SCALE FOR RESILIENCE

How to finance resilience for smallholder farmers at scale?

The role of regulation, risk disclosure and locally-led adaptation

Scale for Resilience
NATURE BASED SOLUTIONS

COP27
SHARM EL-SHEIKH
2022 EGYPT

November 2022

Foreword

The United Nations Climate Change Conference COP27, convening in Sharm al-Sheikh, Egypt, saw the themes of adaptation and resilience at the forefront of the discussions. Scale for Resilience, a joint initiative by YAPU Solutions, GAWA Capital and CIAT/CGIAR which seeks to scale Nature-based Solutions (NbS) and adaptation finance through targeting entire financial value chains, has long been a part of the UNFCCC High Level Race to Resilience Campaign. Acting as co-lead for the "Food & Agriculture" theme of the Resilience Hub at COP27, Scale for Resilience lead a session regarding sustainable and inclusive financing for smallholder farmers.

This white paper aims to provide a comprehensive overview of the event and the essential learnings that can be gathered from it. It is hoped that this will aid in efforts to accelerate the ambition, action and investments urgently needed to shift the weight of collective action towards a more equitable balance between adaptation and mitigation goals. It is authored by YAPU Solutions, one of the co-founders of Scale for Resilience.

We would like to sincerely thank all those that planned and participated in both this session and in the Resilience Hub. It was an uplifting moment of diverse voices coming together to collaborate and amplify cross-actor knowledge sharing and innovative solutions. Moreover, special thanks to graphic harvester Lea Keim for putting together the brilliant session summary below. Adaptation and resilience provide the basis for the most vulnerable to thrive, not just survive, despite climate change effects. Therefore, both must increasingly become the central objectives in our continued fight against climate change. Thank you again to all the contributors. Together to 2030... and beyond.

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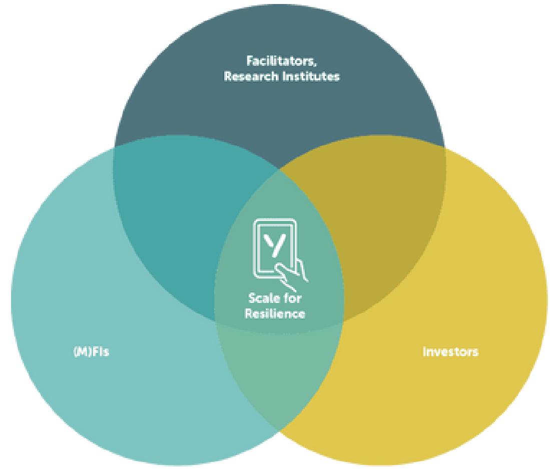
Scale for Resilience: Who We Are



Our Mission

Scale for Resilience aims to create access to Nature-based Solutions (NbS) and enable the conditions and mechanisms to finance them. It does so by addressing the full financial value chain: it unites investors, (Micro-)Financial institutions as well as facilitating institutions, like research centres and technology providers. In order to achieve this, the initiative leverages ICT solutions for the assessment and reporting of smallholder's productive needs in the context of climate change and addresses them by financing suitable NbS.

Scale for Resilience thereby seeks to address three key barriers that prevent scaling up of financing for adaptation and resilience, as identified by the Global Commission on Adaptation:

- Insufficient availability and adoption of climate risks data and tools
- Perceived lack of profitable investments
- Perceived low commercial readiness of adaptation and resilient solutions

Our Goals

The goal of the initiative is to leverage digital solutions for the assessment and reporting of smallholder's productive needs in the context of climate change and address them by financing suitable NbS. Therefore, the goals we support are:

- The use of suitable digital tools to foster structured data gathering and reduce complexity
- The systemic lowering of financial barriers for smallholder farmers by promoting site-specific comprehensive and holistic Nature-based Adaptation value propositions
- The establishment of standardized metrics to facilitate reporting
- The verification of green Microcredits on the ground
- The development of green credit products financing NbS
- Fostering knowledge and capacity on NbS and their best-use to unlock their full potential for productivity and resilience

Initiated by:

We pledge to make **3,000,000** smallholder farmers and rural communities more resilient by **2030**

Session Overview

Building the business case for adaptation is key for the needed economic transition in a world increasingly affected by climate change. Smallholder farmers in developing countries play a pivotal role for food security within their communities and the world. The session united the full financial value chain and key barriers to finance resilience of smallholder farmers and respective food systems at scale were identified. Furthermore, the session focused on solutions to these barriers in the near- and mid-term, and their applicability was critically discussed.

The role of climate risk disclosure, incentive schemes for inclusive Financial Service Providers (FSPs) as well as financial products that work for agriculture and respective re-financing were at the centre of the discussion. The participants were asked to identify key barriers to scaling the financing for resilience in the areas of regulation, risk disclosure and locally-led adaptation. Thereafter, they highlighted potential solutions to these barriers. The subsequent discussion of these solutions included tangible examples geared to sustainable lending which highlighted their potential, but also limits in reaching resilience finance for smallholder farmers at scale.

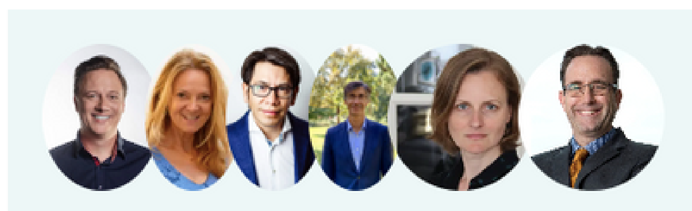
Short-term solutions as well as more advanced ones, which can be achieved with more time and resources, were highlighted.

The result was a solutions framework for resilience finance at scale.

Thursday, November 10, 2022 15:10 - 16:40

Speakers:

- Christoph Jungfleisch (Moderator), Founding CEO, *Scale for Resilience, YAPU Solutions*
- Claudia Belli, Head of Sustainability Advocacy and Financial Inclusion, *BNP Paribas*
- Mauricio Benitez, Food Systems Lead, *ResponsAbility*
- Luca Torre, Co-Founder & Co-CEO, *GAWA Capital*
- Daniela Chiriac, Senior Consultant, *Climate Policy Initiative*
- Jason Spensley, Senior Climate Change Specialist, *The GEF*



Pictured (left to right): Jason Spensley, *The GEF;* Luca Torre, *GAWA Capital*; Mauricio Benitez, *ResponsAbility*; Daniela Chiriac, *CPI;* Claudia Belli, *BNP Paribas*; Christoph Jungfleisch, *YAPU Solutions*

Barriers

What are the key barriers along the financial value chain to scaling the financing for resilience?

"This is clearly a value chain with a number of actors that go from institutional investors down to the actual end beneficiaries. For this value chain to work, for money to flow at scale, all these actors need to speak the same language in a proper ecosystem - so I think a common taxonomy and understanding of what resilience is and how to improve it has to be there. And before the taxonomy, there must be knowledge and awareness of institutional investors."
– Luca Torre, GAWA Capital

1

Awareness and Capacities

The current space of resilience finance is characterized by a general lack of awareness, capacity and access to information and adequate financial services for smallholder farmers alongside the implementation of locally applicable solutions. This leads to insufficient considerations of environmental, social and governance (ESG) standards marked by a:

- Lack of know-how, best practices and information (climate adaptation solutions, pertinent metrological forecasts, financial literacy)
- Lack of institutional capacity across actors for the integration of adaptation and resilience
- Persistent gender exclusion
- Lack of local trust, equity and ownership

2

Risk Disclosure

Investors and lenders continue to fail to fully consider climate risks and opportunities in portfolio and client evaluation. The deficient integration of climate risk management fuels perceived high risks on the side of many investors, driving interest rates up, excluding the most vulnerable, and making loan sharking practices commonplace. On the side of FSPs, adaptation and resilience commitments and frameworks are rarely implemented. However, as climate impacts become an increasing economic reality, it will become necessary for both investors and FSPs to price physical climate risks in to regulations and practices. This begins with effective climate risk disclosure.

3

Transparency & Traceability

One of the essential questions, with a persistently fragmented answer, is how are transparency, climate-risk, and adaptation and resilience defined and measured? At present, there is a blurry understanding of climate resilience impacts stemming from inadequate modelling on risks, lack of digital tools to measure adaptation and resilience and to systematize best-practices, and divergent metrics for impact measurements across actors. These data limitations fundamentally constrain understanding, and therefore, action by all those along the financial value chain.

4

Services & Products

Capital-side and funding challenges remain one of the biggest barriers in adaptation efforts. It is characterized by a:

- Lack of long-term, patient and dedicated investment
- Lack of pipeline development
- Absence of proper guarantees
- Lack of dedicated (microfinance) products and verification tools
- Lack of digitization to channel funds effectively

Solutions

What are the solutions that will allow for the scaling of resilience financing?

1

Awareness and Capacities

The general consensus was that any solution must include institutional commitments to large-scale awareness raising campaigns. Importantly, these would focus on programming for strengthening financial literacy in vulnerable communities and on generating a better understanding of locally-informed solutions. On the side of FSPs, these would look like:

- The provision of technical assistance
- Increased transparency/traceability through regulation and certification
- Training, education and promotion of available solutions and adaptation investments

2

Policy and Social Inclusion

A sweeping range of social, economic and policy instruments should be implemented in order to drive effective resilience finance. These include:

- Innovative business models
- Disruptive partnerships with transparency and cooperation among public/private sectors
- Landscape approach to policy on adaptation targeting effective leadership, land rights laws, and potential economic, social and political barriers to financial inclusion
- A concerted focus on the gender dimension:
  - Financial products specifically designed for women
  - Acknowledgement of the gendered impacts of climate vulnerability in policy design and implementation

3

Taxonomy and Measurement

Building a common taxonomy and adoption of commonly-shared indicators and certification systems to measure adaptation is essential. Data and digitization are needed in order to foster informed solutions, general efficiency of operations and scaling-up. As both investors and MFIs are required to report on the climate impacts of their investments - FSPs can play an important role in this through providing specialized technical assistance regarding climate risk management. Furthermore, synergies must be leveraged between modern science and traditional knowledge to craft locally applicable solutions.

4

Capital

Ultimately, adaptation and resilience must have a value and be perceived as a business opportunity rather than constraint. This should manifest through:

- Focus on catalytic blended finance - incentivizing more money and reducing costs for investment
- Concessional finance for banks
- Provision of patient capital and inclusive-financing schemes
- The de-risking solutions to bring down interest rates and provide re-financing options
- Advocating for locally-led adaptation through investment
- Monetizing adaptation and resilience benefits

"We must take the landscape approach. Governments and corporations, in regulations and incentives, need to focus on fulfilling their net-zero objectives and de-carbonizing while at the same time supporting resilience and adaptation. We need to think bigger when it comes to resilience and start collaborating and having solutions top-down, but also supporting locally." –
Mauricio Benitez, ResponsAbility

Current Projects

In the resilience finance space there are currently many actions being taken, specifically by those represented on the panel, that are actively working to implement some of the aforementioned solutions targeting smallholder farmers.

The discussed projects and corresponding organizations are elaborated below:

It is important to accelerate these solutions and scale their impact while also focusing on incubating other long-term resilience-focused innovations.

Christoph Jungfleisch, *YAPU Solutions*

Claudia Belli, *BNP Paribas*

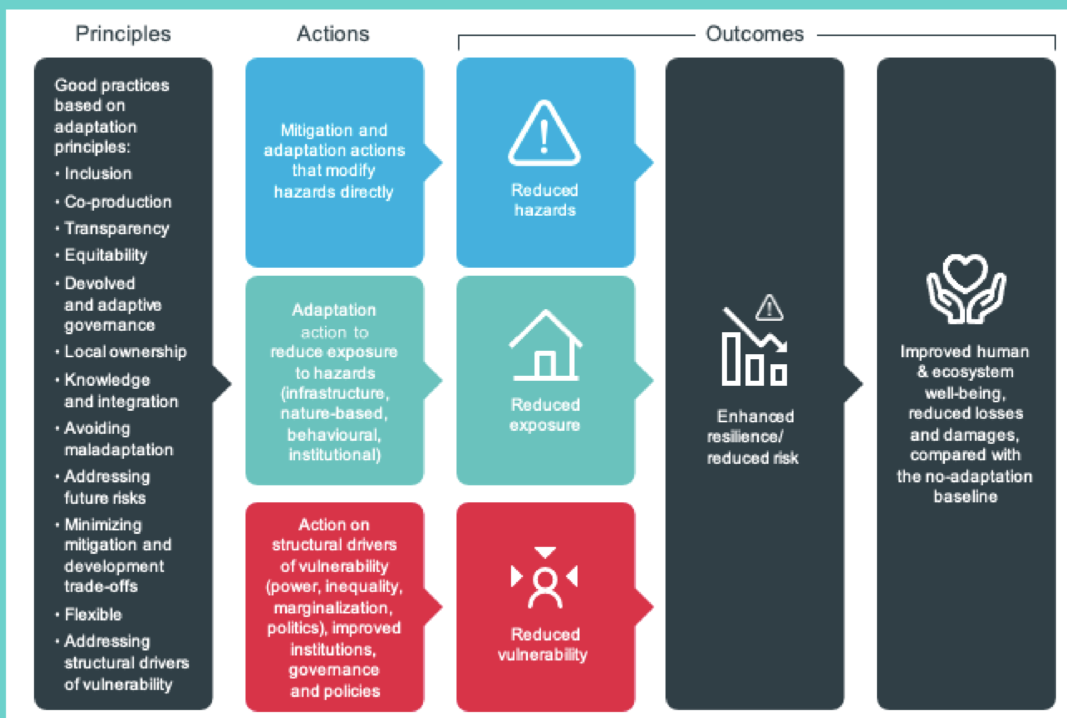
ORGANIZATION	PROJECTS	OUTCOMES
ResponsAbility	Impact investing, Technical Assistance and creation of USD 200 million climate fund	• 900 million assets under management for climate finance • 21 billion assets under management for financial inclusion
Climate Policy Initiative	Global Innovation Lab for Climate Finance	• Accelerator program for financial instruments addressing climate change adaptation
BNP Paribas	Sustainability Linked Loans (SLLs) alongside the launch of the JuST Institute	• Promotion of ambitious sustainability target setting by reducing cost of funding based on pre-determined targets and key performance indicators (KPIs)
The GEF	New programming strategy on Adaptation and climate change for Least Developed Countries Fund (LDCF) and Special Climate Change Fund (SCCF) for GEF-8 period (July 2022 - June 2026)	• Since 2001, the GEF has provided more than $2 billion in grant financing and mobilized nearly $10 billion for 440 adaptation projects in 120 countries
GAWA Capital	Management of four Impact Investment Funds: GAWA Microfinance Fund, Global Financial Inclusion Fund, Magallanes Impacto FIL and Huruma Fund	• 204 million euros managed and advised • 57 impact investments in 17 countries • 9.5 million total end beneficiaries

Summary & Key Takeaways

Whereby climate adaptation and resilience has increasingly become a developmental focus, there remains a long way to go. Adaptation that reduces risk is not necessarily inclusive and many smallholder farmers adoption of technologies or best-practices is hindered by their availability and affordability.

Overall, **a broader approach is needed that includes a disclosing of physical climate risks and identifying investible adaptation solutions that are human-centric and locally-led.** This necessarily includes more attention to capacity building and collaboration with communities, businesses, social society and governments. Moreover, capital-side constraints need to be overcome through catalyzing blended finance instruments and channeling these funding flows effectively. Resilience and sustained outcomes are built through locally-led, climate-smart risk management. This is summarized in the UN Environment Programmes Adaptation Gap Report (2022) (see Figure ES.5), which identifies a set of general principles of good adaptation that must be considered when designing, implementing and assessing adaptation interventions to ensure effectiveness.

Figure ES.5 An 'architecture' of risk reduction, including principles, actions and outcomes that can be used as a basis for assessing actual or likely adaptation effectiveness



UNEP Adaptation Gap Report 2022: *Too Little, Too Slow*

Mauricio Benitez, *ResponsAbility*; Daniela Chiriac, *CPI*; Claudia Belli, *BNP Paribas*

Luca Torre, *GAWA Capital*

Jason Spensley, *The GEF*

Jason Spensley, *The GEF;* Luca Torre, *GAWA Capital;* Mauricio Benitez, *ResponsAbility*; Daniela Chiriac, *CPI*; Claudia Belli, *BNP Paribas*

"Smallholder farmers, not only at a global scale produce more than 1/3 of food supply, but they provide a vital role for rural communities. Not only to provide healthy and balanced diets, but also to keep their economies afloat and bring in liquidity. So, their adaptation to climate change is of crucial importance because they are often totally dependent on climate and ecosystem services. Therefore, we necessarily must start thinking how we can organize their resilience and support them. Adaptation is a complete context-dependent, local, site-specific topic – the solutions need to be locally-led, available, applicable, and financially viable"

– Christoph Jungfleisch, YAPU Solutions

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