



Sustainable rice finance:

Needs and opportunities

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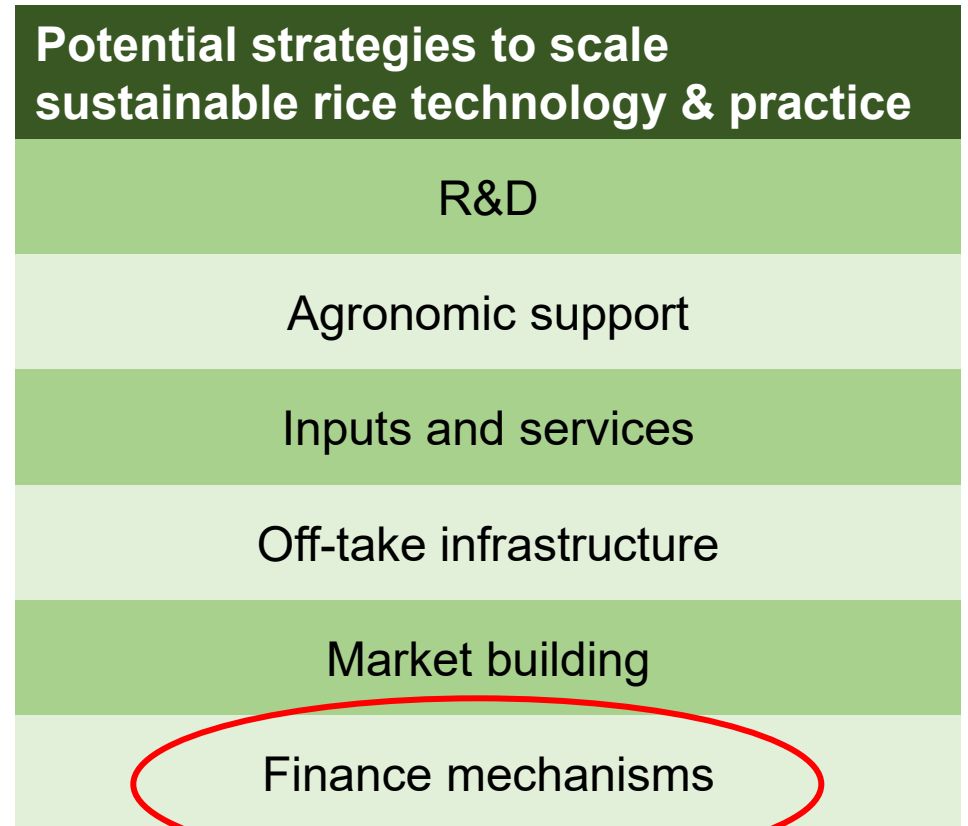
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02 Challenges to scaling finance for sustainable rice landscapes

Challenges to scaling sustainable rice

- Aggregation & counterparts: e.g. very large (government - irrigation) and very small (inputs - farmers)
- Fragmented, loose value chains and dominance of informal domestic markets
- Relatively low margins
- Local & international politics including subsidies & dumping
- Farmer & SME financial inclusion including collateral & credit history



Initial work to scope finance opportunities

- In 2020, Earth Security Group in collaboration with SRP, WBCSD and UNCDF published a report on financing sustainable rice for a secure future
- It suggested three possible strategies for building innovative finance mechanisms for rice
 - Create a digital finance platform
 - Issue a 'rice bond'
 - Leverage international climate finance to attract private sector investment
- The report provided possible directions but was light on details regarding how to move ahead with these strategies

Going deeper: Options to scale sustainable rice with innovative finance

- In 2021 FAO, WBCSD and SRP collaborated on a follow-up study to explore the potential to leverage climate finance to attract private sector investment in sustainable rice
- Experts working with Clarmondial and Versant Vision were engaged to lead the work with guidance from FAO, WBCSD and SRP
- Approach included:
 - Desk review
 - Stakeholder interviews
 - Country level webinars in India, Pakistan, Thailand, Vietnam (and West Africa)
- Target outcome was to identify potential specific financing structures and/or transactions to mobilize additional finance for sustainable rice landscapes

Experience to date with sustainable rice finance

To date, piloted / proposed structures emphasize:

- Working capital (for training, inputs, pre-financing to rice growers) in context of off-take commitments
- Concessionary loans to governments for longer-term investments (e.g., irrigation infrastructure)
- De-risking (e.g., guarantees by governments or global donors)
- Technical assistance ‘along-side’ investors
- Long-term loans – capex for mills to private companies

Some existing finance structures highlighted

| |
|--|
| Climate Investor One |
| IFC Forest Carbon Bond |
| Huruma Fund |
| Global Subnational Climate Fund (SnCF) |
| Circulate Capital fund |
| IDH FarmFit fund |
| Livelihoods Carbon Fund |
| Clarmondial Food Securities Fund |
| Rabobank Agri3 Fund |
| Children’s Investment Fund Foundation Educate Girls DIB |

Stakeholders' perspectives on sustainable rice value chains

- **Upstream change is paramount** – Farmer & immediate-partner focused, additional income-generation (sometimes not rice!).
- **Cash flow is key** – Payment delays, market uncertainty and profit 'erosion', plus low margins & volatility
- **Trusted business relationships** – Resolve side-selling and local farmer trust

Stakeholders' perspectives on sustainable rice value chains

- **Local capacity & bankable entities** – Lack of bankable counterparts, alignment of interest and long term business motivation beyond donor funding
- **“You can’t just throw money at the problem”** – TA / service provision is needed, but is difficult to bear on a fully commercial basis by funders / counterparts
- **“There are no off-the-shelf blended finance projects”** – Co-create value propositions based on pre-investment feasibility assessment (time and effort!)

Four Potential structures for sustainable rice finance

1. Loan intermediation – An existing local or regional financial institution increases lending to rice growers and agri-SMEs based on new dedicated credit access through Development Finance Institutions (DFIs), donors, and / or commercial investors.

2. Credit – Guarantees provided by concessionary capital enable an existing local or regional financial institution to fund a new or existing portfolio of sustainable rice activities (e.g., producer support; input financing) with potential corporate partnership.

Four Potential structures for sustainable rice finance

3. Special Purpose Vehicle (SPV) – A blended finance SPV (e.g., investment fund; company) mobilizes commercial capital toward sustainable rice activities (e.g., working capital paired with pre-harvest and off-take support) combined with concessionary capital (e.g., technical assistance grants).

4. Blended finance facility – Combining multiple finance sources (e.g., commercial; large multilateral funder) and approaches (e.g., credit lines; loan guarantees; selected direct investments; technical assistance) into one larger facility or funding program.

02 Public-Private Blended Finance Facility for Climate-Resilient Rice Landscapes

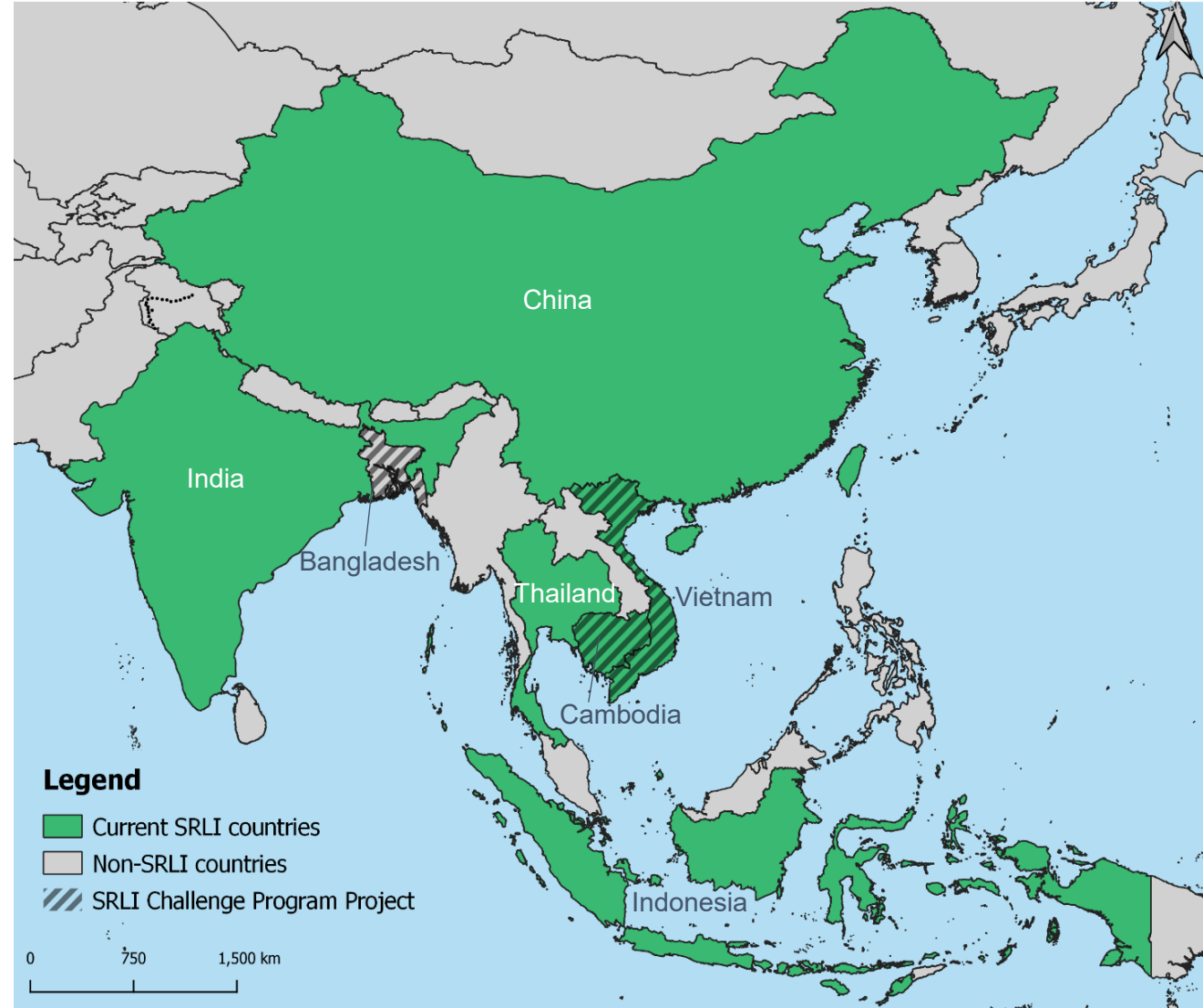
Steps in design

| Steps | 1. Assess feasibility | 2. Define project | 3. Convene project partners | 4. Define finance structure | 5. Implement and monitor |
|---------------------|---|---|--|--|---|
| Output | Preconditions that will guide project design | Combination of strategies to include in project with estimated costs | 'Lean' project partnership with clearly defined roles | General finance structure selected / adapted to project context / objectives | Secure finance, implement, and monitor |
| Input | High-quality in-region consultant | 1-2 initial / lead partners | 1-2 initial / lead partners | All project partners | Based on defined partner roles |
| Requirements | <ul style="list-style-type: none"> ▪ Spatial / technical feasibility ▪ Sustainability potential ▪ Value chain opportunity ▪ Scaling viability ▪ Export / import substitution | <ul style="list-style-type: none"> ▪ R&D ▪ Agronomic support ▪ Inputs and services ▪ Off-take infrastructure ▪ Market building ▪ Finance mechanisms | <ul style="list-style-type: none"> ▪ Funding recipient ▪ Capital provider ▪ Concessionary funder ▪ Financial intermediary ▪ Local implementer / TA provider | <ul style="list-style-type: none"> ▪ Credit guarantee / SPV / loan intermediation ▪ Volume, tenor, criteria, cost ▪ Pari passu / tiered | <ul style="list-style-type: none"> ▪ Mix of concessional / commercial finance ▪ Sustainability verification |

GEF-7 Sustainable Rice Landscapes Initiative (SRLI) Country Projects

At a glance:

| | |
|---------------------------------------|--|
| GEF resources | US\$ 49.4 million |
| Co-finance | US\$ 628 million |
| Land under improved management | 4.2 million hectares |
| GHG emissions reduced | 116.2 Mt CO ₂ -eq |
| Beneficiaries | 841,837 ca. 50% women |
| Program expansion under GEF-8 | Pakistan, Philippines, Nepal, Sri Lanka, West Africa |



The designations employed and the presentation of material in this map do not imply the expression of any opinion whatsoever on the part of the Food and Agriculture Organization of the United Nations (FAO) concerning the legal or development status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. Dotted line represents approximately the Line of Control in Jammu and Kashmir agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.



Public-Private Blended Finance Facility for Climate-Resilient Rice Landscapes

- US\$ 1 million (from non-STAR resources, global set-aside)
- 3 years (anticipated start in Q4 2023)
- Objective is to catalyse public and private financing for climate-resilient rice landscapes, value chains and livelihoods – In simplified terms, a project to develop a finance facility/a funding proposal
- Three components:
 1. **Designing an integrated financing mechanism** for investments in climate-resilient rice landscapes, value chains and livelihoods – *Country level assessments*
 2. **Capacity development** of national and local stakeholders – *Country level engagement*
 3. **Impact monitoring**, governance, learning and knowledge sharing
- Project aims to leverage existing **SRLI partnerships**, new financial partners (IFC and GCF) and GEF-7 projects in the initial target countries



Potential investments by the Facility

- **Loans to companies that invest in climate-resilient supply chain infrastructure** (milling, processing, storage, biogas digesters, irrigation, etc.).
- **Loans to companies that provide services** (e.g., mechanization, weather advisories) or inputs (e.g., seeds, organic fertilizer) to farmers, in particular women and vulnerable groups.
- **Loans to companies that invest in SRP-compliant production** in their supply chain (e.g., as part of off-take agreements).





Potential investments by the Facility

- **Loans to local banks** to enhance access to credit by farmers, farmer organizations and SMEs to invest in adaptation options.
- **Investment in farmers groups and rice value chains** through country-level revolving funds.
- **Technical assistance to government, farmers and rice value chains** from grant facility, accompanying other public or private investments (including farmer training).

03 New directions



New finance work stream

- Many countries in the region are issuing green/climate bonds with some potentially directing proceeds to climate-smart agriculture
- FAO is developing a new study to explore the potential for sovereign climate bonds as complimentary financial instrument
- Potentially able to target a broader base of small holder rice producers
- Credible data remains a key barrier
- In parallel FAO is developing public, open-source tools to support future real time monitoring of rice emissions



Thank You

