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# CLIMATE FINANCE BIG BANKS AND SMALL FARMERS

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# **Climate Finance, Big Banks and Small Farmers**

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# Climate Finance, Big Banks and Small Farmers

Chetna Joshi

A need of adaptation in the agriculture and allied sectors became more pronounced when it appeared as a priority sector in 90% of INDCs that included adaptation. The issue of 'Food production and security' is explicitly mentioned in the preamble of the Paris agreement. Post Paris many new financial facilities/ funding instruments have come up with a focus on agriculture, intending to facilitate nations meet their climate pledges to keep the warming of the world below 2°C. But the same old question remains how much of the new financial resources are going to go to fund the actual solutions able to bring in resilience in agriculture beneficial for the smallholder farming communities?

## International funding does not reach to the vulnerable smallholders

For poverty reduction and growth, investment is essential in the vulnerable smallholder section of farming community. Worldwide it's been witnessed that either the financial flow does not reach to this section of the poor countries or the most vulnerable smallholders are not the priority for the funders to build resilience. Analysis of 7,500 EU-funded projects reveals the lack of focus on smallholders and lack of transparency in reporting and very little accountability. Out of the total EU official development assistance for agriculture, only one-fifth has targeted smallholder farmers. The funding has remained biased towards industrial and export crops and countries of strategic interest.<sup>1</sup> A recent

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<sup>1</sup> Missing out on small is beautiful; <https://www.oxfam.org/sites/www.oxfam.org/files/bp-eu-policy-smallholder-agriculture-300617-en.pdf>) JUNE 2017)

study on farmers of Ethiopia, Ghana, Nigeria, Pakistan, Philippines, and Tanzania shows that the funding to these countries have been significantly low and do not reach to the smallholder farmers. Within the farming community women farmers constitute more than 43% of the farm workers. But there is no such data available that shows that they receive any benefit out of the funding directed to strengthen farming community in the face of climate change.<sup>2</sup> In the absence of legal protection by the state, projects financed by commercial banks and private equity funds from the support of World Bank's private sector arm- International Finance Cooperation (IFC)- have resulted in forced eviction, displacement of the indigenous local community massive deforestation and environmental damage across the world. In Africa alone, 11 projects backed by IFC clients have caused approximately 700,000 hectares of land transfer to the foreign investors.<sup>3</sup> Deutsche Bank, a signatory to the UN Principles of Responsible Investment, was found a major investor in rubber companies in Vietnam which were found behind land grabs, illegal logging and the loss of food supply to the local population in Laos and Cambodia.<sup>4</sup>

The new funding facilities are aligning themselves in some way or the other with the country specific climate pledges they intend to invest in. These facilities are owned by groups of international banks, insurers, agribusinesses and private investors. Their strong hold over these financial facilities and motive to earn profit out of these investments is not going to let smallholders and vulnerable communities get any benefit out of it. In fact, such investment will remain a threat to their local food system, livelihood and existence.

The 'Green Climate Fund' was set up with the intention to make funding directly accessible to the countries so that countries have ownership through devolved decision-making. Even GCF could not escape the grip of the big international banks. So far, it has allotted \$2.2 billion funds to projects and programs but only 7% of

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2 Financing women farmers; The need to increase and redirect agriculture and climate adaptation resources (<https://reliefweb.int/report/world/financing-women-farmers-need-increase-and-redirect-agriculture-and-climate-adaptation>)

3 World Bank Fuels Land Grabs in Africa Through Shadowy Financial Sector Investments Oakland Institute May 1, 2017 <http://www.oaklandinstitute.org> - direct URL: <http://tinyurl.com/l3dz69p>)

4 How to stop European money fuelling land grabbing overseas, Nov. 4, 2016 <https://www.globalwitness.org/en/blog/how-stop-european-money-fuelling-land-grabbing-overseas/>

this amount would remain directly accessible to the national or sub-national developing country institutions. Three international partners: European Bank for Reconstruction and Development (EBRD), United Nations Development Programme and European Investment Bank are managing over half of the allocated GCF funds. EBRD alone is managing one fourth of all the GCF funds. Out of 43 activities funded by GCF so far, 7 activities received half of the allocated funds and it turned out that all these seven activities are managed by international development banks.<sup>5</sup>

The list of private banks accredited by GCF is growing continuously. A few other accredited banks are Deutsche Bank, HSBC, Credit Agricole, The Bank of Tokyo Mitsubishi (BTMU) The Japan International Cooperation Agency (JICA). GCF is mandated to maintain equal balance between funding adaptation and mitigation and the role of the accredited institutions is to help national institutions of the developing countries develop proposals and get funding support from GCF on their behalf. The problem with having banks in GCF system is that they ignore the proposals for adaptation – a requirement of all the poor countries trying to cope up with the climatic changes. Adaptation projects are financed 100% by GCF grants and thus are beneficial for the poor countries. Public institutions and NGOs put more emphasis on adaptation projects. Banks have more interest in mitigation projects which get partial funding from GCF as grant and partial from them as loan. This makes mitigation projects a way for them to earn profit.<sup>6</sup>

## **A glance at a few new financial arrangements focused on agriculture and allied sector**

Indonesia targets to restore 2 million hectares of peatland by 2020, reduce greenhouse gas emissions by 29%-41%, reach full electrification by 2020 and increase the renewable mix from 6% to 23% over the

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5 Big development banks dominate Green Climate Fund, new study finds, September 26, 2017 <https://foe.org/big-development-banks-dominate-green-climate-fund-new-study-finds/>

6 UN climate fund criticised for accrediting growing list of private banks. <http://www.climatechange-news.com/2017/07/10/green-climate-fund-criticised-accrediting-private-banks/>

next 5 years. In order to support the country to achieve these targets and other sustainable development goals, a new ‘Tropical Landscapes Finance Facility (TLFF)’ with a loan fund and a grant fund was announced in October last year. Its official announcement refers it ‘as an innovative vehicle to channel private capital ...to bring long-term finance to projects and companies that stimulate green growth and improve rural livelihoods’.

Key partners of TLFF include BNP Paribas - one of the largest banks in the world, ADM Capital, which will act as fund manager for the loan fund and UN Environment who will manage the secretariat. BNP Paribas is one of the EU-based investors (others are Standard Chartered, HSBC, Deutsche Bank, and Allianz) found responsible for providing finances to a company which drove palm oil expansion in Liberia and found linked to land grab and beatings, threats, and arrests of local communities.

Poor ranchers in the Amazon don’t have upfront capital and land titles- that can fetch them loan to implement sustainable ranching techniques. 90% of Brazil’s recent deforestation and 75% of country-wide greenhouse gas emissions are due to cattle ranching activities. Brazil – the world’s largest beef producer and second largest beef exporter- pledged to reduce emissions by 37% by 2025, mostly through changes in its land use and energy sectors. Ostensibly to support the country in this task a US-Brazil investor group has picked up ‘Climate Smart Cattle Ranching’ as one of the financial instruments to drive funds for climate action. The idea is to ultimately develop a prototype business to increase the supply of deforestation-free beef from the Amazon.<sup>7</sup>

The US-Brazil investor group is assembled by the ‘Global Innovation Lab for Climate Finance’ and included institutions like Caixa – a Brazilian bank, Santander – an Spanish bank, BNDES – Brazilian Development Bank, International Finance Corporation (IFC)- World Bank’s private sector arm, the Climate Investment Funds, FEBRABAN – Brazilian Federation of Banks, the Global Environmental Fund, the Brazilian Ministry of Finance and the United

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7 US-Brazil investor group picks three financial instruments that can drive funds for climate action. February 9, 2017Ref: <https://climatepolicyinitiative.org/press-release/us-brazil-investor-group-picks-three-financial-instruments-can-drive-funds-climate-action/>

States Trade and Development Agency etc. The initiative will establish a “New Company” to provide loans and technical assistance to ranchers.

These initiatives driven by motivations to earn profit from these investments are not looking to foster sustainable development. These may at most give some food security to a few communities but violate the food sovereignty of the majority of the communities. Food sovereignty of a community is based on their unique ecology, social structure, economy and is associated with their culture and rights over their own food and food production. In order to have food sovereignty, the food should be produced using ecologically sound and sustainable methods, based on the need and preferences of the communities rather than the demands of the big corporations and market. But when the agri-businesses jump into the picture, the destruction of the local production system is inevitable as at the heart of an agri-business is to increase yield. Keeping an eye on the global market the production is increased through providing extensive external inputs - now termed as ‘climate smart’- which are fatal for the soil health and natural resources.

In order to apparently develop resilience in African agriculture system - which provides up to 60% of all jobs -to external shock and protect the livelihood of the communities, the World Bank’s Global Index Insurance Facility (GIIF) and African Reinsurance Corporation (Africa Re) have joined hands to initiate a new risk sharing facility to lower premiums for insured farmers and encourage local companies to create affordable insurance products.<sup>8</sup> the supporters of the Global Index Insurance Facility (GIIF) are- EC; the African, Caribbean and Pacific (ACP) Group of States; Governments of the Netherlands and Japan and the facility is a part of the World Bank Group’s Finance & Markets Global Practice. GIIF’s aim is to develop and grow local markets for indexed/ catastrophic insurance in the developing countries and provide access to finance to micro-entrepreneurs, microfinance institutions and smallholder farmers.

A financial safety net such as index-based insurance may be important for the farmers initially, but it also does not provide solution

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8 A New Risk Sharing Facility to Lower Premiums for Africa’s Farmers. February 14, 2017 <http://www.worldbank.org/en/news/press-release/2017/02/14/a-new-risk-sharing-facility-to-lower-premiums-for-africas-farmers>

of the crisis marginalized and smallholder farmers are facing. In fact, it makes farmers less cautious about the resilience. Farmer's start relying more and more to insurance schemes. It pushes them towards adopting unsustainable farming techniques. Index-based insurance encourages farmers to buy chemical fertilizers and seeds, leave diversified farming practices essential to build climate resilience and opt monocropping. It's widely observed that the insured farmers, as compared to the uninsured farmers, would plant riskier less resilient sensitive-to-weather crops.<sup>9</sup> Such crops are profitable only in favorable conditions but the scheme makes the smallholders a client of the corporate agribusinesses and insurer who would reap the maximum monetary benefit.

The list of the solutions where funding is being directed to build agriculture resilience but most likely the beneficiary is not going to be the farmers is long. IFAD is going to provide US\$43 million to Viet Nam as loan towards infrastructure development in the name of resilience building in the agriculture sector.<sup>10</sup> The funds will go to infrastructure development such as rural roads and to increase the access of the farmers to finance, business and technical training. The much needed agriculture resilience building through developing and restoring sustainable agriculture system again remains out of the sight.

Creating market for agriculture carbon is another programme, funded by the nexus of international banks and agribusinesses that has little to do with resilience building in agriculture. World Bank is funding one such project through its BioCarbon Fund and it's tremendous enthusiasm over this indicates that they are going to promote it extensively in near future. The French Development Agency and the Syngenta Foundation for Sustainable Agriculture – a Not-for-profit organization established by Syngenta - a global Swiss agribusiness that produces agrochemicals and seeds are the partners of World Bank in this endeavor.

The first much talked about project funded by The BioCarbon

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9 Protecting Farmers from Weather-Based Risk <https://www.povertyactionlab.org/policy-lessons/agriculture/protecting-farmers-weather-based-risk>

10 IFAD International Fund for Agricultural Develop: to provide US\$43 million to Viet Nam to raise rural incomes and increase resilience to climate change. <http://www.4-traders.com/news/IFAD-International-Fund-for-Agricultural-Develop-to-provide-US-43-million-to-Viet-Nam-to-raise-rur--24198328/>



Fund is underway in Kenya since 2010.<sup>11</sup> Even the implementing NGO partner is not local; it's Swedish NGO 'Vi Agroforestry'. A press release on January 21, 2014 announced that the changed agricultural land management practices applied for sequestering carbon in soil under this project led to a reduction of 24,788 metric tons of carbon dioxide. The project claimed to have issued its first carbon credits under the Verified Carbon Standard (VCS). There are 60,000 farmers involved in this project spread over 45,000 hectares. The project which is expected to be completed by December 2017, focuses on hybrid Maize and agrochemicals, supplied by Syngenta. The agriculture system is said to have the capacity to bring in resilience, is sustainable & climate friendly and can increase the yields by up to 15-20%.

Maize is a staple in the region. The project pushes farmers to move from their native varieties, to hybrid maize and increase the inputs. Clearly profitable for Syngenta and other hybrid seed sellers, this highly corporate controlled approach to agriculture is bound to make small-scale farmers dependent on heavy inputs and forces them to even harvest with a focus on carbon saving. This clearly is a yet another attempt to monopolize agriculture by promoting practices with no credentials on sustainability and put additional pressure of mitigation on the poor and marginal farmers.

## End Note

Global Witness data revealed that in 2015 more than three people were murdered a week defending their land, forests and waterways from theft and destructive industries. Yet the same model continues. The solutions being offered to tackle the problems of unsustainable farming and smallholder farmers are no solution at all. Solutions that eye agriculture as pure business opportunity are bringing in more destructive farming. They are just opposite to the demands of the community level organizations and farmers group for promising farmers' knowledge based localized, low-input, agro ecological food systems essential for building resilience. At this point in time the promotion of such agro-system seems a far cry.

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11 nya Agricultural Carbon Project <http://www.biocarbonfund.org/node/82>

