



# Expert Consultation with Financial Service Providers:

Understanding the sustainability issues agricultural producers need to consider to be investment-ready and access finance

SSI REPORT



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**Expert Consultation with Financial Service Providers:  
Understanding the sustainability issues agricultural producers need  
to care about to be investment-ready and access finance**

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**Disclaimer:** None of the views expressed are to be considered as financial advice for investments in agriculture but are to be considered as insights about the industry.



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## Abbreviations and Acronyms

<b>IFAD</b>	International Fund for Agricultural Development
<b>IFC</b>	International Finance Corporation
<b>IIED</b>	International Institute for Environment and Development
<b>IISD</b>	International Institute of Sustainable Development
<b>FAO</b>	Food and Agriculture Organization
<b>FSP</b>	financial service provider
<b>MSME</b>	micro, small and medium-sized enterprises
<b>UNEP</b>	United Nations Environment Program
<b>UNFCCC</b>	UN Framework Convention for Climate Change
<b>VSS</b>	voluntary sustainability standard
<b>WTO</b>	World Trade Organization



# 1.0 Access to Finance Remains a Major Challenge for Agricultural Producers in Developing Countries

Agricultural producers<sup>1</sup> are an engine of economic growth and job creation, particularly in developing countries where they represent a large part of the population. According to the International Finance Corporation (IFC), there are nearly 162 million formal micro, small and medium-sized enterprises (MSMEs) in developing countries (IFC, 2017, p. 31), of which approximately 5–16% operate in the agriculture sector. This share is even greater in least-developed countries (World Trade Organization [WTO], 2016, p. 16). These agricultural MSMEs are a major source of rural livelihoods, providing close to 70% of total primary employment in several sub-Saharan African countries (WTO, 2016, p. 17). When also considering smallholder farmers, who are less likely to be organized into formal MSMEs, the contribution of agricultural activities to livelihoods is higher. For instance, smallholder farmers provide an estimated 80% of the food that is consumed in many developing countries, thus making a significant contribution to food security. Female farmers play a crucial role in this context, as they are highly responsible for cultivating food crops for family consumption, especially when the farming activities include both nutrition-rich and cash crops (International Fund for Agricultural Development [IFAD], 2013, p. 10).

Despite playing such a major role in their respective economies and in their contributions to food security, agricultural MSMEs face significant challenges in accessing finance, which in turn hampers their prospects for growth (Kumar, 2017, p. 5; Organisation for Economic Co-operation and Development, 2018, pp. 5, 9). In the agricultural sector, short-term finance is needed mainly to purchase inputs, cover working capital needs and sell the product. Long-term finance is also needed, mainly for agricultural producers to invest in technology and assets (Goldman et al., 2016, pp. 5–6). Long-term financing can also sustain the necessary investments for producers to adapt their agricultural practices in response to climate change and its impacts (International Institute for Environment and Development [IIED], 2015a, p. 5). This type of adaptation can add value to farming activities and potentially build the capacity of producers to manage agricultural risks.

Women-led MSMEs face even greater limitations in accessing finance due to the absence of gender-tailored financial products. In addition, delivery channels are not always suitable for women farmers, as financial services tend to be more concentrated in urban areas to mitigate risks and reduce operating costs. The use of information and communication technologies such as mobile devices and outreach to rural clients at post offices, petrol stations and other rural stores have lately facilitated women's access to financial services (Food and Agriculture Organization

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<sup>1</sup> For the purpose of our study, the term “agricultural producers” refers to farmers grouped in or associated with cooperatives, micro, small and medium-sized enterprises, or other producer groups.



[FAO], 2019, p. 6). Access to financial resources is further hampered because women are typically responsible for crops used to feed their families, while men tend to be dedicated to cash crops (IFAD, World Bank, & FAO, 2009, p. 177). Because they may generate less revenue, they are less attractive candidates for receiving loans.

Financial service providers (FSPs) are the other part of the equation. FSPs are often inhibited from providing agricultural producers with financial services tailored to their needs, due both to the specific context around agricultural production and the risks inherent in the sector. For example, the sector is cyclical in nature, while facing intermittent cash flows and high vulnerability to climate patterns, pests and diseases. “By any measure, agriculture is a risky business,” according to Stephen d’Alessandro (2015), Agriculture Specialist at the World Bank. He noted, however, that this risk can be addressed partly through the provision of technical assistance and policy support that supports farmer resilience against such challenges, should they arise (d’Alessandro, 2015). In order to gain finance from FSPs, agricultural MSMEs need to know what FSPs require, what conditions farmers will have to meet and how banking institutions work (International Trade Centre, 2019, p. 55; Quartey et al., 2012, p. 4). Extension services, such as financial literacy training, technical support and market linkages, can also play a crucial role in improving the bankability of these agricultural producers.

Agricultural producers thus run the risk of being trapped in a cycle of poverty. Some of this risk can be addressed by ensuring that farmers can access necessary short-term and long-term finance. They also need to access capacity-building support and training to become investment-ready by anticipating and addressing FSPs’ potential concerns. As stated by agro-forestry smallholders in the Democratic Republic of the Congo, “We have enough cash flow to make ends meet, but we need finance to invest in machinery to be more efficient and improve our productivity” (personal communication, Francesca Nugnes, March 23, 2019).

The potential demand for finance from MSMEs in developing countries is estimated at USD 8.9 trillion, compared to the current credit supply of USD 3.7 trillion (IFC, 2017, p. 27). According to a recent study on the financial gap of smallholder farmers in developing countries, their demand for finance is estimated at USD 240 billion annually, while the supply of finance offered by formal and informal FSPs, including value chain actors, reaches only an estimated USD 70 million. This means that the vast bulk of demand for long-term finance remains unmet (Rural and Agricultural Finance Learning Lab, 2019, p. 4). There is thus an urgent need to mobilize capital for agricultural producers in developing countries.

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There is a credit gap of USD 5.2 trillion for MSMEs in developing countries.

Estimated demand for smallholder farmers financing: USD 240 billion annually.

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## 2.0 Addressing the Issue from a New Perspective

Voluntary sustainability standards (VSSs)<sup>2</sup> have the potential to help agricultural producers adopt sustainable practices, which could then be leveraged to mitigate the financial risk<sup>3</sup> of investments and ultimately enable their access to finance. There are several ways in which this can be done. On one hand, VSSs define a set of economic, social and environmental criteria (i.e., record-keeping systems, compliance with laws and regulations, prevention of water pollution) that producers are required to comply with to improve farming practices, which are usually verified by a third party. On the other hand, VSSs provide support and capacity-building services to agricultural producers to ensure that the sustainability practices embedded in the standard criteria are implemented. For instance, sustainable farming practices embedded in VSSs may reduce material risks to agricultural production (i.e., through water and soil conservation, pest management). This, in turn, can help farmers secure the volume of supply needed to be able to reimburse the loan, provided they also have the necessary access to markets to sell their product. Agricultural VSSs can also help farmers improve their productivity by providing them with training to implement sustainable farming practices, such as those that contribute to soil fertility and help conserve the ecosystem. These practices may lead to “higher yield and reduced costs” (International Social and Environmental Accreditation and Labeling, 2017, p. 9), making agricultural producers that comply with VSSs a more promising business case for FSPs.

The upcoming edition of the *State of Sustainability Initiatives (SSI): Standards and Finance Review* by the International Institute for Sustainable Development (IISD) aims to shed light on how compliance with the criteria VSSs required of producers can potentially reduce investment risks, lead to beneficial sustainability impacts and ultimately contribute to closing the finance gap that agricultural producers face. As part of the development of this *SSI Review*, IISD carried out an expert consultation with FSPs to learn what sustainability issues they consider important to

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<sup>2</sup> VSS: initiatives operating in multiple sectors of the economy that aim to promote economically, environmentally and socially sustainable production, consumption and trade practices. The United Nations Forum on Sustainability Standards (2012) defines VSSs as “standards specifying requirements that producers, traders, manufacturers, retailers or service providers may be asked to meet, relating to a wide range of sustainability metrics, including respect for basic human rights, worker health and safety, the environmental impacts of production, community relations, land use planning and others” (p. 3). Some agricultural VSSs include Fairtrade, Rainforest Alliance, UTZ, IFOAM and GLOBAL G.A.P.

<sup>3</sup> Financial risk: the probability that the actual return on an investment will be different from its expected return. There are two types of risks. Firm-specific risks refer to the effect that some factors, practices and policies of agricultural producers may have on the certainty and magnitude of future cash flows and agricultural outputs of the investee firm. Portfolio-wide risks refer to the larger or systematic effects that specific agricultural production and supply chain practices and policies may have on the magnitude and certainty of a wide range of future cash flows and agricultural outputs across an investor’s portfolio.



reducing financial risk and ensuring positive impacts<sup>4</sup> when assessing investment requests from agricultural producers in developing countries. The purpose of this consultation was to enrich the analysis of VSSs in the upcoming *SSI Review* with a hands-on perspective from FSPs about the main sustainability aspects that matter to them when providing finance.

The expert consultation took place during spring/summer 2019. It was anonymous and conducted online, though participants were able to provide some identifying information on the sectors and regions in which they operate. A total of 51 FSPs participated in the consultation, ranging from development finance institutions to institutional asset owners to social investors. They were mainly based in North America and Latin America, but some also came from Africa, Europe and Asia. The questionnaire consisted of over 70 mostly multiple-choice questions. These questions referred to a diverse range of sustainability issues organized under three overarching themes: economic, social and environmental. These themes were then matched with their corresponding sub-themes. The identification of these themes and sub-themes resulted from reviewing 12 sustainable finance frameworks<sup>5</sup> alongside documents pertaining to credit-rating factors in agriculture finance. Participating FSPs responded to 96.5% of all consultation questions, which has allowed us to conduct a comprehensive analysis of their responses.

We believe the findings that we present in this paper will provide a useful basis for future work in this area. It can also help agricultural producers in the present to identify the sustainability issues regarding farming and business operations that are relevant from the FSP perspective. More specifically, they can connect those issues and FSP's concerns about financial risk and investment readiness for accessing finance. We also hope that these findings can help inform the ecosystem of entities—such as development organizations, technical assistance providers, VSSs-setting bodies and public institutions—that work with agricultural producers as they strengthen their sustainability performance, business acumen and bankability.

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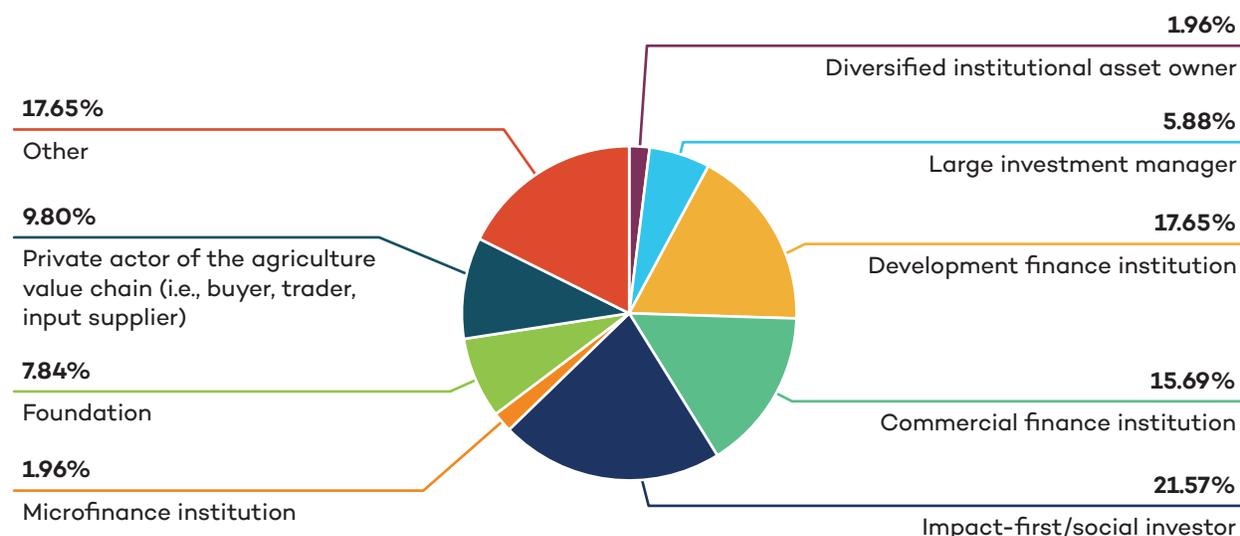
<sup>4</sup> We understand impact as the “fundamental and durable change in the conditions, livelihoods and/ or sustainability of target beneficiaries caused by the provision of financial and related services. Under this definition, impacts refer to long-term, systemic changes in the lives of beneficiaries resulting from the financial intervention of a third party” (Finance Alliance for Sustainable Trade, 2011, p. 10). These changes can be economic, social and environmental in nature, such as reduced poverty, better livelihoods and restored ecosystems. The chain of causality of a financial intervention includes different stages going from the intended impact of the financial service provider (i.e., improve farm resilience), the financial intervention (i.e., financial product, service provided), the activities conducted using the investment (i.e., purchase of equipment and farm training), outputs derived from the activities (i.e., installation of a water irrigation system, number of farmers trained in the use of the system), outcomes (i.e., improved yield, farm sales and revenue, water retention) and real impact (in the long term, these outcomes alongside other types of development interventions can contribute to reducing poverty) (Finance Alliance for Sustainable Trade, 2011).

<sup>5</sup> The 12 sustainable finance frameworks are: Principles for Responsible Investments, Principles for Sustainable Insurance, Principles for Positive Impact Finance, Principles for Responsible Investment in Agriculture, Principles for Responsible Investment in Agriculture and Food Systems, Guide to Banking and Sustainability (United Nations Environment Programme Finance Initiative, UNEP-FI), Natural Capital Declaration, International Finance Corporation Performance Standards, Global Equator Principles, United Nations Principles of Responsible Banking, Global Alliance for Banking Values, and International Accounting and Reporting Issues from the United Nations Conference on Trade and Development.



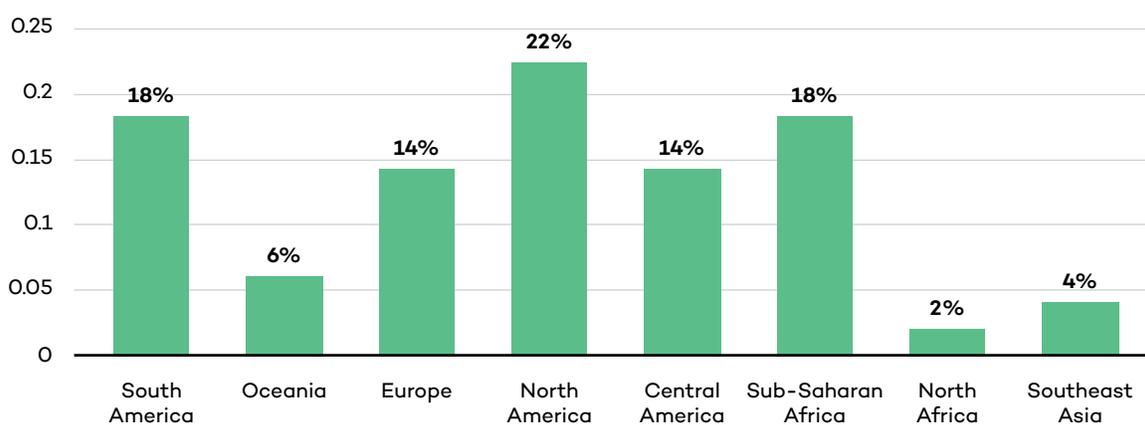
The results of this expert consultation will be fully integrated into the upcoming *SSI: Standards and Finance Review*. This publication will examine a selection of agricultural VSSs and the criteria they require producers to comply with from the perspective of reducing financial risk and as a proxy for the economic, social and environmental impacts of agricultural practices. This review will also provide information about how a number of VSSs perform against the sustainability themes assessed in the expert consultation.

**Figure 1. Participant FSPs by category**



Note: (n=51 respondents)

**Figure 2. Headquarters of participating FSPs<sup>6</sup>**



Note: (n=49 respondents)

<sup>6</sup> When respondents could select more than one option within the same question, the percentage has been calculated based on the number of responses and not on the number of respondents.



**Figure 3. List of sustainability themes, sub-themes and criteria considered in the expert consultation**

Dimension	Themes	Sub-Themes
Economic	Governance	Compliance with local, regional, and national laws and regulations
		Corruption- and bribery-prevention measures
		Transparency processes
	Business Management	Economic viability measures
		Supply chain practices
		Quality systems
		Record-keeping methods
		Traceability systems
Sustainability planning and management systems		
		Criteria (i.e., business plan, selling price records, environmental risk management plan)

Dimension	Themes	Sub-Themes
Environmental	Climate Change	Climate mitigation measures
		Climate adaptation measures
	Pollution Prevention and Pesticide Management	Water pollution measures
		Solid waste pollution measures
		Pest management measures
	Biodiversity and Natural Resource Management	Biodiversity conservation measures
		Forest conservation measures
		Water conservation measures
		Soil conservation measures



Dimension	Themes	Sub-Themes
<b>Social</b>	<b>Local Communities</b>	Indigenous rights protection measures
		Cultural preservation measures
		Community health, safety and security measures
	<b>Workers</b>	International labour rights measures
		Worker health and safety measures
		Employment relations measures
	<b>Workers: Gender Specific</b>	Worker health and safety measures: Gender-specific measures that lower health and safety risks for women
		Employment relations measures: Gender-specific measures to promote women’s education and professional training
		Employment relations measures: Gender-specific measures to promote women’s employment and participation in decision-making structures
		Employment relations measures: Gender-specific measures to protect and promote equal remuneration and guaranteed rights for parental and sick leave

Note: Please see Appendix A for a definition of each sub-theme and for the list of criteria included in Governance and Business Management themes.



## 3.0 Findings of the Expert Consultation for Agricultural Producers

A snapshot of the expert consultation results is presented in Figure 4. The results show that FSPs generally viewed the economic themes as being more important for reducing the financial risk of investments involving agricultural producers when compared to social and environmental themes. Of the latter two, environmental themes are reported to be more relevant than the social themes for financial risk reduction. Looking at the sustainability themes, **governance** ranks as the highest priority or concern for FSPs, followed by **business management**. **Climate change** is the third theme that FSPs rank as “high importance” when assessing whether to grant financial requests from agricultural producers. Indeed, the discussions conducted over the last two decades about the risks of climate change in economic activities show that the issue seems to resonate with investors, especially given the examples seen in practice of climate change impacts having a detrimental impact on financial returns (IFC, 2015). The IFC’s recommendation that climate-related risk factors should be standard considerations for investors (IFC, 2015) seems to have been taken into account by participating FSPs. Approximately 56% of participating FSPs allocated a “high importance” value to climate change for financial risk reduction.<sup>7</sup>

In light of its widely accepted importance for agricultural investments, FSPs will have to integrate climate change into their investee assessment process and risk evaluation. This implies that agricultural producers will have to prove that their farming practices are adapted to and able to mitigate climate change and its impacts. In this context, it might also be worth analyzing the financial risk of climate change with a gender lens, given that women are more vulnerable to the negative impacts of climate change than men (NAP Global Network & UNFCCC, 2019). Due to individual and societal norms, customs, values, policies and laws, women tend to have less access to agricultural training and formal education, finance and productive resources, such as land tenure; income and savings; and technology and irrigation systems that can improve production methods, influence crop yields and enhance the resilience of agricultural practices (NAP Global Network & UNFCCC, 2019; IISD, 2019b). These limitations add barriers to women’s adaptation efforts and make women-led agriculture initiatives more vulnerable than men’s to climate change, thus increasing the financial risk of their farming activities (Miles & Wiedmaier-Pfister, 2018, p. 6).

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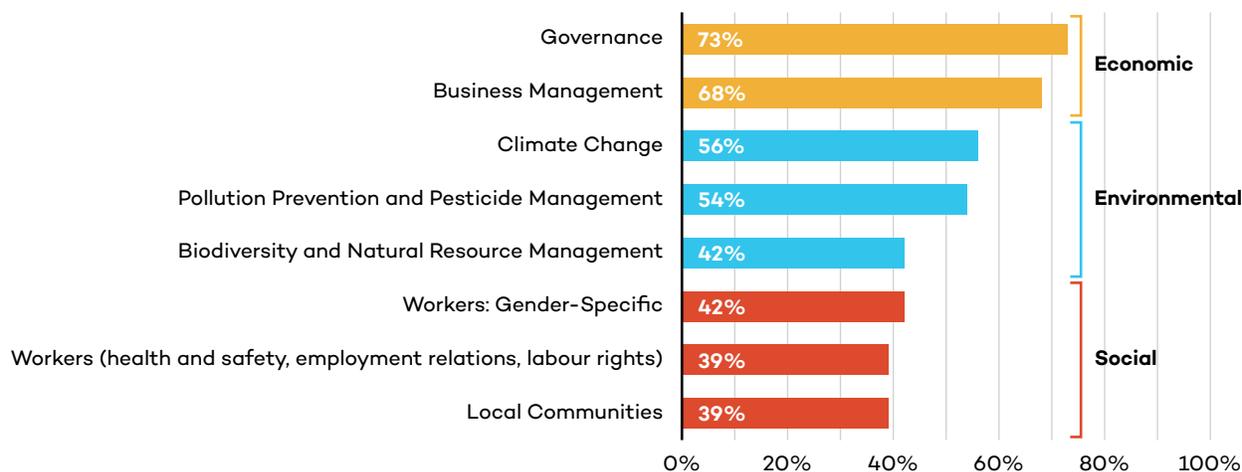
**Governance, Business Management and Climate Change are the themes that participating FSPs rank as having “high importance” when assessing financial requests from agricultural producers.**

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<sup>7</sup> It is worth noting that this analysis is focused only on the “high importance” responses to identify the top priorities of participating FSPs.



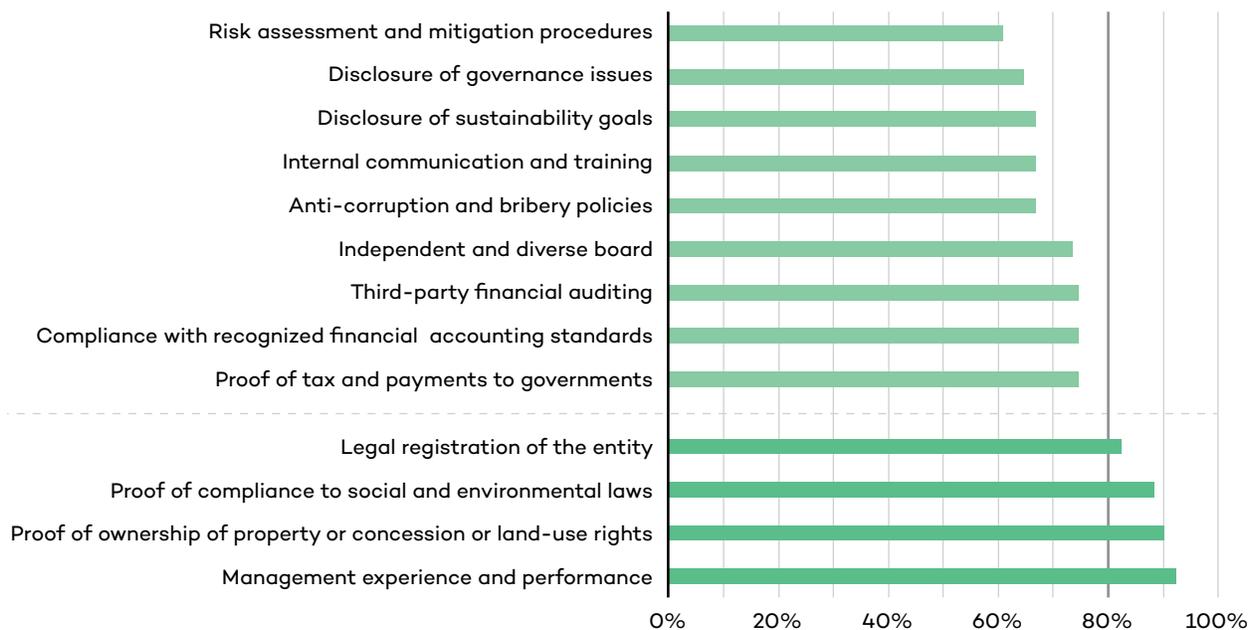
**Figure 4. “High Importance” scores of sustainability themes for reducing financial risk for the three dimensions: economic, environmental and social**



Note: (n=51 respondents)

If we take a deeper dive into the most important themes of **governance** and **business management**, figures 5 and 6 illustrate the breakdown of the **criteria embedded** into these themes and their perceived importance for FSPs when it comes to reducing financial risk and ensuring economic impact as measured by the Importance Index.<sup>8</sup>

**Figure 5. Governance criteria**

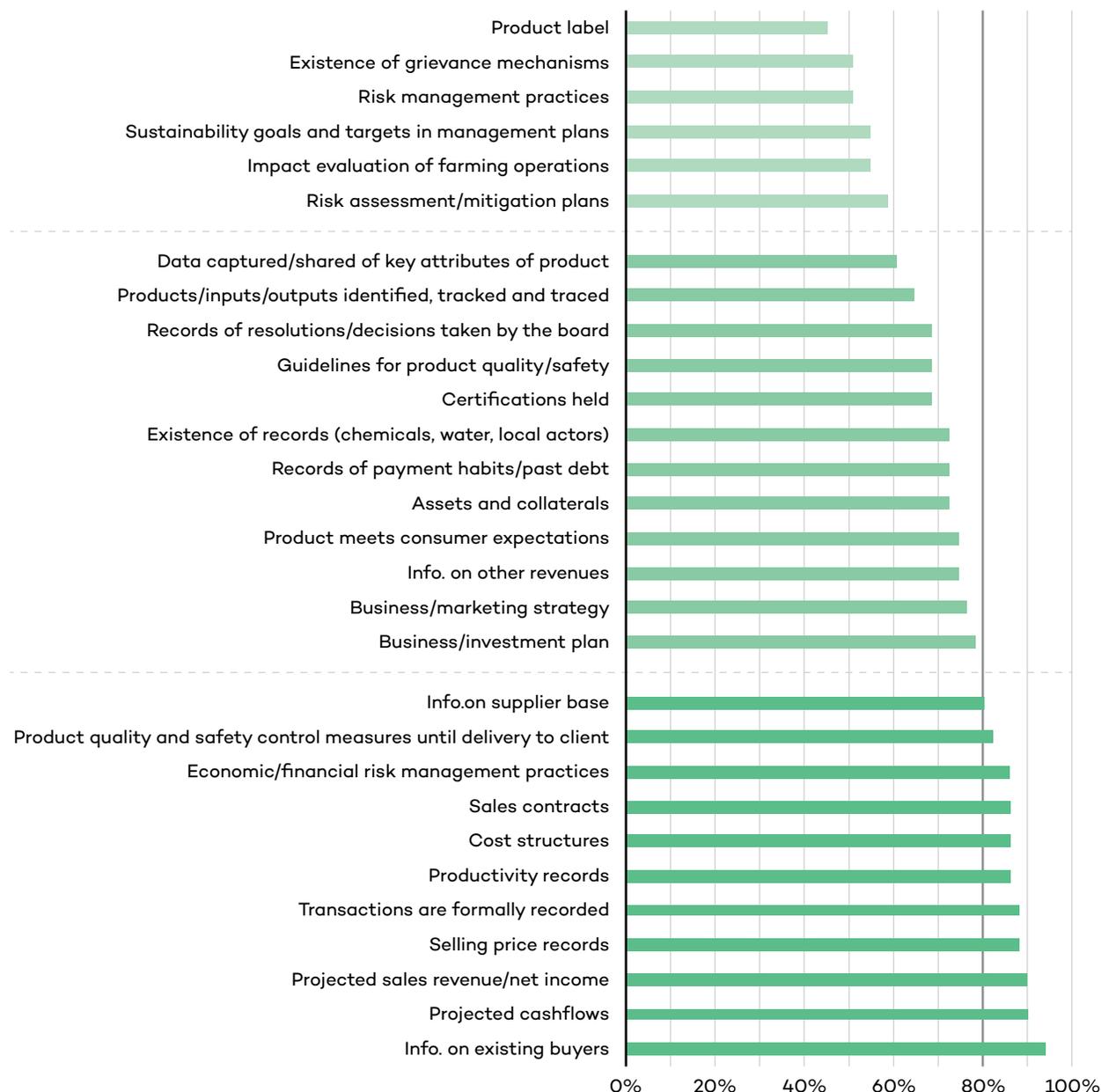


Note: (n=51 respondents)

<sup>8</sup> The Importance Index is defined as follows:  $ImIndex = ((Very\ Important + Important\ Responses) - (Low\ Important + Slightly\ Important\ Responses)) / Total\ Responses$ .



**Figure 6. Business management criteria**



Note: (n=51 respondents)

For the **governance theme**, management experience and performance had the highest score of perceived importance for participating FSPs according to the Importance Index, followed by proof of ownership of property, or concession or land-use rights, proof of compliance to social and environmental laws and legal registration of the entity. These results suggest the perceived high importance that participating FSPs give to the formality and legality of the entity and of farming activities. Indeed, access to finance is often contingent on whether farmers are legally registered and operate in the formal economy, given the risks that many FSPs associate with



undertaking investments in farmers that operate primarily in the informal sector, as is often the case in developing economies (IIED, 2015b). It also shows their focus on the management team profile and performance. Indeed, being able to trust that there are strong governance structures in place is an essential component of any assessment and decision made in relation to agricultural investment. That trust enables successful partnerships between last-mile enterprises and financial institutions (Rural and Agricultural Finance Learning Lab, 2017, p. 14).

For the **business management theme**, information on existing buyers had the highest score in terms of perceived importance for participating FSPs according to the Importance Index. This was followed by projected cash flows, projected sales revenue and selling price records, which scored the same level of perceived importance for FSPs as formal record keeping of transactions. These results suggest that proof of commercial relationships and profitability of farming activities are very relevant for participating FSPs when assessing the option of investing in agricultural producers. Furthermore, transactions formally recorded, including selling price records, are also of concern for FSPs. The latter finding is especially important for agricultural producers and the ecosystem of organizations working with them, such as VSSs and technical assistance providers, since many agricultural producers in developing countries have manual and rudimentary record-keeping systems and little formal education, which prevent them from recording the transaction's history (IFC, 2013, pp. 3, 15) of their farming and business activities with supporting documentation.

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Management experience and performance, information on existing buyers, proof of ownership of property, concession or land-use rights, and projected cash-flows are the four most important economic criteria for participant FSPs for reducing financial risk and ensuring economic impact.

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If we benchmark all the criteria included under the governance and business management themes, management experience and performance and information on existing buyers are the criteria that score the highest value in the Importance Index from the perspective of reducing financial risk and ensuring economic impact. These are followed by proof of ownership of property or concession, or land-use rights and projected cash flows. These four criteria refer to the priorities of participating FSPs when assessing financial requests from agricultural producers to grant finance.

These results suggest there is a strong need for capacity building and technical assistance to boost agricultural farmers' management skills. As noted by the World Bank, MSMEs in developing countries face deficiencies in business training and in integral management skills in relation to farm operations (Divakaran et al., 2014, p. 5). Technical assistance could also improve governance and financial planning, which are crucial for accessing capital, according to the World Bank study. These findings align well with the perceptions reported by participating FSPs in our



expert consultation. In addition, the perceived high importance of information on existing buyers suggests the relevance of improving market access for agricultural producers, which is a major factor that limits economic growth and poverty reduction (Karshenas, & van der Geest, 2016). Enhancing market access of agricultural producers through the development of direct links with buyers allows them to sell their products and secure sales contracts that can be leveraged to access finance. Sales contracts are used in agriculture finance as *de facto* guarantees that the loan will be paid, rather than using physical assets as collateral (United Nations Environment Program [UNEP], 2007, p. 21). There are FSPs that work directly with buyers to design financial products suitable for agricultural producers based on the details of the sales contracts. For instance, within agricultural value chain finance (i.e., contract farming), a buyer or an FSP can provide credit to farmers on the basis of existing commercial relationships with buyers (Calvin & Jones, 2010, p. 30–31). In this transaction, the details of the contract are crucial for ensuring fair conditions for the farmers (IISD, 2018).

Agricultural producers also need training and capacity-building support to enable the development of reliable projected cash flows that present objective and reality-based forecasts of financial results. As noted by the IFC, MSMEs in emerging markets often lack the knowledge to prepare robust financial statements (IFC, 2017, p. 44). These need to be based on the analysis of farming and business activities, growth potential and existing risks. A well-developed cash flow projection is also essential for FSPs to design a financial solution that captures the cash flow and risk profile of the investor, as noted by Grofin (UNEP, 2007, p. 17). FSPs also need to know when the loan installments should be disbursed to fit the needs of the agricultural production cycle and when they can potentially be reimbursed based on the commercialization period.

Dialogue between FSPs and agricultural producers is needed when designing the financial product, as well as the disbursement and reimbursement schedule. Ensuring that this collaboration takes place will, in turn, allow for the financial product to better reflect the projected cash flow and financial needs of farming activities, while also addressing FSPs' concerns over risk. An instructive financial model that follows this practice is the one implemented by Tamwil El Fellah (TEF), a subsidiary of *Crédit Agricole du Maroc*, a major FSP offering banking services in Morocco. Their risk management strategies are based on matching the loan's maturity to the client's ability to repay it. This is informed by the client's cash flow projection, a deep knowledge of smallholders' production systems, their relationship with market actors and their feedback to their loans as customers. TEF began its work in 2010, and in 2015 the default rate was less than 0.5% of their portfolio<sup>9</sup> (FAO, 2016, p. 16).

Finally, proof of ownership of property, or concession, or land-use rights is essential for FSPs when assessing the financial requests of agricultural producers. This result confirms findings that demonstrate some significant effects of the relationship between agricultural credit and land rights (Foltz et al., 2000, p. 17). This issue is particularly relevant, as many agricultural producers in developing countries do not hold land rights titles. They are part of the 70% of the

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<sup>9</sup> The volume of credit disbursed by TEF at 31/10/2015 was USD 129 million.



world population that does not have a legally registered title to their land, which prevents them from accessing finance (World Bank, 2017). Lack of land tenure affects women considerably, as evidence suggests that women's ownership of agricultural land is lower than that of men at a global scale, with this share being especially low in developing countries (FAO, 2019, p. 4). Efforts to secure land tenure of agricultural producers are needed to bring security and stability to their farming and business activities as a pre-condition to accessing finance.

As illustrated in Figure 4, **climate change** is the third sustainability theme that FSPs perceived as having “high importance” when assessing financial requests from agricultural producers. Within this theme, the **Climate Change Adaptation Measures** sub-theme outperformed **Climate Change Mitigation Measures** from the perspective of reducing financial risks, with 65% and 47% of participating FSPs naming these sub-themes as being of “high importance,” respectively. Indeed, adaptation measures are key for building climate-resilient farming operations, especially in developing countries that are more vulnerable to climate change risks (Intergovernmental Panel on Climate Change, 2014, pp. 1173, 1241; IISD, 2019a). According to the World Bank (n.d.), “a warming climate could cut crop yields by more than 25 percent,” thus negatively influencing farming output and profitability. This result aligns well with the perceived high importance that 53% of the participating FSPs assign to the **water conservation measures** sub-theme, which is embedded within the **biodiversity and natural resource management** theme. Indeed, water resources and how we manage them to prevent pollution and scarcity affects all facets of human life (UN Water, n.d., p. 1). This is particularly relevant in farming activities, as water is used to produce crops and sustain livestock influencing agricultural productivity. All investments should be “water-proofed,” and institutions should integrate climate resilience across their decision-making processes, according to the World Water Council (2018, p. 22). Nevertheless, given the importance of water resources to secure agricultural output and thus ensure that farming activities generate sufficient revenue, the percentage of participating FSPs that allocate a “high importance” value to this sub-theme is low (see Annex I). This suggests that FSPs need to better understand the risks associated with the conservation of water resources in agricultural practices.

Other findings are worth noting from the analysis of the expert consultation responses. As mentioned above, social themes were less often perceived by participating FSPs to be of “high importance” to reduce the financial risks of agricultural investments. Within the **social: workers** theme, the **gender-specific** sub-theme had a higher score than other social sub-themes in terms of perceived importance for participating FSPs to reduce the financial risk of agriculture investments. This sub-theme includes gender-specific measures that lower health and safety risks for women, including policies and practices to protect women with special conditions such as pregnancy and disabilities; measures to promote women's education and professional training; equal remuneration; and participation of women in decision-making.

Indeed, women play an essential role in production and post-harvesting activities (IFC, 2016a, p. 3), which is crucial for the quality of the product. Quality in turn influences the product's ability to be sold at a remunerative price and contribute to paying off the loan. Evidence also suggests that companies that invest in women can reduce the costs and increase the productivity



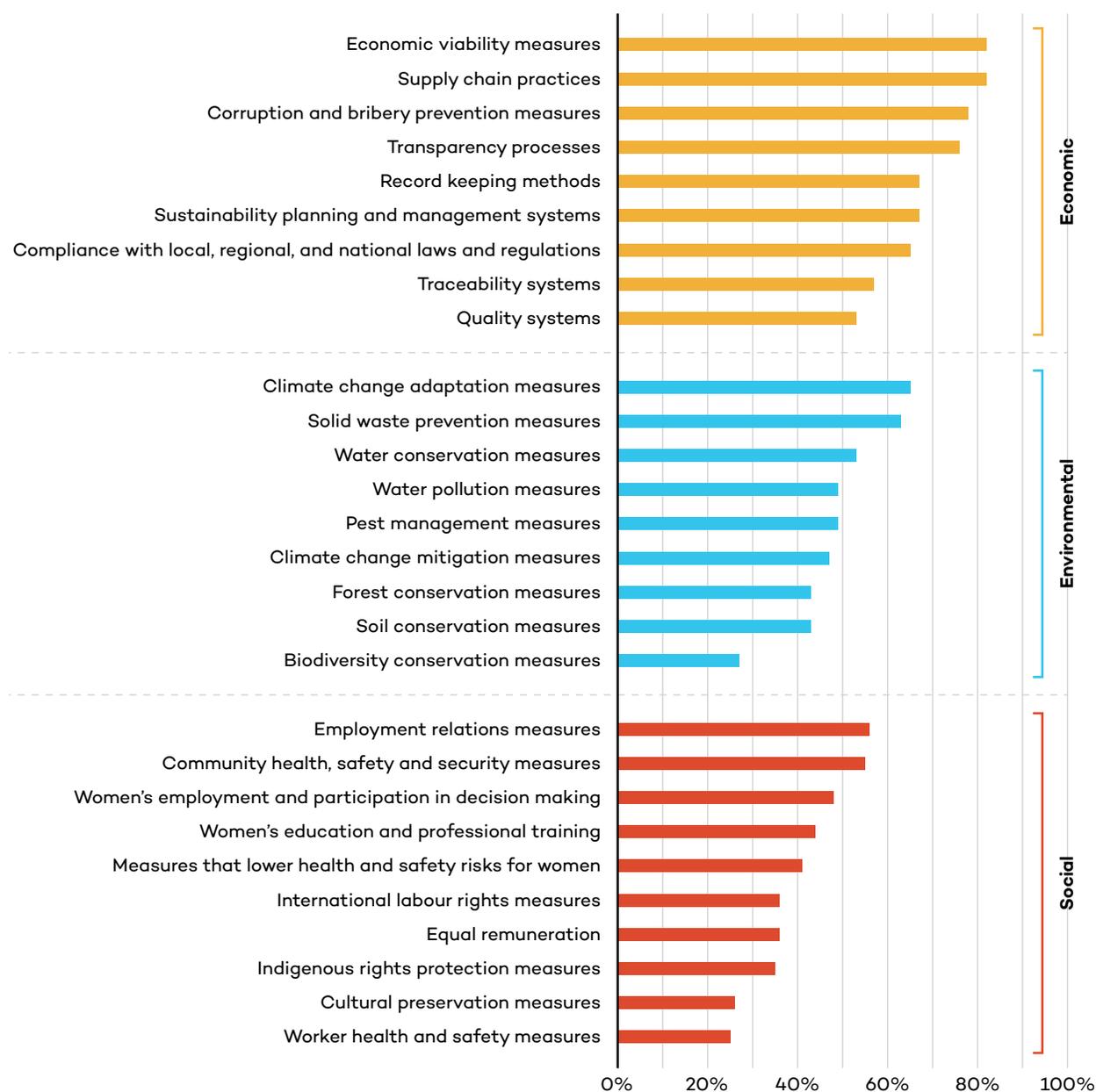
of agribusiness (IFC, 2016b, p. 7, p. 22), which can improve operative margins and reduce the financial risk of loan default.

However, women's roles are often unacknowledged (IFC, 2016a, p. 3), as reflected in the results of the expert consultation, since only 42% of participant FSPs considered this sub-theme as highly important to reducing financial risks of agricultural investments. The results indicate that more training and awareness-raising are needed among FSPs regarding the relevance of advancing gender equality in agriculture and incorporating gender lenses in investment decision-making. This can be done by integrating gender issues, concerns or objectives in pre-investment activities (i.e., sourcing of potential investees and in due diligence); in investment decision-making targeting agribusinesses that promote equality at the workplace, offer services that improve lives of women and girls or have a strategy to address gender issues; and in monitoring the activities of the investment (Global Impact Investment Network, 2018, p. 5).

In the same line, within the **biodiversity and natural resource management** theme, the sub-themes concerning **biodiversity, forest and soil conservation measures** received little support in terms of having “high importance” for reducing financial risks of agricultural investments, with 27%, 42% and 43% of participant FSPs allocating a “high importance” value, respectively. These findings suggest the need to strengthen FSPs' knowledge on how biodiversity conservation and sustainable natural resource management can influence agricultural yields (International Social and Environmental Accreditation and Labeling, 2017, p. 9; Dainese et al., 2019), improve agroecosystem productivity, reduce land degradation, mitigate the effects of climate change in agricultural production, and ensure the fertility of productive resources and ecosystems. Recent studies have estimated the economic value of biodiversity and natural resources to the global economy while evaluating the external costs associated with their use. By doing so, natural capital risks associated with business impacts and dependencies on natural resources—such as biophysical risks, reputational risk and operational risks—are identified as a factor in financial risk assessment and investment decision-making (Natural Capital Declaration, 2015).



**Figure 7. The perceived high importance of sustainability sub-themes to reduce financial risk**



Note: Percentage of “high importance” responses: the scale of values proposed to the FSPs consulted to assess the importance of the sub-themes to reduce financial risk was: Unimportant - Low Importance - Moderate Importance - High Importance.

According to a report by McKinsey, sustainable investing is becoming the “new normal” (Bernow et al., 2017, p. 2), and further education may be needed for FSPs about how social and environmental issues can have an impact on financial risk. To invest effectively, FSPs need to integrate environmental and social factors (Bernow et al., 2017, p. 4) in their due diligence



and investment activities, though admittedly, the translation of social and environmental issues into financial metrics is not an easy process. Social and environmental measurement criteria are relatively recent, and investors may not be familiar with them (World Business Council for Sustainable Development, 2016, p. 19). They are more acquainted with financial metrics and consequently may tend to assign them higher importance. This finding suggests that FSPs need to incorporate comprehensive environmental and social assessment and risk mitigation frameworks into their investment and risk mitigation policies and procedures (IISD, 2019d, C. Novak's webinar intervention). The inclusion of environmental, social and governance factors in risk assessment and investment decision-making is a step in that direction. Collaboration with different actors can contribute to this inclusion and can help clarify how the economic, environmental and social sustainability themes relate to each other regarding financial risks in agricultural investment. VSSs with their technical knowledge of sustainability, agricultural producers with their on-the-ground insights, and FSPs with their financial perspective could leverage each other's capabilities to interpret the influence of social and environmental issues on reducing the financial risk of an agricultural investment. This interaction, in turn, can also enhance FSPs' investment and risk mitigation procedures. Important lessons can also be learned from how such considerations are being addressed in other sectors, such as infrastructure finance (IISD, 2019c).

The importance of governance, business management and climate change for reducing the financial risk of an investment is also a call for governments to collaborate in setting up the appropriate conditions to catalyze private capital toward agricultural producers. For instance, blended finance vehicles can leverage development finance (as grants) that can have a risk mitigation effect, which contributes to attracting private capital to finance sustainable business practices (Clarmondial, 2019; Eco.business Fund, 2018, p. 23). Finally, smart subsidies that finance capital expenditure of farming activities can also mitigate risk and expand impact while mobilizing capital from a variety of lenders (Root Capital, 2015, p. 7).



## 4.0 Conclusions

The agricultural sector faces significant challenges relating to climate change, given the importance of agriculture as a sector that generates carbon emissions but is also significantly affected by their impacts. Agricultural producers, for their part, are also unable to achieve their full growth potential, given the challenges they face in access to finance, which is largely related to the risks that FSPs associate with such investments. This study therefore takes the challenge of analyzing access to finance from a specific angle: that of the importance that investors assign to sustainability criteria when assessing financial requests from agricultural producers of developing countries.

From the expert consultations conducted by IISD with FSPs in 2019, it is clear that the primary perceived importance among these financial service providers involves the governance and business management themes, followed by climate change. Notably, *management experience and performance* and *existing buyers* are the two economic criteria that FSPs consider as having “high importance” when assessing financial requests from agricultural producers in order to grant finance. These are followed by *proof of ownership of property or concession, or land-use rights* and *projected cash flows*. Environmental and social themes were more relevant for ensuring environmental and social impact, rather than for reducing the financial risk of an investment, according to the number of “high importance” responses recorded in the expert consultation.

IISD (2019d) presented the main results of this expert consultation during a [webinar](#) held on November 27, 2019, to gather feedback from experts in the field. Based on these results and the discussion held during the webinar, we propose the following recommendations to enhance access to finance for agricultural producers in developing countries:

1. Agricultural producers should seek capacity-building support to improve their *management performance* and provide reliable *projected cash flows* to FSPs. For VSS-compliant producers, VSSs can contribute to this via the criteria that they require farmers to comply with (i.e., compliance with laws and regulations, environmental and social management plans, record keeping) and supporting the implementation of best practices. The ecosystem of development organizations working with agricultural producers can provide the extension services required to strengthen the business case for investing in VSS-compliant agricultural producers.
2. Agricultural producers could strengthen their relationship with *existing buyers* and potentially reach out to new ones when accessing VSS-compliant markets, since VSSs may facilitate the direct contact between producers and buyers, rather than going through an intermediary (IISD, 2019d, G. Eenhoorn’s webinar intervention).
3. Agricultural producers should adopt sustainable practices to adapt to climate change. VSSs can provide related information on such efforts to FSPs, which is verified by a third party. This includes the location of the farm with the use of GPS and information



- concerning the integrated farm planning and management system (IISD, 2019d, G. Eenhoorn's webinar intervention).
4. VSSs should ensure that the economic criteria that FSPs have assessed as having “high importance” for reducing financial risk are included to some extent in their corresponding standard. This will facilitate the use of VSSs as a risk-mitigating tool while potentially being a catalyst for the capital that sustainable agricultural producers sorely need. The forthcoming *SSI Standards and Finance Review* will illustrate how a selected number of VSSs, and their embedded criteria, perform against these economic criteria and will include recommendations in this regard.
  5. VSSs could facilitate the dialogue between agricultural producers and FSPs to enable the translation of social and environmental issues into financial and economic aspects/metrics of their concern. This could contribute to increasing the incorporation of social and environmental issues in FSPs' risk assessment and management frameworks.
  6. FSPs should integrate social and environmental assessments and risk mitigation frameworks within their investment and risk management policies and procedures, and they should have social and environmental experts among their staff (IISD, 2019d, C. Novak's webinar intervention) or at least fully trained staff.
  7. FSPs should consider having a team, rather than only one person, assessing social and environmental risks on potential agricultural investments. They should also have on-the-ground staff to develop a better understanding of producers' social and environmental realities and better assess these types of risks (IISD, 2019d, A. Hampel's & C. Novak's webinar interventions).
  8. FSPs that would like to access funding from other investors or to co-invest (i.e., blended finance) should provide rigorous social and environmental performance information of their potential investees and agricultural investments to their own investors or co-investors. VSS could play a role in this respect, providing third-party-verified information regarding the social and environmental practices the investee performs and potentially the outcomes they lead to (IISD, 2019d, A. Hampel's webinar intervention).
  9. In light of the high importance of the criteria *proof of ownership of property or concessions or land-use rights* to access finance, governments should facilitate the acquisition of land titles especially troublesome for women and work to understand the underlying principles, norms and legal frameworks that prevent women's land tenure.
  10. Governmental organizations should set the enabling conditions to reduce the challenges and costs of investing in agriculture and allow a level playing field. For instance, governmental organizations should ensure the link between FSPs and markets (prospective buyers of agricultural producers), allow the flow of information to FSPs and diffuse knowledge about relevant policies in place that support investment in the agriculture sector (IISD, 2019d, B. Nyamulinda's webinar intervention, 2019).
  11. Last but not least, concessionary lending should be increased in size and typology (i.e., debt and insurance products). Concessionary lending could also be tied to the



sustainability performance of the investee. The latter potentially could be ascertained via the conformity assessment provided by VSSs. The prospective lending benefits derived from the sustainability performance should be transferred to the farmers through the affordable conditions of the credit or investment (IISD webinar 2019d, A. Hampel's & C. Novak's interventions).

As stated by one of the FSPs that participated in the expert consultation, “implementation of good sustainable agriculture practices should go hand-in-hand with the development of business, human and financial resources. If we don't see the two align, then that's a management red flag” (personal communication, N. Metzger, June 19, 2019).

New insights and recommendations for FSPs, VSSs, governments and agricultural producers on IISD expert consultation of FSPs will be available in the upcoming *SSI Standards and Finance Review*.



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# Annex A. Survey: The Incorporation of Voluntary Sustainability Standard (VSS) Criteria into Investment and Financial Activities: An expert consultation of financial institutions and investors

## About This Study

This study explores the main sustainability issues that financial institutions and investors consider important when assessing financial requests from agricultural producers in developing countries. In this study, “agricultural producers” refers to individual farmers that are grouped in or associated with organizations such as cooperatives, small and medium-sized enterprises, or other producer groups.

This study contributes to the development of the upcoming State of Sustainability Initiatives (SSI): Standards and Finance Review examining voluntary sustainability standards (VSSs) from the perspective of reducing financial risk and as a proxy of economic, social and environmental impacts of agricultural practices. The sustainability issues presented in this survey are a result of reviewing and analyzing 12 sustainable finance frameworks,<sup>A1</sup> alongside documents pertaining to credit rating factors in agriculture finance.

## Outline of the Expert Consultation

This expert consultation is anonymous. The individual contributed data will not be shared, as the results will be reported in aggregate form. You are welcome, though, to add your name to receive the results. The questionnaire is composed of multiple-choice and rating-scale questions organized into five sections:

- i) Respondent characteristics
- ii) Generic perceptions on agricultural VSS
- iii) Importance of VSS producer requirements for investment and financial decision making

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<sup>A1</sup> The 12 sustainable finance frameworks are: Principles for Responsible Investments, Principles for Sustainable Insurance, Principles for Positive Impact Finance, Principles for Responsible Investment in Agriculture, Principles for Responsible Investment in Agriculture and Food Systems, Guide to Banking and Sustainability (United Nations Environment Program Finance Initiative), Natural Capital Declaration, International Finance Corporation Performance Standards, Global Equator Principles, United Nations Principles of Responsible Banking, Global Alliance for Banking Values, and International Accounting and Reporting Issues from the United Nations Conference in Trade and Development.



- iv) Importance of VSS system characteristics for investment and financial decision making
- v) Focus on economic criteria

It should take 30 minutes to complete the questionnaire. The results of this expert consultation will be discussed during a webinar open to investors and relevant stakeholders in the coming months. Please respond by **Wednesday, June 19th 2019**. We are most grateful in advance for your participation!

## Glossary of Key Concepts

- **Voluntary sustainability standards (VSSs):** private sector initiatives operating in multiple sectors of the economy that aim to promote economically, environmentally and socially sustainable production, consumption and trade practices. The [United Nations Forum on Sustainability Standards](#) defines VSSs as “standards specifying requirements that producers, traders, manufacturers, retailers or service providers may be asked to meet, relating to a wide range of sustainability metrics, including respect for basic human rights, worker health and safety, the environmental impacts of production, community relations, land use planning and others.” Some agricultural VSSs include Fairtrade, Rainforest Alliance, UTZ, IFOAM and GLOBAL G.A.P.
- **Financial risks:** the probability that the actual return on an investment will be different from its expected return. There are two types of risks. Firm-specific risks refer to the effect that some factors, practices and policies of agricultural producers may have on the certainty and magnitude of future cashflows and agricultural outputs of the investee firm. Portfolio-wide risks refer to the larger or systematic effect that specific agricultural production and supply chain practices and policies may have on the magnitude and certainty of a wide range of future cashflows and agricultural outputs across an investor’s portfolio.
- **Impacts:** the long-term effects (positive or negative) produced by a development intervention. An investor may find that many economic, social and environmental policies and practices of agricultural producers may not reduce idiosyncratic or portfolio-wide risk. However, the investments may still be desirable since they might generate positive impacts that benefit the community or the environment. In general, agricultural producers comply with a VSS to make positive impacts in the areas of social justice, environmental conservation, and market or financial inclusion.

## Section I. Respondent Characteristics

1. What category best describes your organization?

- Diversified institutional asset owner
- Large investment manager



- Development finance institution
- Commercial finance institution
- Impact-first/social investor
- Microfinance institution
- Foundation
- Private actor of the agriculture value chain (i.e., buyer, trader, input supplier)
- Other

2. In what country are you headquartered?

3. In which regions do you most routinely invest in agricultural producers?

- East Asia
- Eastern Europe, Russia and Central Asia
- Latin America and the Caribbean
- Middle East and North Africa
- Oceania
- United States and Canada
- South Asia
- Southeast Asia
- Sub-Saharan Africa
- Western, Northern and Southern Europe

4. Which instruments do you use to invest in agricultural producers?

- Private equity
- Private semi-equity (mezzanine debt or subordinated debt)
- Private debt
- Public debt
- Guarantees
- Advance payments (buyer to agricultural producers)
- Other

5. What is your expected return from agriculture investments in developing countries?

- Below market
- Market
- Above market



Respondent contact (optional);

Surname:

First Name:

Email:

## Section II. Generic Perception of Agricultural VSSs

Please rate, on a scale from 1 to 5, to what extent you agree or disagree with the following statement (*1 = Strongly Disagree, 2 = Somewhat Disagree, 3 = Neither Agree nor Disagree, 4 = Somewhat Agree, 5 = Strongly Agree*).

My organization has deep knowledge of agricultural VSSs and how they operate (i.e., producer requirements, how they are being monitored and evaluated, supporting services to farmers to implement requirements, verification and audit processes of agricultural practices).

1 2 3 4 5

Please rate, on a scale from 1 to 5, the frequency with which your organization participates in the following activities (*1 = Never, 2 = Rarely, 3 = Sometimes, 4 = Often, 5 = Always*).

How frequently does your organization consider agricultural producers' compliance with VSSs when investing in developing countries? 1 2 3 4 5

How frequently does your organization invest in VSS-compliant agricultural producers in developing countries? 1 2 3 4 5

How frequently does your organization offer concessionary lending conditions to VSS-compliant agricultural producers in developing countries? 1 2 3 4 5

What are the VSSs your organization has experience with when lending to agricultural producers in developing countries?

## Section III. The Importance of VSS Producer Requirements for Investment and Financial Decision Making

In this section, we focus the assessment on the VSS-defined producer requirements that influence how farming operations are undertaken.

### ECONOMIC

Please rate, on a scale from 0 to 3, the **importance** of the following economic themes for “reducing the financial risk” and “ensuring the economic impact” of developing country agricultural producers (*0 = Unimportant, 1 = Low Importance, 2 = Moderate Importance, 3 = High Importance*).



### *A. Economic – Governance*

A.1. Compliance with local, regional, and national laws and regulations where farming operations are being undertaken.

Financial risk reduction: 0 1 2 3

Ensuring economic impact: 0 1 2 3

A.2. Corruption and bribery prevention measures that prevent fraud, dishonest behaviour, and the practice of taking or receiving a valuable asset with the intention of influencing the recipient in a certain way.

Financial risk reduction: 0 1 2 3

Ensuring economic impact: 0 1 2 3

A.3. Transparency processes that contribute to keeping and releasing records and information needed to remain transparent on governance and sustainability issues and meet reporting requirements.

Financial risk reduction: 0 1 2 3

Ensuring economic impact: 0 1 2 3

### *B. Economic – Business Management*

B.1. Economic viability measures associated with attaining or improving agricultural producers' economic prosperity, such as value creation, profitability, liquidity, or solvency.

Financial risk reduction: 0 1 2 3

Ensuring economic impact: 0 1 2 3

B.2. Supply chain practices that give agricultural producers greater production capacity, increase sales, build stronger relationships with suppliers and buyers, and higher market share, while mitigating price and volume volatility.

Financial risk reduction: 0 1 2 3

Ensuring economic impact: 0 1 2 3

B.3. Quality systems that consist of a coordinated set of rules, processes and activities that seek to uphold standards of product quality and safety expected by its customers.

Financial risk reduction: 0 1 2 3

Ensuring economic impact: 0 1 2 3

B.4. Record-keeping methods that capture, maintain and retrieve evidence of and information about activities and transactions in a comprehensive, robust and formal manner.

Financial risk reduction: 0 1 2 3

Ensuring economic impact: 0 1 2 3



B.5. Traceability systems that consist of rules, procedures and mechanisms that allow the identification, tracking and tracing of production inputs, outputs and products throughout the supply chain.

Financial risk reduction: 0 1 2 3

Ensuring economic impact: 0 1 2 3

B.6. Sustainability planning and management systems that consist of a set of policies, processes and procedures through which sustainability issues (pertaining to farming operations or to the community) are identified and solutions are developed, risks are assessed and controlled, and impacts are monitored and evaluated.

Financial risk reduction: 0 1 2 3

Ensuring economic impact: 0 1 2 3

## ENVIRONMENTAL

Please rate, on a scale from 0 to 3, the **importance** of the following environmental themes for “financial risk reduction” and “ensuring the environmental impact” of developing country agricultural producers (*0 = Unimportant, 1 = Low Importance, 2 = Moderate Importance, 3 = High Importance*).

### A. Environmental – Climate Change

A.1. Climate mitigation measures that contribute to mitigating greenhouse gas emissions.

Financial risk reduction: 0 1 2 3

Ensuring environmental impact: 0 1 2 3

A.2. Climate adaptation measures that contribute to the climate resilience of farming operations.

Financial risk reduction: 0 1 2 3

Ensuring environmental impact: 0 1 2 3

### B. Environmental – Pollution Prevention and Pesticide Management

B.1. Water pollution measures that prevent water quality impacts.

Financial risk reduction: 0 1 2 3

Ensuring environmental impact: 0 1 2 3

B.2. Solid waste prevention measures that reduce solid waste generation and its impacts associated with farming operations.

Financial risk reduction: 0 1 2 3

Ensuring environmental impact: 0 1 2 3



B.3 Pest management measures that minimize the use of pesticides to prevent, monitor and control pest-related issues in farming operations caused by diseases, insects and weeds.

Financial risk reduction: 0 1 2 3

Ensuring environmental impact: 0 1 2 3

### C. Environmental – Biodiversity and Natural Resource Management

C.1. Biodiversity conservation measures associated with the protection and conservation of biodiversity.

Financial risk reduction: 0 1 2 3

Ensuring environmental impact: 0 1 2 3

C.2. Forest conservation measures to avoid deforestation associated with farming operations that promote forest conservation, reforestation and/or afforestation.

Financial risk reduction: 0 1 2 3

Ensuring environmental impact: 0 1 2 3

C.3. Water conservation measures associated with the preservation of water resources.

Financial risk reduction: 0 1 2 3

Ensuring environmental impact: 0 1 2 3

C.4. Soil conservation measures associated with maintaining soil resources and natural ways to maintain its fertility.

Financial risk reduction: 0 1 2 3

Ensuring environmental impact: 0 1 2 3

## SOCIAL

Please rate, on a scale from 0 to 3, the importance of the following social themes for “reducing the financial risk” and “ensuring the social impact” of developing country agricultural producers (*0 = Unimportant; 1 = Low Importance; 2 = Moderate Importance; 3 = High Importance*).

### A. Social – Local Communities

A.1. Indigenous rights protection measures to promote Indigenous rights, collective property, culture and livelihoods.

Financial risk reduction: 0 1 2 3

Ensuring social impact: 0 1 2 3

A.2. Cultural preservation measures to protect cultural heritage and traditional knowledge, including respect for cultural production practices and respect for natural and cultural heritage surroundings.



Financial risk reduction: 0 1 2 3

Ensuring social impact: 0 1 2 3

A.3. Community health, safety and security measures to improve community development pertaining to health, safety and security.

Financial risk reduction: 0 1 2 3

Ensuring social impact: 0 1 2 3

## *B. Social – Workers*

B.1. International labour rights measures to prevent forced labour and exploitive child labour, to protect and promote the right to organize and collective bargaining, and adherence to related International Labour Organization conventions.

Financial risk reduction: 0 1 2 3

Ensuring social impact: 0 1 2 3

B.2. Worker health and safety measures to maintain healthy and safe working conditions at the farm or plant.

Financial risk reduction: 0 1 2 3

Ensuring social impact: 0 1 2 3

Gender specific:

- Gender-specific measures that lower health and safety risks for women, including policies and practices to protect women with special conditions such as pregnancy and disabilities.
  - a) Financial risk reduction: 0 1 2 3
  - b) Ensuring social impact: 0 1 2 3

B.3. Employment relations measures to improve and ensure decent and equitable working conditions regarding working hours, wages, and the training and professional development of employees.

Financial risk reduction: 0 1 2 3

Ensuring social impact: 0 1 2 3

Gender specific:

- Gender-specific measures to promote women's education and professional training, including the facilitation of opportunities to pursue education, participation in training and meetings, and the guarantee that gender-specific constraints are considered when providing training.



- a) Financial risk reduction: 0 1 2 3
- b) Ensuring social impact: 0 1 2 3
- Gender-specific measures to promote women’s employment and participation in decision-making structures, including the development of women’s entrepreneurship and leadership capacities, and women’s professionalization.
  - a) Financial risk reduction: 0 1 2 3
  - b) Ensuring social impact: 0 1 2 3

Gender specific:

- Gender-specific measures to protect and promote equal remuneration and guaranteed rights for parental and sick leave.
  - a) Financial risk reduction: 0 1 2 3
  - b) Ensuring social impact: 0 1 2 3

## Section IV. Importance of VSS System Characteristics for Investment and Financial Decision Making

In this section, we focus on an assessment of the functions and activities that the VSS body implements to support farmers in applying the standard requirements in farming operations, as well as monitoring and verifying their endorsement and degree of conformity.

Please rate, on a scale from 0 to 3, the importance of the following characteristics of VSS systems (*0 = Unimportant*); *1 = Low Importance*; *2 = Moderate Importance*; *3 = High Importance*).

### A. Systems – Conformity Assessment

A.1. Standard-level conformity assessment systems that consist of activities, procedures and measures implemented by the standard body to determine whether the product meets the requirements the standard defines, including audits, monitoring and evaluation of conformity practices, traceability of products, and management of claims.

Financial risk reduction: 0 1 2 3

Ensuring impact: 0 1 2 3

### B. Systems – Producer Support

B.1. Standard-level producer support policies and practices that help farmers enhance their farming operations, including technical assistance to meet standard requirements and beyond (i.e., productivity, efficiency, access to markets), the establishment of minimum prices for the product, estimates for prices and premiums, and the estimation and verification of certification costs.

Financial risk reduction: 0 1 2 3



Ensuring impact: 0 1 2 3

## Section V. Focus on Economic Criteria

While agricultural VSSs tend to have extensive coverage of social and environmental criteria in their compliance programs, their coverage of economic criteria tends to be more limited. In this section, we focus on a range of economic criteria that have been both included in and excluded from VSS compliance programs in order to deepen our understanding of their relative importance to investors and financial institutions.

### A. Economic – Governance

Please rate, on a scale of 1 to 5, the following economic criteria according to their importance within your investment and financial decision making (for both financial risk reduction and/or ensuring economic impact) (*1 = Unimportant, 2 = Slightly Important, 3 = Moderately Important, 4 = Important, 5 = Very Important*).

#### A.1. Compliance with local, regional and national laws and regulations.

- Legal registration of the entity 1 2 3 4 5
- Proof of ownership of property or proof of concession or land-use rights when applicable  
1 2 3 4 5
- Proof of compliance to applicable social and environmental laws 1 2 3 4 5
- Proof of tax and payments to governments 1 2 3 4 5

#### A.2. Corruption and bribery prevention measures

- Existence of anti-corruption and bribery policies 1 2 3 4 5
- Anti-corruption risk assessment and mitigation procedures in place 1 2 3 4 5
- Internal communication and training of anti-corruption policies and procedures 1 2 3 4 5
- Key attributes of management experience and performance 1 2 3 4 5
- Independent and diverse board and appropriate board supervision 1 2 3 4 5

#### A.3. Transparency processes

- Compliance with globally recognized financial accounting and reporting standards  
1 2 3 4 5
- Third-party financial auditing; audited financial statements 1 2 3 4 5
- Disclosure of sustainability goals, performance and impacts 1 2 3 4 5
- Disclosure of governance issues (i.e., board minutes, compensation) 1 2 3 4 5



## B. Economic – Business Management

Please rate, on a scale of 1 to 5, the following economic criteria according to their importance within your investment and financial decision making (both risk reduction and/or impact assurance) (1 = *Unimportant*, 2 = *Slightly Important*, 3 = *Moderately Important*, 4 = *Important*, 5 = *Very Important*).

### B.1. Economic viability measures

- Existence of a business/investment plan 1 2 3 4 5
- Key attributes of the business and marketing strategies 1 2 3 4 5
- Productivity records of the last 2–3 years, planned and actual; projections (reliable/feasible); key attributes of methods to assure volume supply
- Projected sales revenue and net income (reliable/feasible) 1 2 3 4 5
- Projected cashflows (reliable/feasible) 1 2 3 4 5
- Information on cost structures 1 2 3 4 5
- Key attributes of the economic/financial risk management practices 1 2 3 4 5
- Existence of assets and collaterals to use in future debt 1 2 3 4 5
- Records of payment habits/history and past and current debt levels 1 2 3 4 5
- Key attributes of other on-farm and/or off-farm revenue source activities 1 2 3 4 5

### B.2. Supply chain practices

- Key attributes of supplier base, location and mechanisms to secure inputs 1 2 3 4 5
- Key attributes of the target market: identity of existing buyers and length/type of relationship, international or domestic market 1 2 3 4 5
- Key attributes of the previous, existing and future sales contracts 1 2 3 4 5
- Selling price records; key attributes of the methods to mitigate price volatility 1 2 3 4 5
- Key attributes of certifications held 1 2 3 4 5

### B.3. Quality systems

- Existence of guidelines defining product quality and safety standards 1 2 3 4 5
- Processes/activities in place to measure and ensure product quality and safety until delivery to client 1 2 3 4 5
- Processes/activities in place to ensure product meets consumer expectations 1 2 3 4 5

### B.4. Record-keeping methods

- Financial transactions are formally recorded and archived following accounting standards; completed supporting documents exist 1 2 3 4 5



- Existence of records derived from farming operations: chemicals used, usage of natural resources (i.e., water, energy), engagement activities with local actors, etc. 1 2 3 4 5
- Records of decisions/resolutions taken by the board, governance and management bodies are produced and archived 1 2 3 4 5

#### B.5. Traceability systems

- Products, inputs and outputs can be identified, tracked and traced throughout the supply chain 1 2 3 4 5
- Data is captured, collected and shared about the key attributes (perceptible and imperceptible) of the products, inputs and outputs throughout the supply chain 1 2 3 4 5
- Labels of the product include information of the attributes that are not detected by looking at it (such as origin, carbon footprint or who has produced it) 1 2 3 4 5

#### B.6. Sustainability planning and management systems

- Existence of environmental, social and stakeholder risk assessment, management and mitigation plans 1 2 3 4 5
- Key attributes of the environmental, social and stakeholder risk management practices 1 2 3 4 5
- Processes and procedures in place to monitor and evaluate the impacts (positive and negative) of farming operations 1 2 3 4 5
- The existence of grievance mechanisms to compensate for and offset negative impacts 1 2 3 4 5
- Sustainability goals and targets are included in strategic and management plans, including clear steps for continuous improvement 1 2 3 4 5

End of the survey – thank you!

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