

The Forest, Agriculture and Commodity Trade (FACT) Dialogue

Solutions proposed to the G2G Working Groups on Smallholders Support

Introduction

Smallholder farmers are critical to the production of global commodities such as palm oil, soy, cocoa, coffee, and wood products. For example, they produce 40% of the world's palm oil. However, such commodity production by smallholders can have significant links to deforestation. Deforestation is an issue that cannot be tackled in isolation, and in many places must involve working constructively with smallholders in the deforestation frontier, as well as mobilising significant investment in restoring existing agricultural lands. Smallholder farmers must be part of the transition to new production systems if the transition is to be socially inclusive and environmentally effective.

Such systemic transitions require access to land rights, information, services, and capital to make upfront investments, as, especially for tree-crop farmers, they can be followed by a period of reduced or no income after the switch to a new cropping system such as agroforestry, for example. Today, however, close to 90% of smallholder farmers do not have access to formal finance and can lack formalised land rights. For female farmers the financing gap is even larger, and women are often excluded from equal governance, control, and use of land and resources.

These barriers can be lifted through a combination of policy alignment, technical advice, grants, and long-term and diverse agriculture finance. Such instruments can transition markets and scale up low carbon and climate change resilient production systems, such as agroforestry, regenerative agriculture, nature-based solutions, and payments for ecosystem services. To get there, we need to rapidly replicate and scale the best innovations in smallholder service delivery and finance from the last decade.

Multistakeholder feedback on smallholder support

As part of its role in convening stakeholders around the theme of smallholder support, we have received input from FACT regional consultations (particularly West Africa and Indonesia), the first round of FACT G2G working groups, meetings of the FACT Multi Stakeholder Task Force, 1-1 interviews with subject matter experts, and a group meeting of the Smallholder Support Thematic Deep Dive group. The following areas of focus have been identified as requiring concrete interventions to lay the foundation for soft commodity

agricultural production systems that avoid tropical deforestation while assuring food security and economic development through trade.

- **Need to finance the transition** to new systems of production in socially inclusive manner, using diverse agricultural finance, and patient capital as appropriate.
- **Land rights for smallholders** including land tenure policy, customary land rights, climate change and land, women's land rights, and land-related institutional capacity building. Land mapping efforts e.g. multipurpose cadastrals financed by the UK government in Colombia, have been highlighted as a particularly useful tool.
- **Value additive activities** by smallholders rather than subsistence agriculture alone i.e., the 'move up or move out' argument for moving people out of the agricultural sector.
- **Subsidy reform** to reward conservation, environmental stewardship and the 'investment of public money for public good.'
- **Shift in terms of trade** to benefit smallholder farmers.

All five of these focus areas are key building blocks of the necessary, but sometimes uncomfortable, shift in production systems, and the Smallholder Support Thematic Stakeholder Group remains ready to further develop solutions in any of them. However, recognising the specific expertise of the group, and strong evidence base, we are probably best placed to help catalyse a solution regarding finance, and access to finance for smallholders, which is where we have focussed this note.

Smallholder Treecrop Investment Accelerator

Large scale efforts are needed on the ground to overcome challenges facing smallholders and their access to finance and to bridge to much bigger sources of finance.

The Smallholder Treecrop Investment Accelerator is an initiative that aims to lay the ground and structure the right investment partnerships for impact at scale in enabling smallholder farmer transitions to sustainable agriculture in selected countries. Through packaged, coordinated support to smallholder farmers, an ecosystem will be built that enables crowding in of investment that can transform productivity and incomes for smallholders.

In each partner country, one or multiple concrete smallholder financial and technical support packages will be developed in partnership with governments, value chain players and financial institutions. With the aim of supporting smallholder farmers to make the transition to a sustainable, inclusive and climate resilient production system that enables them to reach a living income, such a support package will consist of –

- a. grants for capacity building, introduction of information technology, and support for farmer organisation, registration, and land tenure,
- b. a tailored mix of repayable grants, result based financed, potentially PES or carbon credits, to enable farmers to bridge the “valley of death” associated with a transition to regenerative agriculture /agroforestry, and
- c. highly concessional seed capital / first loss finance to enable investment in new business models.

At the core of the Accelerator concept is an ambition aligned to practical proposals to close the early-stage gap to the much larger blended finance funds supporting sustainable agriculture, but which often don't reach small holders. This initiative is aimed to *design and implement a set of coordinated, appropriately resourced solutions* by governments, the private sector; and philanthropic capital with the overall aim of crowding in blended capital and providing smallholder farmers in deforestation commodity supply chains with the support and incentives to conserve forests and shift to better incomes and regenerative agriculture.

Illustration 1

