CASE STUDY

Published November 2021

C2SLP: Incentivizing Sustainable Production through Credit

*Delivering a **just rural transition** by providing producers with credit access tied to climate-smart land use*

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A Platform for Climate-Smart Finance by C2SLP

A digital platform provided by Greenfi and LendXS for investment in sustainable credit provision to farmers

Location

East Africa (Kenya, Uganda, Rwanda)

Context

Throughout East Africa, there is a pressing need to implement climate-smart agriculture, combat land degradation, and build smallholder resilience against future climate disruption. For smallholders, who lack the equity to invest in these systems, accessing credit will be an essential part of building this resilience.

Challenge

Agricultural production faces increasing volatility due to unpredictable weather conditions and a changing climate. Smallholders, with limited access to adaptation tools and techniques, are particularly vulnerable to the impact of this climatic instablity on their production. However, lenders face limited incentive to extend credit to smallholders due to the potential for default, stemming in part from this climate risk. Potential lenders also lack the data infrastructure to accurately assess smallholder risk profiles, allowing often inflated risk perceptions to determine their (lack of) lending.

> **"Unpredictable weather conditions and a changing climate are making agricultural production more difficult, especially for smallholder farmers who have limited access to the necessary tools and techniques for adapting their production methods."**
>
> Partnerships for Forests, project partner

Solution

The Conservation and Climate-Smart Lending Platform (C2SLP) is a software-as-a-service which collects data on both agricultural systems and smalholder credit risk. This allows financial institutions to determine the impact of climate risk - such as drought, flooding and temperature changes - on the income of farmers, and to determine their repayment capacity expressed in climate-linked credit scores. As such, the C2SLP platform allows financial institutions a large part of otherwise expensive evironmental impact assessment, as well as undertaking loan monitoring and reporting at a fraction of the cost facing direct impact investment.

Investors seeking measurable financial returns (6-12% p.a.) and environmental impact can then place a debt investment through the Platform, which will be directed towards an agri-lender (such as a bank, microfinance institution, or credit cooperative) who in turn targets creditworthy smallholders or emerging commercial farmers. Farmers repay their loans with interest, but also build environmental restoration

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systems on their farmland as a condition of the loan, ensuring both financial and environmental returns. The C2SLP provides financial and agricultural technical assistance to support the farmers to adopt sustainable climate and conservation-smart agricultural and land management practices. In it's initial form, the platform aims to target over 30,000 farmers with collective holdings of between 30,000 - 60,000 hectares to receive loans. Though for now projects are funded with grants and concessional loans to develop the initial climate-smart loan products and monitoring tools, C2SLP aims to become a commercially viable service in the future.

The first C2SLP lending pilots have shown that banks and other rural lenders are willing to pay for the services of the platform as it will allow them to make better informed loan decisions leading to higher loan volumes and lower credit risk

> **"Depending on the agro-ecological context, or investor priorities, different land-management measures can be specified in loan terms. This creates a system which is fundamentally scalable and flexible."**
>
> Greenfi, Project Partner

Impact

Smallholder farmers who have met the contractual requirements to farm are projected to see yields increase 2-4 times under adverse weather conditions compared to less resilient farmers, resulting in significant wellbeing and livelihood gains.

For lenders, this approach reduces client credit default risk and increases client debt service coverage ratios, while enabling them to contribute to environmental objectives through the introduction of climate-smart agriculture by the farmers they lend to, many of whom will be receiving credit for the first time.

The scalable nature of C2SLP drives its ambitious aim to convert and restore 1.5 million hectares of land by 2026, with livelihood improvements for at least one million farmers.

> **"C2SLP ensures that the climate-smart practices being advocated also mitigate against land degradation, benefitting entire ecosystems and reducing credit providers' climate-related default exposure."**
>
> Partnerships for Forests, project partner

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