-africans-make-a-living-through-agriculture-and-technology-could-transform-their-world/

UNEP. No date. *The economics of land degradation in Africa: Benefits of action outweigh the costs.* Accessed 28 August 2022. https://www.unep.org/resources/report/economics-land-degradation-africa-benefits-action-outweigh-costsa-complementary#:~:text=Desertification%20affects%20around%2045%20%25%20of%20Africa%E2%80%99s%20land,impediment%20in%20achieving%20food%20security%20and

Napier M. 2021. *Africa Green Finance Coalition: Seizing the opportunity that green investment provides.* https://climatechampions.unfccc.int/africa-green-finance-coalition-seizing-the-opportunity-that-green-investment-provides/

ISF Advisors. 2022. *The state of the agri-SME sector: Bridging the finance gap.* https://www.casaprogramme.com/wp-content/uploads/2022/03/the-state-of-the-agri-sme-sector-bridging-the-finance-gap.pdf

Aceli Africa. 2021. *Bridging the financing gap: Unlocking the impact potential of agricultural SMEs in Africa.* https://aceliafrica.org/bridging-the-financing-gap-unlocking-the-impact-potential-of-agricultural-smes-in-africa/

Climate Policy Initiative. 2022. *Climate finance innovation for Africa.* https://www.climatepolicyinitiative.org/wp-content/uploads/2022/08/Climate_Innovation_Finance_for_Africa.pdf.

FAO (Food and Agriculture Organization of the United Nations). 2022. *Rethinking development and climate finance to transform agrifood systems.* https://www.fao.org/new-york/news/detail/en/c/1506956/.

PARTICIPATING ORGANIZATIONS

GLF Africa Digital Conference 2022 would not be possible without the support and participation of the following hosts, partners and organizations. For a full list of everyone involved, please visit: **conference.globallandscapesforum.org/africa-2022/partners**

GLOBAL LANDSCAPES FORUM

The Global Landscapes Forum (GLF) is the world's largest knowledge-led platform on integrated land use, dedicated to achieving the Sustainable Development Goals and Paris Climate Agreement. The Forum takes a holistic approach to create sustainable landscapes that are productive, prosperous, equitable and resilient and considers five cohesive themes of food and livelihoods, landscape restoration, rights, finance and measuring progress. It is led by the Center for International Forestry Research (CIFOR), in collaboration with its co-founders UNEP and the World Bank and Charter Members.

Charter Members: CIAT, CIFOR-ICRAF, CIRAD, Climate Focus, Conservation International, Crop Trust, Ecoagriculture Partners, The European Forest Institute, Evergreen Agriculture, FAO, FSC, GEF, GIZ, ICIMOD, IFOAM - Organics International, The International Livestock Research Institute, INBAR, IPMG, IUFRO, Rainforest Alliance, Rare, Rights and Resources Initiative, SAN, TMG-Think Tank for Sustainability, UNCCD, UNEP, Wageningen Centre for Development Innovation part of Wageningen Research, World Farmer Organization, World Agroforestry, World Bank Group, World Resources Institute, WWF International, Youth in Landscapes Initiative (YIL)

GLF AFRICA
DIGITAL
CONFERENCE
15.9.2022

HOW TO BUILD AN EQUITABLE, RESILIENT FOOD FUTURE

bit.ly/GLFAfrica2022