A blossoming variety of financial instruments are vying to reward farmers and agricultural businesses for conserving and restoring nature in the Global South. Yet it takes a fine balance indeed to save ecosystems while affording the people of the Global South good livelihoods and healthy food systems. Much bolder innovation is required, with public and international investment, to create financial incentives that accomplish all of this while leaving no one behind.

To show where that innovation needs to go, a global review of financial innovation to support an inclusive sustainability transition in farming is being prepared for the Commission on Sustainable Agriculture Intensification (CoSAI) by the SDG Center for Latin America and the Caribbean (CODS) at Bogota’s Universidad de Los Andes. The review builds on many recent studies of financial instruments like payments for ecosystem services, REDD+, and voluntary standards. The emerging results suggest that these instruments, developed for conservation, offer unfulfilled opportunities for innovation that can bring them into the agricultural landscapes of the rural poor.

Incentives for conservation fall on a spectrum from the regulatory to the strictly voluntary

**KEY EMERGING FINDINGS**

- Based on 143 case studies, **payments for ecosystem services** show evidence of increasing forest cover and stemming deforestation, but limited income impacts thus far. They have been applied to farming contexts in initiatives on degraded lands in Nicaragua and grazing under trees in Colombia, among others.
- Financial incentives in 85 **REDD+** cases also achieved forest cover increases, but often at a cost to farmers and their access to resources. Farming has so far only been included at the level of monitoring, with untapped potential to integrate farmland within landscape mosaics.
- While mandatory **carbon markets** such as emissions trading systems and the Clean Development Mechanism are much-discussed alternatives, the review found no existing cases of either approach in the Global South.
- Trade-offs were seen across 131 cases of **voluntary sustainability standards** for different agricultural products. Coffee standards revealed high compliance and environmental benefits but little livelihood impacts; another for palm oil showed little compliance and no conservation, yet high livelihood impacts. More innovation is needed to find the right balance.
Studies reported on three financial instruments in action around the world

- As a newer financial instrument, **biodiversity offsets** have been explored for the regeneration of degraded agricultural land, but appear to only be in development for the Global North.
- Despite good results achieved by some innovative financial incentives, they have had variable effects on the environment, mostly focused on agroforestry, water and land restoration, and these have **often come at a cost** to small-scale farmers.

**RECOMMENDATIONS**

Because trade-offs between conservation and livelihood impacts are so common, designers of financial incentives must account for outcomes on both sides, and the instruments must be backed up with community buy-in, training, monitoring and supportive policies.

Implementers of financial instruments should seek out contexts where the opportunity costs of conservation are low, and seek out innovative technologies for sustainable agriculture intensification that are also affordable to farmers.

Targeting is paramount to ensure that innovative instruments do not worsen inequalities between large enterprises and small-scale farmers.

---

**CoSAI** is supported by the CGIAR Research Program on Water, Land and Ecosystems (WLE) and is facilitated by a Secretariat based at the International Water Management Institute headquarters in Colombo, Sri Lanka. WLE is supported by the CGIAR Trust Fund and other donors. CoSAI Commissioners are independent.

The SDG Center for Latin America and the Caribbean (Universidad de los Andes, Colombia) foundations are based on an alliance between the following universities: Los Andes, Javeriana, and Universidad del Norte (Colombia); Universidad Católica de Chile; Autónoma de México and TEC de Monterrey (México); Universidad del Pacifico (Peru); Universidad de Campinas (Brazil); and the International Center for Tropical Agriculture (CIAT for its acronym in Spanish) (Colombia).

---

As a newer financial instrument, **biodiversity offsets** have been explored for the regeneration of degraded agricultural land, but appear to only be in development for the Global North.

Despite good results achieved by some innovative financial incentives, they have had variable effects on the environment, mostly focused on agroforestry, water and land restoration, and these **have often come at a cost** to small-scale farmers.

**RECOMMENDATIONS**

Because trade-offs between conservation and livelihood impacts are so common, designers of financial incentives must account for outcomes on both sides, and the instruments must be backed up with community buy-in, training, monitoring and supportive policies.

Implementers of financial instruments should seek out contexts where the opportunity costs of conservation are low, and seek out innovative technologies for sustainable agriculture intensification that are also affordable to farmers.

Targeting is paramount to ensure that innovative instruments do not worsen inequalities between large enterprises and small-scale farmers.

---

As a newer financial instrument, **biodiversity offsets** have been explored for the regeneration of degraded agricultural land, but appear to only be in development for the Global North.

Despite good results achieved by some innovative financial incentives, they have had variable effects on the environment, mostly focused on agroforestry, water and land restoration, and these **have often come at a cost** to small-scale farmers.

**RECOMMENDATIONS**

Because trade-offs between conservation and livelihood impacts are so common, designers of financial incentives must account for outcomes on both sides, and the instruments must be backed up with community buy-in, training, monitoring and supportive policies.

Implementers of financial instruments should seek out contexts where the opportunity costs of conservation are low, and seek out innovative technologies for sustainable agriculture intensification that are also affordable to farmers.

Targeting is paramount to ensure that innovative instruments do not worsen inequalities between large enterprises and small-scale farmers.

---

As a newer financial instrument, **biodiversity offsets** have been explored for the regeneration of degraded agricultural land, but appear to only be in development for the Global North.

Despite good results achieved by some innovative financial incentives, they have had variable effects on the environment, mostly focused on agroforestry, water and land restoration, and these **have often come at a cost** to small-scale farmers.

**RECOMMENDATIONS**

Because trade-offs between conservation and livelihood impacts are so common, designers of financial incentives must account for outcomes on both sides, and the instruments must be backed up with community buy-in, training, monitoring and supportive policies.

Implementers of financial instruments should seek out contexts where the opportunity costs of conservation are low, and seek out innovative technologies for sustainable agriculture intensification that are also affordable to farmers.

Targeting is paramount to ensure that innovative instruments do not worsen inequalities between large enterprises and small-scale farmers.