Pacific RISE was established by the Australian Government’s Department of Foreign Affairs and Trade in 2016 to promote the development of an impact investing market across the Pacific. The program has a focus on social enterprise and women’s economic empowerment through gender lens investing. Through its work with Pacific businesses, financial intermediaries, investors and other stakeholders, the Pacific RISE team has developed a new understanding of the region’s possibilities.

Past impact investment interventions in the region have largely failed to consider the environmental, social and financial ecosystems of the Pacific – trying to force Pacific companies to ‘fit’ into traditional investment vehicles that ultimately failed to provide social or financial returns. However, Pacific RISE has confirmed that investments in the Pacific have the potential to deliver both financial returns for investors and positive social impact. Pacific RISE supported the design of a set of financial vehicles in the Pacific using a gender lens – such as a menstrual health trade finance vehicle – that show greater promise than previous direct-to-enterprise efforts. These vehicles have the potential to mobilise substantial amounts of investment in the region, and many further opportunities remain to be explored.

To create impactful social investments in the Pacific, we need to understand the economic trends and opportunities in the region, and then design investment vehicles that can support social and market needs. To strengthen impact, particularly for women and girls and vulnerable groups, vehicle design needs to take into account power dynamics in prevailing finance models.

Building on the insights presented in Pacific RISE briefs and case studies, this paper highlights a range of financial vehicles that could capture future growth in Pacific markets, and provides examples of vehicle designs that ‘fix the capital’ rather than focus on ‘fixing’ Pacific enterprises through technical assistance.

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Matching financial vehicles to opportunities in the Pacific RISE investment thesis

The Pacific RISE investment thesis – designed in 2017 and updated here in 2021 – looks ahead at least 15 years in order to identify where to invest today. By aligning innovative, impact-oriented financial vehicles with the desired social and economic outcomes, investors, intermediaries and local communities will be able to lay resilient, equitable and adaptable foundations for Pacific economies.

The updated investment thesis looks at how the Pacific ecosystem has changed during the 5 years of Pacific RISE, and assesses if and how the impact of the ongoing COVID-19 pandemic impacts on this vision for the future. The thesis provides the foundation for the possible vehicle designs suggested in the next sections.

Pacific RISE investment thesis

Designed in 2017 and updated in 2021, the Pacific RISE investment thesis seeks to identify investment opportunities today that will help build more resilient, equitable and adaptable Pacific societies and economies in the future.

The investment thesis explores six trends

CLIMATE RESILIENCE

Climate change poses an major environmental, economic and social threat to the future of Pacific nations. The region’s resilience is an asset in facing climate change challenges – resilience in industries such as agriculture and fisheries, manufacturing, transportation and supply chain logistics, and tourism. Resilient enterprises are more able to mitigate the risks of climate change and adapt to its impact. The leaders in adaptation and mitigation represent the future opportunities for the Pacific and investors in the region.

The disruption due to the COVID-19 pandemic has increased the need to build resilience through relief and recovery efforts. The Pacific has demonstrated continued strength despite severe disruption to its significant tourism sector and export supply chains. Experience with events linked to climate change has helped in managing this disruption.

Insight: Investing in climate resilience, ecosystem-based adaptation and interventions that support ecosystem services in the long run can secure the supply chain for buyers and sellers.
EXCEPTIONAL VALUE CHAINS

The Pacific Islands are home to some of the most unique ecologies and highly valued products in the world.

This results in opportunities for specialised, low-scale products that are of greater economic value than high-scale, low-end manufacturing from other countries in the Asia–Pacific region. Future economic value is in high-quality products (cocoa, coffee, seafood, timber and coconut oils), with local companies increasing value-added processing in-country. In addition, the unique quality of tourism and ecotourism are driving an increased appetite among tourists from Asia.

The future of Pacific value chains has evolved because of the COVID-19 pandemic. In markets around the world, value chains are being scrutinised, particularly in agriculture and allied sectors, from the perspective of food security. Within the Pacific, a mass labour migration from tourism to agriculture has occurred, strengthening the value chain that is responsible for produce of exceptional quality.

Insight: Increasing investments in productive capacity, supply chain technology and logistic systems can also increase connectivity across the value chain, thereby strengthening the supply chain and supporting logistics efficiency.

VALUE IN THE INFORMAL SECTOR

The informal sector provides critical economic opportunities for people living in poverty, particularly women and people with disability, and is a hidden growth engine.

Globally, impact investors are finding value in the informal sector. What would a bet on profitability and sustainability through the informal sector mean? While the future of the Pacific will bring increased formal economic activity, significant value and reduced risk can be found in the informal sector. The informal sector produces locally sourced agricultural goods, sophisticated textiles, creative arts and other tailored products for a growing domestic market. The sector scales through sophisticated and durable systems that can link together the livelihoods of hundreds, or thousands, of families and their communities.

Building community resilience in the Pacific informal sector is crucial for building an inclusive economy. Social capital investment in the informal sector through financing for micro-, small and medium-sized enterprises (MSMEs) could support community empowerment, stabilisation, peacebuilding and job creation.

The trajectory towards this future has accelerated during COVID-19. The pandemic has brought the value of the informal sector to the forefront, highlighting essential workers, and essential economic activity that was previously undervalued. In the Pacific, the crisis has resulted in expanded informal markets, with fluidity in movement between the formal and informal sector, illustrating the interdependence between the two.

Insight: Valuing the informal sector will grow local productive capacity and provide stability to the value chain. Given the structural challenges to investing directly in informal market interventions, blended or concessional finance models can be employed to test, demonstrate and/or catalyse new approaches. The sustainability of new models using other forms of capital is important to demonstrate in order to attract investment in the long run.
STRENGTH IN ISOLATION

The Pacific is in a unique global position despite the risk posed by the isolation of multiple island nations. However, there are also multiple benefits that stem from this isolation, namely insulation against the contagion effects of economic and political shocks.

Pacific regional economies are reliant on export and tourism and need stability. Regional forums and groups meet to discuss regional issues and, regardless of national political changes, daily life and island economies continue to be influenced by traditional structures of governance (kastom) that sustain rule of law in local economies, binding communities together and creating cohesion.

Considerable investment in the Pacific originates from the larger neighbouring economies of Australia and New Zealand. This investment plays various roles – it supports stability in the region and disaster response, addresses infrastructure needs, facilitates trade, helps combat illegal fishing and transnational and cyber-crime, and promotes human security.

This trend is unaffected by the COVID-19 pandemic. The region’s relative isolation has seen some smaller Pacific island countries experience the effects of the pandemic differently than in other parts of the world. The crisis has, however, disrupted connectivity, resulting in subsequent pressure on livelihoods, and highlighted the need for import substitution. Many local communities have maintained stability by coming together in their response to the crisis.

**Insight:** Investing in local ecosystems allows Pacific island countries to become more resilient to economic shocks and changes in foreign markets, providing the ability to turn inward when necessary.

RISING DOMESTIC CONSUMPTION

While exports remain critical, the future will bring significant growth in the domestic market.

Increases in the population of the Pacific, along with growing opportunities for young people to study and work overseas, create a stable labour base. The opportunity to seek profits in a global market is balanced with value placed in local communities. Reliance on global capital is balanced with growing investments from local capital.

The COVID-19 pandemic has accelerated this trend. In light of severe disruptions in the global economy, purchasing power in domestic markets has increased – not just through a cash economy, but also through the revival of a trust-based barter system to facilitate the exchange of goods and services. Conversely, household purchasing power has decreased in the short term, creating food instability.

**Insight:** Investments that increase local productive capacity can reduce the price of goods over the long term, which in turn supports the emergence of local markets for products. Increased domestic demand can deemphasise large buyers over time, making the value chain more resilient to market volatility.

CONNECTIVITY THROUGH TECHNOLOGY AND TRANSPORT

The next decade will transform connectivity in the Pacific. Innovations in transport will reduce the region’s isolation and facilitate regional trade and collaboration. Investment in undersea cables supporting broadband access to the region is rolling out over the coming decade, allowing the Pacific to participate in the global outsourcing services market, in areas such as accounting, content development, programming, data processing and 24/7 call centres.

This trend has evolved because of the COVID-19 pandemic, as border closures bring the need for technological connectivity to the forefront. An emerging set of services can be provided through better connectivity, such as tele-healthcare systems or e-commerce services.

**Insight:** Developing connectivity can open new opportunities to access markets through online platforms, and improve information, finance and logistics through the expansion of communications networks.
Designing financial vehicles to disrupt prevailing power dynamics

Building better financial vehicles entails combining market opportunities with the right financial tools, and analysing whether these vehicles can address imbalances in traditional power dynamics. Addressing these power dynamics requires a departure from prevailing or common finance models, and instead developing financial innovations that enable organisations to make more equitable deals – deals that are ultimately more successful at achieving the desired social and financial returns.

Specifically, these innovations represent a power shift in the development of investment strategies, from a top-down to a bottom-up approach based on the following principles:

- **Community-centric design, rather than led by traditional finance models** – intermediaries focus on planning for business and community needs, instead of the deal terms stemming from the needs of existing capital flows. The result is needs-based, purpose-built vehicles rather than vehicles driven by capital allocation.

- **Conducive to local capacity building** – these investments will not assume that the enterprise somehow needs to be ‘fixed’ with packaged technical assistance for the investment to work.

- **Agnostic to scale** – given the natural scale constraints of the Pacific region, capital must be designed to succeed at the scale of the intervention rather than with the expectation of greater scale.

- **Equitable with regard to deal-making** – deals exhibit balanced power dynamics between investor outcomes and positive social investment outcomes. In addition, perspectives reflecting community and local stakeholders are inherent components of deal design.

It is important to develop relationships and partnerships that are conducive to achieving the desired financial and social outcomes, and to consider who are the right intermediaries and organisations that can support delivering the designs.

Equipped with the right partners, a sound investment thesis, and an awareness of power and gender dynamics, we can design better vehicles. The specific vehicles highlighted in the next section were identified through the Pacific RISE program and in conversations with investors, intermediaries and organisations that have worked in Pacific innovative financing over the past 5 years. The vehicles cover investment opportunities, key investment areas, gender and power dynamics considerations, and the financial mechanisms that can capture the opportunities.
Investment opportunities

1. Value chains of major buyers

Investment opportunity description: Major buyers of agricultural and aquaculture products represent a unique opportunity to strengthen the value chain and the productive ecosystem. The structure, volume and financial opportunities offered by major buyers can lead to mutually beneficial relationships that strengthen the supply chain for both buyers and sellers (smallholder farmers).

Key investment areas: Long-term supply contracts offered by major buyers can serve to de-risk investments and unlock unique opportunities for investors to catalyse the buildout of productive capacity. The prime investable opportunities that emerge are in areas such as:

- long-term productive/processing infrastructure
- the creation of MSME financing and other last-mile support systems for smallholders that will sell into higher value chains
- capacity building and logistics businesses
- consolidation, aggregation and trade businesses that intermediate between buyers and smaller supply-chain flows
- intermediary agribusinesses focused on farm inputs
- other storage and value-add systems in the value chain.

Gender and power dynamics considerations for investors: Major buyers have highly structured purchasing systems that are difficult for small producers and under-resourced partners to participate in. Investing in enabling infrastructure, organisation and capacity building can help producers – especially women and smallholder farmers – to access these purchasing systems by overcoming scale, capacity, investment and sophistication barriers, traditionally through the use of intermediaries. However, there is a risk that intermediaries can reap the highest margins and absorb investment. Therefore, new investments into creating the capacity of smallholder farmers to supply major buyers must be targeted to the right places in the value chain, where investment readiness and suitability of capital are important considerations. In addition, targeted capacity building, financial education and other technical assistance might be necessary to help overcome the structural barriers that have traditionally excluded women, young people and other marginalised groups, and address the ageing workforce in the agricultural sector.

Financial mechanisms that can capture the opportunity:

- Debt vehicles: Agricultural value chains are very debt dependent; however, it is possible to support women and smallholder farmers by lowering the cost of credit, providing financial literacy (specifically debt repayment and budget management), and reducing barriers to access, which can sometimes include obtaining identity documents and ownership of collateral. Financial risks can be mitigated with guarantees for MSME financing to provide women agricultural producers with lower costs of finance and better payment terms. Risk pooling through cooperatives can also increase the borrowing power of individual farmers, reduce fragmentation, and reap the benefits of economies of scale in purchasing of agricultural inputs. In addition, matching debt terms to standing or long-term purchasing contracting from large buyers, and even using the convening power of buyers themselves to include women through supplier diversity programs backed by credit, are important levers for impactful debt financing.

- Other vehicles: Grant capital, social impact capital and corporate social responsibility funding from the buyers themselves can be leveraged to support the buildout of cooperatives and other community-based aggregators, which can act as intermediaries between large chains and smallholders to ensure the smooth joining of these two extremes of the value chain. The collaborative and cooperative organisations that can be fostered can help resolve market fragmentation, market price information gaps and other sources of abusive buying practices. Financial literacy and other financial skills education programs are also critical to support the development of the appropriate skills to manage debt and are therefore a recommended component of any intervention.

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2 For example, see Business for Development's long-term inclusive (LINC) enterprise model.
2. Waste management

**Investment opportunity description:** Waste management and a circular economy are imperative for the future of Pacific nations, given that rising domestic consumption and tourism will create increasing sources of waste, posing threats to both the environment and livelihoods in the fisheries, food supply and tourism industries. Growing waste is both an urgent risk and an enormous investment opportunity to catalyse and support the development of waste management infrastructure, water sanitation and hygiene systems, and enterprises focused on the circular economy.

**Key investment areas:** The waste management value chain involves the collection, transportation and segregation of waste streams – from disposal to recycling and upcycling of products, as well as the creation of new products and even energy generation (waste-to-energy systems). It is estimated that the global waste management value chain was worth US$2 trillion in 2019, and is expected to reach US$2.3 trillion by 2027, with a compound annual growth rate of 5.5%. Some key areas primed for investment are:

- collection and sorting businesses
- recycling and upcycling businesses
- disposal, landfill and refuse transfer station infrastructure
- waste to energy
- processing technology and infrastructure.

**Gender and power dynamics considerations for investors:** Investment vehicles should seek to acknowledge power and gender dynamics by naming the systemic exclusion to finance that women and marginalised groups have faced, particularly barriers to asset ownership and persistent informal work conditions. By valuing experience and recognising what has excluded these groups, vehicles can direct capital to those who are not only excluded but have built up significant experience in waste management. Exclusion to assets and finance creates a limit on how much can be done in the waste management space, since travelling up the value chain to higher value-adding requires capital investments into equipment. Moreover, the high reliance on informal work creates unique challenges for investment, as informal potential is difficult to communicate in investment rationales or business plans.

**Financial mechanisms that can capture the opportunity:**

- **Debt vehicles:** Capital investments in hardware or processing capacity equipment have long depreciable lifespans that are a good fit for debt investments, with equipment serving to collateralise loans. The nature of the business is also long term, which is a further risk mitigant for long-term lending. Given the ‘public good’ nature of waste management, it is also a good fit for public debt underwriting that supports public–private partnerships.

- **Ownership vehicles:** Equity investments or quasi equity investments could be attractive in opportunities for companies seeking to consolidate or vertically integrate enterprises that control the majority or large portions of the value chain. Investors should keep in mind that waste management is largely publicly funded in the Pacific, and therefore there are limited entry points for private enterprise and also potential expropriation risk or other contract tenure challenges. These factors make private capital deployments riskier than in deregulated and privatised markets.

- **Trade finance vehicles:** Advance funding trade finance can be an interesting business since waste pipelines and throughput are foreseeable, potentially giving scrappers advance cash purchases against material deliveries.

- **Other vehicles:** Grants to catalyse community organising and support the informal sector can be used to intervene where investment will not go – for example, waste-picker cooperatives and training.

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3. Renewable energy

**Investment opportunity description:** Climate change, the high cost of imported energy, interruptions to fuel supply and other disruptions caused by extreme weather make off-grid energy solutions of critical importance in the Pacific. Distributed generation at the local and household level not only reduces the cost of access to energy for remote communities, but also is often the only source of energy. This represents an opportunity to build up Pacific nations’ resilience, and also an investment opportunity to finance the development of off-grid electricity solutions and the ecosystem of enterprises involved in the distribution of household energy supply and appliances.

**Key investment areas:** Supplying local communities with clean, reliable and renewable energy has many entry points for investors, such as:

- direct investment into producers of energy: mini-grids, solar home systems and local distributed generation through financing of equipment and infrastructure, energy services, or distribution and metering

- ancillary businesses connected to renewable energy and local generation, such as commercialisation of equipment for productive use, or household appliances

- manufacturing of renewable energy and energy efficiency products like solar panels

- development of energy service businesses that provide operation and maintenance, monitoring and other related support services in renewable energy, like smart metering

- other energy investments, such as efficient fuel replacements and parallel services like water purification and pumping for agriculture.

**Gender and power dynamics considerations for investors:** Firms involved in the deployment of local and household energy supply and appliances face the challenge of providing last-mile and base-of-the-pyramid energy services where national and private utilities have not made large investments. These firms’ customers are generally in the lower income bracket and in underserved areas, which ultimately means the firms face significant default and collections risk over a vast number of customers. While local and household energy solutions are not high-cost investments at the unit level, deploying these units in numbers large enough to bring communities out of energy poverty can represent a large aggregate investment. The gender considerations range from affordability and asset ownership challenges to time-of-use rates and repayment ability of customers. Therefore, vehicle design should consider how to address women’s participation in employment and their significant representation in the customer base.

**Financial mechanisms that can capture the opportunity:**

- **Debt vehicles:** Infrastructure investments are best financed with debt, through long-term investments that are tied to power purchasing agreements or where no grid-level competition is expected. Financing mini-grids, distributed generation and even solar home systems in similar ways to power purchasing agreements means treating these investments like infrastructure even when they are distributed and small-scale. The aggregation of portfolios can serve to reach the productive scale required to secure lending facilities sufficiently against the installed capacity, even if distributed at the home-system level.

- **Ownership vehicles:** Equity investments in the renewable energy space can be attractive for serial developers that invest in building out capacity in multiple locations with a larger scaling path.

- **Trade finance vehicles:** Trade finance can provide an interesting opportunity to fund inventory of solar home systems, appliances, productive-use equipment, and consumer goods and electronics connected to energy services, through letters of credit and guarantees.

- **Other vehicles:** Carbon finance and other renewable energy subsidies can be an interesting component of financing the development of these enterprises. Grants and government subsidies can also be deployed to accelerate uptake of technologies and reduce burden on other infrastructure.
4. Certification of Pacific products

**Investment opportunity description:** Certification and denomination of origin systems can function like trade groups and industry organising hubs. This allows product categories and/or industries to leverage their collective power to respond to market challenges, and also support the emergence, recognition and positioning of authentic products.

**Key investment areas:** Product certification systems based on quality, origin (source) and process (tradition) offer the following entry points for investors:

- Accreditation bodies can be constituted as non-government organisations or operating companies that operate the business of certification and quality control (e.g. Fairtrade, Rainforest Alliance, and third-party certifiers for the US Department of Agriculture National Organic Program). They can also work like trade organisations that dedicate significant efforts to lobbying and marketing (e.g. Parmigiano Reggiano Consortium, Avocados From Mexico).

- Certified product organisations can pool resources, like shared infrastructure at ports, consolidated cold chains, storage, or logistics systems.

- Certification to international and national standards (e.g. ISO, HACCP, US Food and Drug Administration) can help gain access to markets.

**Gender and power dynamics considerations for investors:** Small producers, and particularly women, face significant barriers when it comes to accessing resource-intensive programs. Therefore, certification systems must keep in mind the ‘self-selection’ problems that tend to exclude vulnerable groups from investment opportunities. Investment vehicles must consider the cost of setting up internal control systems, compliance and membership as a major up-front barrier that can often limit the membership and adoption of programs, and provide adequate funding for technical assistance so certification systems can be adequately implemented. In addition, incentives for smaller producers, grants and other soft entry points or scaled costs might be important mechanisms to remove barriers to participation and secure diverse and growing memberships.

**Financial mechanisms that can capture the opportunity:**

- **Debt vehicles:** Certification bodies can attract long-term debt investment in logistics, production, processing, storage and other pooled industry infrastructure that would otherwise be unavailable to individual producers. These bodies can leverage their collective supply power to reduce costs, increase the stability of the supply chain, and support growing demand for their certified products. In addition, by sharing infrastructure, producers can take advantage of significant risk and cost sharing and increase their resilience to external shocks.

- **Ownership vehicles:** Equity-based shared ownership of the certification entity could be one ownership model, which might be attractive to outside investors as a way of participating in the entity. This can take the form of a certifier that is also an aggregator, marketplace and/or sales mechanism.

- **Trade finance vehicles:** Growing supply chains represent large opportunities for trade finance, both by securing working capital facilities for certified member organisations using pooled applicant status with financial institutions, or through collateralisation with invoice-based financing (factoring) and purchase order financing.

- **Other vehicles:** Because many certified products are storable commodities, there is an opportunity to make the market for the products more dynamic through financial trade. This might be the creation of an over-the-counter market for futures and other derivatives that may offer investors the ability to speculate on products (e.g. in Italy, wheels of certified Parmigiano Reggiano cheese have a cash-settled futures market based on the weekly quoted price in the Borsa Italiana). In addition, using grants to support suppliers to achieve international standards can help small and medium-sized enterprises (SMEs) gain access into new markets.
5. Supply of domestic produce for Pacific tourism supply chain

**Investment opportunity description:** The Pacific tourism industry represents an important source of foreign exchange as well as seasonal income for Pacific economies. The enormous purchasing power of the tourism industry can be leveraged to strengthen and scale local agricultural supply chains and the supporting agribusiness ecosystem.

**Key investment areas:** Smallholder farmers face significant vulnerabilities in the tourism supply chain, lacking the more direct connections to market, storage facilities, technical agricultural practices and inputs for high-yield agriculture that would shift the market dynamics they currently face as price takers. The organisation of regional, local and/or product-type collaborative units offers unique opportunities for investments in shared or pooled resources to strengthen the position of smallholder farmers in the value chain through:

- storage and processing aggregation facilities
- packing and transport aggregation hubs and shared logistic infrastructure and equipment
- pooled and cooperative credit for working capital, mechanisation and/or agricultural input acquisition
- shared commercialisation, market access and coordination of supply chain
- agribusiness products and services value chain, which offers value-adding, inputs and equipment
- microfinance investments for the rural and agricultural sector (funding the lender).

**Gender and power dynamics considerations for investors:** Investing in the scaling of agriculture requires acknowledging the nature of exclusion that women and smallholder farmers face in accessing large structured markets like those of large tourism companies. While boutique and small tourism can tout small producer sourcing as part of their value proposition, larger tourism buyers might have supply standards or volumes that are difficult for small producers to meet, which inevitably can lead to the view that aggregators and intermediaries are necessary. Vehicles must be careful to ensure that investments can be routed to producers; however, investors should be aware of the long horizon required for these investments, with limited exit avenues and limited upside. It is important to address how equity investments can remove community ownership and build in share buyback, options, sweat-equity vesting mechanisms and other instruments that mitigate the transfer of complete ownership and yield partnership models between communities and investors.

**Financial mechanisms that can capture the opportunity:**

- **Debt vehicles:** Debt financing for farm inputs, produce variety and other working capital requirements are essential in agricultural value chains. Traditionally, investments in productivity have been dominated by cooperatives and microfinance for smallholder farmers. Making more credit available at lower cost through guarantees, receivables backed by buyer contacts and other intermediated lending (i.e. farmer-owned producer companies and cooperatives) can reduce the borrowing cost and spur investment in capacity.

- **Ownership vehicles:** Equity investments are suitable for intermediaries seeking to scale or consolidate producers; however, investors should be aware of the long horizon required for these investments, with limited exit avenues and limited upside. It is important to address how equity investments can remove community ownership and build in share buyback, options, sweat-equity vesting mechanisms and other instruments that mitigate the transfer of complete ownership and yield partnership models between communities and investors.

- **Trade finance vehicles:** Innovations in guarantee structures can allow buyer contracts to support letters of credit and other standby capital that can be used to unlock the full potential of smallholders, disaggregated production, and improved access to quality inputs.

- **Other vehicles:** The Pacific tourism industry can support the agricultural value chain through grant capital to support smallholders and women farmers to create more stable supply systems through corporate social responsibility and other community-supported agriculture programs that serve to deepen the industry’s community involvement. In addition, supporting the formation of collaborative and cooperative models can significantly enable women to shift market dynamics by overcoming the price point information, skill and access divide between smallholders and larger institutional or intermediate players.
6. Value-add processing

Investment opportunity description: Processing of agricultural products increases the variety of locally available products and the value that these products can attain in both local and international markets. By financing the processing of organic, single-origin and other local foods into value-added products, there is an opportunity to improve the position of suppliers along the value chain by helping producers transition from agricultural commodity and food exports to value-added products. This also creates opportunities to substitute imported products in local markets.

Key investment areas: Processing of raw and primary food inputs into value-added products offers many investable entry points along the value chain, such as:
- financing of processing, packaging and other machinery required for value-adding
- supporting products and services such as packaging, marketing and commercialisation
- aggregation, agribusiness services and cold chain or other storage needs
- export, permit and other international business services
- commercialisation and brokerage to access distribution in local and international markets.

Gender and power dynamics considerations for investors: The transition from export of agricultural commodities to value-added products can leave behind many small producers, women and other vulnerable groups lacking the skills to compete aggressively. The sophistication of the supply chains of local and international retailers presents unique connections between clients, producers and their intermediaries, where multiple actors have many interests in the value chain. Women, vulnerable communities and informal workers are traditionally excluded from the capital requirements in order to make capital investments. Transitioning to value-adding might place producers in competition with former buyers and allies as the producers enter a different rung in the value chain, given the interdependencies that exist in agricultural value chains. It is important for investors to design their deployment of capital geared to long-term sustainability by building local capacity and supporting the entrepreneurial ecosystem.

Financial mechanisms that can capture the opportunity:
- Debt vehicles: Investing in long-term processing capacity requires capital expenditure funding and/or guarantees that can stimulate intermediaries to increase lending. De-risking these loans with loans directed at micro-processing cooperatives can be catalytic. The principal consideration should remain on targeted SME loans to minimise the existing aggregators from amassing more market power. Loans can also be channelled through cooperatives and other collaborative groups that can act as intermediary farmer-owned companies. Concessional capital might prove an effective source of debt finance that can catalyse this market, given the limited collateral provided by equipment salvage values.
- Ownership vehicles: Equity investments can direct resources to new disruptive market participants that seek to occupy the aggregator and market intermediary roles by supporting micro-processing facilities. However, the impact of this capital should be carefully considered, since market intermediaries can often be responsible for the failure of smaller producers. Equity investments are best suited to support initiatives with strong research and development components that can result in new breakout opportunities.
- Trade finance vehicles: Inventory and receivable financing can be used to support the growth of micro-processors.
- Other vehicles: Lending programs should be coupled with development grants and technical assistance to support go-to-market strategies, storage and other value chain components required to place value-added products – simply making the products is not enough. Given the limitations of debt to support research and development, grant capital can be used to support new technologies and practices, productive system innovations, and products that can find new markets. Absorbing the cost of developing new products is difficult for communities, which stymies innovation, so reducing the cost of new development is critical.
7. E-commerce platforms for agricultural products

**Investment opportunity description:** Traditionally, supply chains have long-established access to market mechanisms, but e-commerce platforms have disrupted these business-as-usual value chains. E-commerce platforms can generate enormous value in short periods of time by enabling markets that were previously unviable or inaccessible. This results in the unique opportunity to use e-commerce platforms to support and strengthen agricultural supply chains and new avenues for financing, logistics and market access ancillary services.

**Key investment areas:** Technology platforms are an important way to enable new supply chains and unlock previously unseen and untapped sources of value in the market. This results in a diverse set of investable opportunities, like:

- direct financing or investing in the suppliers of platforms (i.e. merchant financing)
- developing the logistics system that enables the platform (i.e. storage, cold chain, packaging, transport)
- developing and building out the processes and intermediaries in the value chain by creating aggregators and other connections between smallholder farmers and e-commerce platforms
- supporting e-commerce services and marketing.

**Gender and power dynamics considerations for investors:** Technology investments are usually predicated on high growth and therefore attract exit-oriented capital. Moreover, the typical startup environment favours insiders and individuals deemed as qualified and/or trustworthy to receive investment. This often results in a systemic exclusion of women and other marginalised groups that fail to meet the a priori requirements to attract the investments. This strong gender bias, coupled with the inherent inequity of agricultural value chains, allows resources and power to accumulate with insiders and intermediaries instead of producers, which can further disenfranchise women and small producers. Investments into technology platforms should seek to support organisations and structures that allow value to travel through the platform to producers, rather than allowing intermediaries to accumulate market power that further decreases the bargaining position of producers and sellers. Capital should also be mindful of creating opportunities for those traditionally excluded from technology enterprises.

**Financial mechanisms that can capture the opportunity:**

- **Debt vehicles:** Direct financing for suppliers that sell on platforms can be de-risked by using the platform for collections. Other suitable areas for debt investments include long-term logistics infrastructure and productive capacity buildouts.
- **Ownership vehicles:** Equity investments into platforms are key to scaling but are unlikely to impact smallholders or women unless the platforms have a dedicated purpose or social plan informing them. This means that investor activism is key to making equity impactful.
- **Trade finance vehicles:** Transactions on the platform can be used as financing vehicles, since a third party is doing collections and can therefore act as an intermediary for trade finance.
- **Other vehicles:** Grant and other impact philanthropy can help develop the intermediary capacity that can connect base-of-the-pyramid producers to the platforms and ensure the smooth functioning of the interface by mitigating the traditional profit motive of intermediaries. In addition, supporting rural communities’ access to wireless networks and commerce-capable devices, and providing the associated training, is a critical component of leveraging web platforms.
8. Land and rights activism

**Investment opportunity description:** Acquiring land rights unlocks opportunities for agricultural workers and smallholder farmers. This formalisation is not only an opportunity for increased earnings, but also enables investing in the long run.

**Key investment areas:** Investing in the future productivity gains of smallholder farms that transition from informal land tenure to formal ownership can mean:
- opportunity to benefit from productivity gains
- lending against future asset ownership
- reduced cost of production.

**Gender and power dynamics considerations for investors:** It has been documented that secure property rights enable increased investments, access to credit and other financial mechanisms that are conducive to increased land productivity. Land tenure issues are a material discouragement for smallholder farmers to invest in long-term productivity gains. Moreover, the lack of formal land ownership provides a long-term structural social insecurity that is intergenerational and blocks economic prosperity. Resolving land ownership and property rights issues creates a significant opportunity to resolve the largest challenges in asset ownership, which affect women disproportionately.

**Financial mechanisms that can capture the opportunity:**
- **Debt vehicles:** Peer-to-peer direct lending, enabled through Kiva-style platforms, can help channel debt finance into this cause-based market. Funding for large credit facilities for aggregate groups of individuals working on formalisation of several land parcels can be made viable by a shared-risk group borrowing system. Unfortunately, the lack of collateral or secured contracting makes debt an unlikely vehicle.

- **Trade finance vehicles:** Trade finance can be offered by providing guarantees or letters of credit for agricultural inputs. However, the lack of security from the customer means that receivable financing is likely the only form of collateralisation available.

- **Other vehicles:** Shared-risk crowdfunding platforms and grants can support the transition to formal land ownership, which represents a sizeable funding opportunity from a human rights and food security investment standpoint.

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9. Local service providers

**Investment opportunity description:** In developing economies, the service sector is often small, and many specialised services are offered by foreign providers, which creates capital outflows to foreign companies. As local companies develop experience, new opportunities can be unlocked for investments in local technical assistance providers, from general business services to specialised localisation of humanitarian markets. These investments can not only enable social procurement opportunities, but also expand local businesses’ growth opportunities as well as incentives for developing local human capital.

**Key investment areas:** The technical assistance and services business ecosystem has several key investment leverage points, such as:

- consolidation of existing service providers into full-service firms
- scaling through clustering in services parks, consolidated real estate, and accelerator and co-working businesses
- educational programs and other human capital development businesses
- supporting existing businesses with scaling soft capital.

**Gender and power dynamics considerations for investors:** Nascent services economies have traditionally excluded women and minorities from upward mobility in the workplace. Moreover, in developing economies, services work requires training and education that is high-cost and often already exclusionary. Investments that seek to transform these dynamics should be mindful of not routing capital to individuals who already hold the power and access to finance. Instead, investors should ensure that investment is catalytic to help services enterprises that have difficulty accessing capital, incentivising human capital development and rewarding local firms for performance by valuing their work in equivalent ways to foreign firms.

**Financial mechanisms that can capture the opportunity:**

- **Debt vehicles:** Debt investments for local businesses need to be responsive to the realistic return horizons that are required for the local business ecosystem to reach the maturity for repayment. Debt can be challenging in the early stages, as deal flow is not foreseeable.

- **Ownership vehicles:** Equity funds can invest in local environments, presenting an opportunity for holding companies to be the best fit in the equity space, and allowing value to be created through consolidation of assets rather than exit-oriented investments.

- **Other vehicles:** Grants can support the emergence of local ecosystem services companies by subsidising the cost of talent development and other cluster capacities.
10. Containers and shipping

**Investment opportunity description:** Consolidating shipments allows producers to take advantage of economies of scale and achieve decreased transportation costs. Climate-controlled containers would be useful for fresh produce travelling to developed markets. Collaborative strategies in the supply chain can greatly improve competitiveness and access to markets. A key need is the aggregation of cargo that requires cold chains, which is expensive to ship at low volumes. These opportunities can be developed by financing the long-term availability of cargo aggregation, transport, and trade finance for export.

**Key investment areas:** Cargo aggregation and streamlining export processes can enable the emergence of a growing export economy that is not predicated on scale at the individual enterprise level, which offers unique opportunities for investors, such as:

- export finance for inventory, transport cost and other value-chain services
- export business ancillary services (e.g. customs agency, brokerage, commercialisation)
- intermediation platform development
- destination logistics and distribution.

**Gender and power dynamics considerations for investors:** Export markets have traditionally excluded women, vulnerable groups, informal workers and small producers. There are many reasons why scale, resources and even access to foreign resources represent unsurmountable barriers to export for these groups. Investors can support small producers and women to access export markets by creating the structures that not only lower the scale and volume requirements and their associated costs, but also the ancillary services that support access to market.

**Financial mechanisms that can capture the opportunity:**

- **Ownership vehicles:** Investing in cargo consolidators through buyouts can reorient businesses to provide more facilities to small producers. In addition, investment into aggregators and other logistics consolidators can help create niche opportunities to serve small producers.

- **Trade finance vehicles:** Third-party guarantees can help reduce up-front costs and standby letters of credit can act as a rotating fund for serial exporters that can be allocated to various products. Other trade finance that can be offered includes factoring services, which could support container shipping by reducing the finance needed to begin exporting. By combining factoring and cargo aggregation with collections, there could be synergies between finance, logistics and payments against deliveries.

- **Other vehicles:** Grants to finance export costs can reduce the barriers to reaching viable export markets.
11. Tax incentives and policy changes related to climate adaptation

**Investment opportunity description:** Investments can support tax incentives and policy changes that help businesses and industries adapt to climate change.

**Key investment areas:** Investable components that support climate adaptation include:

- tax credits for agricultural emissions reductions (mostly applicable to cattle)
- requirements for agriculture to mitigate environmental hazards in order to access tax credits, like buffer zones for runoff and farm waste management. There is opportunity for financing these transition measures in exchange for tax equity in cap-and-trade programs or simply transferable easements, tax credits and other fiscal measures, so that those who can benefit from the tax reductions are incentivised to invest or finance the transition of small holder farmers agriculture, who most often are not able to take advantage of tax benefits.
- tax policies on farm inputs that reward good environmental practices and traditional smallholder farmers
- tax deduction or carbon reduction finance incentives for landowners that do not change their land use (in the style of the REDD+ mechanisms for reducing emissions from deforestation and forest degradation)
- income tax deductions for landowners participating in environmental hazard reduction programs
- extended product responsibility requirements linked to environmental targets that either unlock tax abatements or trigger tax increases for companies. This can also be extended to everything from fast-moving consumer goods that generate plastic waste to products like household chemicals or cosmetics that can result in environmental runoffs
- renewable energy–related incentives that reward companies that source their power from renewables through tax abatements
- tax credits or reductions connected to decreases in water use, or the implementation of a cap-and-trade allowance system that rewards those able to reduce freshwater use while also increasing costs for businesses that have water-intensive practices. This can also help small landowners who are not cultivating land to generate income by selling their allowances in the market to producers that need them, while limiting the water draws
- high taxation to discourage negative practices such as land clearing or emissions
- climate change tax on high-energy-use sectors
- resource extraction taxes to incentivise the use of alternatives
- emerging and infant industry protections to safeguard entrepreneurs.

**Gender and power dynamics considerations for investors:** Wealth and asset ownership is an important part of reaping tax incentives, and the gendered nature and power dynamics of ownership mean that tax incentive policy is likely to be of least benefit to women and the most vulnerable groups in society. Any intervention in tax policy should consider these inherent components in order to correct for them. It is important for policymaking to start with an inclusion view and build out from women and vulnerable groups as core beneficiaries of the incentives. In addition, a gaming of policy incentives can occur, where women and the vulnerable are ‘used’ by others to gain access to incentives, so a preventive principle is required.

**Financial mechanisms that can capture the opportunity:**

- **Debt vehicles:** Tax-exempt finance to support development of strategic initiatives or local development has been a longstanding practice.\(^5\) Policymakers can use tax exemptions from interest income to raise debt in financial markets to support climate adaptation programs.
- **Ownership vehicles:** Through ownership investments, asset holders can harvest tax efficiencies that can be redistributed in the corporate structure.
- **Other vehicles:** Cap-and-trade markets create opportunities for investment funds to finance, or even for traders to speculate on, emission allowances and credits. Transferable tax equity is also an important component as it may create investable opportunities for funds to offset capital gains taxes, therefore making viable adaptation investments through financial engineering. An analogous case to this is the tax-loss harvesting strategy for investors, in which trading losses are used to minimise the tax exposure of investors.

\(^5\) In the United States, municipal bonds (commonly known as muni bonds) have been used since the early 1800s.
12. Future of Pacific tourism

Investment opportunity description: The Pacific tourism industry is a major source of employment, income and foreign exchange for Pacific economies. Supporting the development and scaling of the hospitality ecosystem across the region will not only increase capital inflows but also foster the development of local products and services in support of a burgeoning tourism industry.

Key investment areas: The investable components of future tourism development in the Pacific include:

- development of new tourism infrastructure, including hotels, resorts, restaurants and other attractions
- building out, revamping and/or expanding existing facilities
- creating, scaling and diversifying tourism-oriented product industries and services
- human capital development in hospitality and support for entrepreneurs.

Gender and power dynamics considerations for investors: Traditional gender roles have been reinforced throughout the hospitality industry, miring women and minorities in specific occupations within the value chain with little or no upward mobility and significant pay gaps. This is further reinforced by existing patterns across the global hospitality industry that have led to tourism archetypes, as many hospitality services have become standardised. Furthermore, the tourism industry can also increase extractive colonial-type dynamics by objectifying local culture, customs and nature if the industry is not enmeshed within the local community and natural settings. Investors can support the emergence of a hospitality industry that has diverse and inclusive workplaces and is rooted in a harmonious relationship with the local community and ecosystem, by investing in cooperative models that allow communities to participate beyond labour as deep stakeholders and partners.

Financial mechanisms that can capture the opportunity:

- Debt vehicles: Large new developments and the accompanying air and sea port and/or road infrastructure that enable, support and grow tourism are best supported through long-term loan financing. In addition, long-term financing of other hospitality assets such as vehicles and equipment is also highly beneficial to hospitality operators, expanding the types of amenities and attractions that can be offered through cash flow–based repayment and backed by the capital assets themselves.

- Ownership vehicles: Through ownership investments, investors can provide the capital required to secure lending facilities for the construction of hotels, given the traditional blend between equity and debt in the development of new hospitality assets. In addition, equity investments are a good fit for entrepreneurial buildout of food and service support infrastructure directly related to the guest experience, as well as supporting telecommunications, transport, laundry, catering and entertainment businesses in the hospitality ecosystem. Venture capital also has a strong fit for the acquisition of assets or consolidation of hospitality properties under a group, reaping economies of scale and management efficiencies.

- Other vehicles: Governments are important participants in spurring the growth of the tourism industry. They can support the emergence and growth of the industry by supporting human capital training through scholarships and/or creating locally based training facilities. Furthermore, the convening and coordination of the local hospitality ecosystem is important to promote destinations in support of the entire local ecosystem. This can also be achieved through public–private finance partnerships and concessional capital.
Four steps to get started on building better vehicles

The financial vehicles explored above are an invitation to imagine what is possible for the Pacific. The goal of our analysis is not to provide a list of possible financial vehicles, but to inspire others to explore the opportunities to design better vehicles. The learnings from Pacific RISE and the vehicles explored can be replicated or adapted to other scenarios.

For those thinking about the design of financial vehicles, we offer the following four steps that investors should take to start building better vehicles. These steps are grounded in Pacific RISE and Criterion Institute’s power dynamics framework, which identifies seven key sources of power.6

1. **Start the design process with a commitment to understanding and valuing local needs and possibilities:** Set the intention to meet the needs and desires of local communities (instead of the needs of investors). Finance is a tool to address an enterprise’s challenges and also one that can address the power dynamics that hinder equitable development. The purpose of the work should be to understand and address the market challenges faced by local enterprises; a gender lens approach can be applied by centering women and girls in the intended social impacts.

2. **Broaden your thinking about different funding vehicles:** The tendency will be to prioritise specific kinds of capital. But if your goal is to meet community needs, you need to be creative and flexible in thinking about different funding vehicles and potentially engaging with a range of capital sources and partners. Shift to seeing the process of moving capital as a design challenge instead of an objective.

3. **Assess power in the vehicle design process:** Meeting community needs requires exploring different kinds of capital and programming rather than simply assuming from the start that the need is to fix the enterprises or programming to fit a specific type of capital. This is likely to require an awareness of power dynamics – where do you have power to change the vehicle’s approach, and where do you lack the power? Where can you find leverage in vehicle design by emphasising the increased likelihood of successful investments if starting from community needs and opportunities? Also, assess power dynamics in the investing process and among market system stakeholders to identify leverage points to create impact. This would include reflecting on your own biases and assumptions as an investor. In addition, it is important to work with the right partners in vehicle design and bring them into the process at an early stage.

4. **Set up robust feedback loops to evaluate design:** Because you are designing vehicles rather than simply relying on existing vehicles, a feedback loop is essential to know whether your design and choice of vehicle is meeting your intent. Set up a democratic approach to decision-making to ensure that local and industry experts, entrepreneurs, and local communities affected by the investment can participate.

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6 The seven key sources of power are knowledge, access, decision-making, timing, transparency, risk sharing and alignment/incentives.
Conclusion

This paper is the beginning of a conversation about the possibilities of the Pacific economies and investment vehicle design. Our vision of the Pacific in the next 15 years identifies a dozen opportunities to create innovative, impact-oriented financial vehicles to capture future growth in a resilient and equitable way. These and other opportunities provide fertile ground to explore and experiment with a Pacific-led approach to investing.

The updated Pacific RISE investment thesis can be used to inspire Pacific communities and businesses to think about growth. While capital can easily be made available, taking on capital requires businesses to believe that growth is possible in small markets and communities, and that future politics, economics and environmental management can be different. The investment thesis is an invitation to use power analysis and innovative financial tools to address imbalances in power dynamics, and achieve greater gender equality and sustainable impact.

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