

SUSTAINABLE FINANCE: THE TRADE FINANCE OPPORTUNITY

**Co-hosted by FAST and WWF's GFTN
With Support From the Citi Foundation, World Bank
and International Finance Corporation**

**March 17th, 2009 Noon – 6:00 PM
WWF Conference Center
1250 24th Street NW, Washington, DC**

== CONFERENCE HIGHLIGHTS ==

The conference on sustainable trade finance opportunities was held jointly by WWF's GFTN and FAST with generous support from the Citi Foundation, IFC and the World Bank.

The conference presented an opportunity to bring together stakeholders involved in bringing sustainable finance to commodity trade in order to facilitate dialogue and learn from past endeavors. Approximately 50 delegates representing 34 different organizations from the private sector, government, financial institutions (FIs) as well as educational and non-governmental organizations (NGOs) attended the conference.

These leading finance and conservation experts participated in presentations and panel discussions at the conference focusing on issues and opportunities associated with environmentally and socially responsible finance, with a special emphasis on sustainable trade in the coffee and forestry sectors.

SESSION 1: WHY ENVIRONMENTALLY AND SOCIALLY RESPONSIBLE FINANCE?



Opening Comments – By Jason Potts, President, FAST

Collaboration between finance and trade actors committed to environmentally and socially responsible practices can help address the infrastructure gap that creates a disconnect between responsible producers that need finance and financiers looking to implement responsible finance policies and investments. With the current financial crisis, it is apparent that while a lot is unknown, the crisis is a call to restructure the way finance happens. In this restructuring there is an opportunity to see a return to scale and to gain a greater understanding of what opportunities exist along financing and supply chains.



Presentation - Miguel Martins, Sustainability Specialist, IFC Financial Markets Sustainability Group

It is apparent that we are in a world of scarcity especially in finance, food, water and energy. In light of this scarcity, sustainability emerges as a key issue. Sustainability enhances risk management, provides a platform for market differentiation and competitive advantage and enhances the corporate image of a company as a responsible corporate citizen. Lastly, it improves client service through a more diversified product offering.

In general, there is a market consensus that supply for responsibly produced commodities is largely insufficient when compared with market demand, even in the current economic crisis. There are three reasons:

- Access to Finance: The number one road-block that is mentioned when we address the incorporation of sustainability criteria into supply chains. Either finance is not available, or, if it is, the pricing and/or tenor are not adjusted to the producers' needs.
- Role of Traders: Traders don't necessarily want to be the financiers. This is a role they perform as a result of a lack of other players.
- Access to Technical Skills: There are players in the market, namely NGOs, that do perform this role. These groups are critical in raising the awareness of the market and building capacity on the ground at producers' level. And their role can be extended to new market players.

As a result, financial institutions have an important role to play. Opportunities exist to engage with local and international financial institutions operating in producing countries and bring them in as active players into the financing of supply chains. This is possible on the financing side, through risk sharing mechanisms that make these new market segments attractive to financial institutions by mitigating the risk of the producers.



Presentation - Eric Swanson, Managing Director, Conservation Finance WWF-US

WWF engages with supply chains on key commodities that influence conservation areas. Each of these commodity supply chains has ties with access to finance, and it is WWF's hope that lessons learned in one commodity can be applied over multiple commodities. Within this scope, WWF has engaged banking and investment players to focus on lending policies, screening tools and finance mechanisms for key commodities, such as forestry, agriculture and fisheries. For these FIs, the entry point to the discussion is certification and standards because they are easier for FIs to understand and adapt.

WWF's work in this sector reflects a changing atmosphere of receptivity on the part of the FIs, as they are now willing to engage in a dialogue to find common solutions. Because the reach of FIs is so large, collaboration is a surefire way to advance sustainability. Similar to

the development of microfinance, it is likely that, at first, responsible lending practices will start in the public arena and then transition into the private sector.

One of the lessons learned through WWF's work in conservation finance is that when there are finance gaps, they will be filled in one way or another. A good example of this is a case study of fishing loans gone badly in the Galapagos. A small fishery of 300 boats with small crews in this area sought financing from buyers when boats broke down or capital was needed. However, these buyers attached conditions to the loans, which often promoted illegal practices, such as asking the fishery's crew to fish out of season or to overfish in regulated areas. Obviously, this is a prime opportunity where small scale finance could promote sustainable trade and prevent irresponsible business practices.

WWF recognizes that there is a lot to learn in the finance area, especially regarding the needs of investors and what it takes to fully engage FIs to channel their influence to promote best practices.



Presentation - Bruce Schlein, Vice President, Corporate Sustainability Unit, Citi

The role of standards in Citi's commitment to sustainability is to ensure that they are scalable and can roll-out globally. Standards bring transparency and credibility and create a common language.

For example, the Equator Principles are policies that can be expanded beyond project finance work into a comprehensive environmental and social risk management policy. They offer opportunities in the implementation phase, where once a transaction comes in and environmental and social impact assessments are conducted, the effects cascade down, including goals around local supply chains. And one of the exciting developments seen regarding the Equator Principles is the large number of emerging banks that are signing on, creating a level playing field and market uptake.

Citi sees a role in their ability to help advance platforms, networks and standards. One case study is Citi's work with Arc Finance, which promotes microfinance coupled with clean energy projects. Arc Finance was established to address high up-front costs of energy systems, lack of energy enterprises that have projects tailored to the poor and a lack of financing for such systems. Together, Citi and Arc Finance constructed solar panels to provide clean and consistent energy for a local sewing co-operative.

Q and A from Audience:

Q. *How do we move beyond the push of improving corporate image as the hook for sustainable actions?*

- In the current economic situation you will see an evident division between institutions that are involved in sustainability endeavors for their image and those that are involved because they really care. However it is becoming apparent in

emerging markets that IFC has seen banks that are adopting sustainability issues are better able to handle the current economic situation.

- Standards are an opportunity to place value on the things that should have value on them and help to remove externalities. Sometimes more basic sustainability opportunities open the door for greater engagement.

Q. How can sustainability move to influence local banks when we see two separate policies, the official written ones and the unofficial lending policies, which may or may not be sustainable?

- IFC's experience is that in developing countries smaller banks are more approachable with sustainability issues because they want to capture a market hold.
- Banks can now view sustainability as a way to manage risk.

SESSION 2: SUSTAINABLE FINANCE FOR COFFEE



Presentation –Miguel Zamora, Category Manager, Coffee & Beverages, TransFair USA

Fair trade coffee certification is one of the leading niche commodities due to an increased consumer awareness and categorization as a staple commodity. One of the most tangible benefits to coffee growers is an increase in income. While there are also social and environmental benefits, they are less visible or tangible than income measurements.

Finance is a major concern for coffee producers. Major concerns are that credit lines are increasingly scarce and money is less available, which reduces export capacity.

The need for financing falls into the following areas:

- Infrastructure
 - Quality improvement and control
- Commercialization Capacity
- Export Capacity
- Buying the Harvest
 - Paying higher prices
 - Providing cash advance to producers
 - Providing support to producers outside of harvest

Current financing mechanism is that 60 per cent of the finance needed can come from buyer contracts, which can be challenging for buyers but provides better support for producer groups.



Presentation – Adriana Madrigal, Senior Investment Officer, Verde Ventures, Conservation International

Verde Ventures (VV) provides SME loans between US\$30,000 to 500,000 along with grants, technical assistance and biodiversity and socioeconomic monitoring. The fund is currently capitalized by three investors and, to date, has provided approximately US\$13 million in financing. That has leveraged 65 loans in 13 countries with a 95 per cent repayment rate. Current sectors include sustainable agriculture (coffee and cocoa), nature based tourism, non-timber forest products and wildlife dependent markets.

To date, VV's coffee portfolio is 100% vested in harvest finance. However, there are two types of financing needed for the majority of coffee growers: 1) longer term finance for infrastructure, equipment and crop maintenance; and 2) short term finance for working capital and harvest finance. The challenges that VV has encountered in coffee financing include:

- High transaction costs
- Business capacity
- Risk and lack of collateral
- Need for pre-harvest finance (need for more flexible coffee contracting + guarantee facilities)

Key lessons learned through Verde Ventures include:

- Modest financial returns in coffee financing.
- Use of strategic grant funds is key for capacity building of clients and allows them to transition to more traditional types of FIs
- Only one co-op has been able to graduate out of Verde Ventures since 1999
- Direct finance incentives for conservation should be used to further improve conservation returns
- Guarantee fund is crucial in early stages

Key Note - Ed Canty, Fair Trade Organic Coffee Buyer, Green Mountain Coffee Roaster

From a buyer's perspective, the crucial area is in quality expectations. These expectations are clear when a sample is approved. By working closely with lenders, buyers can provide second party information about quantity and quality deliveries, working relationships and risk management.



Panel Discussions – Facilitated by Arli Christian, The Calvert Foundation

Q. What advice do you have to create the right incentive for banks to get involved?

- Commercial banks have not been very interested, but in reality this is a good business for banks. Working with social lenders allows risk to diminish over time.
- There is a divorce between what banks need and what producers need. Streamlining application requirements and guidelines would go a long way to having a simplified process. Additionally, it would be useful to get FIs and producers speaking the same language, so producers have a better understanding of finance and FIs reach a better understanding of respective commodities and certification.

Q. What is Verde Ventures doing to address business mismanagement as a factor in the lack of lending?

- Know your client, check references, build strong relationships and provide on-going loan follow up. VV has a strong network of local partners who provide a lot of feedback and support.
- VV conducts assessments of the areas that need improvement and works to address those through technical assistance and business development services.

Q. What are the impacts on local financial institutions of capped interest rates and could this keep producers from scaling up?

- There is room for commercial lenders; social lenders do not fund 100 per cent of the needs. Ultimately, these producer groups need to move to mainstream finance and market rate conditions.

SESSION 3: PANEL DISCUSSIONS ON RESPONSIBLE FOREST FINANCE



Panelists Include:

Richard McLellan, Head, GFTN

Daniel Arancibia, Regional Forest Coordinator, WWF LAC Secretariat

Cynthia L. Greene, Vice President of Global Programs, Root Capital



Facilitated by Kerry Cesareo, WWF

Q. Why is finance critical to companies?

- There are two major categories of scale, big players and smaller players.
- For big players, mainstream FIs can influence their practices by raising the floor with policies against illegal or irresponsible logging and setting the trajectory to increase forest management standards.
- For smaller players, like many GFTN participants, then finance helps these companies scale-up their operations,

establish continuity in financing these operations and move away from boom and bust finance situations. This enables longer-term planning and more sustainable businesses. This stability is essential for sustainable forestry management and trade relationships.

- In Latin America, 30 to 40 per cent of the most biologically important forest areas belong to indigenous groups or small producers. The rate of conversion is high, threatening increased deforestation and degradation. Finance for commodities like agriculture can influence forest conversion, and small scale lending can provide an increased financial incentive for responsible forest management. However, there are multiple challenges from community operations, including:
 - Disorganization and a quick leadership turnover which requires a continuous process of reengagement.
 - No access to financial capital.
 - Since these companies are playing by the rules their business is uncompetitive. WWF is supporting the only two companies in one area that are operating legally, as a result of which, they are uncompetitive against the general market.

Q. *What are the financial barriers for forest operations in implementing responsible forestry practices?*

- GFTN is conducting a needs assessment among GFTN participants to assess just this, and the initial findings are that investments needed for certification are not large but do depend on the size, location, and scale of the enterprise. Challenges, in addition to those mentioned earlier, articulated by the current survey respondents, include low returns from the forest industry, FIs often have more questions than answers, FIs do not really understand forestry and there is a very high level of perceived risk.

Q. *How do we mitigate these risks, or perceived risks?*

- Certification management has long term vision and gives lenders a peace of mind. Forestry is a complex field and timing is important as situations can change with weather, roads and tenure. Additionally, the economic situation with high value

species increases the possibility for large losses. Certification helps lenders with due diligence.

Q. If certification is the basis for finance what happens for smaller enterprises which face greater challenges getting and maintaining certification?

- Certification is not the only answer, but one of the better recognized and universally-accepted mechanisms for lenders to understand. While undergoing the process of achieving certification, having buyer partnerships are critical. Using coffee as an example, having an established working relationship with Green Mountain adds that extra assurance.
- Outside of buyer relationships, the GFTN and other similar programs provide a useful function by providing incremental ways for operations to move towards certification, which helps lenders understand that these operations are in the certification pipeline.
- One of the key points is to actually make the relevant market link. How do we find the value chain that makes sense to engage with those producers? Making the right market links allows producer groups to use the market to make certification affordable.

SESSION 4: FAST PRESENTATION - PROVIDING ACCESS TO FINANCE



Presentation – Noemi Perez, Executive Director, FAST

FAST was established to bring closer integration in supply chains to address a financing gap among responsible SMEs. FAST ensures the continued growth of sustainable production and trade by increasing the number of producers in developing nations who successfully access affordable trade finance. With 110 members in 25 countries, FAST is working to develop:

- Guarantee Facility
- Social Impact Assessment toolbox
- SSME online lending market place
- Financial literacy toolbox

There is a need for more documentation, bridging the gap, speaking the same language and transparency. FAST's goals in the future include advancing the ability to speak a common language, developing a risk profile, providing technical assistance and bringing banking language to producers.

Q and A from Audience:

Q. How are you marketing this to producers?

- Through partners and members. Historically, FAST has focused its efforts on the coffee sector, but it is currently starting to work in the forest industry.

Q. How does FAST get involved in supporting lenders and local banks, especially the local banks that don't want to get involved or don't know how to get involved.

- All of the projects are designed to improve efficiency for lenders and producers.
- FAST approaches local banks through forums and conferences and showcases the tools provided while learning from other institutions that have been at this for a while.
- FAST is also working with certification bodies to help explain certification standards to FIs.

Q. What are the details of the financial literacy tool kit?

- The toolkit was developed with members of FAST which are already working or developing tools to provide to producers. The toolkit is divided in different levels and expertise according to producer needs.

SESSION 5: WWF AND FAST COLLABORATION:



WWF and FAST announced their common intent to work together to help link responsible finance with responsible forestry and forest products trade. This can best be accomplished by transforming capital flows so that preferential lending and credit terms are directed to responsible forestry operations to ensure longer term investments in responsible forestry practices, particularly in the world's most valuable and threatened forests. This spirit of collaboration between these organizations will complement FAST's work to bring sustainable finance to small responsible producers, and GFTN's efforts to mainstream responsible forest management and trade.