CoSAI Commission on Sustainable Agriculture Intensification

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Innovation in farm reward mechanisms is pivotal for transforming agriculture to protect and restore nature in the Global South

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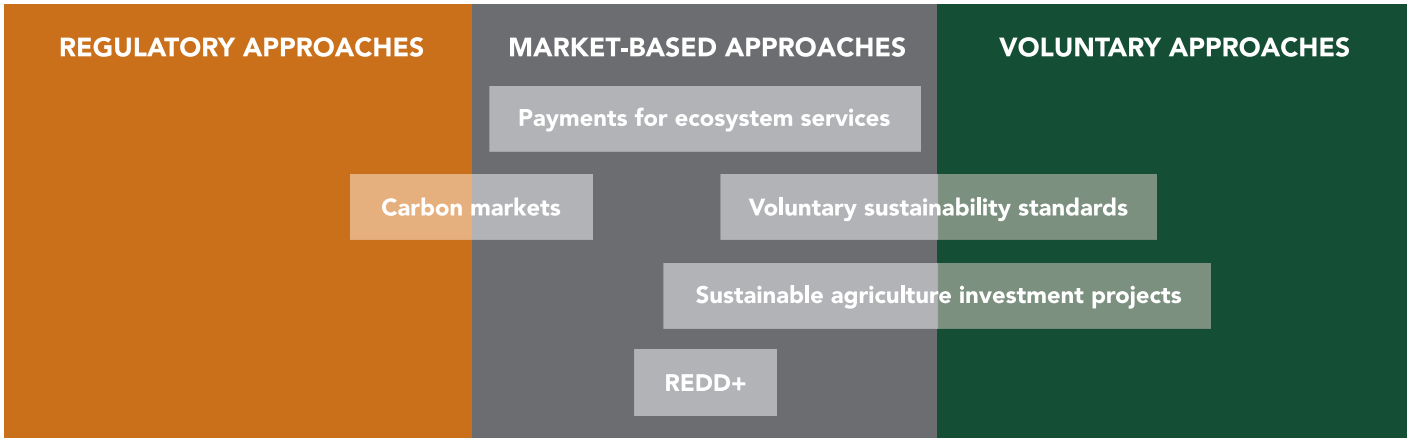
Private sector funding for farmers to combat climate change and protect and restore nature ('Paying for Nature') is rapidly increasing, alongside many calls for repurposing of public agricultural subsidies to achieve global goals. Yet this new funding may not reach its aims without improving farm-level reward mechanisms.

Actions needed

- **Public and private investors who want to deliver environmental outcomes should invest sufficient resources into innovating fair and effective farm reward mechanisms that support farmers** to protect and restore nature and tackle climate change in agri-food systems of the Global South.
- **Such 'Paying for Nature' investors should work with farmers, communities and local governments to innovate and monitor payment and reward mechanisms** to ensure they are practical and relevant to local conditions and to jointly address policy constraints.
- **Investors should develop credible systems to monitor investment impact** and ensure no one is left behind, for example rural workers with little or no land. Badly- designed payments can make the poor poorer.
- **Governments and international development partners need to invest sufficient public finance to reach public sustainability goals**, including for technical assistance and market information for farmers, and fixing underlying conditions for success such as land and subsidy policy.

Common types of Paying for Nature schemes span different fundamental approaches



Farm payment mechanisms are a bottleneck in scaling up Paying for Nature schemes

The global agri-food system emits nearly a third of greenhouse gases and is the sector that poses the single greatest threat to biodiversity. Private sector impact investment to support and encourage farmers to combat climate change and protect nature is rapidly increasing. There have also been many calls for repurposing public agricultural subsidies.

A large amount of this new money will be channeled to farmers and landowners through farm-level reward mechanisms, or 'Paying for Nature' schemes. CoSAI has engaged in a series of public conversations with experts and commissioned a review of common Paying for Nature schemes in agriculture, and found some positive examples – but many schemes are still small pilots and not ready to absorb major funding or scale effectively.

Paying for Nature schemes often fail to deliver multiple social and environmental goals

The debates also shone a spotlight on some weaknesses of common approaches. Over-optimism reigns about what the private sector can fund, given challenges in 'monetizing' environmental outcomes at scale. For example, sustainability standards cover only a sliver of agricultural land area, mostly in high-value chains such as coffee and tea. Farmers are still often exposed to the highest risk and the lowest return. Programs designed for specific outcomes, such as cutting carbon emissions, often rest on untested assumptions that they will do no harm to other goals, such as protecting biodiversity or access to forest resources for the poorest.

In particular, programs often lack reward mechanisms for hard-to-reach public goods, as when climate smart agriculture programs focus on adaptation and productivity (mostly private goods, albeit often with lower emissions), with little if any measurement of biodiversity and other public goods. Social inclusion and effects on the poorest are often not adequately considered or addressed in sustainable agriculture investments.

While these issues are not new, the coming influx of finance into Paying for Nature schemes means that they deserve more attention and investment in innovation.

Serious investment is needed to develop fair and effective reward mechanisms

Developing effective, efficient and inclusive reward mechanisms is challenging, often context-specific, and requires focused investment in innovation and learning. There are two common design problems in Paying for Nature schemes. One is developing practical and locally acceptable metrics for clear and agreed outcomes. The other is developing a fair and inclusive structure of payments and benefits that provides the right incentives – for richer and poorer farmers, landlords and tenants. These are often very challenging for the private sector, which prefers clear, simple, cost-effective and standardized financial products.

Beyond the design stage come several common implementation problems. First of all, farmers who feel externally controlled can be demotivated. However, there is evidence that well-designed, locally agreed payments can help support farmers' own interests in protecting nature.

Monitoring and reporting on desired actions and outcomes are also costly, with a lack of enforcement in many existing schemes. Advances in technology can potentially cut the cost of monitoring and underpin secure payment systems, but they cannot substitute for local ownership and commitment.

At times, positive changes by one farmer or community are undermined by the actions of neighbors. Integrated landscape approaches involving all relevant players can potentially help. It is also vital to address policies that give mixed signals to farmers, as when subsidies encourage them to overuse chemical fertilizers.

Investors need to work closely with farmers, communities and political jurisdictions in innovating and monitoring rewards, ensuring they are relevant, equitable and motivating to participants, and jointly addressing constraints such as conflicting policies.

Credible systems are needed to ensure no one is left behind

While well-designed Paying for Nature schemes can benefit poor farmers and other rural people, this is often not the case. Weak institutions, unequal rights to land and natural resources, and badly designed payments can make the poor poorer.

Typically, it is more difficult and costly for Paying for Nature schemes to involve small-scale farmers. The farmers themselves may not be able to participate due to insecure land tenure, lack of money or labor to invest, or seeing schemes as too long term and risky.
Even worse, the poorest households can actively lose out in poorly-designed Paying for Nature schemes. Payments made by land area can push up local land values. Poor households can even lose access to firewood or common grazing as richer neighbors regularize their tenure under the schemes. This has even been called an ecosystem curse, reinforcing rural poverty traps.

Paying for Nature investors thus need to flexibly manage trade-offs between multiple goals, including environmental and social outcomes and economic efficiency. Several countries set social criteria for Paying for Nature schemes – for example, favoring poor areas, indigenous territories and poor households. Farmers' associations are one way to reach larger numbers, or rewards can be organized to or through communities (e.g. paying for community infrastructure). While group rewards may still result in inequities, these are likely to be partially counterbalanced by local social pressures.

Ensuring equity also helps with effectiveness: Paying for Nature schemes seen by local people as socially fair and equitable are likely to be more successful. Monitoring the winners and losers can help investors improve programs and provide complementary support such as social protection.

Public and international development finance must support Paying for Nature and Society

Recent debates and reports have implied that private finance might fill the huge global funding gap in Paying for Nature. This is highly optimistic. Private operators may understandably not want to tackle multiple social and environmental goals, rural complexities and the myriad risk factors in serving small-scale farmers. It has been said that private schemes for biodiversity are in "permanent proof of concept". Research on blended finance has shown while leverage ratios can be over 3:1 for large agricultural developments, they are likely to be only about a tenth of this in low-income countries.

The vast majority of farmers in the Global South sell to local or national markets, where only a small fraction of consumers can afford to pay extra for sustainable produce. In a few countries a growing middle class demands sustainable vegetables or tea, but this still represents a small fraction of the market, and willingness to pay extra may collapse if food prices rise. Public procurement is one approach, but also requires further innovation and learning.

A major scale-up of public and development finance will thus be required to ensure that public goods and social inclusion goals are properly addressed in Paying for Nature. As countries increasingly adopt the UN system for environmental economic accounting and count the true cost of food, this should become more attainable. Public investment should, for example:

- Fund innovation in instruments for on-farm and community reward schemes
- Innovate in and improve public procurement schemes
- Provide technical assistance and extension services
- Address land and natural resource tenure issues that underlie all Payment for Nature schemes
- Provide complementary support to the poorest rural people, in particular social protection.

Conclusions

In the coming years, the signs are that more and more money will be channeled to farmers in the Global South to help them protect and restore nature. Scaling up funding will require effective funding channels and instruments, at a much wider scale and in more countries than anything seen today.

This policy brief argues that many current farm reward mechanisms – such as Payment for Ecosystem Services, carbon payments, voluntary sustainability standards and investment in sustainable agriculture programs – deliver mixed environmental and often negative social outcomes when they are poorly designed. While these issues are not new, they are given new prominence by the arrival of new funding.

To solve this will require serious investment in innovation of reward and compliance mechanisms, working closely with farmers, communities and local governments to develop practical and relevant solutions. This needs to be a part of all major investments. Close attention must be paid to fairness and social equity, as well as reaching multiple environmental outcomes, such as protecting biodiversity and preventing water pollution, along with maintaining or increasing agricultural productivity to feed increasing demands. These are formidable challenges. As CoSAI has argued elsewhere, broader investment in social, institutional and technical agri-food innovation will be crucial.

For more information, see the full report at: https://hdl.handle.net/10568/119419

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