



GOOD PRACTICE, BETTER FINANCE

Project Overview

At Bonsucro, our goal is to collectively accelerate the sustainable production and uses of sugarcane. From our extensive work with farmers over more than a decade, we know that many farms are poorly prepared for external threats. Certification data from the Bonsucro Calculator for our Production Standard offers us robust data that demonstrates implementing sustainable production practices prepares farmers for external risks and has a positive impact.

To transform farming practices, producers need access to finance. But typically, farmers are unappealing to lenders – perpetuating a negative cycle.

Through our recent project – **Good practice, Better finance** – we worked with several partners to create a methodology to help financial service providers improve how they assess their agricultural clients' sustainability performance. Understanding the sustainability performance of farmers helps financial service providers offer better finance terms to more sustainable farmers and to increase their overall investments in sustainable farming.

Minimising risks in an increasingly uncertain world

A key goal of this project was to better understand risks – for both farms and financial service providers. This is because risks are increasing; farms are increasingly affected by external events (also called landscape risks). There is a long list of potential risks, which differs for each location but could include:

- **The impact of climate change:** no other sector is more dependent on weather patterns than agriculture, so this is a major consideration. More extreme conditions, such as long periods of drought, are a particular problem in many parts of the world. For example, in 2015, drought impacts in California cost the region's agricultural sector [\\$1.84 billion](#).
- **Crime, social unrest, and wars:** as seen when protests linked to unemployment and poverty led to riots in Durban (2021) and as we are now experiencing globally because of the war in Ukraine.
- **Changing demographics:** this takes agricultural land out of production and means fewer people are available to work on farms. The UNCCD has [predicted](#) that between 1.6 and 3.3 million hectares of prime farmland could be lost to urbanisation between 2000 and 2030. India's Kashmir region is losing [1,375 hectares](#) of agricultural land on average each year.

ABOUT THE PROJECT

Helping financial service providers understand farming clients' sustainability performance

Bonsucro worked with the project partners (RCL Foods, WWF, Better Cotton, Ned Bank, SRK Consulting, Akwandze Agricultural Finance, SA Cnaegorwers) to develop the **Good practice, Better finance** project to create a methodology to help financial service providers – let's call

them FSPs from now on – understand how their farming clients are performing when it comes to sustainability and minimise risk.

Sustainability is complex and FSPs around the world often have a limited understanding of best practices in sustainable agriculture. Instead, when structuring financing deals for farms, FSPs usually look at the client's historical financial records and their financial forecasts. Some FSPs might have a checklist for legal compliance, but they don't usually factor in the sustainability of farming practices and long-term planning unless it's a very large investment¹.

More sustainable farms: better prepared, less risk

Our certification data shows that better sustainability practices make farmers more prepared for future events. However, banks and other lenders don't recognise that more sustainable farmers are lower-risk clients.

A client's risks are further lowered if an assessment of their sustainability practices exposes challenges at farm level because the company can seek financial or other support to help them tackle the issues raised, making them better prepared for future events. Through these incentives, FSPs can encourage behaviour change across the sector by rewarding the most sustainable producers.

It makes practical sense for sustainable farmers to be offered better access to finance with more favourable contracting terms.

Project objective

The **Good practice, Better finance** methodology needed to be versatile and inform FSPs on the sustainability performance of their clients. It also needed to recognise:

The complexity of sustainability

Sustainability in the agriculture sector is complex and covers a broad range of themes while involving specific details that change per product and region. There are many barriers that make it challenging for a financial service provider to assess the sustainability profile of its clients. These include restricted access to relevant data and a limited understanding of sustainability frameworks. There are so many sustainability databases, initiatives, standards, and data collection tools that it can leave financial professionals and financiers feeling overwhelmed.

That collaboration is essential

For a tool to be adopted at scale, it needs to work across different commodities and landscapes, therefore collaboration among different stakeholders is essential.

That sustainability data must be simple and meaningful

Our methodology needed to simplify the enormous amount of available information and present it in a format that would be meaningful to FSPs and other potential users. Data from existing databases and research results can be used to explain landscape or other external risks.

DEVELOPING A METHODOLOGY

Project partners Bonsucro, WWF South Africa and SRK Consulting approached the project by considering how FSPs could pull data from existing sustainability systems and standards and combine this with landscape level data on issues such as rainfall patterns, local labour

¹ In these cases, an external company is usually hired to do the social and environmental assessment.

conditions, and migration patterns so they could accurately rate their clients' sustainability performance.

Kick-off and scoping

We developed insights to understand the scale of the challenge with an initial scoping phase of the project.

To foster a culture of collaboration, we felt it was important for everyone to get to know each other. We hosted two kick-off events where the team shared how they approach sustainability. Each partner brought a unique perspective that helped us to understand what FSPs need and what sustainability standards can offer. The collective expertise helped to frame the project around the question: what is a good assessment that will offer reliable data to give an accurate perception of risk that consists of inherent risks to the sector, but also at the landscape level.

To give the project focus, we wanted to concentrate on one location. We identified Nkomazi Local Municipality in South Africa where the farming town of Malelane is based which we wanted to use as a pilot to experiment with different approaches. This is because farmers produce both sugarcane and cotton. It is also an area with a lot of labour migration, changing demographics, and challenges around access to water. It encapsulated many themes the project sought to address.

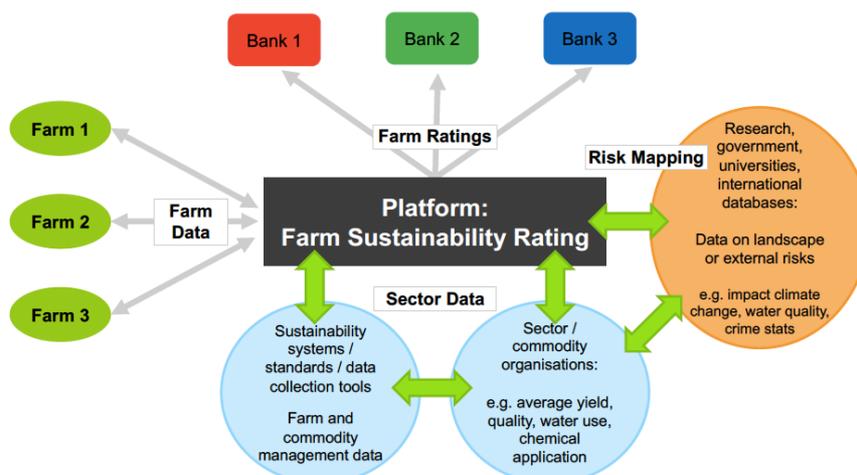
We refined the workplan, confirmed what sustainability data was available, and how it would flow through our process – for both sugarcane and cotton. We:

- Created an environmental and social baseline study report.
- Completed a gap analysis report.
- Updated our monitoring and evaluation framework with measures of success.

Developing and testing the methodology

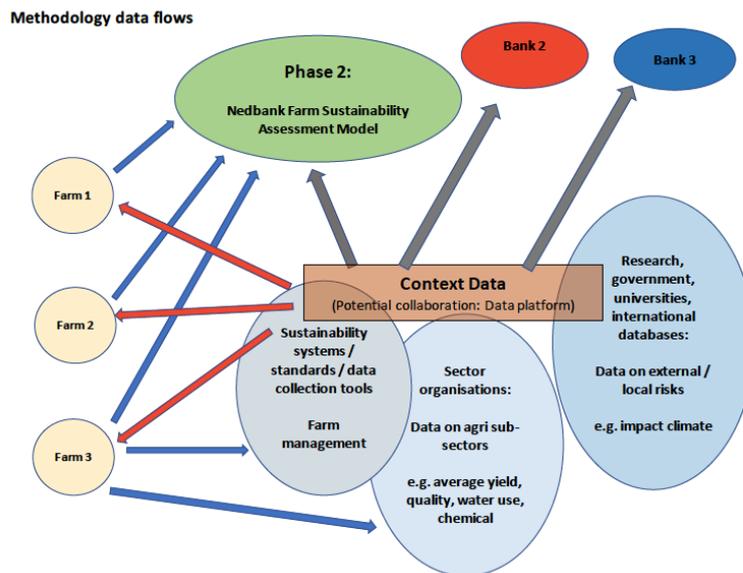
Using information gathered from the scoping phase, we developed our initial methodology and supporting tools (such as data collection forms and data visualisation) to inform decision makers of financial services providers on the sustainability profiles of their clients. The methodology and tools were also aligned to the International Finance Corporation's Performance Standard.

As you can see in the diagram below, our idea was for the farms, sustainability standards, and research organisations to each provide data which could be used to create a rating to send to the banks, putting them in a stronger position to offer incentives for sustainable behaviour.



The purpose of the methodology is to identify data sources, obtain access to the data, check and clean it, then collate and analyse it. With the results presented in a meaningful dashboard. Combining data from the sector and the regional landscape gives more meaning to the data from a farm.

The initial methodology achieved two of our goals – navigating the complexity of sustainability and promoting collaboration – but fell down when it came to providing FSPs with simple, actionable data. To make the solution work on a practical level, we needed to understand how the enormous amount of data identified could be used within FSPs’ systems. The improved methodology is illustrated in the diagram below, with the project extension (phase two, which is explained in the following section) shown in the green oval (Nedbank Farm Sustainability Assessment Model).



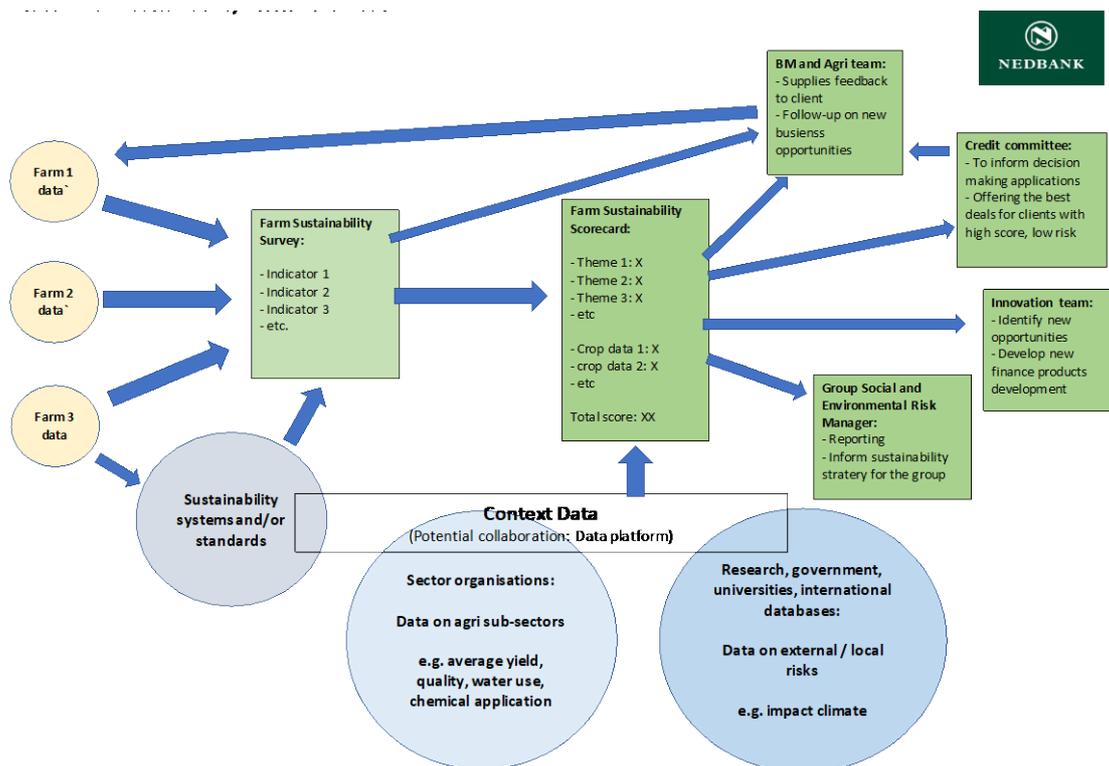
The farm sustainability assessment model

The second methodology was an improvement, but the scale of the data was still overwhelming to FSPs. We needed a system to structure the data and make it meaningful for the bank –this was the focus of the second phase of the project, which allowed us to take our work a step further and make our data meaningful to FSPs by:

- Simplifying sustainability risks.
- Ensuring sustainability could be included in decision making at credit committee level.
- Informing sustainability reporting.
- Helping to identify new business opportunities for current and potential clients.

Our goal during this second phase was to build on the methodology and develop a model and supporting scorecard tool for Nedbank (which could be adjusted for other FSPs) to gain clear insights into the sustainability performance of their farming clients. As a result, we created the Farm Sustainability Assessment Model – illustrated below – which considered factors including:

- The original methodology.
- Legal compliance risk.
- Alignment with the SDGs.
- Simplicity for decision-makers.
- Current availability of data.
- The complexity of making data available.
- Ease of adoption for other FSPs.
- The potential to scale.



RESULTS

Our project illustrated that for financial service providers to make an accurate determination of risk, sustainability standards are valuable. Their data is rich and can be applied to an array of tools, but this data must be complemented with the context of landscape-level information.

Our proposed methodology creates transparency and provides new insights into how farming is being done and what the main challenges are for the agriculture sector. This has benefits for FSPs and farmers alike, encouraging each of them to focus on sustainability. Through this project we:

- Developed a clear understanding of what FSPs need from a tool to assess clients' sustainability performance.
- Learned how decisions are made to inform how this process could be improved.
- Collaborated with a range of partners to make sure this methodology would benefit all the stakeholders involved.
- Tested and continually updated our methodology to account for the many complexities in the sustainability and agriculture sectors.
- Developed a recommendation for moving forward, which is explained below.

Benefits

Through this project, we looked at sustainability issues from a practical perspective and considered the challenges that could arise for a financial institution or its clients.

Importantly, this methodology is scalable. The project was developed and piloted in the South African sugarcane and cotton sectors, however, it has the potential to be replicated across various sectors and locations. As a result, its implementation could have a significant impact globally by encouraging producers and FSPs around the world to focus on sustainability.

LOOKING AHEAD

Recommendation: a new hub for farm sustainability knowledge and data

Our proposed way forward is the pre-competitive platform that would serve as an information aggregator and clearing house akin to a credit rating agency. This conclusion took into account:

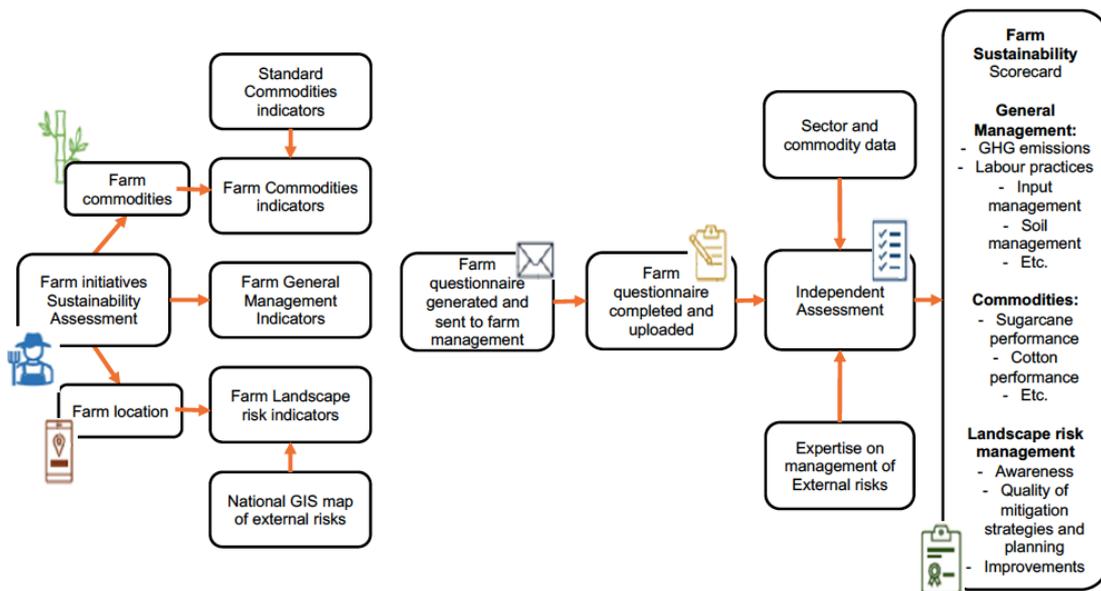
- The complexities of farming and sustainability.
- Limited capacity of FSPs.
- Time demand of data collection.
- The urgency of making data available.

This platform will act as a hub for farm sustainability knowledge and data, pulling existing sustainability systems together to create a rating system based on:

- Existing standards.
- Expertise from commodity or farming organisations.
- Sustainability initiatives.
- Research institutes.
- Civil society organisations.
- Existing datasets and platforms.

An independent sustainability rating system

A key element of the pre-competitive platform is creating and maintaining a farm rating system for sustainability performance. Once farms have supplied their data, they will be rated according to an independent, farm-specific system which also takes external risks and sector norms into account. A rough outline of the rating process system – which still needs further development and testing – is illustrated below.



Participants will each receive something meaningful back – for example, reduced risks and new opportunities for FSPs, support in improving data collection for sector organisations; alignment with the financial sector for sustainability systems and governance organisations; or advice, tools and a sustainability rating for farms – not to mention, of course, better deals with FSPs.

Benefits of the platform include...

- Increased alignment on agricultural sustainability within South Africa.
- A GIS tool with key external and landscape risks.
- Sector information for farm management.
- Tools to improve data collection by farms, farming groups, and farming organisations.
- A rating system with certificates for farms and smallholder groups.

- Improved information and tools to prepare for what the future might bring.
- A means to encourage and empower producers to adopt more sustainable practices.
- Acting as a vehicle to help climate finance reach farmers.
- Helping farmers lower risks, which makes them more appealing to FSPs.

Better informed, better finance, reduced risks

Encouraging farmers through better finance can help them become more resilient and sustainable. Lenders tend to move away from risky businesses and the risks for the agriculture sector are increasing. By providing access to detailed information from the farm and landscape levels, we hope to enable FSPs to fund businesses' innovative, green initiatives.

Once the platform is operational, a group of experts will need to work on mapping all relevant risks that could negatively impact farms and a Geographic Information System (GIS) tool can be used to gather, manage, and analyse the data. Moving forward, the types of potential partners – beside FSPs – that could move this forward are:

- Sustainability standards and initiatives.
- Commodity organisations.
- Research institutes.

GET IN TOUCH

Collaboration for a thriving, sustainable sugarcane sector

We believe collaboration between the finance and agricultural sectors, commodity organisations, sustainability standards and other stakeholders is critical. But together we have the power to find solutions and make real progress. By embracing partnerships, organisations can make sure they're leading the way.

“Sustainability in farming can only be tackled if we work together. The work is simply too much and too complex for individual organisations to solve on their own. But by embracing partnerships, we can make huge progress.”

Boudewijn Goossens, Bonsucro, Former Regional Director, Africa & Middle East and project lead for Good practice, Better finance

This phase of the project is now complete, but it has potential to build on successes and learnings so far and even scale up to other locations. By encouraging and enabling more collaboration, the platform can help us achieve thriving, sustainable farming sectors.

We'd love to hear from organisations which are interested in helping us develop the tool further. If you're interested in tackling farming sustainability through the **Good practice, Better finance** project, and would like to read the full technical report, please get in touch: **Norma Tregurtha, Bonsucro's Director of Engagement and Markets: norma@bonsucro.com**