

Investments in small-scale sustainable agriculture



MORE and BETTER

An international network for support of food, agriculture
and rural development to eradicate hunger and poverty

Investments in small-scale sustainable agriculture

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The views expressed in this publication are those of the authors and do not necessarily reflect the views of the More and Better Network.

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The More and Better Network is an international network of farmers', fisherfolks' and pastoralists' organizations and NGOs working together for more and better support to agriculture and rural development to eradicate hunger and poverty. The network has currently 129 member-organizations working on international and regional levels, and on national and local level in 44 countries. More and Better Network is also responsible for www.ag-transition.org where you will find many reports and case studies on agroecological and other forms of sustainable agriculture.



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Summary

This report gives an overview of the global situation of investments in agriculture, provides examples from some countries and present recommendations for future investments in small-scale sustainable agriculture. Our aim is that this report will

- Increase knowledge, awareness and discussions about investments in small-scale sustainable agriculture among farmers' organizations, NGOs, institutions and investors working in agriculture, especially in developing countries, as well as decision-makers and institutions in OECD-countries dealing with official development assistance (ODA).
- Contribute to increased public and private investments in small-scale sustainable agriculture.
- Contribute to build links between organizations for small-scale farmers and investors.

The report provides facts about the current situation for investments in agriculture, shows the need for more investments in and support for small-scale sustainable agriculture, gives an overview of some of the most important financial institutions involved in agriculture and of the recent development in research for innovative investment schemes. It also gives some examples of investment schemes for small-scale sustainable farming.

The governments of the world have agreed on ambitious sustainable development goals (SDGs). Many of them are linked to agriculture, and goal no 2 is directly about agriculture; *End hunger, achieve food security and improved nutrition and promote sustainable agriculture*. To reach this and the other sustainable development goals, more investments in small-scale sustainable agriculture are needed.

FAO's publication: *The State of Food and Agriculture 2016* underlines that *"meeting the goals of eradicating hunger and poverty by 2030, while addressing the threat of climate change, will require a profound transformation of food and agriculture systems worldwide. Achieving the transformation to sustainable agriculture is a major challenge.... available finance for investment in agriculture falls well short of needs... The time to invest in agriculture and rural development is now."*¹

Small-scale food producers – farmers, fisherfolks, pastoralists, hunters and gatherers – provide the food to the vast majority of people in the world, and small-scale farmers is the largest occupation / group of economically active people, and more than 40% of them are women.

Investments in small-scale sustainable agriculture is the most efficient way to reduce hunger and poverty. It is at least twice as affective as investments in any other sector. Despite these facts, only a small portion of the expenses of governments in developing countries and of the official development assistance /aid (ODA) goes to agriculture.

We hope that the report will contribute to the profound transformation of the food and agriculture system required, as called for by FAO, and contribute to get more and better investments in small-scale agroecological and other forms of sustainable agriculture.



Why investing in small-scale agriculture?

Most of the about 800 million people suffering from hunger and extreme poverty are peasants and their families. An estimated 2 billion of the world's poorest people live in households in developing countries and depend on agriculture in some form for their livelihoods.² Small-scale food producers – farmers, artisanal fisherfolks, pastoralists, hunters and gatherers - provide the food to the majority of the world population. They also constitute the largest group of “economic active people”. About 40% of all working people are small-scale farmers – peasants³ - and around 43 % of the agricultural labour force in developing countries are women.⁴

Small-scale farmers are facing many challenges, not least the lack of financial resources and climate change. They also need capacity building, sharing of experiences and training in agroecology and other forms of productive and sustainable agriculture, production equipment suitable for such forms of agriculture, storehouses, locally based processing equipment, and better access to and conditions in the territorial markets.

Several reports show that support to and investments in small-scale sustainable agriculture in developing countries are by far the most efficient ways to reduce hunger and poverty. The World Bank World Development Report 2008, Agriculture for Development, states that “...GDP growth

originating in agriculture is at least twice as effective in reducing poverty as GDP growth originating outside agriculture... For China, aggregate growth originating in agriculture is estimated to have been 3.5 times more effective in reducing poverty than growth outside agriculture – and for Latin-America 2.7 times more.”⁵

FAO also states the importance and efficiency of investments in agriculture: “Agriculture plays a vital role for economic growth and sustainable development. The evidence suggests that agriculture gross domestic product (GDP) growth in developing countries is on average 2.9 times more effective in reducing poverty relative to non-agriculture GDP growth...”⁶

Africa's population is likely to double by 2050 and new jobs will be needed for more than 600 million working adults who will enter the labour market by then. Growth in agriculture is important for job creation for unskilled labour and as well for employment creation in agricultural equipment, inputs, processing and retail.

Despite the overwhelming facts of the importance and efficiency of support to and investments in small-scale sustainable agriculture, most governments give little support for this – both the governments in the developing countries and in the ODA from the rich countries.



Many of the Sustainable Development Goals (SDGs) are linked to agriculture. Without more and better investments in small-scale agroecological and other forms of sustainable agriculture they will not be reached. Below we highlight some of the SDGs and targets for which agriculture is crucial.

No 1: End poverty in all its forms everywhere.
Targets 1.1 and 1.2.

No 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture.
Targets 2.1, 2.2, 2.3, 2.4, 2.5, 2.a, 2.b and 2.c

No 5: Achieve gender equality and empower all women and girls. Targets 5.1, 5.2 and 5.a

No 12. Ensure sustainable consumption and production patterns. Targets 12.1, 12.2 and 12.3

No 13: Take urgent action to combat climate change and its impacts. Target 13.1

No 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.
Target 15.1, 15.2, 15.3, 15.5 and 15.a

The need for more investments in small-scale sustainable agriculture

The small-scale farmers are the most important investors in their own farms,⁷ but they do not have sufficient access to the finances they need. Less than a quarter of the financial needs of small-scale farmers in developing countries are met, leaving an annual financing gap of more than US\$ 150 billion according to Blending4AG⁸ – an initiative by CTA Technical Centre for Agricultural and Rural Cooperation which is a joint international institution of the African, Caribbean and Pacific (ACP) Group of States and the European Union (EU).⁹ Blending4AG state on their webpage that:

“Credit provided by informal and formal financial institutions, as well as value chain actors, currently only meets an estimated USD 50 billion of the more than USD 200 billion need for smallholder finance in the regions of sub-Saharan Africa, Latin America, and South and Southeast Asia. In addition, agricultural insurance reaches just 10% of smallholders and fewer than 15% have access to a formal savings account. Projected growth of 7% per year from formal institutions and value chain actors will not make a meaningful dent over the next five years.”¹⁰

Some of the same figures are stated by The Initiative for Smallholder Finance.¹¹

Public investments in agriculture and infrastructure and in other assets important for the rural population are important for agriculture, but it is only a small share of the budgets in developing countries and of the official development assistance (ODA).

The High Level Panel of Experts on Food Security and Nutrition, in its report Investing in Smallholder Agriculture for Food Security (2013), stated that:

“Public investments in and for agriculture have fallen considerably since the 1980s. It is now widely recognized that agriculture has been neglected at both the national and international levels. Many agricultural banks (mostly linked to, and supported by, the state) have disappeared, and extension services, applied research and investment in infrastructure projects have declined since the mid-1980s.”¹²

Investing in public goods is essential for poverty reduction in the rural population as well as to reduce regional disparities. This includes specific attention to agriculture, through research and extension, for example, but also basic public goods for the rural population such as roads and communications, electricity, irrigation, education, health, water and sanitation. The family labour force is small-scale farmers’ first and foremost asset. Undernutrition, lack of safe and accessible drinking water, diseases, lack of education, highly unequal gender relations, etc., all degrade the quality and quantity of the family labour force. Consequently, safeguarding basic rights is essential. Providing better services for smallholders would enable them to better invest – not only in farming, but also in non-farm activities that could provide a source of monetary incomes to invest in agriculture.



Investments by companies and private investors - except from the farmers themselves - is a small share of the total investments in agriculture in developing countries.¹³ Such investments can play both a positive and negative role. Unfortunately, many of such investments are geared towards large-scale unsustainable industrial agriculture and land-grabbing.

The small-scale farmers in developing countries need more financial resources to improve their production, building up small-scale processing industry and collective sales organizations. However, their access to affordable credit is very limited. Microfinance is normally very short-term loans and in most cases with a high interest rate. Conventional bank loans are usually out of reach for the majority of small-scale farmers, are usually at a very high interest rate, and often require collaterals so the farmers risk losing their animals, equipment or property if the harvest fails. Credits from agro-dealers are based on credit

for purchasing chemical fertilizer, improved seeds and other inputs, and link the farmers to the use of such inputs. Contract farming and similar outgrower schemes are for single crops, and link the farmers to that crop and the conditions from the company in charge of the outgrower project. There is a gap to be filled on new models for investments in small scale, diversified and sustainable farming.

Small-scale farmers require affordable access to credit. New forms of investments, which directly benefit small-scale sustainable agriculture, could be developed. FAO is one of many institutions which underline the need for more such investments in agriculture;

“The rising interest in agricultural investment from the public and private sector contrasts with the very limited role formal financial actors have played so far in providing financial services to agricultural actors, especially rural smallholders and agricultural small and medium enterprises (ASMEs).”¹⁴

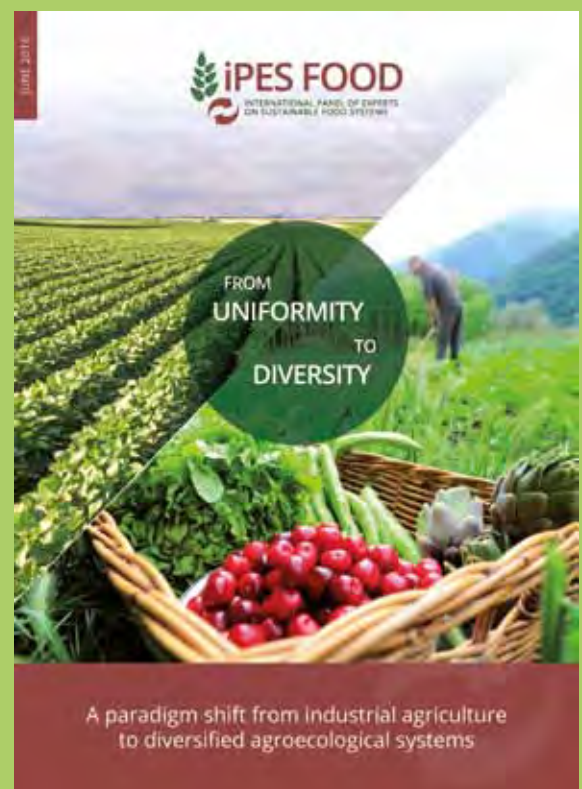
From Uniformity to Diversity – A paradigm shift from industrial agriculture to diversified agroecological systems¹⁵

In The state of Food and Agriculture (2016), FAO underline the need for “a profound transformation of food and agriculture systems worldwide.” The report from the International panel of Experts on Sustainable Food Systems (IPES) have some of the same messages, and it points out a way forward. One of the key messages in the report is:

“What is required is a fundamentally different model of agriculture based on diversifying farms and farming landscapes, replacing chemical inputs, optimizing biodiversity and stimulating interactions between different species, as part of holistic strategies to build long-term fertility, healthy agro-ecosystems and secure livelihoods, i.e. ‘diversified agroecological systems’.”

The recommendations for the paradigm shift

1. Develop new indicators for sustainable food systems.
2. Shift public support towards diversified agroecological production systems.
3. Support short circuits & alternative retail infrastructures.
4. Use public procurement to support local agroecological produce.
5. Strengthen movements that unify diverse constituencies around agroecology.
6. Mainstream agroecology and holistic food systems approaches into education and research agendas.
7. Develop food planning processes and ‘food policies’ at all levels.



Governments' expenditure in agriculture

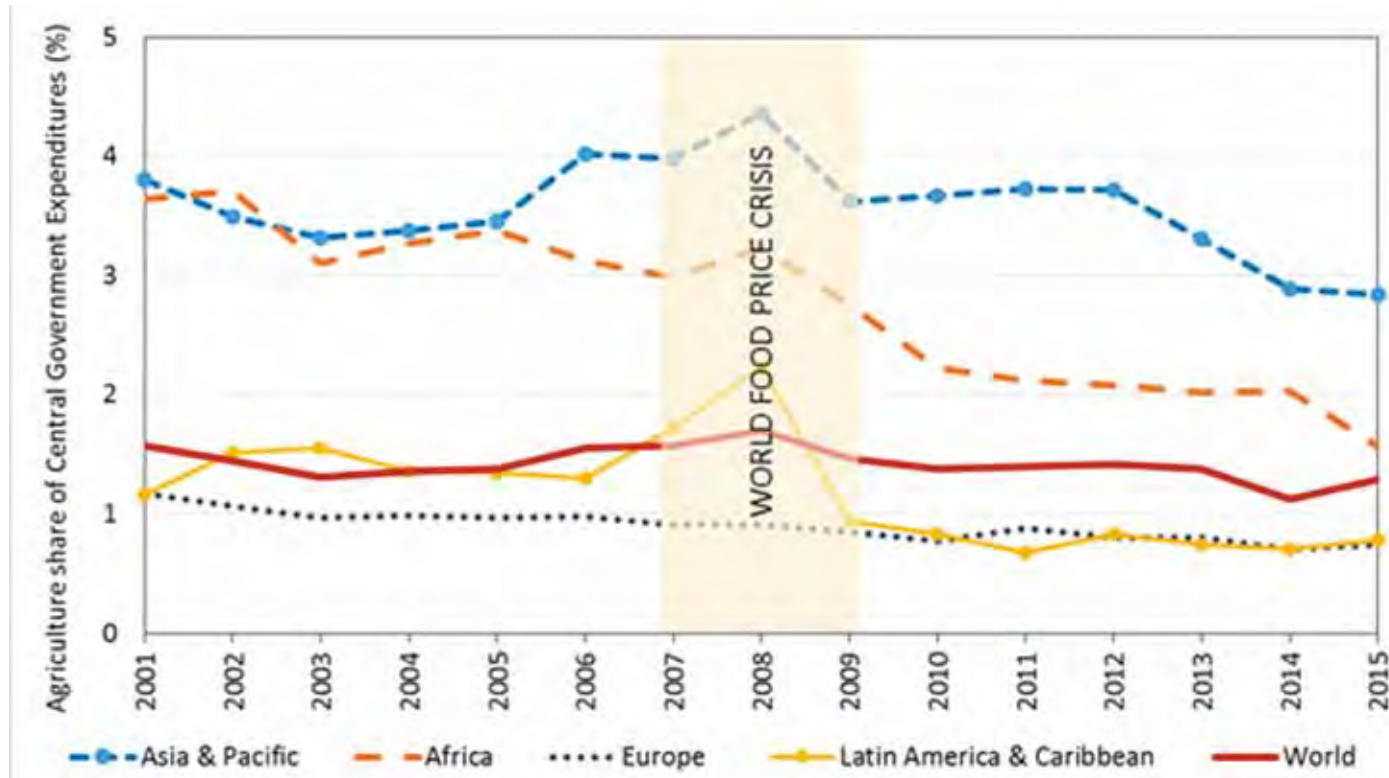
According to FAO, governments allocated less than 2% and progressively declining share of their central government expenditures to agriculture (GEA) between 2001 and 2015, from 1.6% to 1.3%. The GEA as a share of the total expenditures was on average under one-third of the sector's contribution to GDP which increased in the same period from 4.1% to over 5%. FAO states that *"The progressively declining share of their expenditure to agriculture sector suggests a public underinvestment in the sector."*¹⁶

In 2003, Heads of State and Government of the members of the African Union (AU) agreed on the Maputo Declaration to adopt sound policies for agricultural and rural development, and committed themselves to allocating at least 10% of national budgetary resources for their implementation within five years. However, ten years later, only nine countries had reached to goal of 10%; Zambia Burundi, Burkina Faso, Mali, Niger, Congo Republic, Senegal, Ethiopia and Malawi. 45 countries had not. In 2014, the members of the African Union re-committed to the 10% in the Malabo Declaration.

It is important to investigate, evaluate and discuss what the government's expenditures on agriculture are and ought to be used for. It is not only the amount that counts, but also what the money are used for. In the years 2005-2011/12 Malawi used between 46.8 and 60.1% of the budget of the Ministry of Agriculture and Food Security to subsidize chemical fertilizer and hybrid seeds.¹⁷ This contributed to increased food production, but had negative impact for some small-scale farmers and on biodiversity and other environmental issues.



Agriculture share of government expenditures by region, 2001-2015¹⁸



Overall, Asia and the Pacific and Africa were the two regions with the highest GEA share of central government spending, and included 8 of the top 10 countries in average expenditure shares from 2010 to 2014. This top 10 was led by Malawi (15.8%), Bhutan (13.1%), Nepal (10.6%), Uzbekistan (10.3%) and Belarus (8.3%).

Source: www.fao.org/economic/ess/ess-economic/expenditure/en/

Agriculture share¹⁹

of Central Government
Expenditures by Sustainable
Development Goals (SDG)
Region

of Gross Domestic Product
(GDP) by Sustainable
Development Goals (SDG)
Region

	2001	2008	2015
WORLD	1.57	1.70	1.29
Developing regions	3.73	4.18	1.87
Northern Africa	9.87	3.04	1.47
Sub-Saharan Africa	2.78	3.42	1.72
Latin America & the Caribbean	1.17	2.23	0.78
Eastern Asia	5.70	3.57	1.22
Eastern Asia excluding China	5.70	4.71	1.22
Southern Asia	4.40	7.68	2.85
Southern Asia excluding India	2.21	4.04	2.85
South-Eastern Asia	3.69	3.01	4.11
Western Asia	0.58	3.69	2.70
Oceania		2.20	3.12
Caucasus and Central Asia	4.63	3.55	2.39
Developed regions	1.16	0.92	0.69
Least Developing Countries (LDC)	4.04	4.31	2.27
Landlocked Developing Countries (LLDC)	5.13	4.78	3.56
Small Island Developing States (SIDS)	0.54	0.99	0.55

	2001	2008	2015*
	4.14	5.28	4.99
	10.22	10.43	7.07
	9.42	9.86	13.85
	12.19	14.89	13.23
	5.18	5.98	5.24
	3.73	9.12	14.17
	3.73	2.26	14.17
	22.26	15.46	21.12
	23.34	12.43	21.12
	7.35	10.92	7.87
	1,74	7.50	4.86
		11.26	9.52
	34.53	6.02	5.18
	2.34	1.89	2.23
	24.62	16.8	14.91
	27.76	11.54	8.78
	1.03	0.89	1.32

* provisional data

Share of government expenditure in agriculture (FAO)

“Agriculture share of central government expenditures less than half the sector’s contribution to GDP, 2001-2015.

Between 2001 and 2015, governments allocated a low (less than 2%) and progressively declining share of their central government expenditures to agriculture (GEA). Falling from 1.6% to 1.3%, the GEA share of total expenditures was, on average, under one-third of the sector’s contribution to GDP, which increased in the same period from 4.1 % to over 5%. The progressively declining share of their expenditure to agriculture sector suggests a public underinvestment in the sector.

This public underinvestment in agriculture, and the sector’s importance to economic growth and poverty alleviation, particularly in Africa, was acknowledged in the African Union’s Maputo Declaration of 2003, under which signatory nations committed to allocate 10% of government expenditures to agriculture and rural development. Though several countries were unable to attain this goal, the importance of public expenditures in agriculture was recognized in the Malabo Declaration of 2014, in which signatory nations re-committed to the 10% goal.

In developing regions, despite the significantly higher contribution of agriculture to GDP (7.1 % in 2015) and its even greater contribution to rural employment, this sector received only 1.9% of total central government spending.

These regions also experienced the largest downward trend in the GEA share of central government spending between 2001 to 2015 (from 3.7 to 1.9%), interrupted temporarily during the food price crisis of 2006-2008, during which governments boosted the GEA share to a 13-year high of 4.2% in 2008.”²⁰



Official Development Assistance (ODA) for agriculture

The share of development assistance / aid for agriculture is low despite the facts that the majority of people and the majority of the poor and in developing countries are linked to agriculture, – and not least that investments in agriculture is by far the most efficient way to reduce hunger and poverty.

From the mid-1980s until 2004 there was a significant decrease of the support to agriculture in the ODA, about 50%. Only about 4% of the support from bilateral donors and slightly above 2% from multilateral agencies were given to the agricultural sector during those years. The ODA for agriculture has increased since 2005, but is still very low, about 6-8% of the total ODA.²¹

The World Summit on Food Security in 2009 noted “that the share of ODA devoted to agriculture reached a level of 19 percent in 1980, but fell to 3.8 percent in 2006. (...) We commit to substantially increase the share of ODA devoted to agriculture and food security based on country-led requests. We encourage international financial institutions and regional development banks to do likewise.”²²

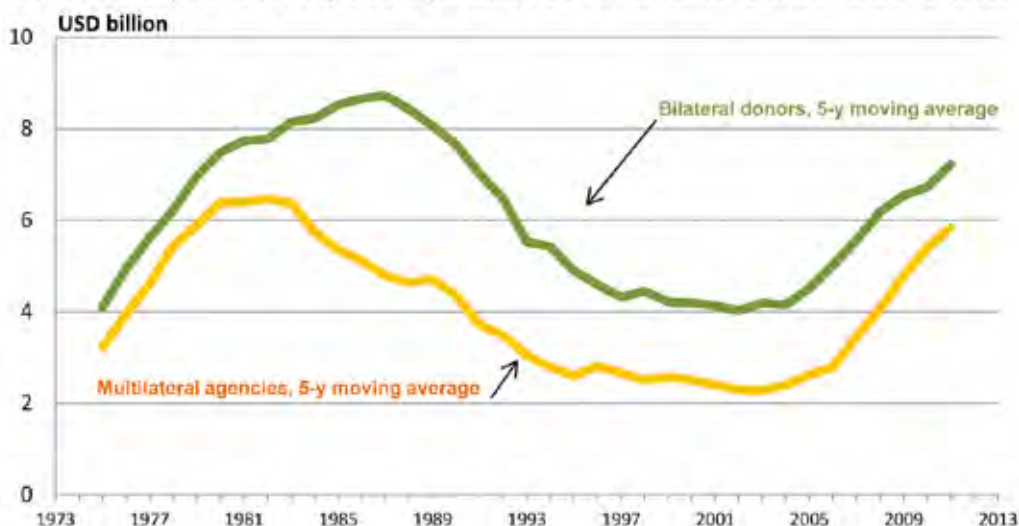
In 2003, the Canadian government committed to increase the support for agriculture in the ODA fivefold from \$ 95 million in 2003 to \$ 500 million in 2007-2008.²³ Canada did increase its aid support for agricultural development to an average of \$435 million per year from 2009 to 2011. Since then, aid for agriculture has fallen to an average of \$328 million/year, a decline of 25 percent.²⁴

In 2003 the Norwegian ODA for agriculture was 2.82% of the total ODA. An advisory group for the Norwegian government recommended increasing the share of the ODA going to agriculture to 15% within three years.²⁵ However, the support for agriculture in 2006 was at the same level as in 2003, and only 1.93% in 2015. The latest figures from OECD show that about 6-8% of the ODA goes to agriculture.²⁶

At least equal important as the amount of ODA for agriculture, is what the money are used for. Does most of it go to support small-scale sustainable agriculture and the organizations for small-scale food producers or to support large-scale unsustainable agriculture?

Trends in aid to agriculture and rural development²⁷

1973-2013, 5-year moving average ODA commitments, constant 2013 prices



Official Development Assistance (ODA) for agriculture as a share of total ODA²⁸

	1993-1994	2013-2014
Australia	6,0	3,9
Austria	2,9	5,1
Belgium	11,5	8,4
Canada	3,6	8,8
Czech Republic	..	7,3
Denmark	7,2	8,6
Finland	22,1	6,0
France	6,1	4,5
Germany	7,0	4,8
Greece	..	-
Iceland	..	19,3
Ireland	5,1	8,7
Italy	3,3	3,9
Japan	8,9	3,6
Korea	5,7	7,3
Luxembourg	6,8	4,9
Netherlands	14,5	6,0
New Zealand	13,2	7,6
Norway	7,9	5,4
Poland	..	49,0
Portugal	0,8	0,2
Slovak Republic	..	4,8
Slovenia	..	0,5
Spain	10,1	8,6
Sweden	10,9	4,2
Switzerland	11,0	4,4
United Kingdom	9,0	2,7
United States	5,0	4,4
TOTAL DAC	7,5	4,7



Different sources give different figures. We take Norway as an example; According to the OECD-statistic above, Norway used 4.5% of the total ODA to support agriculture in 2013-2014. According to figures from the Norwegian government's Agency for Development Cooperation (Norad), Norway used 2,8% in 2013 and 2.2% in 2014.



Recent development in the search for innovative schemes

The 2008 food crisis which increased the number of people suffering from hunger with more than 100 million people, and the 2008–09 global financial and economic crisis could have been the opportunity for drastic changes with increased regulation and protection for the most vulnerable, but it did not happen.

Impact investing

The growth in impact investing became driven by institutional investors looking at “sustainability” assets and investment strategies. In a few years, this new industry skyrocketed. This was also the time of land grab,²⁹ food speculation, and new constituencies coming into the realm of development and poverty alleviation and realizing the importance of the agricultural sector.

In a personal communication with the authors of this report a director of an investment company which has large investments in agriculture, said that:

“Leading institutional investors (pension funds, and sovereign wealth funds) are now integrating ESG () and sustainability standards into their “normal” investment protocol and asking fund managers to both implement and report on these attributes and outcomes.*

We are seeing a similar growth in the high net worth market demand for impact and sustainability investment products and strategies across the asset categories.

USD 5-7 trillion in ESG or values based liquid strategies (public equities & fixed income)

USD 65-70 billion in green bond issuances, 50% DFI (development finance institution) and banks and 50% corporate & project finance

USD 10-20 billion instead into impact funds across the asset classes”³⁰

(*) Environmental, social and governance (ESG)

Agricultural Funds

In the years around 2010 publications from International Development Organizations (IIED, IFAD, FAO, UNCTAD etc.) on land grabbing and investment increased exponentially.³¹ Agricultural funds multiplied quickly and, in 2010, FAO decided to review this new trend, analyzing 80 investment funds and reviewed in-depth 31 funds with a targeted capital base of 4 billion USD.³²

This was the first FAO publication on private

investment funds in agriculture, symptomatic of the rapid shift of investments of the recent years. The authors observe a clear upward trend; *“The majority of investment funds have been set up recently”*, which they explain by the fact that: *“The factors that have triggered the global food crisis have increasingly attracted the attention of private investors due to expectations of increasing returns.”*

One third of the funds were solely private capital investment funds, which is evidence of the growing interest of private investors in the sector. The authors also observe that:

“While the use of investment funds is not new phenomenon in the financial world, what is new is the growing interest in using these investment structures to exclusively target developing world agriculture. In general they offer a way to invest with reduced risk by diversifying investments through pooled instruments while also having specialized fund management to support each of the individual investments. Of the 31 funds 14 are equity, 8 debt and equity, and 4 are debt, 1 is guarantee fund, 4 are other funds. Agribusinesses are preferred for investment by investment funds that can bring them debt and equity capital. Out of the 4 debt funds, only one directly provides loans to the end borrower. This is a clear indication that the funds are set up for profitability and, while dealing with agriculture, do not benefit the primary producers.”

The study brings forward a disconnect between these new instruments and the food producers themselves: *“A general mismatch between supply and demand in favor of the investors is being perceived”*. Out of 31 funds, 22 funds invest in agro-industries and are linked to value chains.

Innovative investment approaches

During the same years, in 2012, a review was commissioned by Prince Charles’ the Prince’s Charities International Sustainability Unit.³³ The author, Gabrielle Kissinger, made a review of case studies of investment models used in production agriculture and supply chains in developing countries with emphasis in Africa. She focused on those aimed at reducing investment risk while having positive economic, social and environmental outcomes to see what could be replicated and scaled. She also examined current guidelines and principles for investors and how these allowed them to distinguish “bad” from “good” investments.

Kissinger highlights the spike in large-scale investment in farmland after the 2008 food price crises which fueled the increased interest in agricultural investments. Some of these investments had negative impact, including the displacement and disempowerment of local communities and the depletion or destruction of natural capital. This also led to commercial risks for the investors.

“... At the same time, there is a critical need for private investment in agricultural production and supply chains, in order to help bridge the large agricultural investment gap in the agricultural sectors of developing countries. How can alternative investment models be applied to agricultural production and related supply chains in developing countries that benefit the investor and the farmer and address food security and economic development needs?”

The conclusion was that *“there are currently very few funds in Africa targeting inclusive business development, and value chain/sectoral development, cater to SME’s and/or seeking broader positive development impacts”*

and that *“there is a large disconnect between farmland investment guidelines in use at project levels and climate-smart agricultural principles”*.

There is a predominance on equity and equity related financial instruments, with emphasis on export crops that have to comply with a series of predefined standards, results in an increased dependency on technical packages, foreign markets and external inputs. Models mainly focus on agribusiness, value chains and SMEs. There are no examples of models for agroecology and other forms of diversified and sustainable agriculture. These financial models are conditional to the adoption of specific technical packages.

Based on the research for this report, we can conclude that there is a need to develop alternative investment models for agricultural production that benefit the investor and the farmer and address food security and economic development needs.

Elisabeth Atangana*: Some measures to enable small producers to fully play their role in sustainable agriculture

- Create specific credit lines for micro finance organizations of small producers.
- Support vocational training centres for farmers and rural youth, adults and active farmers, train farmers in entrepreneurship and innovative technologies.
- Support the economic activities of women, youth and minorities aiming at their empowerment through specific programs.
- Enable small producers to access markets through support by cooperatives, collection of agricultural product, rural transport, storage facilities, cold chains, curing etc.
- Establish programs for capacity building of farmers’ organisations in the agricultural and rural council to improve access for farmers and facilitate their adoption by farmers’ organisations.
- Facilitate access and land tenure security (education, training, advocacy and negotiation).
- Develop a social security and rural welfare system.
- Recognize and value the peasant’s expertise.



* Elisabeth Atangana is a farmer in Cameroon, President of the Regional Platform of Farmers’ and Producers’ Organizations of Central Africa (PROPAC) and International co-coordinator of the More and Better Network. She was the first President of Pan African Farmers Organization (PAFO) and has been Special Ambassador for Cooperatives at the Food and Agriculture Organization of the United Nations (FAO)

Financial institutions, organizations and networks

There are basically four types of financial institutions, organizations and networks which provide financing for investments in agriculture;

- Governments and public institutions which invest in and support agriculture to contribute to improve living conditions and for sustainable development. Such institutions give both direct support / grants and loans on good conditions to farmers.
- Philanthropic foundations and non-governmental organizations (NGOs) which also give both direct support and loans on good conditions to farmers.
- Impact investors that invest with the purpose to have a positive impact on the living conditions for farmers and for the environment, and at a same time have an acceptable financial return on the investments.
- Commercial financial institutions and investors which invest for a financial return. Many such institutions and investors have strong ethical guidelines and want to contribute positively to the eradication of hunger and poverty, and for sustainable development. Others are mainly or only focused on a maximum profit.

We provide here a brief overview of some key financial institutions and networks investing in agricultural development with the purpose to contribute to sustainable development and the eradication of hunger and poverty.

International Fund for Agricultural Development (IFAD)³⁴

IFAD is a specialized agency of the United Nations, established as an international financial institution in 1977. It is the only UN agency and International Financial Institution working exclusively in rural areas and has a current portfolio of programs and projects in 98 countries. Since 1978, IFAD has provided \$ 17.7 billion in grants and low-interest loans to projects that have reached about 459 million people, according to their own information.

IFAD provides both loans and grants. The ordinary interest rate for loans in the end of 2016 was 1.31%. The budget for 2016 is \$ 900 million and services will be provided through IFAD-financed projects to reach 110 million - 130 million people in the period 2016-2018.

IFAD has since 2005 organized a biannual Farmers' Forum with representatives from farmers' organizations worldwide.

The Global Agriculture and Food Security Program (GAFSP)³⁵

GAFSP is a Financial Intermediary Fund administered by the World Bank to assist in the implementation of pledges made by the G20 in Pittsburgh in September 2009. *"The objective is to improve incomes and food and nutrition security in low-income countries by boosting agricultural productivity. GAFSP addresses the underfunding of country and regional agriculture."*



GAFSP supports public projects in 30 countries and private sector projects in 14 countries as well as global. Eleven donors have pledged a total of \$ 1.59 billion to GAFSP. The Steering Committee consists of an equal number of major donors and recipient representatives as voting members, and non-voting members of potential supervising entities (World Bank and other financial institutions), three civil society representatives (CSOs) selected through a self-selection process managed through their respective networks, and the United Nations Secretary General's Special Representative on Food Security and Nutrition.

The current CSO-representatives are two representatives from farmers' organizations – from the farmers organization for West-Africa, ROPPA, and Asian Farms Association, and one from an international NGO, ActionAid (USA).

The World Bank is also involved in in other programs and institutions for financing of agriculture. See more information on their webpage.³⁶

The Green Climate Fund³⁷

The Green Climate Fund (GCF) is a global initiative to respond to climate change by investing into low-emission and climate-resilient development. GCF is an operating entity of the Financial Mechanism of the UN Framework Convention on Climate Change (UNCCC), established in 2010 by 194 governments to limit or reduce greenhouse gas emissions in developing countries, and to help vulnerable societies adapt to the unavoidable impacts of climate change. The Fund is mandated to make an ambitious contribution to the united global response to climate change. The UNCCC Paris-agreement in 2016 stipulates that developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention. Other Parties are encouraged to provide or continue to provide such support voluntarily.

Investing in agroecology and other forms of sustainable agriculture is part of the purpose of the Green Climate Fund.

Impact investors

Impact investments are investments made by companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. There are many funds, foundations, companies and individuals engaged in different forms of impact investments in many fields, not only in agriculture.

Global Impact Investing Network (GIIN)³⁸ which was established in 2009, is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing around the world. Among the more about 85 members there are banks and other financial institutions, philanthropic foundations and companies.

Toniic³⁹ is another network for impact investors. Its vision is a global financial ecosystem which operates to create positive social and environmental impact, and its mission is to empower impact investors. Toniic has members representing more than 360 impact investors, and \$ 4.5 billion in assets.

Grow Africa Partnership⁴⁰ was founded jointly by the African Union (AU), the New Partnership for Africa's Development (NEPAD) and the World Economic Forum in 2011. Grow Africa is a market-based platform working to increase private sector responsible investments in African agriculture – i.e. investment which, in the context of Environmental, Social and Governance (ESG) concerns, promotes positive impacts and avoids negative ones. More than 200 companies and governments in 12 countries are taking part in Grow Africa. Between 2013 and 2015 Grow Africa's private agribusiness partners invested \$ 2.3 billion of which \$ 500 million in 2015. The companies reported that their investment commitments reached more than 10.4 million smallholders in 2015 through sourcing, services or training. Grow Africa say that these investments also created more than 30 000 jobs in 2015.

Kiva⁴¹ as an example of non-profit lending institutions. Kiva was founded in 2005 and is based in San Francisco. Its mission is to connect people through lending to alleviate poverty. 1,6 million people have lend money to Kiva – from \$ 25 and upwards, and 2,3 million people, - as individuals or in groups, have borrowed the total of \$ 928 million from Kiva. 81% of the borrowers are women, and more than half a million of the borrowers are farmers.

Kiva do not charge any interests from the borrowers and do not give any interests to the lenders. The repayment rate is 97%. Individuals and groups can apply for loans from Kiva. When an application has been approved, Kiva start crowdfunding for the project. On average Kiva lenders crowdfund \$ 2.5 million in loans each week.

The work of Kiva shows both that many people want to contribute financially to reduce poverty without seeking a profit and that poor people are reliable for repayment of loans.

Intergenerational finance⁴² is so far, not one of the key financial institutions, but the concept is so interesting that we mention it. The concept has been worked on for at least the last ten years. Portland University in the U.S. is one of the institutions which are involved in developing the concept. Hopefully there will soon be some concrete testing of the concept.

Blending4AG⁴³ is probably the newest initiative for new forms of investments in small-scale agriculture. It is an initiative by CTA - Technical Centre for Agricultural and Rural Cooperation. The conference Blending4AG held in Brussels in November 2016 brought many institutions and initiatives together to share experiences and to discuss new forms of investments in agriculture. The focus was on “*the strategic use of international and national development finance and philanthropic funds to mobilise private capital flows into smallholder-inclusive agricultural value chains in developing countries.*” Many interesting projects were presented at the conference on how development support and philanthropic funds could play a role as matching funds, guarantees and bridge-builder between commercial investments, credit institutions and small-scale farmers.

Because agriculture is dependent on the weather and that climate change makes the weather more and more unpredictable, investments in and loans to small-scale agriculture are risky both for the peasants themselves and for the investors and lenders. In many cases, peasants need to use their assets as collateral for loans, and many lose crucial assets because they cannot pay back the loans because of bad harvests. The high risks is also a main factor for the very high interest rates banks often demand for small-scale farmers. That is also one of the main reasons why commercial investors are very reluctant to invest with small-scale farmers.

With a blending of different sources of finance, public and philanthropic, blending of support, loans, guarantees and investments combined with capacity-building and sharing of knowledge, more of the strongly needed financial resources could go to small-scale sustainable agriculture.

The Task Force on Innovative Financing for agriculture, food security and nutrition was created in 2011 by the Leading Group on Innovative Financing for Development.⁴⁴ It published an interesting report in the end of 2012; *Innovative financing for agriculture, food security and nutrition.*⁴⁴⁵

Initiative for Smallholder Finance (ISF)⁴⁶ is another initiative, launched in May 2013. It is a multi-donor and investor platform for the development of financial services for the smallholder farmer market. ISF is a non-profit, public charity. According to themselves, it is “designed to support innovative organizations and initiatives that have the opportunity to create large-scale social change.”

To date, sponsors of the ISF have included the Citi Foundation, Ford Foundation, Gates Foundation, MasterCard Foundation, Skoll Foundation, Small Foundation, and USAID. Root Capital, TechnoServe, the One Acre Fund, CGAP, IDH, Business Fights Poverty, and ANDE provide advisory support.

Its intention is to making marked progress toward closing the gap between the over \$200 billion in smallholder financing need and the current \$50 billion supply in Latin America, sub-Saharan Africa, and South and Southeast Asia.

Direct Finance Institutions (DFI)

There are several Direct Finance Institutions (DFI) and national public investment funds in the rich (developed) countries aiming at contributing to development in the developing countries and at the same time having an acceptable financial return. Such funds take more risks than pure commercial funds. We will in this report only mention one, as an example; Norfund.⁴⁷

Norfund is the Norwegian Investment Fund for Developing Countries. It invests in three sectors in developing countries – energy, finance and agriculture. At year-end 2015, Norfund had a portfolio of about \$ 1,8 billion. Norfund gets financial grants from the national budget approved by the parliament. For 2016 the support was approximately \$ 210 million.

Norfund invest in agriculture despite that the fund admit that it is a difficult sector to invest in, and that it has had problems and losses with several of the investments in agriculture. Norfund invests in agriculture because the sector is crucial for all developing countries and for the fight against hunger and poverty.

Farmers and markets

In October 2016 the UN Committee on World Food Security (CFS) brought a two years' process on 'farmers and markets' to an end. The process was named Linking farmers to markets. However, most farmers are linked to markets, mainly to local markets and often informal markets. In the start of the process the focus was also very much on international markets, despite that less than 15 % of all food cross borders (see Myth 5 on page 21). In this process, farmers' organizations and other civil society organizations played a crucial role.

Thanks to the civil society organizations with support from some governments, the processes to develop policies and recommendations for farmers and markets turned out well with the decision in CFS, in October 2016. The focus then was on local, national and territorial markets, and the importance of informal markets was highlighted. The focus was on how to improve the conditions for small-scale farmers in the markets. The policy recommendations adopted by CFS will hopefully play a positive role in the coming years.



Principles for Responsible Investments in Agriculture and Food Systems

In January 2010, the World Bank, FAO, IFAD, and UNCTAD launched the Principles for Responsible Agricultural Investment (PRAI).⁴⁸ Civil society organizations strongly criticized the principles,⁴⁹ not at least because they stated that large scale land acquisitions - now usually referred to as 'land grabbing' - was to be welcomed as a contribution to solving the food crisis since it would stimulate food production and the economy in general.

It was proposed that the UN Committee on World Food Security (CFS) should endorse these principles, but because of the strong opposition against them – not at least from farmers' organizations and other civil society organizations - CFS decided to develop its own principles for responsible investments in agriculture (see below). Civil society organizations played an important role in the process to develop the principles, which were adopted by CFS in 2014.⁵⁰ Despite the weaknesses, the principles can play a very important and positive role.



The Committee on World Food Security - Principles for Responsible Investments in Agriculture and Food Systems⁵¹

After a process of two years, the UN Committee on World Food Security (CFS) agreed in October 2014 on the Principles for Responsible Investments in Agriculture and Food Systems (RAI). Peasants' organizations and NGOs had been very active in the process and influenced it strongly, but the civil society organizations engaged in the process were not totally pleased with the result.

The critique is mainly on some of the sub-points of the principles and that they are not based on the human rights principles. One very important point is that the principles promote the current trade and investment regime which most of farmers' organizations and other CSOs engaged in food and agriculture strongly oppose. Another critique is that the principles encourage privatization through public-private partnership and that all kind of investments in agriculture are promoted, also large scale unsustainable industrial agriculture. CSOs also criticized that the many landless people who produce or harvest food are excluded in the principles by the use of the term 'smallholder' instead of 'small-scale farmers, pastoralists, forest keepers and fishers'.

The main principles are:

Principle 1: Contribute to food security and nutrition

Principle 2: Contribute to sustainable and inclusive economic development and the eradication of poverty

Principle 3: Foster gender equality and women's empowerment

Principle 4: Engage and empower youth

Principle 5: Respect tenure of land, fisheries, forests and access to water

Principle 6: Conserve and sustainably manage natural resources, increase resilience, and reduce disaster risks

Principle 7: Respect cultural heritage and traditional knowledge, and support diversity and innovation

Principle 8: Promote safe and healthy agriculture and food systems

Principle 9: Incorporate inclusive and transparent governance structures, processes, and grievance mechanisms

Principle 10: Assess and address impacts and promote accountability

Civil Society Actions and Policies on Investment in Agriculture⁵²

Peasants' organizations and other civil society organizations played an important role in the process in the UN Committee on World Food Security (CFS) to develop principles for responsible investments in agriculture. In the negotiations in CFS, the civil society organizations proposed these overall principles:

1. Investments must contribute to and be consistent with the progressive realization of the right to adequate and nutritious food for all.
2. Investments in food and agriculture must ensure protection of eco-systems and environments.
3. All investments in food and agriculture must ensure decent jobs, respect workers rights and adhere to core labour standards and obligations as defined by the International Labour Organization (ILO).
4. All investments in agriculture and food systems must ensure decent incomes, livelihoods and equitable development opportunities for local communities, especially for rural youth, women, and indigenous peoples.
5. Investments must respect and uphold the rights of small-scale food producers, indigenous peoples and local communities to access, use and have control over land, water and other natural resources.
6. All investments must respect the rights of indigenous peoples to their territories and ancestral domains, cultural heritage and landscapes, and traditional knowledge and practices.
7. All investments must respect women's rights and prioritize women in benefit sharing.
8. States must mobilise public investments and public policies in support of small-scale food producers and workers. Small-scale food producers, workers and their organisations must be meaningfully involved in the formulation, implementation, monitoring and review of these investments and policies.
9. States must protect small-scale producers and workers from market fluctuations and price volatility by regulating local, national, regional and international food markets, and curbing food price speculation.
10. States must respect and support timely and non-discriminatory access by small scale producers, workers, indigenous communities, local communities and the public to justice, grievance mechanisms, fair, effective and timely mediation, administrative and judicial remedies, and a right to appeal.

11. Trade and investment agreements and treaties must not undermine or compromise the rights of small-scale foodproducers, workers and indigenous peoples, and food sovereignty. States must monitor and assess the impacts of such agreements on the realization of the right to food, and take appropriate action where necessary including through renegotiation or cancellation of the agreements/treaties.

12. States should enact appropriate national laws to regulate and monitor extra-territorial investments and investors. In so doing, they should apply the Maastricht Principles on Extraterritorial Obligations of States in the Area of Economic, Social and Cultural Rights, as the guiding document.

13. The effective, meaningful, and democratic participation of small-scale food producers, workers and indigenous peoples, particularly women, must be guaranteed in the planning and decision making around agricultural investments, area development, and land and resource use and management.



Some myths and facts about the global food production

Myth 1: Large scale industrial agriculture produce the food for the majority of people.

Facts: There are no exact figures of how much food which are produced by different kind of producers and how much is harvested directly from nature, but there is no doubt that small-scale food producers provide the food to the large majority of people. Most of the reports state that small-scale food producers (peasants, artisanal fisherfolks, hunters and gatherers) provide the food to about 70% of the world population.⁵³ UN Global Compact states that small scale food producers produce 40% of the food which is traded and 70% of all the food in the world.⁵⁴ The international organization ETC-group do also state that small-scale food producers provide the food for about 70 % of the world population; small-scale farmers for about 35-50%, small-scale food producers in cities 15-20%, artisanal fisheries 5-10%, hunting and gathering from nature about 10-15%, and that industrial agriculture produce about 30% of the food.⁵⁵

Myth 2: The industrial agriculture is much more productive than small scale diversified agriculture

Facts: When productivity is measured as how much food and fodder is being produced per person per year, then the industrial agriculture with monocultures and use of large quantities of chemical fertilizer and pesticides produce much more than per person in small-scale diversified sustainable agriculture.

However, much more important is the productivity per area. When that is measured, the small-scale diversified agriculture is much more productive than the industrial agriculture which use 70-75% of all agricultural land to produce about 30 % of the food while small scale farmers which use only 25-30% of the land, produce 35-50% of the food.⁵⁶

Myth 3: Small-scale farmers is a small and diminishing group

Facts: Small-scale farmers is the largest occupation. About 40% of all “economically active” in the world are farmers. About 90% of all farms in the world are less than 2 hectares and about 95% are less than 5 hectares.⁵⁷ About 43% of the labour force in agriculture in developing countries are women.⁵⁸ In the period from around 1970 to 2000 the numbers of farms less than two hectares increased with 60% in Pakistan, 240% in the Philippines and 155% in Ethiopia. It's mainly in Europe where the number of small farms is going down. The numbers of farms went down in the same period the with 20% in Italy, 30% in Spain, 80% in Germany, 83% in Norway and 92% in Finland.⁵⁹

The increase of number of small farms in developing countries reflects the lack of other working possibilities in other sectors. Most of the people have no other options than working in agriculture, and often small farms are divided into even smaller farms for the next generation.



Myth 4: Inorganic (chemical) fertilizer and chemical pesticide and herbicides are necessary for efficient food production

Facts: The largest study on farm level of productivity for small scale farmers when using good methods for organic, agroecological or other forms of sustainable agriculture without or with minimal use of inorganic / chemical fertilizer and pesticides were on 12 million farms in 57 countries. The average increase in yields by using improved cultivation methods was 79%. For Africa the average increase was 116%, and for East-Africa 128%.⁶⁰ Another study with the results over a period from three to ten years for 10 million farms with about 12,75 million hectare of land in 20 African countries showed more than doubling of the yields by using such improved sustainable cultivation methods with little or no use of chemical fertilizers and chemical pesticides.⁶¹

A study published by FAO in 2007⁶² showed that the yields usually were reduced when changing from farming with high external inputs of chemical fertilizer and pesticides to organic, especially in areas with favorable crop growth conditions *“But in regions with medium growth conditions and moderate use of synthetic inputs, organic productivity is comparable to conventional systems (92 percent) and in subsistence agricultural systems, it results in increased yields up to 180 percent. Overall, the world average organic yields are calculated to be 132 percent more than current food production levels (Badgley, et al., 2006).”*⁶³

There is an increased interest in and support for agroecology, organic and other forms of sustainable agriculture. The More and Better Network do not

denounce any use of chemicals in agriculture. It is, however, important to see the negative impacts of the use of large quantities of chemical inputs in agriculture. It contributes negatively to climate change and to reduction of soil fertility and biodiversity. For the last ten years we have seen that the yields are not increasing anymore even with more use of chemical fertilized. On top of that, the global resources of phosphorus which is a key component of chemical fertilizer, is a finite (limited) resource.

Myth 5: Most of the food cross borders

Facts: International trade of food is important for most countries and also for many small-scale food producers, but international trade should not be overestimated. Only 10-15% of all food produced cross borders; - about 3% for vegetables, 6% for fruit, 9% for dairy, 10% for meat, 15% for cereals, 35% for fish and 38% for oil crops.⁶⁴

Myth 6: Food production have to increase by 60-70 % until 2050

Facts: FAO and many other organizations, governments and institutions state that food production has to increase by 60-70% until 2050 to provide enough food for the growing population.⁶⁵ This is based on the projection on the growth in the world population, and also on that the loss and waste of food will continue to be about 30% of the production, and that the increase of meat consumption will continue. But it's possible to reduce food losses and food waste, it is possible to reduce the total meat consumption until a healthy level, and it's possible to produce meat on resources not eatable for humans.



The importance of organizing

It is of crucial importance for farmers to be organized – to share experiences and learn from each other, to cooperate in purchasing of equipment and inputs, for common storage facilities and processing, marketing and selling of their produce, to deal with financial institutions and to influence policies – to mention some of the reasons. The organizing takes place in different forms and on different levels; farmers’ organizations, cooperatives and other forms of organizations on local, national, regional and international level. The report is about investments in agriculture and the emphasis in the examples chosen is about organizing for investments.

Individual farmers can produce for their own family and sell the surplus in many different ways – direct on the local market or near-by markets, to intermediaries

(middlemen) and to companies. However, as individuals dealing with strong market-forces and in many cases dealing with or competing with large companies, they have a weak position.

Many farmers can also get individual loans and credit, but in dealing with moneylenders, banks, and other financial institutions, they are also in a vulnerable position – or in no position at all.

Investors – impact investors or regular investors – are not able to deal directly with individual farmers. To get such kind of investments, the farmers need to be organized in organizations/associations/cooperatives. FAO explain the importance of organizing and of cooperatives in a booklet from 2011: “*Good practices in building innovative rural institutions to increase food security.*”⁶⁶

Food sovereignty

Food sovereignty is an important political vision and a concept supported and promoted by most of the social movements and NGO’s involved in food and agriculture. It is an important concept also when it comes to investments in agriculture. The international peasants’ movement, La Via Campesina which comprises about 164 local and national organizations in 73 countries, launched its political vision of Food Sovereignty at the World Food Summit in 1996.

*“Food sovereignty is the right of peoples to healthy and culturally appropriate food produced through sustainable methods and their right to define their own food and agriculture systems. It develops a model of small scale sustainable production benefiting communities and their environment. Food sovereignty prioritizes local food production and consumption, giving a country the right to protect its local producers from cheap imports and to control its production. It includes the struggle for land and genuine agrarian reform that ensures that the rights to use and manage lands, territories, water, seeds, livestock, and biodiversity are in the hands of those who produce food and not of the corporate sector.”*⁶⁷



Successful cooperative in Nicaragua

Federación de Cooperativas para el Desarrollo⁶⁸ (Federation of Cooperatives for Development), FECODESA, is a good example of the importance of organizing for small-scale farmers.

FECODESA works to improve conditions for small-scale farmers, reduce risk and increase market opportunities. FECODESA is a national federation of small-and medium scale farmers' cooperatives in Nicaragua that unifies 6,000 families engaged in small-scale agriculture. The members are organized in grassroots cooperatives, and a total of 147 grassroots cooperatives from the rural area are part of FECODESA. Families produce their own food, and they sell surplus production to local, national and international markets. through their cooperatives and FECODESA.

FECODESA has adopted cooperative principles for their work, putting emphasis on democratic processes and full inclusion of their members in the economic operations and decision-making. This results in more equalitarian benefits among family farming development in the country.

When FECODESA was established in 2006 their vision was clear: to improve members' livelihoods through increased access to capital, innovation and agricultural solutions for most small-scale farmers in Nicaragua. After 9 years of operation FECODESA, has become a successful small-scale farmers' cooperative inserted formally in the cooperative sector of Nicaragua. FECODESA provides capital, market opportunities, capacity building to their members, and contributes in this way to increase productivity in the fields, increase quality of the products and add value to primary goods. Furthermore, FECODESA participate actively in governmental initiatives and sectorial round tables where agricultural policies, technical and financial mechanisms are decided. Formal integration in such arenas - where small-scale farmers are usually under-represented-, allows FECODESA to have a vote and a voice representing the interests of small-scale farmers.

Market mechanisms

Organizing small-scale farmers in cooperatives helps them to become central drivers in economic and political spaces linked to the agricultural sector in Nicaragua. This is done through organizing farmers in cooperatives in first instance, then organizing

them as a network of cooperatives with similar interests, and finally entering into formal decision-making instances for broad representation of small-scale farmers' interests. Through formalization smallscale farmers can access financial instruments, increase productivity and standardize quality of their products. Furthermore, be able to design agricultural policies which safeguard the interests of small-scale farmers.

Key elements of success towards the formalization of small-scale farmers:

1. Legitimacy. FECODESA has been established, owned and managed by small-scale farmers. The operation is motivated by shared interests of members; improve living conditions taking into account environmental considerations. FECODESA is also securing that the quality of the products meet customer needs and expectations.
2. Strong organization. All cooperatives in FECODESA work in building up financial and internal governance structures in its own organization. Being well organized is their biggest asset for reaching markets, demand better prices for their products, gain access to innovations and capital - and not least, in the face of climate change.
3. Transparent and high performance financial and governance systems. FECODESA's operations are built on systems that allow capital, knowledge and technical solutions coming quickly to the members. FECODESA is working to ensure that their members have effective administrative systems, providing capacity building financial management and governance systems, cooperative legislation, and added value processes and agricultural innovations.
4. Strong advocacy work toward defending the interests of small-scale farmers, both at local and national level. FECODESA realized that small-scale farmers' influence in decision making processes is absolutely vital to alter the power balance within the agriculture sector. Since 2013 FECODESA participate actively in national committees and political processes on food security, organic agriculture and research networks dealing with agriculture and climate adaptation issues in the agricultural and cooperative sector.

Loans and credit for small-scale farmers

The small-scale farmers in developing countries would benefit from more financial resources to be able to invest in their own farms, building up small scale processing industry and collective sales organizations. However, their access to affordable credit is very limited.

There are many good examples on local savings and credit groups.⁶⁹ People in the same village or area come together in groups where they regularly put small amount of savings into a common fund. The group-members who need loan can then get it from the fund at the terms decided by the group. According to some sources⁷⁰ more than 5 million poor people around the world are members of savings groups that provide essential services to help manage their daily lives. In Mali there are 400.000 members in over half the villages in the country. Such groups might also be able to negotiate better terms of loans from banks or moneylenders than each individual member might. The group can also collectively guarantee for such loans.

Most of the microfinance is not adapted to the agriculture needs. Bank loans are usually out of reach for the majority of small scale farmers, and are also at a very high interest rate, and often linked to collaterals so the farmers can lose their animals, equipment or property if the harvest fails. According to FAO, women counts for 43 % of the workforce in agriculture in developing countries, but only a small part of them own land due to traditions and laws. The men inherit the land. For women it is very difficult to get loans and credit except from their local savings and credit groups.

Credit provided by agro-dealers are for purchasing chemical fertilizer, improved seeds and other inputs, and are usually conditional packages. Contract farming and similar outgrower schemes are also usually for single crops, and increase the dependency of farmers to these crops and the requirements from the company leading the outgrower scemes.



Saving and Credit Cooperative in Ethiopia⁷¹

Adadaley Community Development Project has supported the establishment of women SACCO in Harsog Kebele of Somali Regional State of Ethiopia in 2012. Initially 30 interested women came together to establish the cooperative. After the cooperative legally accepted by the local development committee, the cooperative members contributed 60.000 Birr (\$ 2.700). The project provided a grant worth of 100.000 Birr (\$4.500). The total 160.000 (\$ 7.200) is collectively owned by the 30 women - most of them were poor and socially neglected members of the community. The project has also supported them in the development of model by law, in securing legal certificate from the government, and through training members of the cooperative. The cooperative rented a store with 600 Birr (\$ 27) per month and purchased various items with 90,000 Birr (\$ 4.050). Additionally, 70 goats and sheep were also purchased with 56.000 Birr (\$ 2.520) for a collective business. The audit report conducted by the government has shown that the cooperative has obtained a profit of 90.000 Birr (\$ 4.050) in one year.

In addition to the collective business, the cooperatives has given out a loan of Birr 70.000 Birr (\$ 3.150) to members individually through applying social collateral. In each peer group, one of the three members gets the chance of the first loan through raffle where as the rest will wait for their turn and put pressure on their corresponding peer-group members so as to repay the loan. Through applying this system, it was possible to show results on the livelihoods of the poor communities especially women who are marginalized but active to show results using the opportunities they have been given.

Esh Omar is 41 years old, married and a mother of six children living in the area. She became a member of the SACCO and had received a loan of 5000 Birr (\$ 225) from the cooperative in 2013. She purchased small ruminants and a donkey. Later on, she opened up a small tea shop that enabled her to get some profit and buy a sewing machine. In 2015 her capital reached 35.800 Birr (\$1.746). Her annual income in 2015 was 15.000 Birr (\$ 675). She has witnessed that life really changed. Currently the whole family lives depend on her business. She was also able to send her children to school and afford her parents' needs and wants.

Esh Omar: *“Previously, we did not even have good clothes to wear and good food to eat, but now I have succeeded to manage my family life.”*



Lack of inclusive investment schemes dedicated to small-scale agriculture

The weakness of the financial and banking systems

Three decades of scientific research and field observation have now demonstrated the potential for wealth creation in the peasant way of farming.⁷² An article on “How to Feed the World” in the New York Times dated 14. October 2013 writes:

“The playing field has been tilted against peasants for centuries, and they’ve still managed to feed more people than industrial agriculture. With the right kinds of agroecological training and the freedom to shape the food system on fair terms, it’s a safe bet that they’ll be able to feed themselves, and others as well. (...) ...this is about supporting the system in which small producers make decisions based on their knowledge and experience of their farms in the landscape, as opposed to buying standardized technological fixes in a bag.”

However, peasants are not able to access the existing potential for wealth creation mostly due to recurrent poverty, market volatility, weather fluctuations, ill-adapted financial services, and institutional weaknesses. This results in social invisibility and a weak voice as highlighted in the report “Investing in smallholder agriculture for food security” by The High Level Panel of Experts on Food Security and Nutrition of the Committee on World Food Security (CFS), the intergovernmental body that reviews world food policies, which adds:

“Stimulating investment requires to secure access to resources, access to markets (and reduced volatility) and more adapted policies and institutions. The key bottleneck is the weakness of the financial and banking systems to support smallholder agriculture which needs novel solutions to allow for risk-sharing and lower transaction costs.”⁷³

The thoughts and attempts to develop inclusive models for financing the peasant way of farming, described further in this paper, is rooted in these realizations. It also comes from the need to propose alternative investments to investors with social and environmental aspirations. And, it comes as the need to supply the weakening public sector with novel tools and alliances, which can fill the current gaps and bridge far apart constituencies: the financial world on one side, and peasant movements on the other, with a view to make finance accessible to those who need it.



The High Level Panel of Experts (HLPE) states:

“ ... the weaknesses and risks found in agriculture are not solved by financial institutions with financial products. ... Indeed, decades of agricultural credit programmes have had little effect on agricultural development. To some extent, the opposite may have happened, as in Tunisia and India, where farmers have become overindebted with little to show for it in agricultural results. To have an impact on agriculture, financial services must be structured to induce farmers to make innovations in their operations.

... Most models of inclusive business are still in the nascent stages of development, producing modest margins and long times to scale, along with low internal rates of return and are perceived as high-risk due to innovative and sometimes unproven business models (Koh et al, 2012). However, these business models hold potential to unlock the cycle of ecological and economic poverty faced by many small-scale farmers.

... The challenge therefore, is to channel investment into inclusive and sustainable agricultural projects that create long-term value and mitigate long-term risks. How can alternative investment models be applied to agricultural production and related supply chains in developing countries that benefit the investor and the farmer and address food security and economic development needs?”⁷⁴

A pilot project in Mozambique for inclusive investments

A pilot project is being implemented in Marracuene district, close to Maputo, the capital in Mozambique. It involves 30 peasant-families, and was initiated with a revolving fund of € 15 000 and a grant provided by the Heidehof Stiftung (Germany) and an innovation fund from Coventry University (UK). The preparatory work was initiated in 2012 with the support of Norfund - the Norwegian Investment Fund for Developing Countries, which funded a research project to come up with proposals of projects the fund could invest in with small-scale farmers in sustainable farming. UNAC,⁷⁵ the national farmers' organization in Mozambique was very interested in the approach of the this project, and that it was an opportunity to to create an alternative to large-scale industrial agriculture such as Pro Savanna which they strongly opposed.

Interest from farmers, institutions, foundations, NGO's and investors

The planning of the pilot project has attracted a lot of attention and interest from farmer organizations, UN-institutions, foundations, NGOs and progressive investors. They have underlined the need for a new model for such investments and asked to be involved at a later stage. Fruitful collaboration was developed with a number of individuals, institutions and international organizations. Likewise, among academics working on food and agriculture there is an interest in the project, and the Centre for Agroecology, Water and Resilience (CAWR) in Coventry University is now housing the conceptual design of the pilot project in Mozambique and contributes financially to the research on the project.

The difference with other investment models

The model as developed:

- Allows to bridge the divide between small-scale farmers and financiers (banks, investors etc.)
- Reduces transaction costs
- Includes negotiated risk-sharing
- Increases autonomy of peasant communities
- Does not result in indebtedness (uncollaterised)
- Is highly decentralized
- Is dedicated to agroecology
- Deals with both production and marketing of food and cash crops
- Is based on local institutions with collective decision-making

This model is unique in that: it unlocks the major bottleneck of peasants which is access to finance to invest in own farm and intensify production while at the same time building the farm for the long term. It focuses on agroecological production (low external inputs), it strengthens local institutions (resulting in less transaction cost for partners, and greater gender parity), it facilitates higher levels of aggregation (collective selling), it deals with marketing to diversified markets, it does not create indebtedness and dependency (activates internal social process of control, trust and solidarity), it allows to reinvest flows of value created locally (circular flows, local craftsmanship, SMEs), it allows flexibility and choice (based on local cultures and traditions), it regenerates soils and is good for the climate (carbon sequestration, crop adaptation), it opens up the possibility for living systems and ecological processes to evolve.

The model is based on individual and collective investments for agroecology applied within the framework of a transition process that includes 12 steps (See box on the next page). The pilot tests the functioning of royalty on revenue (percentage of sales) and risk sharing mechanisms. A separate report about the pilot project will be published by the More and Better Network in the beginning of 2017.

Once the pilot in Mozambique was initiated, the 12 steps developed for a transition towards sustainable agriculture begun. .



12 steps for a transition to sustainable agriculture⁷⁶

1. Local consultation with all the members of the associations.
2. Mapping of local resources.
3. Exploration of new practices and tools.
4. Democratic consultation with members from outside the community.
5. Repatterning of existing resources to create more value locally.
6. The definition of shared values that the project can strengthen.
7. Negotiation to strengthen access to resources and contact with economical actors outside the community.
8. Creation of new links in various fields, including the use of renewable energy.
9. Creation of an agricultural transition discussion platform.
10. Permeability and synergies with similar initiatives elsewhere.
11. Emergence with expansion and replication.
12. Distribution of wealth with community solidarity mechanisms.



Some challenges and recommendations

Based on the material for this booklet, we present here some recommendations.

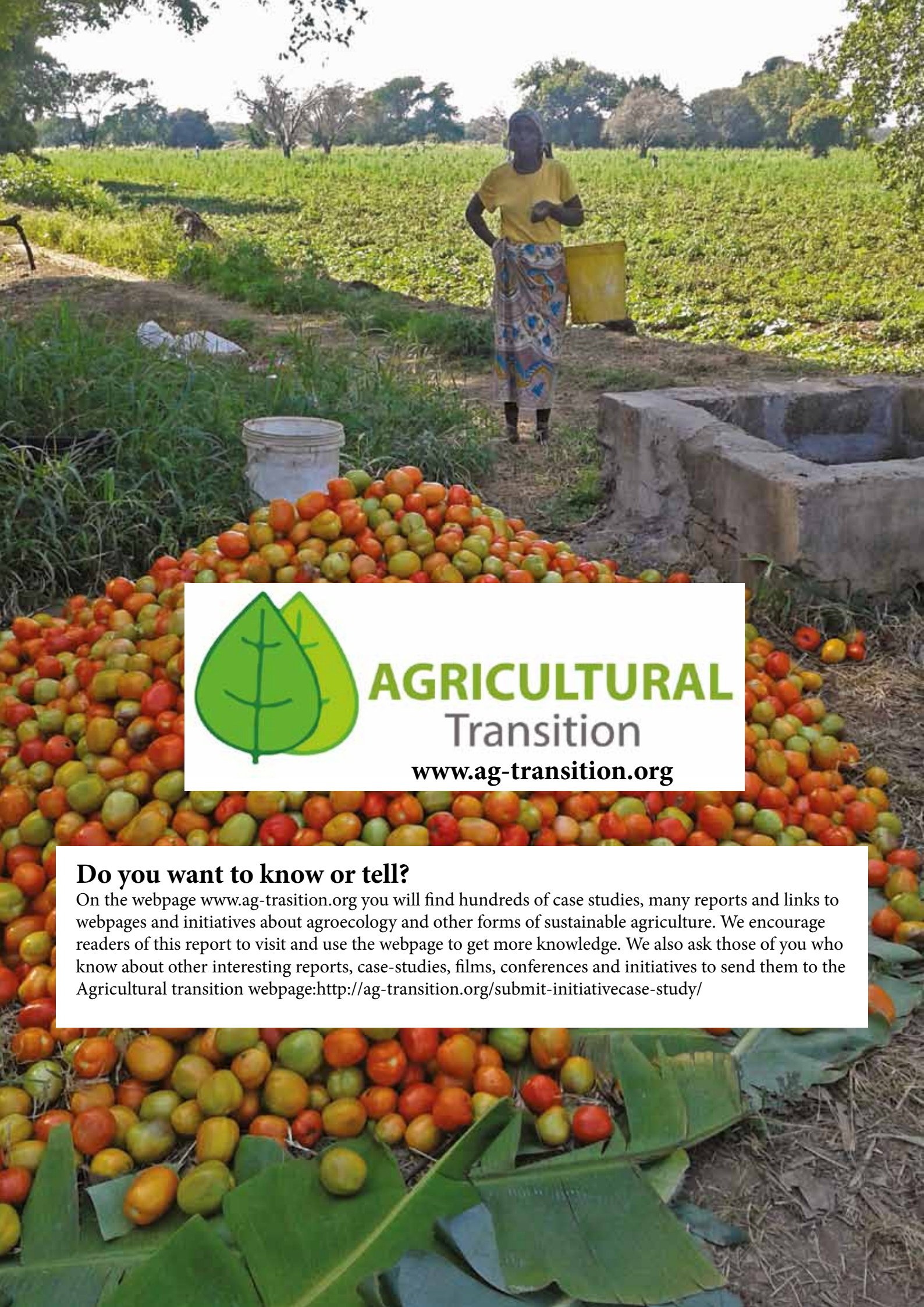
1. Governments should reconsider the importance of small-scale agriculture and its contribution to the national economies and prioritize the development of sustainable forms of agriculture.
2. The share of public expenditure going to support for agriculture from national states, both in developing countries and in the Official Development Assistance (ODA), is very low. It is recommended to increase significantly the budget dedicated to small-scale sustainable agriculture.
3. Governments which have committed to a percentage of their national budgets to agriculture (e.g. African governments), should ensure that this is being implemented.
4. Governments should work in close coordination with the small-scale farmers' organizations and other CSOs to ensure that an increased support to agriculture effectively benefit people on the ground, in particular women and youth.
5. Support for agriculture in the ODA from the OECD-countries and others should be at least 10% of the total ODA, and small-scale agroecological and other forms of sustainable agriculture should get most of the financial resources. This target should be reached as soon as possible, and not later than 2019.
6. Civil society in the countries providing ODA ought to add pressure on governments to increase the support for small-scale sustainable agriculture and infrastructure important for such agriculture.
7. Climate change makes the risks in agriculture bigger than before. Guarantee schemes should be built up by governments and development agencies so small-scale farmers can get financial support if the harvests fail. This is of special importance for small-scale farmers in developing countries.
8. Alternative investments schemes in agriculture should be developed for public and private investments funds, foundations and other private investments (except from the farmers themselves) in sustainable agriculture which benefit the small-scale farmers, and at the same time can give an acceptable financial return to the investors.
9. Increased investments should be tailored to directly benefit small-scale farmers. Investors with social and environmental aspirations should be encouraged to support and invest in small-scale agroecological and other forms of sustainable agriculture.
10. Investments in agriculture tend to increase agricultural specialization. It would be important to ensure that novel models of inclusive investment do not undermine the local food production for home consumption and instead reinforce the diversity and adaptability of the farms.
11. New schemes should pay particular attention to climate mitigation and adaptation and facilitate the access to practices that can be beneficial.
12. Special consideration should be given to the importance of investments that increase the autonomy of the communities rather than the dependence to the credit institutions.
13. Investments dedicated to small-scale food producers should pay particular attention to the farmers' rights, especially access to land, social and labour rights.
14. Special attention should be paid to the role of women and youth in the investment schemes.



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