

# Global Sustainable Agriculture Investing: Helping Farmers, Helping The Earth



**Where can impact investing create real impact?** At ImpactAssets, we've identified global sustainable agriculture as a nascent area of tremendous need and opportunity. Over the next thirty years the planet will add nearly two billion people. If we continue along today's farming path, the ability to provide food looks pretty bleak. The cycle of poverty will accelerate and subsistence farming practices will continue to deplete the Earth, add toxic fertilizers to the water supply and release significant greenhouse emissions.

Investing in sustainable agriculture creates a path towards systemic change and meaningful impact. We believe the place to start is by addressing the enormous challenges faced by 450 million smallholder farmers, located primarily in Latin America, Asia and Africa. Smallholders represent 70% of the world's poor and manage over 80% of the world's estimated 500 million small farms.<sup>1</sup> With their knowledge of local conditions, smallholders hold many of the practical solutions that can place agriculture on a more sustainable and equitable footing. Yet, decades of underinvestment and marginalization leave smallholders vulnerable. With the right support, smallholders can drive agricultural transformation in a way that meets population growth needs and promotes sustainable land use.

## SUSTAINABLE INVESTMENT

An investment in sustainable agriculture will help stem the tide of environmental degradation, climate change and cycle of poverty.

### Subsistence Farming Cycle

- Poverty
- Land Depletion
- Greenhouse Emissions & Water Contamination
- Excessive Water Use



### Smallholder Sustainable Farming Cycle

- Living Wage
- Land Enrichment
- Organic & Sustainable Farming Practices
- Water Conservation

Conventional agriculture in the developed world has started to plateau and aware consumers are increasingly demanding organic and Fair Trade sourcing. As a result, large companies like Starbucks, Cargill and Nestle are turning to smallholder cooperatives and organizations for securing raw materials.

Ferrero is the the fourth largest confectionary company in the world and relies on a constant supply of sugar, cocoa, coffee and palm oil. In May 2011, Ferrero pledged to sustainably source 100% of its palm oil by 2015 and all of its coffee by 2020. They work closely with suppliers to improve the working and living conditions of the farmers in the supply chain. Commitments by companies like Ferrero incent intermediaries and smallholder farmers to meet the conditions they set. Farming standards plus better connections between buyers and growers create an ecosystem to support greater opportunities for investment.

Although demand is increasing, smallholders are trapped in their current state as they have little access to market linkages and minimal, if any, access to credit. They're considered too small, too risky and too remote for commercial banks.

## SMALLHOLDER SNAPSHOT

A smallholder is a farmer who cultivates less than 5 acres. There are approximately 450M smallholders worldwide living on less than \$2/day.<sup>2</sup>

<sup>1</sup> International Fund for Agricultural Development, 2013

<sup>2</sup> Catalyzing Smallholder Agricultural Finance, Dalberg 2012

At the same time, those who have formed organizations and cooperatives are too large for microlending. The need for smallholder investment is estimated to be \$450B. Formal debt financing supplied by local lenders in the developing world is approximately \$9B, meeting less than 3% of the total smallholder financing demand (\$300B excluding China).

Fortunately, we're seeing proof that direct investing can create growth and productivity for smallholder farmers. Thanks to sustainable agriculture investing pioneers such as Root Capital and Oikocredit, we have measurable evidence that direct investing, combined with agronomic support, can increase smallholder productivity and help build local markets and communities.

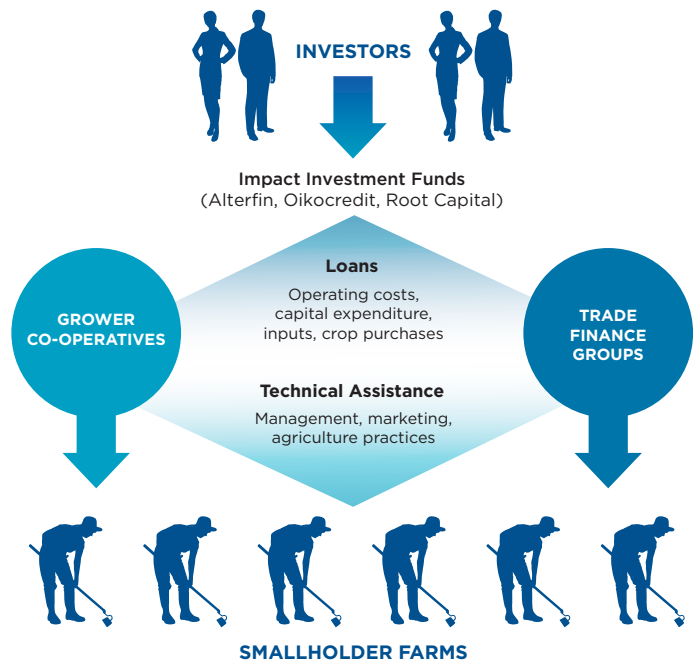
## The Investable Market

The investable market has been estimated at \$22B. This figure is based on the 10% of smallholder farmers who are part of structured organizations, such as cooperatives, and an estimate of their short-term financing needs at \$1,000/farm. The market expands when factoring in the need for larger, longer-term financing. For example, a trade financing loan to a Bolivian cooperative for \$100,000 with a term of five years.

Fund managers like Alterfin typically invest through cooperatives and trade finance groups as they provide an efficient way to disburse capital to smallholders. These groups of smallholder farmers are known as the "base of the global value food chain." They tend to produce and process high-value crops that have a growing market in North America and Europe, such as premium coffee and cocoa, vegetables and nuts. However, most of these organizations lack the financing to invest in inputs such as seeds, organic fertilizers and raw materials.

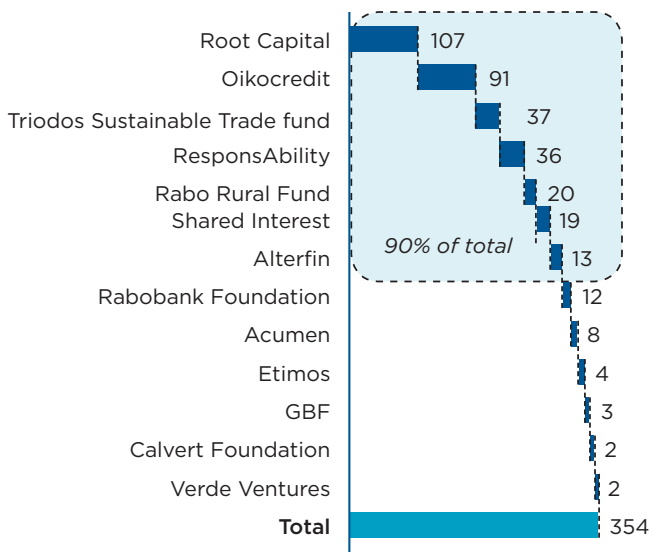
When you consider that direct investments into smallholder farmers in 2011 (the latest date for aggregated data) were \$354M, it's clear we've barely scratched the surface. There's still enormous need and opportunity for investors to align capital with smallholder farmers.

## GLOBAL SUSTAINABLE AGRICULTURE IMPACT INVESTING



## IMPACT FUND INVESTMENTS

2011, USD Millions



Note: Figures report disbursements, not portfolio size (i.e. many lenders have multiple disbursements in a year). Only agriculture lending is included in disbursement sizing (i.e. not microfinance, handicrafts, eco-tourism, or energy).<sup>1</sup>

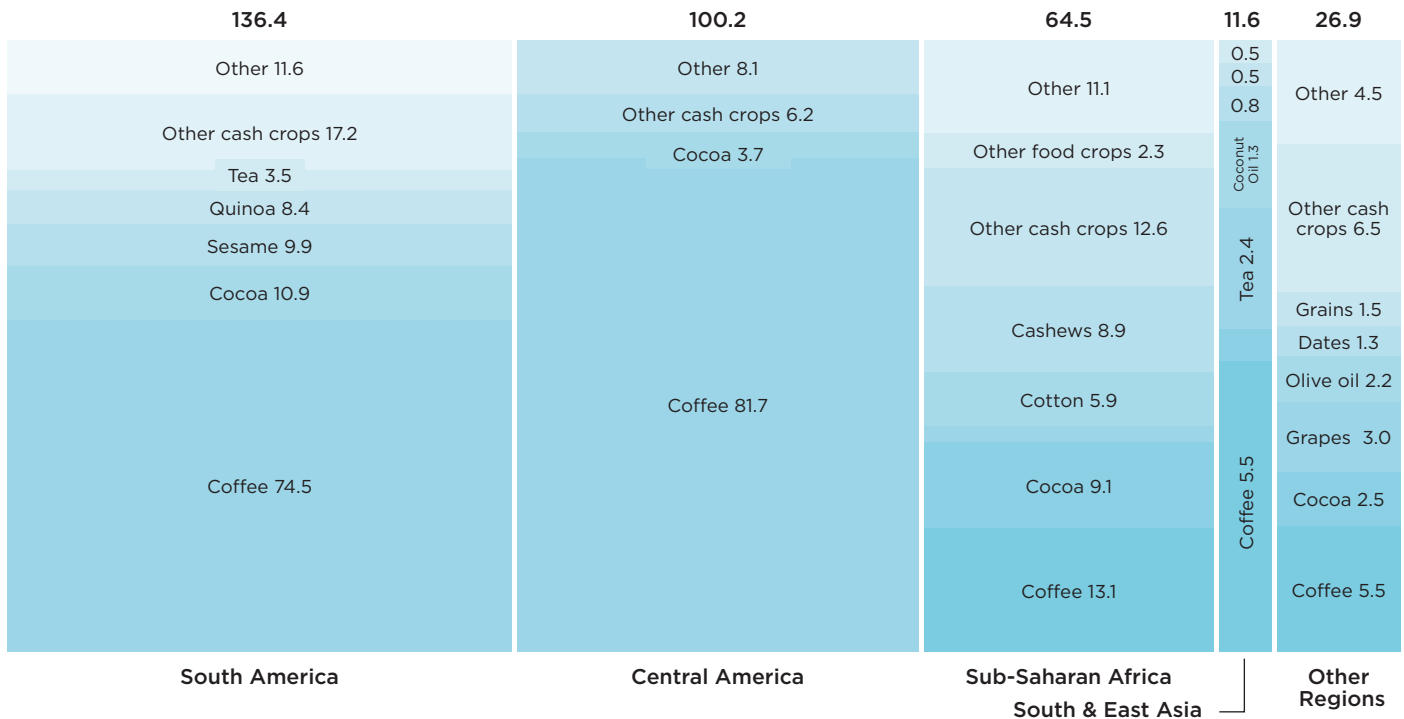
<sup>1</sup> Annual reports and interviews with social lenders; Dalberg analysis

## The Impact Investment Landscape

Due to under developed smallholder farmer ecosystems, fund managers have generally concentrated on geography and crop markets with a strong tradition of farmer cooperatives and well-managed producer organizations. While Latin America has been strongly represented, fund managers are bringing best practices to other areas of need and opportunity globally, including Sub-Saharan Africa.

## AGRICULTURE SOCIAL LENDING LANDSCAPE

2013, Disbursements in USD Millions



Note: This chart does not take into account USD 22.7M in social lender disbursements in 2013 for which geography was not specified; "Other regions" includes Middle East and North Africa (dominated by grapes, olive oil, dates), Eastern Europe and Central Asia (dominated by grains and for disbursements for which geography was not specified; "Other" includes disbursements for which crops were not specified.<sup>1</sup>

## Diversification Provides Risk Mitigation

Diversification is an integral part of fund managers' investment process.

- 1. Crop Diversification:** Prevents over exposure to a price collapse, crop infestation or other market failure for a given crop.
- 2. Borrower Diversification:** Ensures that an issue with any single borrower – whether failure of management or a catastrophe that impacts a set of clients. Examine the borrower criteria set by managers for experience levels, financial controls and success.
- 3. Geographic Diversification:** Reduces the risk of political upheaval or localized weather conditions that impact crops.

<sup>1</sup> Data reported by CSAF members; Dalberg analysis

## The Latin American Coffee Market - A Commodity Example

The Latin American coffee market demonstrates why impact funds focus on certain geographies and products. Crops like coffee have existing certification infrastructures, like Fair Trade or certified organic. The demands of certification usually require organization and involve a level of due diligence, making these crops attractive to investors. Additionally, certification correlates with market demand for the product. Finally, the coffee market is well developed and understood.

While investors are already focused on coffee, there's still plenty of room to grow. The investable coffee market is approximately \$1.7B. Impact investment funds disbursed \$170M in 2011 - 10% of the investable market. While coffee is not a mature market, other commodity crops such as cocoa are following quickly as demand for organic and Fair Trade grows.

## How Can Everyday Investors Access Global Sustainable Agriculture?

As awareness of the gap between demand and supply grows, more investors are discovering that supporting the base of the global food chain is both increasingly crucial and appealing. Yet, it's not always easy for investors to identify and access a comfortable avenue for directing their impact investment dollars.

Alterfin, Oikocredit, Rabobank, Rural Fund, responsAbility Social Investments, AG, Root Capital, and Shared Interest represent the majority of investing in the global sustainable agriculture sector today. A handful of these managers are represented on the ImpactAssets 50 impact investment firm list. (For more information on the ImpactAssets 50, please go to [impactassets.org](http://impactassets.org)).

The nascent stage of global sustainable agriculture investing reminds us of where the field of microfinance used to be. It took ten years for microfinance to gain credibility in the eyes of investors. In 2004, private direct microfinance investment represented \$200-\$300M. At the end of 2014, the microfinance market represented \$10B.

Support for sustainable agriculture can create lasting, positive change for the planet and its most financially vulnerable citizens. Pioneering investment into global sustainable agriculture represents a viable and timely impact opportunity. Enriching the lives of smallholder farmers by helping to create the roots of systemic change will accelerate greater widespread investment and adoption.

**Making agriculture economically and environmentally sustainable for small scale farmers can have a huge impact on poverty. Growth in agriculture is twice as effective in reducing poverty than in any other sector.** (World Bank, Agriculture & Rural Development Brief, September 2013)

## ALTERFIN IMPACT INVESTMENT IN DIVORSIA: A PERUVIAN COFFEE COOPERATIVE

### DIVORSIA: A “GREEN” IDEA WITH COMMERCIAL SUCCESS

Created in 2001, the Divorsia coffee producers’ cooperative has continually expanded its activities. It has offered Fair Trade organic cocoa since 2007 and in 2008 launched organic fertilizers with great success.

#### Focus on Quality

Divorsia’s focus on high quality products has proved to be a winning strategy, enabling the cooperative to keep up with competition. Their high standards were integral in minimizing the damage caused by rust, a fungus that destroyed many Latin American coffee harvests in 2013.

#### First Alterfin Credit

Alterfin first entered into a relationship with the cooperative in 2010, when it granted its first loan of \$200,000. The relationship strengthened in 2012, when Alterfin provided a medium-term credit facility (three years) to provide investments for infrastructure and equipment. Divorsia needed to improve its warehouse and build a fertilizer plant.

#### Organic Fertilizers are Booming

While maintaining stringent quality criteria, Divorsia developed certified organic fertilizers. After eight years of preparation, the fertilizers reached the market and were an immediate success. High demand came from members of the cooperative, as well as from private individuals and the Peruvian government. The fertilizers are currently sold four months in advance.

**“Thanks to the fertilizers, my coffee held out against the rust shock,” says Luis Rodriguez, a producer in the cooperative. “The rust had a devastating effect and many producers lost much if not all of their harvest! We are taught to take care of the land and of our plantations by using green products. What’s more, as a member of Divorsia, I receive very good prices for my coffee and cocoa beans. I can live with dignity during the difficult harvest months.”**

#### New Alterfin Financing

The Calvert Foundation chose to support the Peruvian cooperative with an initial investment in 2013. Thanks to Divorsia’s excellent financial health, in 2014 it was granted two new loans by Alterfin and the Calvert Foundation, one for the working capital to market coffee and cocoa, and the second to expand their fertilizer project.

#### Future Projects

Divorsia is not resting on its laurels. The cooperative recently opened a cafeteria in Tingo Maria, and already has plans to open to others by the end of 2015. When they meet their goal, the entire local population will be able to join in Divorsia’s success - with a cup of the highest quality coffee or hot chocolate.

(Source: Alterfin 2014 Annual Report)