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**WASAG** | The Global Framework on  
Water Scarcity in Agriculture

# UNLOCKING FINANCE FOR WATER AND AGRICULTURE

**VOLUME I**



WASAG WORKING GROUP ON  
FINANCING MECHANISMS

The background of the cover features a stylized, light blue leaf pattern. The leaves are arranged in a vertical column, with each leaf overlapping the one below it. The leaves have a simple, geometric shape with a central vein and a slightly curved edge. The overall effect is clean and modern.

# Unlocking finance for water and agriculture: Volume I

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS  
Rome, 2023

Required citation:

FAO. 2023. *Unlocking finance for water and agriculture: Volume 1*. Rome. <https://doi.org/10.4060/cc3917en>

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ISBN 978-92-5-137539-6

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# Foreword

The Global Framework on Water Scarcity in Agriculture (WASAG)<sup>1</sup> is a partnership established in 2016 and hosted by the Food and Agriculture Organization of the United Nations (FAO), regrouping more than 70 organizations that aim to generate cooperative action to address the challenges associated with increasing water scarcity. Its purpose is to deliver and support a work programme on water resources management and its role in drought preparedness, food security and nutrition, migrations and social stability, that are an increasing concern to societies in many regions of the world.

WASAG established six working groups, which are led by its partners. This paper is from the working group on financing mechanisms, which aims to identify innovative financial mechanisms for interventions dealing with water scarcity in agriculture in the context of climate change. The working group supports new approaches to finance water for agriculture, that will inform the work undertaken by other WASAG working groups and partners to ensure an aligned approach across WASAG projects and activities.

The framework was first presented by the authors during a dedicated webinar on “Bridging financing gaps for Nationally Determined Contributions in agriculture under climate change” which took place on 09 June 2020 as part of the WASAG Webinar Series. It was further presented during the OECD-FAO Roundtable on Financing Agricultural Water, which took place from 27 to 28 January 2021 in a virtual meeting cohosted by FAO.

The WASAG framework refers to three pillars essential to attract finance for water: value, trust and risk. It is vital to transmit the value of water, including the scarcity value, to all users across the value chain. Here, water pricing and water allocation reforms are valuable tools. The value of agricultural water should not be only captured through production but also through ecosystem services and broader benefits to society. Integrated landscape management is emerging as an approach to balance different environmental challenges, to create synergies among various benefits (e.g. for water management, biodiversity, agriculture), and to provide opportunities for financing. Combined with multi-stakeholder approaches, integrated landscape approaches can foster both vertical (across landscape units) and horizontal (across different sectors) integration and help generate different sources of revenue streams and benefits.

Perceived high risks and uncertainty are major deterrents for investments in agricultural water. It is important to assess how water-related risks can translate into financial risks. Better measurement and modelling tools and water accounting are needed to reduce uncertainty about resource availability and to properly manage risk. Further, financial mechanisms including grants, guarantees and insurance

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<sup>1</sup> Get more information about WASAG at [www.fao.org/wasag](http://www.fao.org/wasag)

can be used to de-risk investments. Institutional or contractual arrangements can also promote risk mitigation strategies. Information sharing, standards and taxonomies can improve market infrastructure and provide transparency for investors, thus creating trust and helping to attract private investment. New investment funds are emerging in landscape approaches taking into consideration agriculture and land-use change influenced by the Paris Agreement<sup>2</sup>.

The document has been developed in a collaborative and voluntary way, in the spirit of WASAG, that is working together to turn challenges posed by climate change and water scarcity in particular into opportunities for sustainable agriculture development, with socioeconomic benefits for affected countries and communities.

The next step is to not only to demonstrate how the framework has been applied in the case studies that will form part of Volume II of this publication, but to further implement it to accelerate the achievement of the relevant Sustainable Development Goals.



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<sup>2</sup> This is an extract on the Framework as presented during the OECD-FAO Roundtable on Financing Agricultural Water: [www.oecd.org/water/Summary-Roundtable-Financing-Agricultural-Water.pdf](http://www.oecd.org/water/Summary-Roundtable-Financing-Agricultural-Water.pdf)

# Acknowledgements

The authors gratefully acknowledge the WASAG Support Team and specifically the editorial support provided by Mr Antoine Asselin-Nguyen and Ms Nassila Boukaria and the continuous support of the WASAG secretariat at FAO.

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## 1. Finance: the need for new approaches

Tackling water scarcity and its impacts on agriculture in developing countries is an enormous challenge. Climate change and demographic growth have increased food insecurity and strains on food and water availability, which have direct and cascading effects on economic development, environmental preservation and social stability. To tackle these issues, it is essential to take a systemic approach in order to address the complex inter-relatedness between poverty, poor access to production tools and inputs, unsecure access to land, pollution, soil and ecosystem degradation, and uninclusive trading channels.

Finance plays a critical role in the solution, but it is only one of the actionable levers. Unlocking funds is fundamentally about building trust in a sustainable socio-economic system, and about investing in creating and capturing value that can induce a virtuous circle of development.

To achieve such a virtuous circle, traditional finance approaches need to be revisited and broadened. Innovative financing models, able to bring several types of actors in a coordinated way, are needed to mobilize public and private finance from multiple sources. Local and international investors have a part to play, and financing structures will need to address de-risking and risk sharing mechanisms in new ways.

The good news is that there is increasing recognition that this must be achieved, and a growing awareness of this in public finance and some private sector players as well. The Paris Agreement on climate change has reinforced a global movement of financial commitments from several stakeholders such as states' nationally determined contributions (NDCs), private companies (offsetting or in-setting measures), cities and regional authorities (local commitments). There has been some effort to date to convert the NDC commitments into investment plans. What is lacking at present are innovative approaches that are able to connect the stakeholders of value chains or in landscapes in a way which creates win-win opportunities for all.



## 2. Three essential dimensions

### 2.1 FRAMEWORK OVERVIEW

Building on the experience of the partner organizations,<sup>3</sup> a generic framework has been developed to help develop projects eligible to blended finance support, remembering that unlocking finance is not an end in itself, it is a process supporting investments in activities intended to generate wealth in a sustainable manner. The framework rests on three pillars described hereafter.

1. *Value and wealth creation.* Activities on the ground must create value for actors or wealth for the communities and the society. Therefore, the first cornerstone of the framework is the creation of value or wealth that can be recognized by

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<sup>3</sup> In the case of Climate-KIC, a particular mention needs to be made to the project “WINnERS”, led by Imperial College, London ([www.climate-kic.org/success-stories/winners](http://www.climate-kic.org/success-stories/winners)) which developed de-risking instruments for the supply chains of staple food in East Africa. The case will be presented in the volume II of this framework.

external actors. This can be achieved through enhanced production, protection or reclamation activities, which are related to improved water management practices.<sup>4</sup> These activities may involve infrastructure or equipment, but not necessarily. In each of these cases, the value generated may result in profit for different actors or a service for the society. Hence, creating a coherent picture of the value chain around activities that need to be funded requires identifying and mobilizing actors who are not necessarily part of the traditional food value chain. The purpose is to capture a larger share of the value or wealth generated.

2. ***Building trust to attract financial support.*** Trust between value chain actors and particularly those investing and those receiving financial support is the third pillar. Developing trust among the stakeholders is at the core of any financial mechanism. It requires a good understanding of each actor's interest and risks<sup>5</sup> and can be supported by contractual mechanisms, by transparency and traceability of the actions of value chain actors and of the transactions between them.
3. ***Financial de-risking and risk sharing.*** Initiating new activities always means taking risks. Farmers and the entire agricultural sector are accustomed to risk, which is at the foundation of food production. Failing to cope with risk is one of the reasons why poorer smallholder farmers are trapped in poverty. For them and their families, dealing with risk is dealing with their life: producing their staple food is their priority and often sole activity, which means that they do not generate sufficient cash or surplus to buffer them in case of crop failure, post-harvest losses, illness or other emergencies. The framework acknowledges the critical importance of risk and advocates for a holistic approach of risk, i.e. an approach that recognizes that the risks of all value chain actors are interdependent and need to be addressed conjunctively.

Financial *de-risking and risk sharing tools* can take different forms revolving around insurance and guarantee mechanisms for traditional tools, or include wider and complementary activities that will secure the creation of value or wealth. Several new models engaging the different actors of the food value chain in a cooperative way are today under development. Successful approaches need to take a holistic risk-mitigation approach: several types of risk affect different stakeholders and may be addressed with other de-risking tools such as training or contractual arrangements.

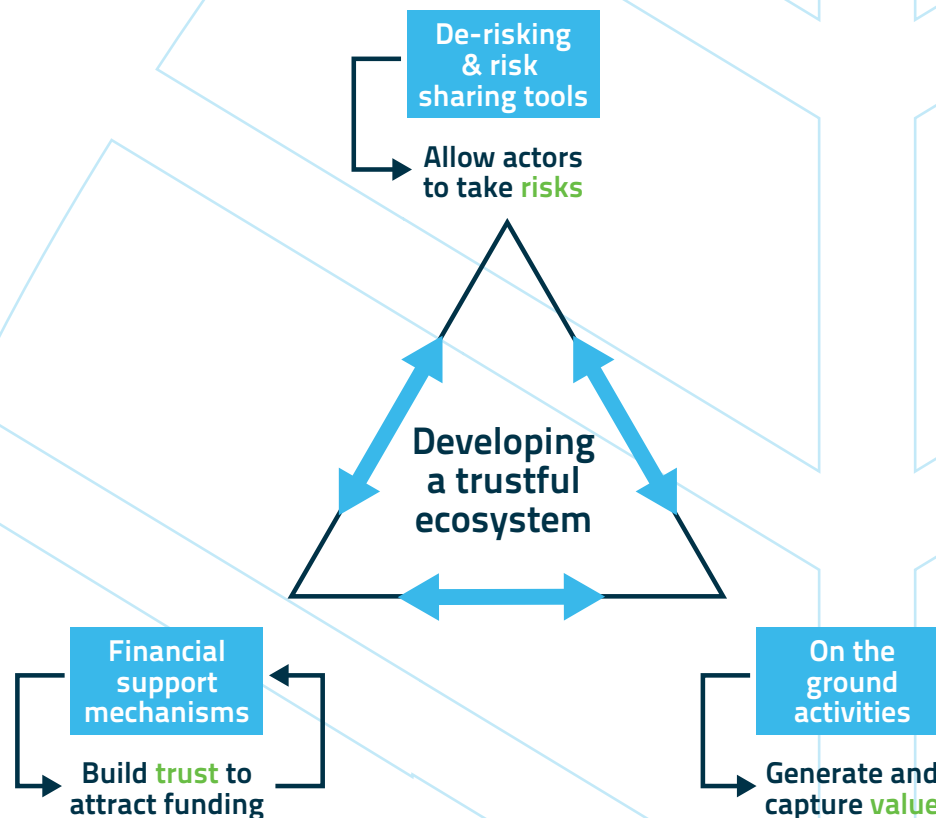
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<sup>4</sup> An interesting contribution to this value dimension has been developed by the 4 Return framework of Commonland initiative ([www.commonland.com](http://www.commonland.com)).

<sup>5</sup> See the Platform for Agricultural Risk Management (PARM) ([www.p4arm.org](http://www.p4arm.org)) as an example of tool to identify sources of risks for farming activities.

Figure 1

### Three essential pillars of the proposed framework



Source: This study.

In summary, developing a sound and integrated financial approach requires building a trustful ecosystem of value chain actors able to create and capture value (in terms of cashflows), and allowing them to take, manage and share risks (Figure 1).

The framework and the various tools on which it can rest are further described in the following section, discussing why it is useful and how intertwined are the different parts of the framework.

## 2.2 GENERATE AND CAPTURE VALUE AND WEALTH

At least three types of activities can generate value or wealth:

**Production** is the most obvious and usual way to generate value and capturing this value is generally done along a whole value chain, i.e. a network of actors ensuring that part of the products are purchased by customers. In poorer regions, this condition is not always met because the increase of food production may be needed locally to reduce under- or malnourishment. The value generated in this case is wealth, a public

good, i.e. a value captured by the state in the form of a non-expenditure, which means that funding of the related activities should be primarily by public sources. In many other cases, new or increased production generates financial resources for individuals, groups or private sector entities, and these can, for instance, be used to reimburse a loan.

**Protection** is a second type of activity that generates value. Protection of natural infrastructure or resources may generate value or wealth in various manners: it can increase the sustainability of a production system, decrease the intensity of- and increase its resilience to natural hazards, preserve assets and generate ecosystem services (e.g. less carbon emissions, less pollution, enhanced biodiversity, etc.). Capturing that value in cashflow is often not easy, especially in countries where public mechanisms are weak or do not exist. It is required to understand which stakeholders may benefit from the measures implemented at various times scales, so that their financial contribution can be mobilized. These stakeholders may be:

- tourists or the tourism industry benefiting from protected sceneries;
- cities or various types of investors benefiting from lower risks (floods, fires, pollution, etc.);
- local producers enjoying higher and steadier incomes from ethical and less variable production (farmers, craftspeople, etc.);
- other actors along the agricultural value chain (e.g. input suppliers, food processors and merchants) benefitting from a steadier demand for inputs and supply of products;
- buyers or off takers benefiting of ethical products or of sustainable production;
- NGOs or companies trading carbon credits; and
- governments.

As can be deducted from the list above, several protection activities also contribute to reducing risks. This reduction is important to consider, although it generally operates over longer time frames than more traditional de-risking instruments.

**Reclamation** is a third type of activity that combines the two previous ones and results in benefits from both. Reclamation means degraded ecosystems are regenerated and support the sustainability of production activities and that of ecosystem services (see Table 1).

**Table 1. Value can be generated by different measures supporting enhanced production, protection or reclamation**

	Production	Protection	Reclamation
<b>Objective pursued by the on-the ground activity</b>	<ul style="list-style-type: none"> <li>• Increased production: more crops per unit of labour, land, water or cash resources</li> <li>• Increased efficiency: less waste of resources</li> <li>• Increased resilience of local practices: less impact of various hazards (climate, pests, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>• Increased resilience and cultural values through ecosystem protection: biodiversity preservation, deforestation avoided</li> <li>• Hazard protection (against e.g. floods, fires, erosion, climate change) through water storage and retention, maintenance of carbon sequestration, maintenance of buffer strips, of mangroves, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Combines the benefits of productive and protective functions through increased productivity of previously degraded land and environmental services, and avoided degradation and desertification.</li> </ul>
<b>Value and wealth created and captured</b>	<ul style="list-style-type: none"> <li>• Increased value of production for all value chain actors</li> <li>• Value for the country's economy: food self-reliance, flourishing rural areas, less rural exodus of poorer people</li> </ul>	<ul style="list-style-type: none"> <li>• Value through reduction of damage costs; costs avoided through improved risk management</li> <li>• Value through maintenance of attractivity and of societal value (cultural heritage)</li> <li>• Value through production of environmental services (for local people, for cities, etc.)</li> <li>• Value for prosumers (international customers conscious of planetary boundaries)</li> </ul>	<ul style="list-style-type: none"> <li>• All values of the productive and protective functions</li> </ul>

Source: This study.

There are increasing numbers of actors who are conscious and willing to tackle the issues related to climate change, water scarcity, loss of biodiversity and other environmental degradations, and if necessary to pay for this. The fight against water scarcity can benefit from this global “awakening”. Companies are for instance engaging in water stewardship programmes, for example to reduce the risk on their input supply. Other examples include carbon credits that can be used for reclamation purposes, international mechanisms and investment funds that have been created to develop more sustainable land use practices. Green and climate bonds also raise the interest of various public and economic actors.



## 2.3 BUILDING TRUST TO ATTRACT EXTERNAL FUNDING

Multiple sources of funding are in general required if a sizeable impact is expected. Any transformation takes time and resources before a return on investment can be seen and the activity turns to being profit-positive. Traditional funding mechanisms (e.g. large loans provided by international financial institutions, IFIs) are often seen as the best route to funding, but this needs to evolve. Public funding provided by states and these IFIs is not sufficient anymore to cope with the daunting challenges we are facing. Blended finance approaches are needed where different public and private mechanisms can be associated to finance projects. The public sector needs to evolve and become able to formulate broader projects or projects that better articulate core productive activities and their accompanying protection and reclamation activities, in order to bring together a greater variety of stakeholders interested in the various values and wealth created. In doing so, there is also a greater opportunity to better acknowledge the central part that farmers play in investing time and resources at the local level.

Grants, debt and equity are the three major traditional funding mechanisms. Grants are provided by public or philanthropic institutions. They would provide only relatively small amounts (typically less than USD 1 million) that can be used to pilot, fine-tune and initiate projects and to leverage other funds. Debt can take the form of loans or bonds, of which several types exist. Trust in the activities and in the borrowing entity is critical to reduce its costs. Equity is relevant when a local company is created in which different actors are incentivized to invest.

Funding by private companies is becoming increasingly common, through e.g. compensation (offsetting or insetting of carbon emissions) or water stewardship approaches. More and more international companies are willing to mitigate the risks they are exposed to in the areas where their supply chains originate. They are also increasingly reporting how their actions contribute to adapt to and mitigate climate change, and to progress toward the Sustainable Development Goals (SDGs). The most advanced companies report and commit to reduce their “Scope 3 greenhouse gas emissions”, i.e. those emissions produced across their supply chains. Several of them have decided to invest in the regions where they source their products (the insetting approach) to reduce these emissions or to increase the resilience of agricultural practices. As promoted by the Alliance for Water Stewardship,<sup>6</sup> sound water management practices can also be supported by these corporations. A similar approach has been implemented by the Nairobi Water Fund<sup>7</sup> where downstream users (cities and the private sector) pay for good farming practices upstream that result in cost savings (for electricity and water quality) and sustained public good (domestic water quantity availability).

Building trust between the different actors is essential in finance. This is even more so when new funding approaches are utilized because finance actors are fundamentally

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<sup>6</sup> See [www.a4ws.org](http://www.a4ws.org) for more information about the Alliance for Water Stewardship

<sup>7</sup> See [www.nature.org/en-us/about-us/where-we-work/africa/stories-in-africa/nairobi-water-fund](http://www.nature.org/en-us/about-us/where-we-work/africa/stories-in-africa/nairobi-water-fund) for more information about the Nairobi Water Fund.

risk-averse and are not keen on innovating in their approaches. To build trust, it is critical to allow risk to be understood and to facilitate risk-sharing across value chain actors. This can be achieved by enhancing transparency and traceability of the practices and transactions between them.

## 2.4 ALLOW ACTORS TO TAKE AND SHARE RISKS

Any new project, any investment is associated with risks, and hence requires planning as well as technical and financial capacities to anticipate and mitigate these risks. This is inherent to agriculture, and strongly correlated with water conditions. These risks mean financial risks when debt needs to be reimbursed in time of a poor harvest, or simple survival for poorer farmers in case of low harvest that may threaten the life of their families. There needs to be incentives for actors to engage in new activities and for this, de-risking and risk-sharing mechanisms are critical.

On the financial side, de-risking instruments are traditionally of two types, (i) insurances paid directly by stakeholders, or (ii) guarantee mechanisms, generally of public nature, provided by agencies through local or development banks.

These de-risking tools have an impact on the interest rates of the loans provided by the banks, which, in their absence, increase these interest rates to mitigate their risks. They can be complementary. Combining public guarantees with insurances of private actors can be an interesting solution to ensure that several actors share – and are inclined to take – risk. A lot remains to learn on how to best combine these mechanisms: what ideal proportion and what type of risk for the guarantee and for the insurance mechanisms in different contexts and for different types of investments remains to be explored.

But de-risking should go beyond finance. A holistic de-risking approach is essential to recognize that risk mitigation is a shared responsibility among value chain actors, beyond the financial institutions mentioned above, to ensure that risks taken by each are understood by all and solutions implemented cater for the needs of:

- farmers, who need to implement practices that increase the resilience of their crops. Farmers have traditionally used such practices to ensure a minimum yield even in case of extreme conditions through a mix of crop varieties. These practices also reduce the maximum and average yields which prevents them from generating surplus and cash and to become active economic agents. New high-yielding and resilient practices are needed but would probably need to be combined with insurance mechanisms. It needs to be stressed that gender maybe critical here, since man and women are often not subject to the same risks.
- off-takers and retailers, who can participate in the de-risking through contractual mechanisms, ensuring for instance they will purchase at least a share of the crop production at a guaranteed price. Their main risk is price volatility and they need specific instruments such as smart procurement approaches.

- central banks, who need to be backing up local banks; and
- public bodies, that are also essential to establish a level playing field for all actors. They can in particular implement guarantee mechanisms and market control tools e.g. food reserve mechanisms in case of bumper or failed harvest.



### 3. Scale: a critical issue

Reaching an appropriate scale is essential not only to be impactful but also because scale is a prerequisite to bankability or sustainability in several cases. For instance, an insurance mechanism can work only if a sufficiently diverse and large number of actors participate, so that all of them are not affected at the same time by the events for which they are insured. Another critical aspect is that most financial institutions cannot afford to fund small projects.

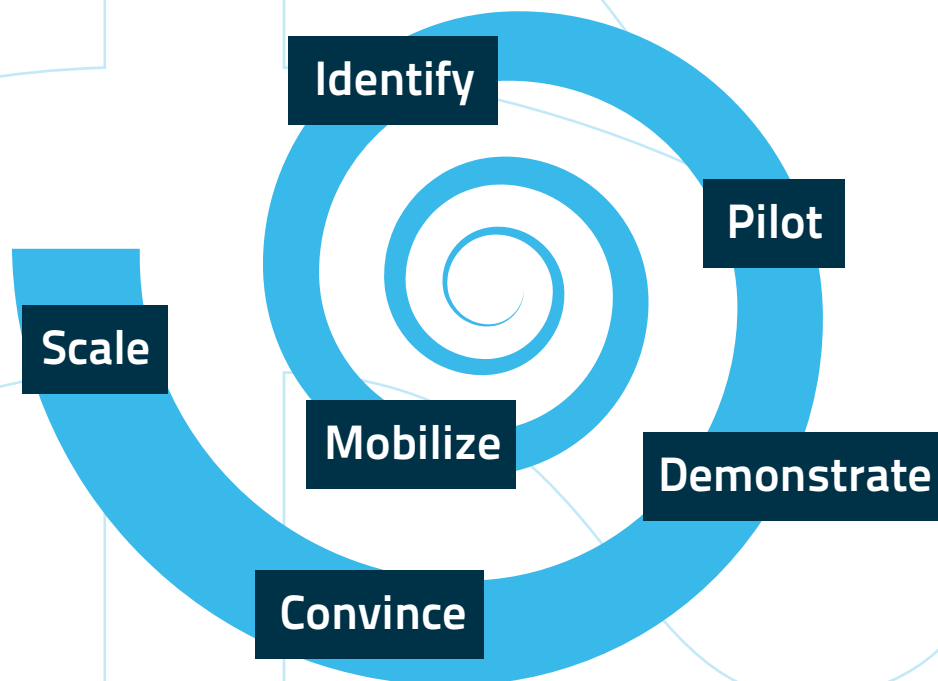
#### 3.1. GENERAL APPROACH TO SCALING

It needs to be stressed that good quality projects remain the scarcest resource. Reality is that there is funding for projects that have the capacity to scale, to become big enough to attract the large funding available. From the funding agencies' point of view, these good quality projects may seem to be few.

For many funding agencies, small projects mean large management and transaction costs and are therefore not attractive. Small projects (below USD 1 million) also expect grant funding, while large funding is not available in the form of grants, but of debt or equity. It is therefore critical to find pathways to large scale to attract the available funding.

Figure 2

### A virtuous spiral approach to scaling



Source: This study.

There is neither a single nor a simple recipe to scaling. One of its key aspects is that it will generally take a phased approach, starting with rather small “de-risking” activities that can initiate a trust-building virtuous spiral. This virtuous spiral (Figure 2) starts with the following steps, which should not be seen as a linear approach, but rather an iterative one:

- Mobilize and engage with local stakeholders: start bottom-up and engage quickly with policy and decision makers as well. Ideally start a multi-stakeholder partnership to ensure stakeholders and value chain actors share a common vision;
- Identify where value and wealth will be generated and clarify what are the risks and how they are distributed or shared across stakeholders. Prepare assumptions on how these value and wealth could be best captured, and how risks could be managed and shared;
- Pilot the solution(s) and understand how the system reacts, while identifying where the critical barriers and levers are;
- Validate the assumptions on risk and value and demonstrate the relevance and profitability of the solution; and
- Build the scaling approach on this initial success through either organic growth (scale-up) or by replicating in another location (scale-out).

The initial steps will in general be funded by local actors supported by public grants or subsidies. Public guarantee mechanisms can help these initial phases as well. Critical success factors to be clear from the beginning are on the **end-result and impact expected** and on the **scalability of the solutions** to be implemented. The correct monitoring and evaluation (M&E) of these initial steps are no less critical for later success.

Once these first steps have been implemented, it is critical to convince that the business model of the solution can provide cashflow and return on investment over a defined time scale (one or a few decades). This is where the quality of the documentation of the initial steps is crucial.

The solution can finally be deployed at scale. Once initial investors and funders have been convinced, others may come in, which has generally a virtuous effect on the debt cost. It is in that last phase that blended finance approaches make sense. In particular, the participation of private companies needs to be supported by a number of public and institutional mechanisms increasing confidence in the success of the initiative.

Throughout the process, the three pillars (as presented in Figure 1) need to be articulated to develop trust among the actors. The initial phase corresponds to a de-risking exercise and is difficult to finance without involvement of political authorities, international aid (if relevant) and local stakeholders. Small grants or subsidies are critical here.

Piloting new solutions to demonstrate their feasibility, profitability and scalability is probably the most critical phase. Larger amounts of funding are critical in the second phase, while the initial phase has not yet generated a convincing business case. The virtuous spiral may take quite some time and creativity, until a combination of activities achieves a satisfactory business model and validates its proof of concept.

The enabling institutional environment becomes very quickly critical as well: without (a) local institution(s) in charge of galvanizing and organizing the involvement of local actors, the spiral might get stuck. Creating new for-profit or non-for-profit ventures that involve different stakeholders is critical in many cases.

### 3.2. TYPES OF PROJECTS AND SCALING ROUTES

There is no one-size-fits-all approach to scaling. The approach needs to be **tailored to specific types of projects and particularly to the systems** in which the tools and services are implemented.

Two main types of projects can be distinguished in a first approach:<sup>8</sup>

- Projects that build on **existing or new value chains** and support sustainable farming practices or resilient value chains. These projects can for instance help farmers to access funding for drought preparedness tools, resistant seeds or water management instruments (e.g. pumps, micro-irrigation, etc.); and
- Integrated projects aiming to develop or protect **landscapes/territories**.

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<sup>8</sup> Other types may be developed at a later stage.

### *Value chain projects*

These projects involve different actors and hence their scaling capacity can be limited by the number of trusted/contractual relations that need to be implemented. Clustering, working with farmer cooperatives or other structures that involve and represent several actors, using index-based insurances may be recipes to help the scaling process.

Financial de-risking of loans is a good way to improve the resilience of the supported value chains. New tools to improved risk-sharing among value chain actors should be developed and associated with contractual relations ensuring the implementation of good practices and guaranteeing market uptake of the production. At least three approaches are currently being tested:

- adjusting the insurance premiums to the practices implemented;
- creating “captive insurance mechanisms” i.e. mechanisms where the insurance costs are shared across value chain actors. Indeed in general, all value chain actors benefit from the de-risking mechanisms, and hence virtuous mechanisms where the associated costs are also shared need to be privileged; and
- financial de-risking through public guarantee mechanisms (as provided for instance by donor agencies such as the Swedish International Development Cooperation, SIDA or the United States Agency for International Development, USAID) could in many cases complement the insurance mechanisms. The combination of insurances and guarantees offers virtuous public-private synergy.

Financial support tools combine grants to initiate value creation and loans to farmers or other value chain actors. Once a virtuous process has been initiated, other funding or investments can start. The private sector can be interested to source various products and contribute to good management practices through water stewardship approaches.

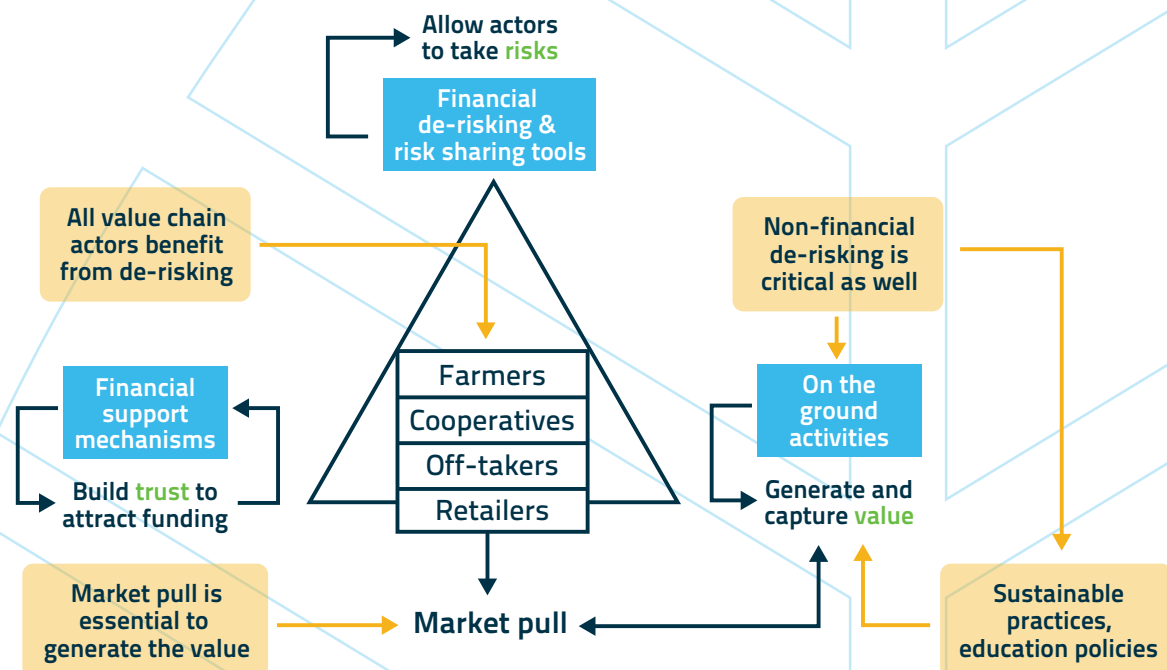
Practices to be implemented ideally combine productive agricultural activities (farming) with protection or restoration (improved water management, improved and sustainable practices, conservation farming, agroforestry, ecosystem protection, etc.).

All these tools need to be complemented by market reinforcement mechanisms. Farmers, especially smallholders, will not engage in new solutions requiring “investments” without guarantee that they can sell their products at a reasonable price. Contractual arrangements between off takers and farmers or their cooperatives are therefore critical for the scaling of value chain projects (Figure 3).

As regards to the virtuous scaling spiral, starting small and engaging smallholder farmers in a secure process is critical. Progressively combining a variety of sources of finance that build additional value and wealth is a critical path to success. The value chain system needs to be reinforced as a whole, using a systemic approach.

Figure 3

### Extended view of the framework in case of a value chain project



Source: This study.

#### *Landscape/catchment projects*

Landscape projects may embed value chain projects. The main differences are their spatial and integrative dimensions, which make these projects more complex and potentially more difficult to finance.<sup>9</sup>

Landscape (or territorial/jurisdictional) approaches offer interesting opportunities both in terms of scaling and impact. A reason for this is that zero-sum games are very common in land-based activities: improving or protecting a certain land use or part of a landscape is often achieved at the expense of another one. Hence, integrated approaches at the landscape level are needed to even out possible impacts.

Integrated catchment approaches are a particular form of landscape approaches provided they go beyond the simple management of water. They can combine protection, production and restoration activities. They are well adapted to generate value flowing between different types of actors. For instance, protecting an ecosystem may create a buffer that reduces flood risks or maintains biodiversity for the benefit of cities, farming or livelihoods. Improved soil and/or water management upstream in a catchment can help water infiltration that contribute to groundwater storage, buffering dry spells, and which in turn support farming practices or domestic water provision for cities downstream.

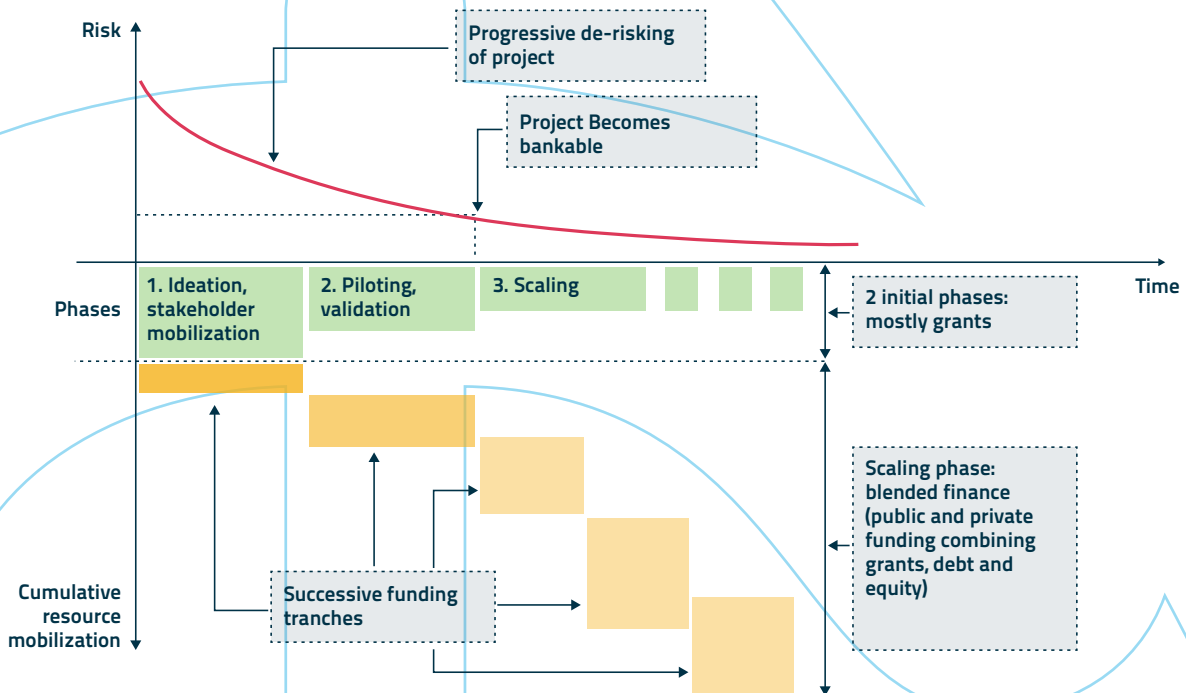
Landscape approaches are also getting increasingly attractive to funders. Water stewardship approaches supported by the private sector would for instance benefit from good integration in a comprehensive water management approach at catchment level, which is usually the responsibility of the public sector.

<sup>9</sup> Get more information on Landscape approaches at [www.landscapes.global](http://www.landscapes.global)



Figure 4

### Typical phased approach to project finance



Source: This study.

In a very simplified way, these projects will follow a 3-step development approach (Figure 4):

- The first step is the mobilization of local stakeholders, in an ideation process in order to develop a shared ambition and identify project components. At this step, the framework is essential: it is critical to ensure that trust be built across stakeholders, that value and risk-sharing mechanisms are identified.
- The second step is about testing, piloting and demonstrating the feasibility of solutions. This demonstration needs to identify one or several “business models” based on an analysis of the roles of the various actors in generating value or benefitting from it and on ensuring that part of this value can be captured to generate funding. Testing financial and non-financial de-risking and risk-sharing mechanisms is critical at this stage.
- The third step is about scaling and mobilizing funding (in a series of rounds in case of blended finance) which can combine grants, debt or equity. Large-scale projects require a combination of debt, equity and grants, the latter remaining generally a minor part of the total. An exception to this may be for private sector participation in stewardship or in-setting activities that help them achieve their sustainability objectives and decrease their exposure to reputational and supply chain disruption risks.

These three steps can be interpreted as a progressive de-risking approach leading to investability of the projects or in the assets the project is developing.



## 4. Conclusions, implementation of the framework

The volume I of the framework presented above is not a blueprint for successful finance of projects. However, screening a number of projects implemented by the WASAG partners involved in this paper has demonstrated that it can provide guidance to various actors willing to contribute to sustainable and inclusive development. The case studies presented in the forthcoming volume II of the framework will illustrate the different projects implemented by the WASAG partners.

The essence of this framework is that finance is associated with the creation of a trustful ecosystem of stakeholders and value chain actors. This creation rests on value extraction and sharing, on holistic de-risking of the new activities, as well as on tools ensuring the transparency and traceability of the transactions between actors.

