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Murdani Usman/CIFOR

Key Messages

1. The Land Finance Hub is a platform for financiers and MSMEs seeking to transform sustainable production systems
2. The Hub calls for financiers with diverse investment interests and a wider geographical focus
3. Agriculture and forestry MSMEs in the Land Finance Hub mostly comprise micro enterprises lacking access to private commercial finance
4. Women hold multiple roles in MSMEs as owners, managers, workers and investors
5. Beyond matchmaking, bridging green finance to agriculture and forestry MSMEs requires a lever to improve visibility, access and financial literacy.

Building micro, small and medium enterprises' capacity and access to green finance through the Land Finance Hub

A case study of Indonesian MSMEs

Dyah Puspitaloka, Michael A. Brady, D. Andrew Wardell, Mahesa Elba, Rudy Tomaso, Laurent Fremy, Yahya Sampurna, Emily Gallagher, Elfa Norisda, Yasmine Donita Gunawan, Santi Darmokusumo and Swetha Peteru

Introduction

Agriculture, Forestry and Other Land Use (AFOLU) contributed 13–21% of global greenhouse gas emissions between 2010 and 2019. Half of net emissions are driven by land-use change (Nabuurs et al. 2022). Expansion of commercial and subsistence agriculture is a prominent driver of deforestation (Andoh et al. 2022). Although deforestation rates are slowing, forests, especially in tropical biomes, remain under pressure because agricultural expansion continues to drive 90% of global deforestation (FAO 2022). To reduce this pressure, it is necessary to direct support and investment towards deforestation-free and sustainable commodity production. The Green Finance for Sustainable Landscapes (GF4SL) project is a joint initiative implemented by the United Nations Environment Programme (UNEP) Climate Finance Unit and CIFOR-ICRAF under the Collaborative Partnership on Forests (CPF), and is supported by the Global Environment Facility (GEF). The project aims to foster an enabling environment for leveraging capital flows towards restoration, deforestation-free agriculture and sustainable forestry. It also addresses sustainable finance barriers to support a sustainable transition. CIFOR-ICRAF has developed the Land Finance Hub (LFH),¹ a platform for improving the capacity and visibility of MSMEs to help them gain access to green finance. This brief describes developments in the Land Finance Hub with case studies of Indonesian MSMEs.

Development of the Land Finance Hub

Development of the Land Finance Hub (LFH) commenced in 2021 with a desk review of similar web-based portals providing knowledge products, capacity building assistance to forest and farm producer organizations (FFPOs), communities of practice, and matchmaking of investors and business opportunities. Most available portals had specific geographical foci, and made no attempt to combine provision of knowledge products and toolkits with a collaborative virtual meeting place for matchmaking. The LFH was also developed to help identify bankable projects and maintain a pipeline of opportunities. Agriculture and forestry land-use projects are still largely perceived to be risky as an asset class due to challenging local conditions, including complex land tenure and governance issues. Recognizing these challenges, CIFOR-ICRAF developed an LFH prototype, which it presented as a test case with FFPOs and their

associations in Kenya, Ghana and Zambia in November 2021. The prototype received positive feedback from the FFPOs. After several iterations, the Land Finance Hub was launched in July 2022 in an event attended by MSMEs, associations and development partners. The LFH features profiles of MSMEs and financiers registered in the Hub; MSME projects seeking finance; knowledge products and toolkits; and support mechanisms (Figure 1).

Training with MSMEs

In 2022 and 2023, CIFOR-ICRAF conducted a series of training sessions organized jointly with MSME associations and private sector partners to introduce the LFH in Indonesia and Ghana. The training introduced MSMEs to LFH, showing them how to navigate the Hub and register, how to develop inclusive business profiles ensuring gender equality and social inclusion in businesses, and how to secure finance.

In Indonesia, training workshops were conducted in Central Java, East Java, Yogyakarta and Riau provinces, as well as across Indonesia using both in person and online formats. We partnered with the Jepara Woodcraft Association or *Asosiasi Pengrajin Kayu Jepara* (APKJ); Java Learning Center (JAVLEC); Furniture and Handcraft Forum or *Forum Meubel dan Kerajinan Seni* (Formekers); Banyuwangi Culinary, Garment, Handicraft, Accessory and Batik Association or *Asosiasi Kuliner, Kaos, Kerajinan, Aksesoris dan Batik Banyuwangi* (AKRAB Banyuwangi); Siak Sustainable Creative Center or *Sentra Kreatif Lestari Siak* (SKelas); Islamic Boarding School Agriculture Action Foundation or *Yayasan Aksi Pesantren Pertanian*; the online agriculture product cooperative, ID Botani; and Asia Pulp and Paper. By September 2023, CIFOR-ICRAF had trained 308 participants in Indonesia, half of whom were women associated with 301 MSMEs.

MSME characteristics

A total of 313 MSMEs – 254 from Indonesia and the remainder from West Africa – as well as four financiers had registered on the LFH. We analysed a total of 166 MSMEs; the 65% that had completed their full profiles (Table 1). The majority of these were involved in food product or furniture businesses (38% and 36%, respectively). Some had secured Indonesia Timber Legality Verification System or *Sistem Verifikasi Legalitas Kayu* (SVLK) certification, which assures buyers they are sourcing timber legally. MSMEs involved in food product businesses used a variety of locally sourced ingredients including NTFPs (honey, spices, etc).

¹ <https://landfinancehub.org>

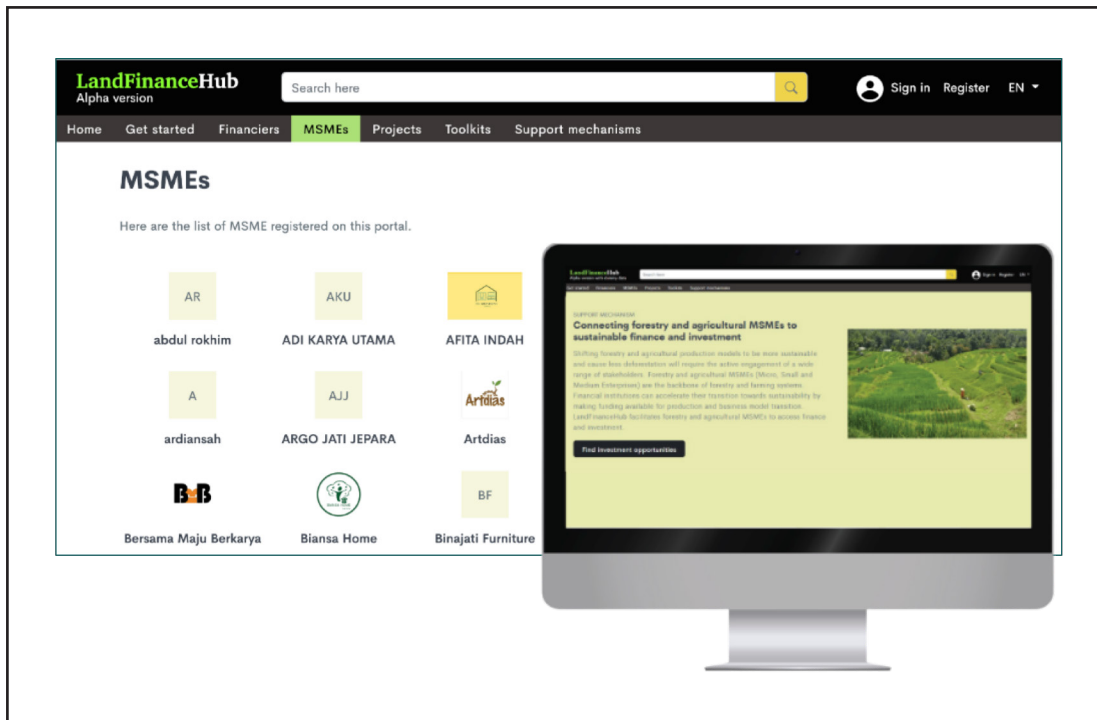


Figure 1. Land Finance Hub

Figure 2. Land Finance Hub training
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Table 1. MSMEs in the Land Finance Hub

Scale of enterprise	%	Average annual sales in the last 3 years (USD)	Average total assets (USD)	Average no. of employees	Average no. of years since establishment
Micro	81	10,429	13,594	10	9.5
Small	19	161,611	205,729	25	13

The roles of women in MSMEs CIFOR-ICRAF identified women as key actors holding various roles in Indonesian MSMEs, as owners (12%), employees (13%) and managers (11%) (Table 2). More than half of MSMEs indicated women playing multiple roles in their enterprises, as owners, managers and employees. A small minority of MSMEs (2%) indicated women also playing roles as investors.

CIFOR-ICRAF used International Finance Corporation (IFC) categories to classify MSMEs, all of which were either micro- or small-scale enterprises (81% and 19%, respectively). Micro enterprises had average annual sales of USD 10,429² and average total assets of USD 13,594. They had an average of 10 employees and had been established an average of 9.5 years earlier. Small enterprises had average annual sales of USD 161,611 and average total assets of USD 205,729. They had an average of 25 employees and had been established an average of 13 years earlier.

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MSMEs' business financing status

During LFH training, CIFOR-ICRAF discussed current sources of financing with MSMEs. Many said their businesses were self-financed. Some said they had

² * Using an exchange rate of USD 1 = IDR 15,398.40

Table 2. Women's roles in MSMEs

Women's roles	%
Ownership	12
Employment	13
Management	11
Ownership, management, employment	22
Management, employment	12
Other combinations of roles	29

received grants or loans from banks, cooperatives or other investors. Following these discussions, CIFOR-ICRAF surveyed the MSMEs to better understand their experiences in obtaining private finance from banks. The response rate was 36%, with around 55% of respondents indicating they had experience applying for loans, and 97% of loan applications being approved. MSMEs' loans were used to upgrade machinery, renovate production workshops and/or expand businesses.

The LFH supports MSMEs continuing to seek financing for specific projects. A feature allows MSMEs to signal to prospective investors and describe specific projects. It also enables them to specify types of funding expected (e.g., term loans, equity financing). The LFH documented 31 projects seeking finance, with MSMEs submitting proposals.

Case study: Land Finance Hub, timber legality certification and new opportunities for furniture manufacturing MSMEs

Furniture manufacturing enterprises in Indonesia are required to have timber legality certification to prove their businesses are sourcing and using legal timber. CIFOR-ICRAF interviewed furniture MSMEs from Jepara, Yogyakarta and Pasuruan attending Land Finance Hub training. They indicated that securing SVLK timber legality certification had helped them become better organized administratively, which has helped them better understand the extent of their business operations and use of raw materials. Beyond complying with government regulations, these MSMEs also felt obliged to care for the environment and forests through legal sourcing.

In addition, SVLK certification has enabled MSMEs to be better prepared to export products overseas by providing them with a better bargaining position and building trust from buyers and consumers. Most importantly, SVLK certification has provided new opportunities to participate in public/government procurement processes, where certification is a prerequisite. Although SVLK certification has yet to become a formal requirement for obtaining loans, MSMEs confirmed that the improved business administration it necessitates had helped them secure financing. Certification also afforded MSMEs greater



Land Finance Hub Use and Registration Training - Perdana Putra/CIFOR-ICRAF

competitiveness and more credibility in exporting their products overseas, which had been helpful for fostering private financing.

MSMEs registered on the LFH indicated that financing is a critical element to helping their businesses grow and meet future demands. Some respondents interviewed by CIFOR-ICRAF had had experience in obtaining low interest People's Business Credit or *Kredit Usaha Rakyat* (KUR) loans. MSMEs were used to this conventional method for applying for loans from banks, and borrowing capital informally from partners. LFH training and the platform have improved financial literacy among MSMEs, and broadened their horizons regarding different types of financing available from banks, impact investors and venture capital. Although they still have much to learn about types of investment or financing, through the LFH, MSMEs now have an opportunity to connect with financiers beyond conventional banks.

Land Finance Hub performance

CIFOR-ICRAF monitored LFH performance – based on numbers of registered and active users – using Google Analytics. A total of 313 MSMEs and four financiers are now registered as a result of training, outreach and engagement. From website analytics between April and September 2023, we identified at least 1,256 web users accessing the LFH, 303 of whom had been active over the previous 30 days (Figure 3). Indonesia ranked first with 541 users, followed by Australia with

194 users, Ghana with 97 and the United States with 71 (Figure 4). Nearly all users visiting the LFH had done so through direct searches without going through a referral website, or organic searches by typing the Land Finance Hub's URL into a search engine. Our analytics indicated the most viewed pages being MSME profiles (1,500 page views) and MSME projects (734 page views).

Land Finance Hub potential

The Land Finance Hub is a platform with a value proposition for MSMEs operating in the Agriculture, Forestry and Other Land Use (AFOLU) sector; a sector with high deforestation risk. The LFH received positive feedback from training participants, who indicated the Hub providing valuable insights and knowledge. Registered MSMEs considered the LFH to be a bridge for connecting them to potential financiers, and expected it to foster synergy and help small industries grow in the future. Other stakeholders, such as non-profits, banks and development organizations, also gave positive feedback. Training in Indonesia was followed with training for MSMEs in Ghana. Wider use of the Hub will be enabled through the availability of newly developed guidelines on navigating and registering on the LFH, which will help more MSMEs register independently. Benefits of the LFH, which will be maintained by CIFOR-ICRAF, can be optimized by engaging financiers with diverse financing interests and wider geographical foci in their investment coverage.

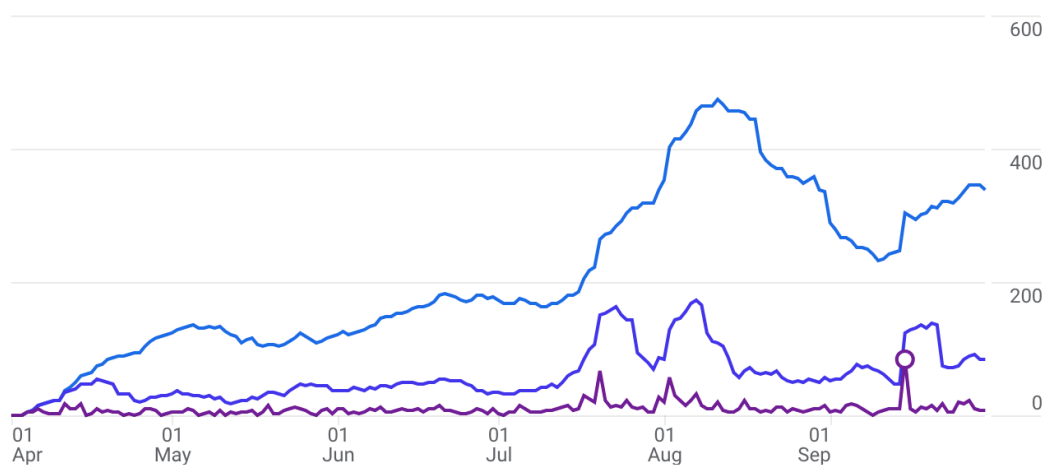


Figure 3. Active users over the previous 1 day (indigo line), 7 days (violet line) and 30 days (blue line)

Source: Google Analytics (2023)

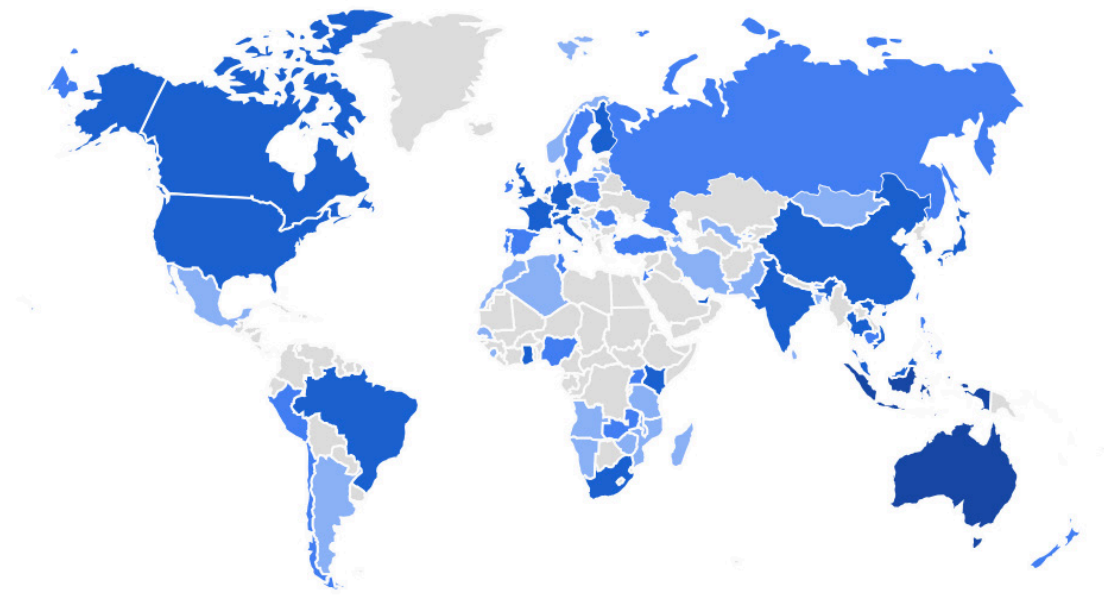


Figure 4. Web users by country. Colour shades indicate numbers of users accessing the LFH from internet networks in their respective countries

Source: Google Analytics (2023)



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