

FINANCE BRIEFING

# SUSTAINABLE FINANCE UPDATES

Keeping you up to date with the latest developments in the Sustainable Finance space



**BLENDED FINANCE FOR SMALLHOLDER FARMERS: ENABLING  
SUSTAINABLE AND DEFORESTATION-FREE AGRICULTURAL PRACTICES**



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## **BLENDED FINANCE FOR SMALLHOLDER FARMERS: ENABLING SUSTAINABLE AND DEFORESTATION-FREE AGRICULTURAL PRACTICES**



Access to financial resources is crucial for promoting deforestation-free supply chains and enhancing transparency. Small-scale farmers, in particular, need support to implement sustainable land use practices and to adopt new technologies that national and international markets require, like traceability systems. However, these farmers often face significant barriers to accessing affordable credits due to perceived high investment risks, the high costs associated with small-scale operations, and insufficient or non-existent collateral. These challenges hinder their ability to secure the necessary funding.

Blended finance, which combines public/philanthropic and private capital, can help bridge this gap. By facilitating smallholders' access to finance, blended finance can support the adoption of sustainable and deforestation-free agricultural practices. This Finance Briefing explores the concept of blended finance, the key stakeholders involved and its potential to support smallholders. It also outlines pathways for smallholders to access such financing and highlights successful blended finance case studies, particularly those covering commodities included in the EU Deforestation Regulation (EUDR).

# WHAT IS BLENDED FINANCE?

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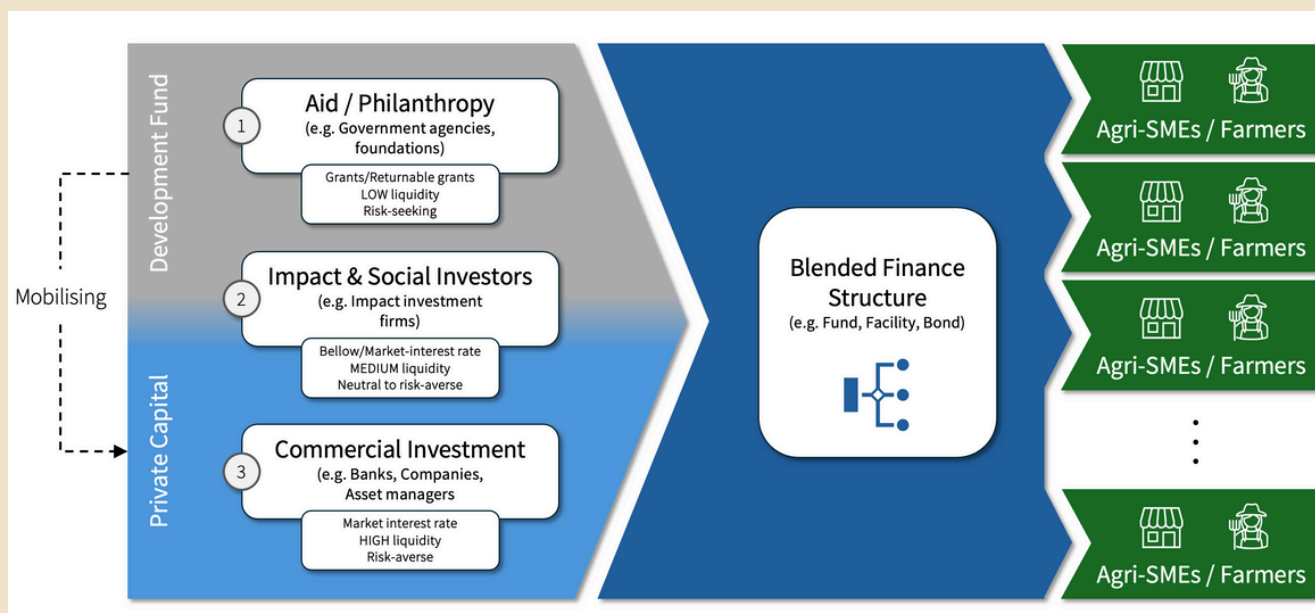
*It is a structuring approach that allows organizations with different objectives to invest alongside each other while achieving their own objectives, whether financial return, social impact, or a blend of both\*.*

By leveraging catalytic capital from public, philanthropic, and/or impact investors – sources that can absorb higher risks and accept lower returns - to attract private sector investments, which are typically risk averse and demand market-beating net returns, blended finance structures aim to channel capital into revenue-generating **sustainable development projects**.

Catalytic capital, provided by government agencies, foundations, development banks, and multilateral organisations, is often deployed as concessional capital (i.e., below-market terms), guarantees/risk insurance, or technical assistance (TA). It serves to attract additional private capital, such as equity or debt, mobilised by banks, companies and/or commercial investors. This approach enables competitive returns for private capital by fully pricing risks into the loan. When joining a blended finance structure, Impact & Social investors might position themselves as “Development Fund” or “Private Capital” according to the expected return of their capital, from no returns up to market rates (Figure 1).

A blended finance structure has three main components:

- **Leverage**: how much private capital was mobilised by catalytic capital (e.g. USD 1 of catalytic capital to USD 4 of private capital).
- **Impact**: the overall transaction must have a **positive impact** aligned with the Sustainable Development Goals (SDGs).
- **Financial return**: it varies from concessional to market rates

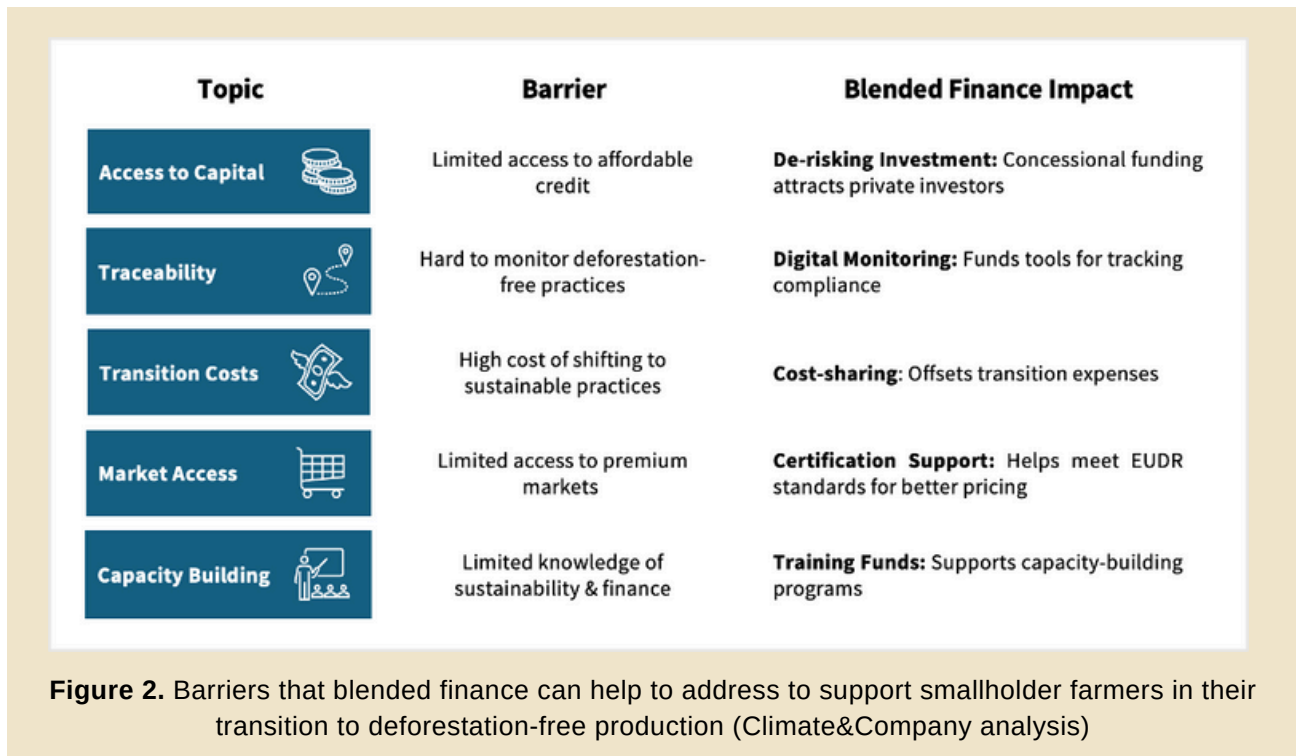


**Figure 1.** Blended finance: key stakeholders, structure and application in initiatives targeting smallholder farmers and deforestation-free production (Adapted from [Convergence](https://www.convergence.finance/))

# HOW BLENDED FINANCE CAN SUPPORT SMALLHOLDER FARMERS TO PROMOTE SUSTAINABLE AND DEFORESTATION-FREE AGRICULTURAL PRACTICES

Blended finance has been widely used, with agriculture ranking as the third most targeted sector (27%) in blended finance structures\*. To generate sustainable development projects, blended finance can facilitate the adoption of sustainable practices, including deforestation-free production, ensuring that capital flows are allocated in line with farmers' needs and absorption capacity (Figure 1).

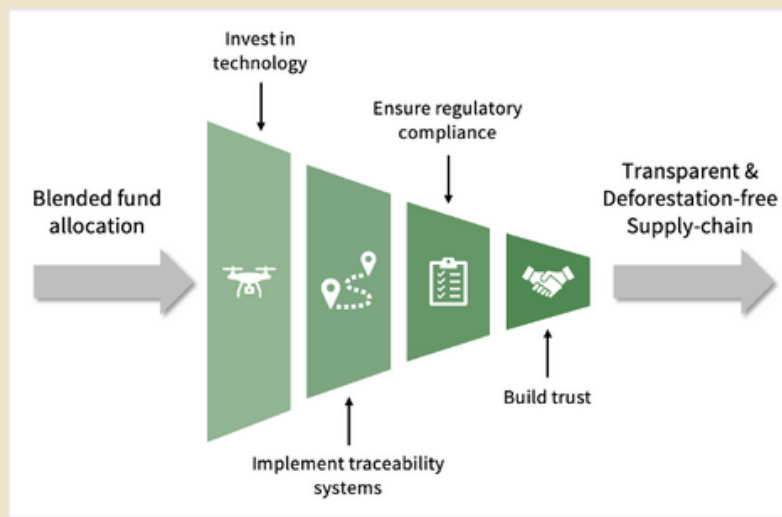
Additionally, it can help farmers overcome different challenges when it comes to financing the transition to deforestation-free production (Figure 2).



Blended finance structures have their own application processes for accessing funding, which includes specific funding purposes (e.g. smallholders), minimum operational requirements (e.g. deforestation-free products), and loan conditions (e.g. minimum annual income and loan size). Finding the right balance between these requirements and the economic return for the different investors is the most challenging and what makes every blended finance instrument unique; see the Case Studies section.

Farmers can access blended finance directly or (and in practice much rather) through cooperatives/SMEs (small and medium enterprises) - see the Case Studies section. In blended finance structures for sustainable agriculture, large corporations, particularly those in the agri-food sector, referred to as "Company" in this briefing, play a crucial role. By acting as off-takers, they guarantee the purchase of deforestation-free products, thereby reducing farmers' transition risks to sustainable and traceable agricultural production.

In the context of sustainable agriculture and deforestation-free supply chains, blended finance can unlock critical investments in traceability systems, digital technologies, infrastructure, capacity building, and technical assistance, empowering smallholders to adopt and scale sustainable practices. Beyond regulatory compliance, these investments foster trust and transparency within supply chains, enhance market access, and drive long-term sustainability (Figure 3).

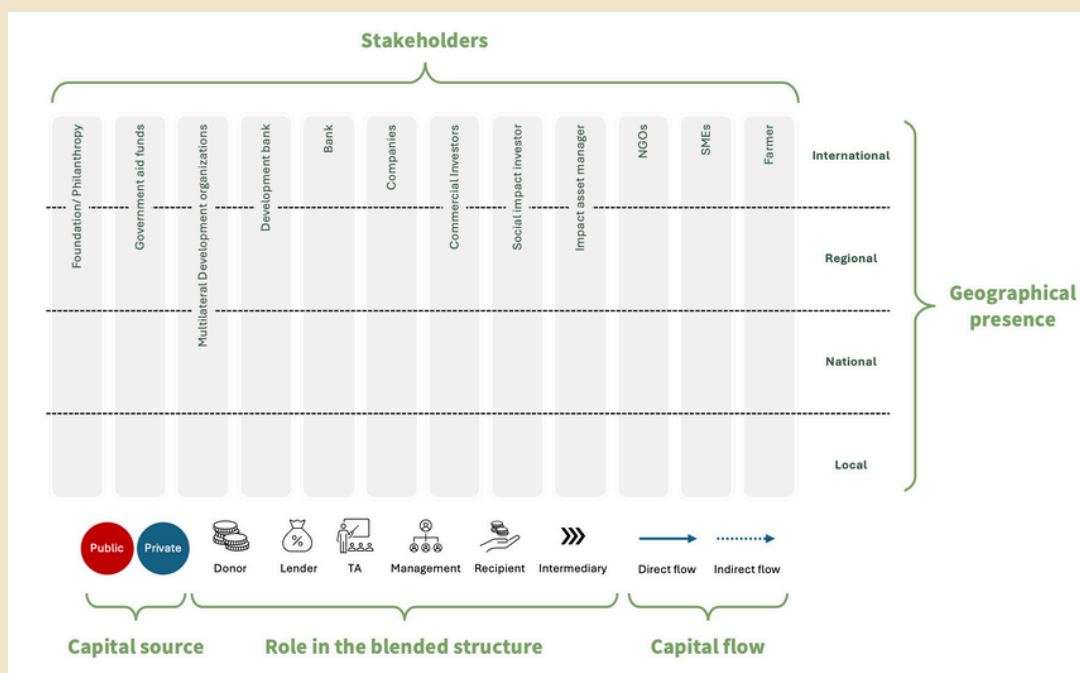


**Figure 3** - Example of how funding can be allocated to achieve sustainable and deforestation-free supply chains (e.g. to meet the EUDR requirements) (Adapted from Convergence)

The effectiveness of blended finance depends on broader investment conditions, sectoral frameworks, and the willingness of financial institutions and end-users to engage with these instruments. While blended finance has shown promise in certain contexts, challenges remain regarding risk appetite, regulatory integration, and practical implementation—highlighting the need for tailored approaches and pilot projects to demonstrate viability.

## CASE STUDIES

Successful blended finance case studies were selected from a comprehensive mapping of financial solutions developed in the context of the collaboration between GIZ SAFE and Climate & Company. The selection criteria included: (1) support for deforestation-free production, (2) relevance to or applicability for smallholders, (3) geographical presence, (4) blended finance structure\*\* and (5) scalability. To facilitate the visualisations of financial flows, the funding sources, stakeholders involved and geographic level, a dedicated flowchart was created for each mechanism (Figure 4).

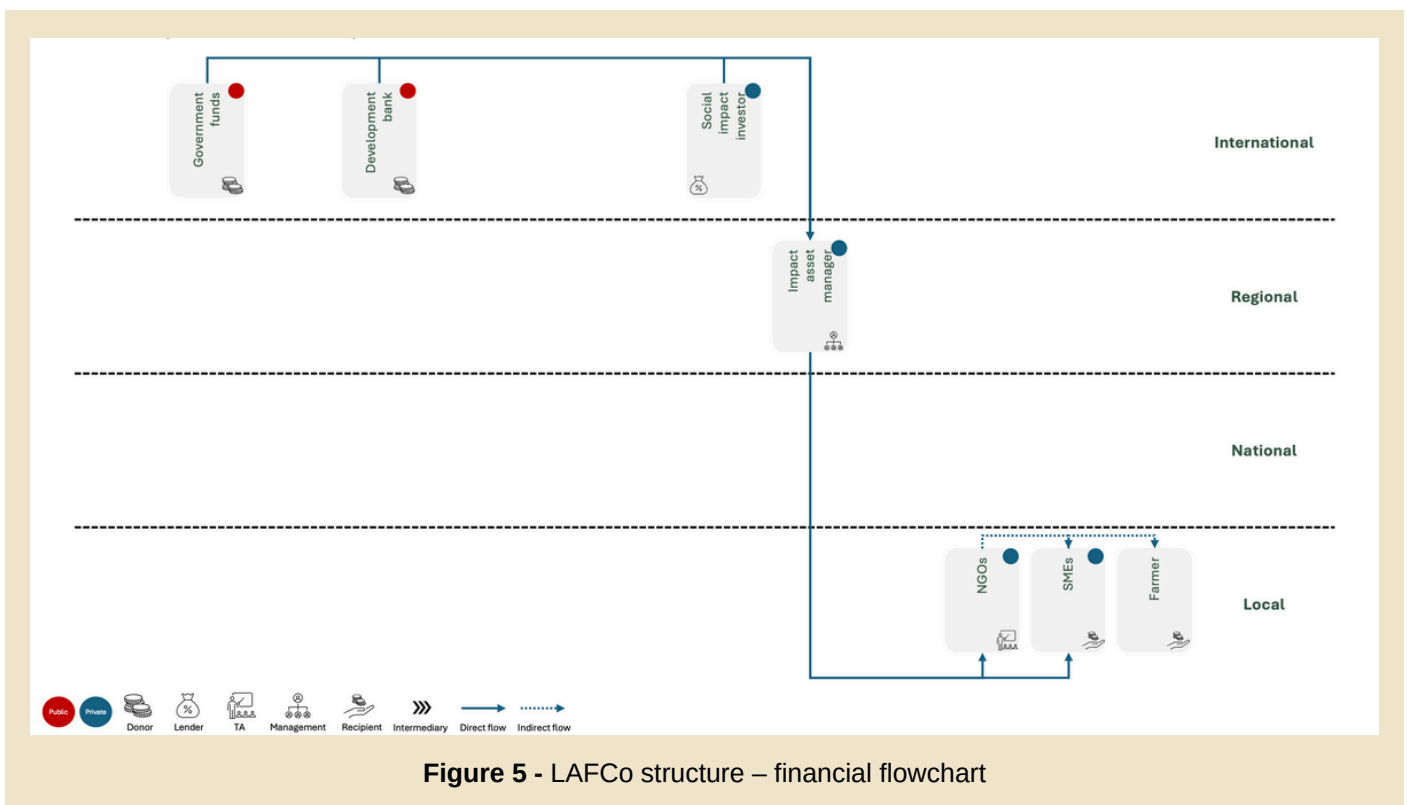


**Figure 4** - Structure for the financial flowcharts

\*\* Unique forms to blend diverse sources of capital, showcasing the different possibilities in which blended finance can be structured.

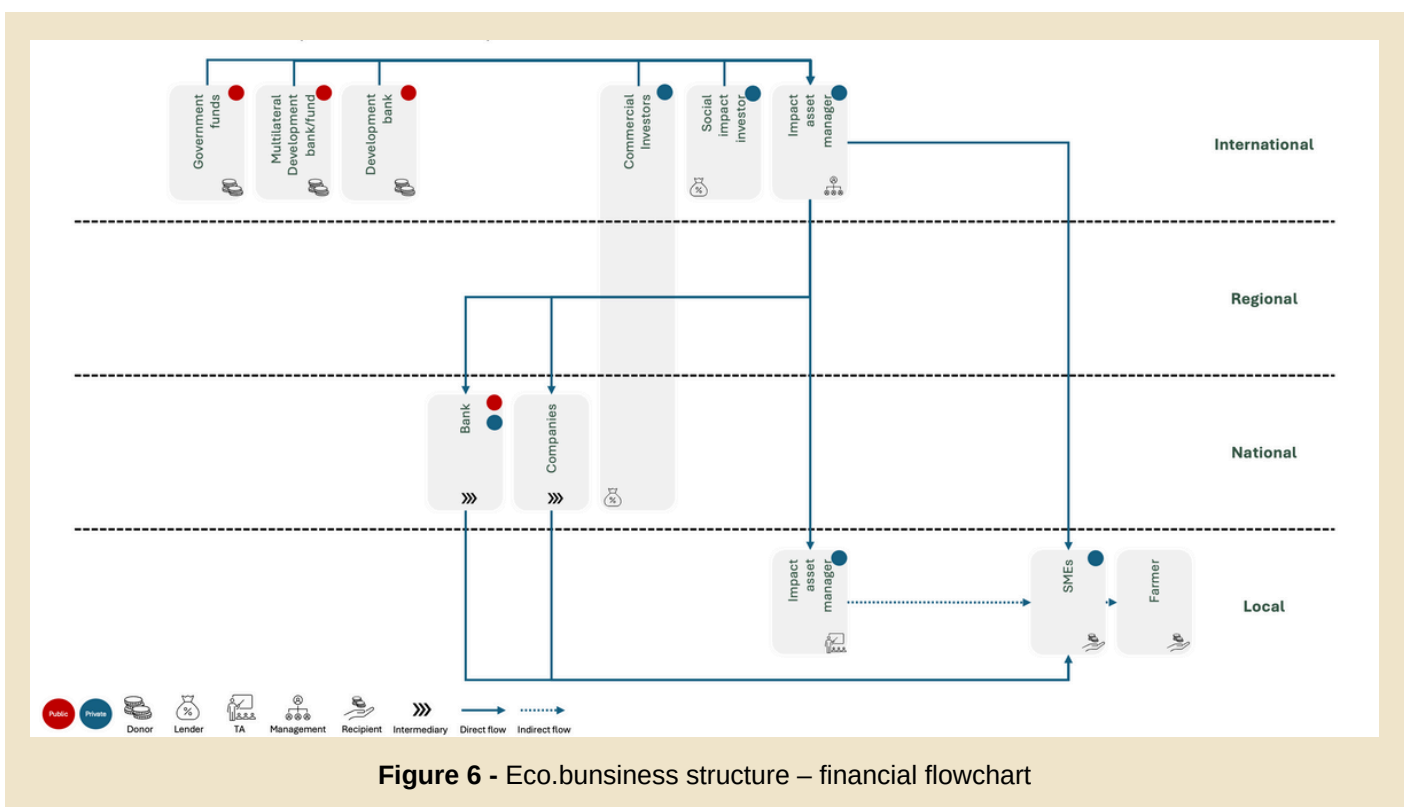
# LAFCO - LANDING FOR AFRICAN FARMING COMPANY

Category	Details
About	Mauritius-based investment firm providing working capital loans to agricultural SMEs in staple food crop value chains across Sub-Saharan Africa
Region	Sub-Saharan Africa
Stakeholders	LAFCo blends public & private capital; key contributors: KfW Banking Group, AgDevCo Fund Management
Eligibility	Agro-dealers, processors, agribusinesses meeting these criteria: (1) Min. 2 years of business activity, (2) Audited financial statements, (3) Compliance with local laws & ethical standards
Funding Focus	Businesses engaging smallholder farmers ( $\leq 10$ ha) to boost productivity, market access, and food security
Gender Equality	It fosters women participation, also tracking their representativeness in its supported programs
Eligible EUDR Commodities	Coffee, Cocoa, Palm Oil, Soy, Rubber, Timber, Cattle



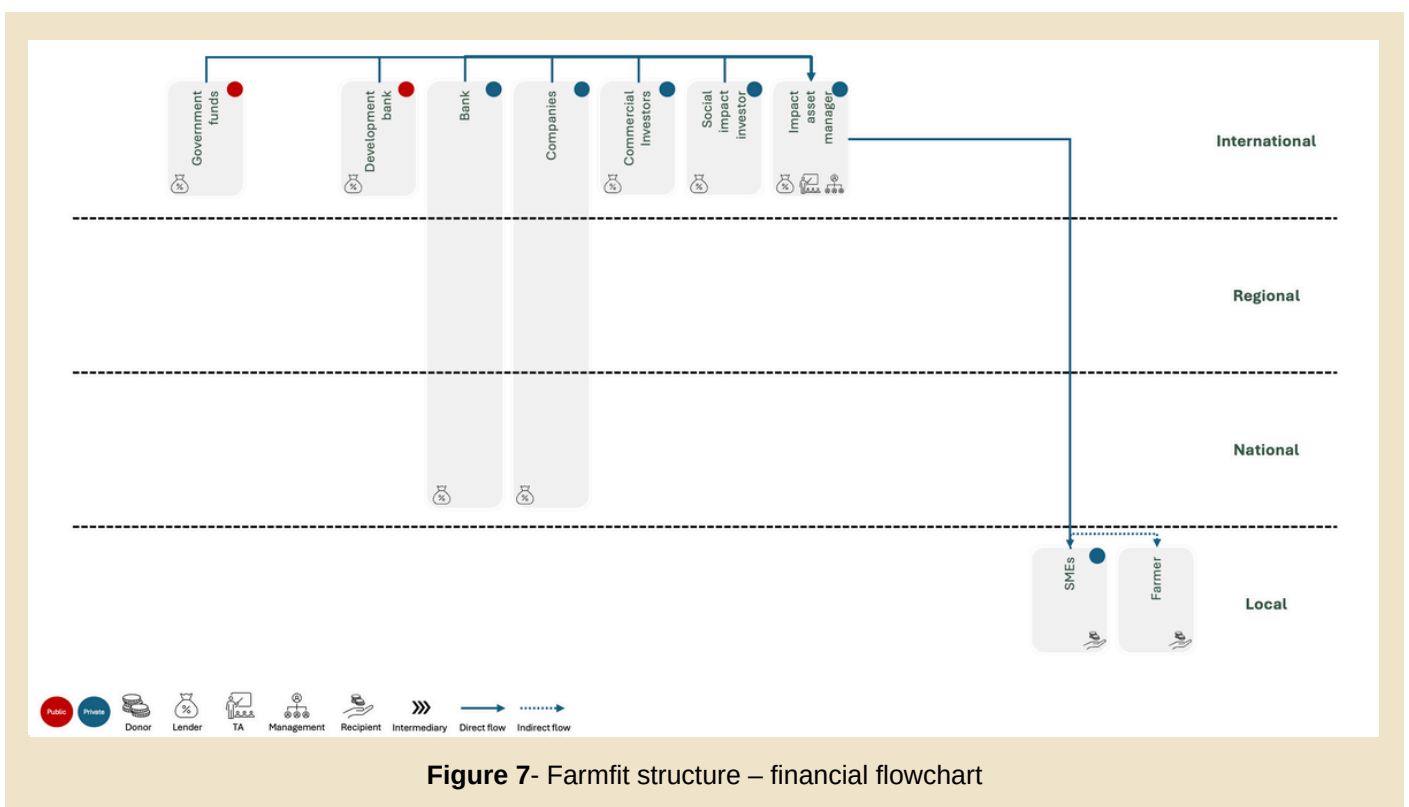
# ECO.BUSINESS FUND

Category	Details
About	A blended finance fund promoting sustainable agriculture, forestry, and biodiversity via loans & investments. Supports smallholders with eco-friendly methods and resource efficiency
Region	Latin America, Caribbean, and Sub-Saharan Africa
Stakeholders	Eco.business Fund combines funding from multilateral banks (IDB Invest), public development banks (KfW, FMO), government agencies (UK Gov., EU Commission), impact investors (ASN), agri-food companies, Conservation International, and local financial institutions (e.g., Banco Promerica). Managed by Finance in Motion
Eligibility	Cooperatives, agri-SMEs, real-sector intermediaries, or local financial institutions partnered with the fund
Funding Focus	Sustainable crop production, biodiversity conservation, and climate adaptation (e.g., drought-resistant seeds, agroforestry)
Gender Equality	It does not have gender inclusion as one of its goals
Eligible EUDR Commodities	Coffee, Cocoa, Palm Oil, Soy, Rubber, Timber, Cattle



**Figure 6 - Eco.business structure – financial flowchart**

Category	Details
About	Blended finance fund de-risking investments in smallholder agriculture. Provides loans, equity, guarantees to enhance smallholder productivity, income, climate resilience and food security
Region	Latin America, Sub-Saharan Africa, and Southeast Asia
Stakeholders	Government Netherlands (MFA), private sector (Mondelēz, JDE, Unilever) and financial institutions (FMO, Rabobank)
Eligibility	Agribusinesses, microfinance institutions, fintech, agritech, cooperatives, and SMEs working with smallholders
Funding Focus	Climate-smart agriculture (drought-resistant seeds), farmer training, supply chain infrastructure (storage facilities), and financial products (insurance, loans). Aims to reduce risks, boost yields, and enhance sustainability
Gender Equality	It focuses on women inclusion
Eligible EUDR Commodities	Coffee, Cocoa, Palm Oil, Soy, Rubber, Timber, Cattle





# AMAZON FOOD & FOREST BIOECONOMY FINANCING INITIATIVE

Category	Details
About	A blended finance vehicle offering affordable loans & technical support to IPLCs & small businesses in the Amazon. Uses a fintech platform and a proprietary management software to aggregate and monitor projects and de-risk investments
Region	Amazon region
Stakeholders	Impact Bank, TNC Brazil, cooperatives and MSMEs, investors, concessional lenders, donors, multilateral agencies, climate finance institutions (CPI) and NGOs (as Technical Assistance partners)
Eligibility	IPLCs, cooperatives & associations, SMEs via intermediaries & off-takers, trading companies & exporters. Smallholders access funding through working capital, invoice discounts, credit for productive infrastructure or community loans
Funding Focus	Agroforestry, non-timber forest products, clean energy, climate-resilient regenerative agriculture, community-based eco-tourism, indigenous handcrafts & art, PES schemes, and technical assistance, including R&D
Gender Equality	It directly targets the SDG 5 (gender equality) and foster women participation, also tracking their representativeness in its supported programs
Eligible EUDR Commodities	Coffee, Cocoa and Rubber

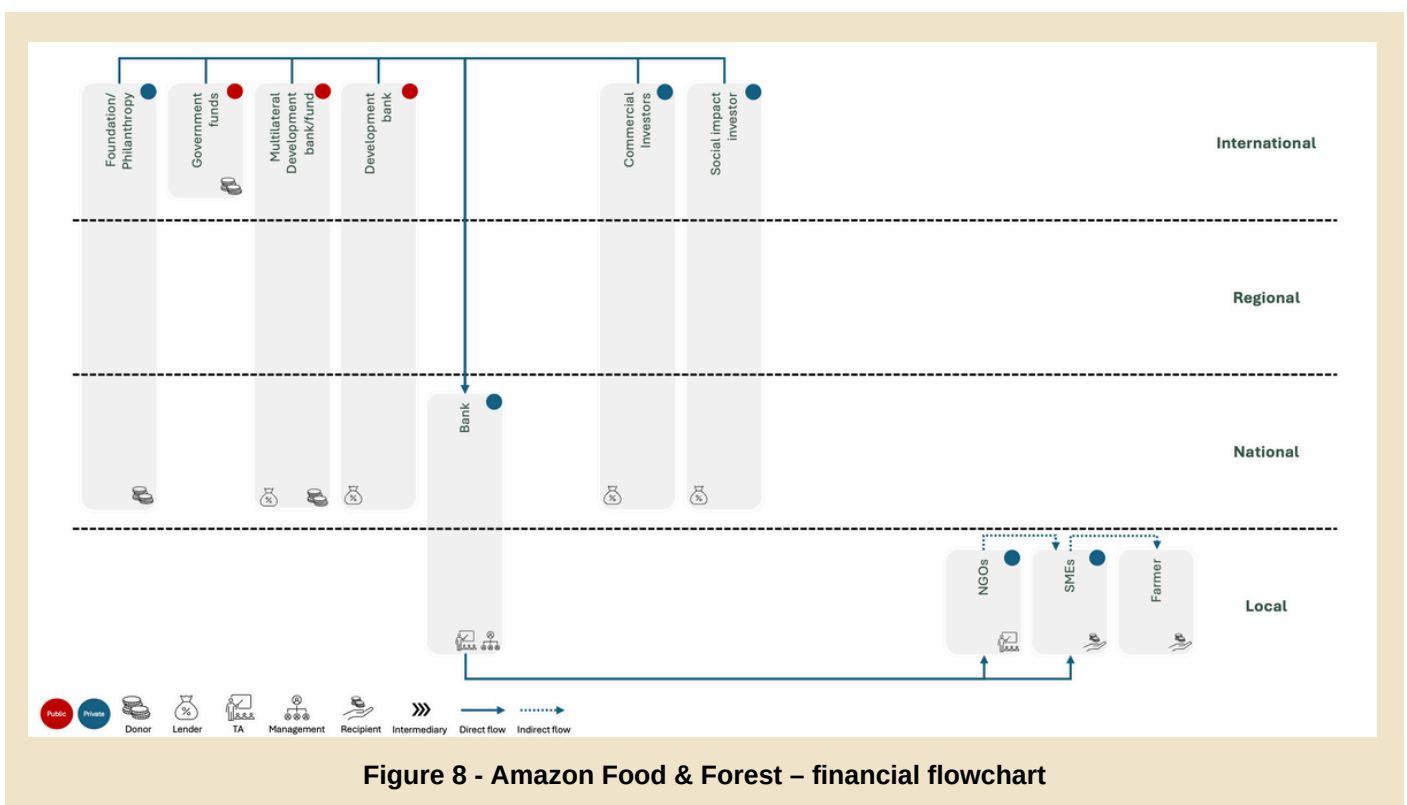
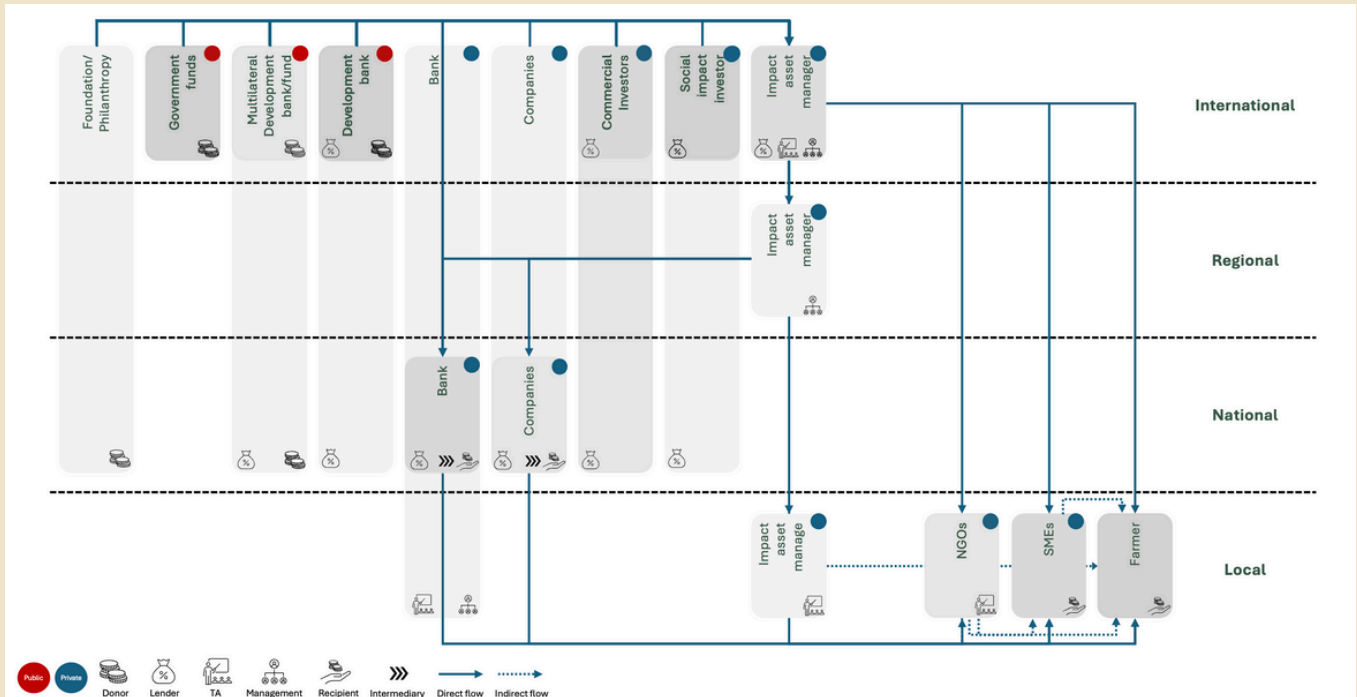


Figure 8 - Amazon Food & Forest – financial flowchart

# GENERAL COMMENTS

The actors that consistently play key roles in blended finance structures for smallholders are: (1) donors, government funds and development banks as catalytic capital providers, (2) commercial investors and impact asset managers as private capital providers, (3) SMEs, (4) farmers as recipients and (5) Technical Assistance (TA) provider (see Figure 9 overlaying all the flowcharts).



**Figure 9** - Overlay of flowcharts

Technical Assistance (TA) is a common feature of the selected successful blended finance mechanisms targeting smallholder farmers. By tailoring support to local needs, these mechanisms help improve farmers' financial literacy, business management skills, and sustainable production practices.

The set of a minimum ticket size in most blended finance structures hinders smallholder farmers from getting directly funded. As a result, blended finance funds typically target SMEs that work directly with farmers, allowing them to consolidate credit demand and redistribute financing indirectly among their suppliers or associates.

With more ups than downs, blended finance holds immense potential to drive sustainable and deforestation-free agricultural practices by unlocking critical investments for smallholder farmers. By strategically combining catalytic and private capital, these financial mechanisms help overcome barriers to funding, enabling farmers to adopt innovative technologies, improve productivity, and ensure long-term environmental and economic sustainability. As the demand for traceable and deforestation-free supply chains keeps growing, blended finance will play a key role in bridging the financial gaps and fostering resilient agricultural ecosystems. We can create lasting impact by leveraging partnerships and innovative financial structures, empowering farmers, protecting forests, and supporting a more sustainable global food supply chain.

# FURTHER READING & TRAINING

## ➤➤➤ READING

- 1st Finance Briefing: [Why Sustainable Finance is Key to Promoting Deforestation-free Supply Chain](#)

## ➤➤➤ TRAINING

- [Convergence – Blending Global Finance. Demystifying Blended Finance](#)

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Its contents are the sole responsibility of Climate & Company and do not necessarily reflect the views of the EU, the Federal Ministry for Economic Cooperation and Development (BMZ) and the Dutch Ministry of Foreign Affairs. To learn more visit: [SAFE - Team Europe Initiative on Deforestation-free Value Chains](#) and [Climate and Company's dedicated project page](#).