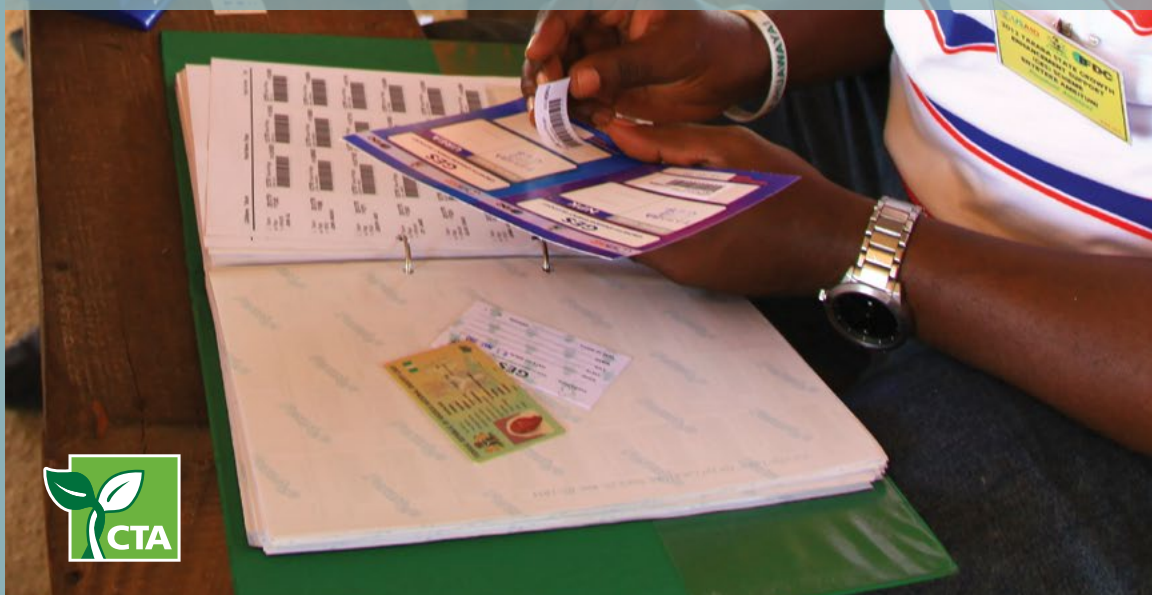


VALUE CHAIN FINANCE



INNOVATIVE PARTNERSHIPS FOR AGRICULTURAL FINANCE



ABOUT CTA

The Technical Centre for Agricultural and Rural Cooperation (CTA) is a joint international institution of the African, Caribbean and Pacific (ACP) Group of States and the European Union (EU). Its mission is to advance food security, resilience and inclusive economic growth in Africa, the Caribbean and the Pacific through innovations in sustainable agriculture.

CTA operates under the framework of the Cotonou Agreement and is funded by the EU.

For more information on CTA, visit www.cta.int



Cover photo © International Fertilizer Development Center (IFDC.org)

All other photos © CTA and partners

Published by CTA, 2017, ISBN 978-92-9081-618-8.

DISCLAIMER

This document has been produced with the financial assistance of the European Union. The contents of this document are the sole responsibility of CTA and can under no circumstances be regarded as reflecting the position of the European Union.

INNOVATIVE PARTNERSHIPS FOR AGRICULTURAL FINANCE



Contents

List of acronyms	v
Foreword	vii
Defining Blended Finance	1
Introduction: Unlocking agricultural potential.....	1
What is blended finance?.....	1
Blending finance for agriculture.....	1
Building up the rural asset base.....	4
What role can blended finance play in the agriculture sector?.....	5
What can we learn from experiences with blending techniques in agriculture and other sectors?.....	9
Interview with Paul Horrocks: Defining blended finance.....	17
Mobilising Climate Finance	21
Effective financing of climate change adaptation and resilience.....	21
Linking climate bond investors to farmers: building the chain.....	23
Interview with Tony Simons: The climate challenge and the importance of scaling up.....	25
Case study: Countering the effects of climate change on Central American coffee plantations.....	28
Linking International and National Blending Schemes	29
Leveraging central banks and other national agri-finance and guarantee schemes.....	29
Developing countries' own financial sector can support blended finance arrangements.....	31
Replicating international blending schemes in national ones.....	32
Oil and water: how to link up national and international blended finance schemes.....	34
How does blended finance fit into ILO's Social Finance Program?.....	36
Leveraging Private Sector Finance	39
Venture capital: a channel for blended finance for agricultural investments.....	39
How to attract pension funds to join blended finance for agriculture.....	43
Interview with Adwitiya Mal: Mechanising Indian agriculture.....	45
Interview with Joan Larrea: Blended finance matchmaking service.....	47
Interview with Scott Overdyke, Root Capital: Pushing the frontiers for impact investing.....	50
Managing Risk and Efficiency	55
Risk management support structures for Blending4Ag – what is available, what has to be further developed.....	55
Local currency issues: local currency financing, and facilities for managing currency risk.....	58
Designing a blended lending facility for cocoa smallholders in Ghana.....	60
Creating effective technical assistance facilities for agricultural impact investments.....	62
Interview with Harald Hirschhofer: Hedging currency risk for agriculture.....	66
Tackling the Last Mile Challenge	69
Tackling the last mile challenge: How can actors in blended finance collaborate to viably finance farmers who sell only in local markets?.....	69
Interview with Rt Hon. the Lord Boateng: Navigating challenging waters for the AECF.....	73
Conclusion – Blending4Ag forges path for blended finance	77
Read more	81
About the conference organisers	82



List of acronyms

AAF	African Agriculture Fund
AATIF	Africa Agriculture and Trade Investment Fund
ACP	African, Caribbean and Pacific Group of States
AECF	Africa Enterprise Challenge Fund
AfDB	African Development Bank
Afreximbank	African Export-Import Bank
AFRACA	African Rural and Agricultural Credit Association
AGRA	Alliance for a Green Revolution in Africa
AgriFI	Agricultural Finance Initiative
Blending4Ag	Blending for Agriculture
CBI	Climate Bonds Initiative
CNFA	Cultivating New Frontiers in Agriculture
CSR	Corporate social responsibility
CTA	Technical Centre for Agricultural and Rural Cooperation
DAF	Danish Agribusiness Fund
DFI	Development finance institution
DG DEVCO	Directorate-General for International Cooperation and Development
EIB	European Investment Bank
EC	European Commission
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
GAC	Global Affairs Canada
GAFSP	Global Agriculture and Food Security Program
GIRSAL	Ghana Incentive-Based Risk-Sharing System for Agricultural Lending
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IADB	Inter-American Development Bank
ICRAF	World Agroforestry Centre
IFC	International Finance Corporation
IFU	Investment Fund for Developing Countries
ILO	International Labour Organization
ISF	Initiative for Smallholder Finance
LAFCo	Lending for African Farming Co
MFI	Microfinance institution
MFW4A	Making Finance Work for Africa
NDF	Nordic Development Fund
NEPAD	New Partnership for Africa's Development
NGO	Non-governmental organisation
NIRSAL	Nigeria Incentive-Based Risk Sharing system for Agricultural Lending



OECD	Organisation for Economic Co-operation and Development
OPIC	Overseas Private Investment Corporation
R&D	Research and development
SDG	Sustainable Development Goals
SOFITEX	Société Burkinabè des Fibres Textiles
SME	Small and medium-sized enterprise
TAF	Technical Assistance Facility
TCX	Currency Exchange Fund
TLFF	Tropical Landscape Finance Facility
UN	United Nations
USAID	United States Agency for International Development



Foreword

Agriculture is central to achieving many of the Sustainable Development Goals (SDGs), in particular SDG2 – to end hunger, achieve food security and improved nutrition, and promote sustainable agriculture. Despite its key role, less than a quarter of the financing needs of smallholder farmers in developing countries is currently met, leaving an annual financing gap of more than US\$150 billion.¹

In the broader area of development finance, much recent attention has been given to the possibility of using public finance to leverage private funding. This blending approach has received a boost in recent years, including through the launch of major initiatives such as the European External Investment Plan (EIP) that aims to mobilize €4 billion to finance development in Africa and the EU Neighbourhood region. The EIP has three pillars - mobilizing finance, stepping up technical assistance, and promoting a conducive investment climate.

Agriculture will be one of the focal areas of this initiative. One of the major constraints developing country farmers face is the lack of affordable finance. This is particularly acute in short-distance value chains – in which farmers typically produce food grains for cities in their own or neighbouring countries. This is significant because often short-distance value chains are seen to have strong development impact, both because these crops are more widely grown by poor farmers, and because they constitute a large part of the household budgets of the poor.

Private sector investors – from family funds to private equity ventures, pension funds, insurance companies and sovereign wealth funds – have assets under management amounting to trillions of dollars. Many of these investors are willing to accept a lower return, at least on part of their funds, as long as they make a positive impact on development or the environment. They are also willing to put part of their funds into otherwise risky environments if they can team up with the right public-sector partners that help them mitigate these risks. Agriculture offers a very high opportunity in development impact. According to the FAO, growth in the agriculture sector is 11 times as effective at reducing poverty as growth in other sectors, specifically in sub-Saharan Africa.

Blended finance in the agricultural sector deserves its own debate. This is why the Technical Centre for Agricultural and Rural Cooperation (CTA) together with the EC Directorate-General for International Cooperation and Development (DG DEVCO) organised the first international conference on Blending for Agriculture (“Blending4Ag”) in November 2016 in Brussels. The conference brought together an impressive group of financiers, high-level agricultural experts, policy-makers and practitioners to share lessons and best practices in designing and implementing blending. This conference focused on how public finance for smallholder agriculture can achieve the greatest possible leverage in terms of private investments in developing countries.

We hope that these conference highlights will pave the way for further discussion and reflection on the best practical ways to advance agricultural finance in developing countries. We would like to thank all the participants and partners, in particular Convergence, Organisation for Economic Co-operation and

1. Dalberg Global Development Advisors.

Development (OECD), Initiative for Smallholder Finance (ISF), African Rural and Agricultural Credit Association (AFRACA), and Climate Bond Initiative. Many of the participants were high-level decision makers so we hope that the conference made it possible to initiate and roll out new, well-leveraged financing products that benefit large numbers of smallholders and SMEs.

We are keen to assist follow-ups, including by continuing to facilitate, in collaboration with others active in this domain, the exchange of experiences in blended finance for agriculture. CTA will also continue documenting best practices on this topic and bringing together key stakeholders to learn from each other, collaborate and act. These conference highlights, complemented by a number of interviews and other materials on blended finance for agriculture, are a start.



Roberto Ridolfi,
Director, Planet and Prosperity, EC



Michael Hailu
Director, CTA



Defining Blended Finance

Introduction: Unlocking agricultural potential

What is blended finance?

Taken in its most narrow sense, blending occurs when public financiers provide direct funding for private sector projects, through the provision of debt, equity or grants. Generally, the public financier accepts a higher risk for a relatively low return, or absorbs the first tranches of risks. The effect is that the private financiers in a transaction can achieve better returns at lower risk, encouraging them to finance a project/transaction that they would otherwise not fund (also known as ‘additionality’). At times, it can be sufficient for an international agency just to become a stakeholder in a project, without providing any grants/concessional funding/guarantees, simply because the agency’s involvement provides comfort to private investors.

Apart from direct funding, blended finance also encompasses several specific supporting mechanisms:

- Technical assistance: supplements the capacity of investees and lowers origination and transaction costs.
- Risk underwriting: fully or partially protects the investor against risks and capital losses.
- Market incentives: provides results-based financing and offtake guarantees contingent on performance and/or guaranteed payments, in exchange for upfront financing in new or distressed markets.

Technical assistance and risk underwriting have been found to be particularly effective in leveraging private finance, especially when compared to direct funding, with well over US\$5 of private funding raised for every US\$1 of development funding.

Blending finance for agriculture

Less than a quarter of the financing needs of smallholder farmers in developing countries are met, leaving an annual financing gap of more than US\$150 billion. Around 88 million smallholder farmers (around one-third of all smallholders) who are engaged in loose value chains are facing unmet financing needs (US\$84 billion). These farmers are able to reliably produce surpluses and sell them in the market. Smallholder farmers operating in tight value chains (around 7% of all smallholders) mostly produce cash crops and often have contractual relationships with buyers under which they receive inputs and credits. As much as 40% of their short-term financing needs are met by their value chain partners, and another 12% by commercial lenders. Still, alongside almost half of their short-term financing needs, virtually all of their long-term financing needs remain unmet, with the total gap adding up to US\$52 billion.

The gap is not the result of farmers being unable to use the money they need profitably: there is much research that shows that with extra finance, farmers can improve their revenues beyond the costs of such finance. Rather, the gap is linked to the risks that private financiers perceive in agricultural lending. Total lending to smallholder farmers amounts to US\$56 billion, of which US\$25 billion is by informal/community-based financial institutions, US\$17 billion by value chain actors, and US\$14 billion by formal financial institutions. Of the formal financing, around US\$9 billion comes from state banks, US\$3 billion from microfinance institutions (MFIs), US\$1 billion from commercial banks, US\$350 million from social lenders, and non-governmental organisations (NGOs) for a smaller amount.

According to Gilles Patrick Viwanou Gnassounou, Assistant Secretary General of the African, Caribbean and Pacific Group of States (ACP), agriculture needs to become a more attractive sector, both for investors and for farmers. The ACP Secretariat's new private sector strategy calls for public institutions to lead on new funding mechanisms, including blended finance, to create new wealth in agriculture, and address perceptions of risk in the sector by incentivising the private sector. However, to ensure genuine impact of blended finance projects, Gnassounou states that beneficiaries must be listened to.

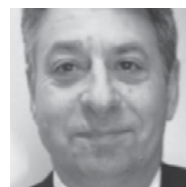
According to Bernard Rey from the European Commission's (EC) Directorate-General for International Cooperation and Development (DG DEVCO), the role of the donor agencies is changing. Since the 2015 Financing for Development conference, in Addis Ababa, there has been a new paradigm in development finance, where the role of the private sector in creating appropriate, affordable and stable access to credit is central. Public funders are therefore being encouraged to become more strategic, increase their engagement with the private sector, and use their tools as a public-sector agency to create incentives for investment. DG DEVCO's funding strategy attempts to achieve this by ensuring that: public-private work must have a developmental impact on the smallholder; funding through blended finance has to be in addition to public sector funding, not replace it, and; there is a need and obligation for safeguards and public pools in order to manage and mitigate risks.



Gilles Patrick A. Viwanou Gnassounou

Assistant Secretary General, Africa, Caribbean and Pacific Group of States Secretariat

An economist, financial expert and project manager with 17 years of experience in agricultural and natural resource policy formulation, aid programming, sectoral commodity export strategies, and trade.



Bernard Rey

Deputy Head, Sustainable Agriculture and Food and Nutrition Security, European Commission's Directorate-General for International Cooperation and Development

After working in agricultural research institutions in Ethiopia, Mexico and The Netherlands, he joined the European Union where he managed rural development portfolios in Kenya, Madagascar and Nigeria, before moving to EuropeAid headquarters.

In Africa, access to finance is critical to wealth creation and development. Erick Sile, Senior Advisor, Agricultural Finance with Making Finance Work for Africa (MFW4A), says that the demand for finance across the agricultural value chain is pushing for new ways of innovative finance such as blended finance. After many years of neglect, banks, private equity funds, impact investors, MFIs and cooperatives have become main private actors bringing new types of capital to African agricultural financing.

Sile added that given the importance of African agricultural transformation, African governments need to engage with private sector agri-financiers to magnify the impact of their own resource by continuing to engage key stakeholders, strengthen and leverage forward-looking partnerships, and provide an enabling business environment for private sector institutions. However, while blended finance in Africa is promising, private sector capital is not readily available, and working with the public sector has its own challenges. For example, the public sector has to be convinced that their funds are additional and will attract private capital which otherwise would not be available.

According to Sile, the New Partnership for Africa's Development (NEPAD) is committed to different ways of financing agriculture through the public sector and is seeking solutions to improve blended finance strategies for the sector. He states that if blended finance is to be successful in Africa, the following should be taken into consideration:

- Different stakeholders along the value chain need to be engaged in order to achieve economies of scale in smallholder finance. African governments should work with different actors and discover which aspects of the value chain will enable efficient financing flows.
- Supporting dialogue and partnership is critical. NEPAD works with governments to ensure they are committed to their declarations, and helps ensure that private sector and donor communities work with the public sector.
- Enabling good governance and appropriate legal framework to ensure transparency in the financial market is critical to upscaling financing of agriculture. That is, proper financing cannot be done if an appropriate legal framework is not in place.



Erick Sile

Senior Advisor, Agricultural Finance, Making Finance Work for Africa

Has over 15 years' experience helping to lead international development in the areas of project management and building stronger financial institutions as well as financial inclusion and enterprise development.



Building up the rural asset base

A critical part of agricultural and rural development is that farmers and agribusinesses get access to more and better capital assets. Indeed, the ability of farmers in developed countries to organise themselves into cooperatives and jointly buy capital-intensive equipment played an important role in the sector's growth in the late 19th and early 20th century. In developing countries, only a minority of farmers are organised in strong cooperatives. Fortunately, there are other ways to finance the acquisition of new assets. These are discussed in a new report, *Moving the Needle: Critical Success Factors for Scaling Innovation in Asset Finance for Small and Growing Agribusinesses*,² which looks at how collaboration can create an effective ecosystem for asset finance, and how blended finance models are already showing success.

With case studies from Guatemala, India and Kenya, the report notes that there is a massive financing gap for small and growing businesses, including those active in agriculture; “the root of the problem is that lenders tend to offer only a limited menu of products, mainly with heavy collateral requirements.” It highlights three critical success factors: it must be possible for the asset itself to act as collateral (which has to be enabled by markets and regulations); financiers should focus on the cash flows generated by the assets; and there should be stable and secure markets for the products produced with the assets (which implies, among other things, more secure contracts and greater use of value chain arrangements).

At the same time, there must be an ecosystem through which technology companies, financiers and value chain actors can collaborate. The report notes that “overcoming the structural challenges that limit the supply of asset finance to agribusiness cannot be done by individual actors working in isolation of one another; it will require coordination and collective efforts by key actors throughout this ecosystem.” The report describes a series of innovative arrangements in the three countries – mostly examples of blended finance – that have shown to be successful, and argues that the time is ripe to scale up such models.

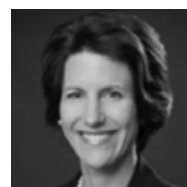
2. Luft, J. and Chambers T. 2016. *Moving the Needle: Critical Success Factors for Scaling Innovation in Asset Finance for Small and Growing Agribusinesses*. Enterprise Project Ventures, Shell Foundation and the Small Foundation. Available at: <http://www.inspirafarms.com/articles-publications/>

What role can blended finance play in the agriculture sector?

Joan Larrea, CEO, Convergence

There are still a number of different definitions of blended finance. At Convergence,³ the following are considered as the three signature markings of a blended finance transaction:

- The transaction – whether a project, company, fund, or structured offering – is intended to yield a financial return.
- The venture or activity contributes toward meeting the Sustainable Development Goals (SDGs) in an emerging or frontier market. Not every investor in the transaction will have a development impact intent; there may well be participants who are drawn to the transaction instead by diversification, returns, or a strategic opportunity to enter a new market.
- The public and/or philanthropic parties at the table are catalytic, making a deal happen that would otherwise attract little or no interest from the private sector.
- While it has been used in many forms in recent decades, blended finance is increasingly being discussed as a promising way to close the SDG funding gap. As a testament to this growing momentum, United Nations (UN) member countries reached consensus in June 2015 at the Third International Financing for Development Conference in Addis Ababa, Ethiopia, on the importance of deploying public funds to attract private investment through blended finance.




Joan Larrea
CEO, Convergence

Investment professional with over 20 years of experience delivering sustainable results in fast-paced, frontier markets. She came to CTA after various senior roles at the Overseas Private Investment Corporation, the Global Environment Fund, and the International Finance Corporation. Her expertise lies in private equity, debt structuring, infrastructure and the environmental and clean energy fields.

What does this mean for agriculture?

- Agriculture is the backbone of many developing economies:
 - There will be a huge impact if we get it right (productivity, employment, health, food security and peace).
 - There are huge stakes if the agriculture sector goes wrong (massive pollution; malnutrition; and environmental impacts [the sector is already the largest driver of deforestation worldwide, with tropical deforestation responsible for 15–25%

3. Convergence is an institution that connects, educates, and supports investors to execute blended finance transactions that increase private sector investment in emerging markets.




of man-made global greenhouse gas emissions], including major and reciprocal risks of climate change on agriculture such as unusual heat and weather extremes, or increased aridity).

- However, much of the potential of the agriculture sector in developing economies remains unrealised, with low use of mechanisation and inputs, and large amounts of uncultivated arable land.
- There are three important components to supporting agriculture going forward: 1) providing finance to boost productivity, 2) ensuring productivity boosts are achieved sustainably, and 3) mitigating risks of climate change on agriculture. Other challenges we leave to the policy field, such as land use rights, and tariff barriers.
- The UN estimates there is an approximate funding gap of US\$260 billion for the SDGs relating to food security and agriculture.
- The agricultural sector has significant elements of private and public good. Blended finance transactions can deliver financial returns for some and outcome returns for others within the same structure. It can play a key role in supporting agriculture, create the right incentives to promote sustainable agricultural growth, and channel funding to activities that promote resiliency to climate change and climate smart agriculture.

There is a lot of momentum, but we now need to transform that momentum into real transactions and real impact. Convergence was launched in January 2016 with the express purpose to support the blended finance market. It supports blended finance activity across all emerging markets as well as all sectors important to development, such as agriculture, health, education, infrastructure, and clean energy. Convergence does three things:

- Convergence recognises that simply designing blended finance instruments and structures is a complex and high-risk process. There are multiple stakeholder groups at the table, with varying objectives and requirements. Accommodating them all into one structure, that each is satisfied with, takes time and money. Convergence wants to ensure that practitioners that have innovative ideas are able to pursue those ideas, so we have created a challenge fund where practitioners can apply for up to US\$750,000 in grant funding to research and design their blended finance instruments.
- Design funding will hopefully result in many innovative structures that other practitioners can replicate and help the blended finance space achieve scale. But there are a lot of structures and transactions already in the market that are pursuing a blended finance approach and are seeking funding. Further, there are a lot of investors in the market that are looking for avenues to deploy their capital, but struggle to find transactions. Convergence has created an investment network to overcome this challenge – deal ‘sponsors’ post their transactions to an online platform, which are then matched with over 70 institutional investors that are actively seeking to deploy capital to blended finance transactions, and who are using Convergence to source those transactions.
- Convergence is creating market-building and knowledge tools to create an evidence base around blended finance and advance best practices. This starts with its comparable database, which contains detailed data on more than 150 past blended transactions which investors on the Convergence platform can use to inform future investment decisions. Convergence is profiling a select few of those




past blended finance transactions through five-page case studies which focus on how and why the blended finance structure was designed. In addition to research, Convergence hosts workshops and convenings to enable the blended finance community to meet in person, exchange lessons and best practices, and find transaction pipelines. Lastly, Convergence is creating tailored trainings for public and philanthropic funders to increase their capacity around blended finance.

Much early work at Convergence has focused on agriculture. One of Convergence's first design funding grants was awarded to Rainforest Alliance and Rabobank to explore an investment and risk sharing facility for local financial institutions in Ghana to lend to smallholder cocoa farmers and their organisations for climate smart agriculture investments (for more information see *Designing a blended lending facility for cocoa smallholders in Ghana* in chapter, *Managing Risk and Efficiency*).

The first case study Convergence released highlighted the Africa Agriculture and Trade Investment Fund (AATIF), managed by Deutsche Bank. AATIF is a US\$146 million fund that invests across the entire agricultural value chain in Africa. The fund uses a first-loss layer (capitalised by Germany's Federal Ministry for Economic Cooperation and Development) and a mezzanine layer (capitalised by KfW and Deutsche Bank) to encourage private investment in the fund. The case study details a number of useful lessons for others considering structuring or investing in blended funds.

The first workshop Convergence held also focused on blended finance for agriculture. Together with Citibank and the United Nations Environment Programme's Finance Initiative, Convergence convened a small group of practitioners to discuss blended finance opportunities for agriculture. The workshop sessions focused on financing inclusive supply chains, blended funds for agribusiness investment, and results-based financing for sustainable agriculture. The key insights and takeaways from this workshop were:

- One of the key challenges is pre-delivery financing and exposure to local currencies. A significant amount of financing required across the agricultural value chain in emerging markets is for the purchase of inputs by smaller agricultural businesses. Not enough financial institutions provide this type of financing as smallholders are considered too risky or that they have limited agricultural expertise. A lot of financing is provided by social lending institutions (i.e. impact-first agricultural lenders), however demand for financing far outstrips supply. Further, lending in local currencies is often difficult, as hedging solutions currently available are too expensive. We need more social lending institutions and more financial institutions willing to develop agriculture expertise and lend to smallholder farmers.
- A common theme was the challenge of attracting and working with public funders in blended finance transactions. Deal sponsors must convince public funders that their funding is truly additional to private finance, and is used to attract private capital that would otherwise not be deployed. Given the technical complexity of many blended structures, substantial time and effort is also required to educate public partners on where in the structure their capital sits and what returns they can expect. Further, it is often difficult for public funders to provide financing that will eventually flow to private



enterprises, so a clear narrative is required to detail how public funds will be used to address a market failure. Once public funders are on board, there can be further challenges. Each public funder has unique policy objectives and expectations around the speed in which funds are deployed that must be managed. Finally, some public funders require governance that is over burdensome, which creates inefficiencies. When structuring blended finance transactions, these must be kept in mind and incorporated into planning.

- One question asked during the workshop was, ‘what are the most needed policies to support organisations operating on the frontier where commercial risk-adjusted returns are not available?’. Investment in infrastructure as a way to lower the cost of doing business was discussed. Another was the need for an increased focus on appropriate technical assistance and project preparation that creates bankable businesses and projects; there may be an undue focus on the availability of capital, while currently, there is not the absorptive capacity for that capital.

Some of these takeaways are hopefully useful, and further discussions during the Blending for Agriculture (Blending4Ag) conference will build on and advance them in order to get more blended finance deals in agriculture done. Convergence is building a marketplace for blended finance, and we need everyone’s involvement to make it succeed. Anyone with an innovative financial instrument idea can apply for design funding and anyone looking for blended finance transactions to invest in, or at the process of fundraising, can register on the Convergence investment network.

What can we learn from experiences with blending techniques in agriculture and other sectors?

In recent years, the joint Organisation for Economic Co-operation and Development (OECD)/World Economic Forum 'ReDesigning Development Finance Initiative' has promoted blended finance as public-private cooperation to "catalyse domestic and foreign capital at much greater scale by mitigating the risks that impede investors from pursuing otherwise attractive infrastructure and industrial investment opportunities". Its work so far suggests that currency risk and political risk are the main bottlenecks encountered when trying to structure deals, however the use of blended finance is increasing.

Approximately 140 blended finance facilities were launched between 2000 and 2014, with a surge in the 2010s. Agribusiness, however, remains small (5% of total investment) but the focus on Africa is strong (47% of total investment). OECD has also promoted the Sustainable Development Investment Partnership, which aims at mobilising US\$100 billion in private finance for infrastructure project over 5 years.


The rationale for blended finance, from the public perspective, is as an efficient mechanism for using official development assistance finance to leverage private sector investments and channel them to critical areas of the SDGs. More broadly, blending is the strategic use of public or private funds, including concessional tools, to mobilise additional capital flows (public and/or private) to emerging and frontier markets; there are thus many ways to blend, e.g. development assistance alongside institutional investors, European Union (EU) grants with development finance institution (DFI) investments, foundations teaming up with non-concessional investors, etc.

But within the private sector, this public perspective is not always well understood. The OECD's Paul Horrocks stressed the need for building the capacity of the private sector to understand how to use public money to address their perceived and real risk of investing in agriculture in sub-Saharan Africa. In this respect, OECD has put in place a work programme to develop an evidence base which will deliver policy



Paul Horrocks
Lead Manager of Private Investments, Organisation for Economic Co-operation and Development

Paul previously worked with the Corporate and International Tax Division of the Australian Treasury.



guidance and principles on all of the aspects that make blended finance operational, effective and efficient. Its research into best practices should lead to a set of principles, e.g. what should be the concessional rate applied in blended finance transactions? (for more information see *Interview with Paul Horrocks: Defining blended finance* in this chapter).


To highlight lessons, the experiences of six case studies in blending techniques were highlighted.

Case study 1: Investment in Africa Improved Foods Limited and the Rwanda Farmer Financing Facility

Traditional blended financing techniques for projects in the infrastructure and power sectors cannot simply be transferred for agricultural finance. Typically, these traditional blended financing facilities adopt well-proven project finance structures, with various mechanisms that have been tested extensively since the late 1990s. Among other things, a single company tends to be central in these financings, and the major risk covered by international agencies is that of the government breaking its promises. In contrast, in agriculture, a mechanism needs to be designed so that the financing can reach a large number of farmers. Furthermore, there are a series of risks that international agencies can help mitigate, from farmers not producing enough to disruptions to the flow of goods in the value chain. Value chains tend to be central to blended finance for agriculture, in particular as the mechanism for reimbursing loans and generating returns on equity. Blended finance for agriculture will, for these reasons, generally include a strong participation from partners with an active presence on the ground – in most cases either agribusiness firms who can link large numbers of farmers to the market, or local banks who can structure loans for market-oriented farmers.

One example is a recent blended structure for agriculture, in Rwanda. It has two components: a US\$59 million investment in a new plant that will produce fortified cereals to combat child malnutrition (it is expected that in 2017, more than 1 million pregnant and breast-feeding mothers as well as young children will be reached); and working capital and technical assistance for farmers so that they can produce the maize and soya beans that this plant will process.

With respect to the first component, construction of the 45,000 t/year plant began in 2016. The main shareholders are Royal DSM, a Dutch company that is experienced in the production of fortified foods, three DFIs (the International Finance Corporation [IFC], the Dutch development bank, FMO, and an investment fund funded by the UK's Department for International Development and managed by the UK government's DFI, CDC), and the Government of Rwanda. The DFIs also provide long-term loans. Offtake of the plant's products by the World Food Programme and the Government of Rwanda is guaranteed. The effect of the structure for Royal DSM is that it can make a relatively low equity investment; is exposed to reduced risks; and sees its profit margin leveraged because of the cheap, long-term loans from the DFIs.



This example illustrates that for a proper blending facility to work for the agriculture sector, many parties have to come together, with each handling the risks that they are best placed to handle, and with public support explicitly targeting the transfer of risks that would otherwise prevent the private sector from becoming involved. And to reach local farmers, a local partner – in this case KCB – has to make the connection.

Case study 2: Blended finance in Burkina Faso's critical cotton sector

Cotton is the main cash crop in Burkina Faso. The cotton sector provides a livelihood for more than 3 million people, and is the largest employer and the second largest foreign currency earner in the country. However, shifts in global demand and commodity prices have made it difficult for cotton companies to secure financing. This threatens the economic development of Burkina Faso, a country that recently experienced political unrest.

In January 2016, three partners signed an agreement to provide a second €70 million (US\$75 million) trade facility to Burkina Faso's largest cotton exporter, Société Burkinabè des Fibres Textiles (SOFITEX). This facility was jointly planned by IFC, the Global Agriculture and Food Security Program (GAFSP) through its Private Sector Window, and the bank, Société Générale. These three very different partners shared a goal: to extend a lifeline to Burkina Faso's agricultural sector and contribute to a reduction in rural poverty.

The facility will allow SOFITEX to purchase raw cotton for processing from more than 160,000 Burkinabe farmers and export the products to international markets. Through the facility, IFC, GAFSP and Société Générale will lend to SOFITEX against warehoused commodities, providing the company with liquidity to finance its crop purchases. It follows a similar investment for the same amount in 2015, which helped to secure the export of a record 750,000 t of cotton and to preserve the livelihoods of 160,000 farmers.

Aliou Maiga, IFC Regional Financial Institutions Group Head for sub-Saharan Africa, said, "IFC's partnership with SOFITEX demonstrates our confidence in Burkina Faso's cotton sector and our commitment to support the economic revival of the country following a difficult period. Working with local farmers, suppliers and distributors, SOFITEX is playing a leading role in job-creation and rural incomes."

Donor partners to the GAFSP Private Sector Window are the governments of Canada, The Netherlands and the USA. GAFSP funding makes it possible for IFC to invest in riskier projects with strong potential to promote food security and reduce poverty. This project is under its Global Warehouse Finance Program, which lends or provides risk mitigation solutions to banks in low income countries. These banks in turn provide loans to small farmers and small businesses, which are backed by the harvested goods farmers deposit in warehouses.



Case study 3: The Agricultural Finance Initiative (AgriFI)

Significant investments in agriculture in developing countries are necessary, but support to help producers and rural small and medium-sized enterprises (SMEs) increase their investment capacity remains insufficient. This is to a large extent due to the risks in agriculture, in particular those associated with smallholder production. To help address this situation, the DG DEVCO's AgriFI was officially launched in October 2015. It is financed out of thematic programmes, as well as regional and country programmes. AgriFI will consist of support to investments (through risk capital, guarantees or other risk-sharing mechanisms and grants); business development and advisory services; and value chain analysis for better accountability and decision-making. AgriFI support should bring additionality, i.e. the projects it supports should not have happened without its support; and also, it should not crowd out private sector-driven initiatives. Blended finance will play an important role in AgriFI, and European DFIs (who will be managing AgriFI) are preparing a specific proposal inspired by the existing model.

AgriFI is organised around a life cycle analysis of value chains, incorporating technical as well as governance issues. The projects that it will support have to respond positively to four questions:

- What is the contribution of the value chain to economic growth? i.e. is it profitable for all the actors concerned? Does it contribute to economic growth? Is it competitive in the international setting?
- Is this economic growth inclusive? What is its effect on income distribution? Does it create employment?
- Is the value chain environmentally sustainable? This will be considered in the context of a product life cycle analysis, and will also cover carbon emissions, resource use (including water), and environmental impacts.
- Is the value chain socially sustainable? This includes a scoring of the project in six different domains: working conditions, land and water rights, gender, food and nutrition security, social capital, and health, education and living conditions.

Case study 4: The Farm Income Enhancement and Forest Conservation Project II

This blending finance facility is funded jointly by the Nordic Development Fund (NDF) and the African Development Bank (AfDB) in Uganda. A public sector concessional grant (US\$6 million) from NDF and a public sector non-concessional sovereign loan (US\$76 million) from the AfDB constitute the two components of this facility. It is a 5-year project, planned for completion in 2021. The project has financed three different activities. The first is an investment in five new irrigation schemes covering 4,038 ha in five different locations in Uganda (70% of funding, fully financed by AfDB). The second is an investment in agribusiness development, including technical assistance in climate smart agriculture and challenges faced by young people in agribusiness, funded via a blending of a loan from the AfDB (50%) and a grant from NDF (50%). The third activity on natural resource management provides training and inputs in watershed management and sustainable agroforestry. This activity is financed similarly as the second one.

The key takeaways from this case study are that: 1) this facility offers an attractive mix of blended finance and climate finance leverage; and 2) it enables a partnership between institutions with different mandates leading to a more holistic, integrated and balanced package of support for the rural sector and local communities.

Case study 5: Danish Climate Investment Fund and the Danish Agribusiness Fund

Two Danish blending finance facilities have been designed to support climate and agribusiness investment. The Danish Climate Investment Fund was established in 2012 in cooperation with the Danish government, the Investment Fund for Developing Countries (IFU) and pension funds. The pension funds contribute 60% of the capital which covers 146 countries, with DKK 1.3 billion (US\$186 million) in committed capital over a period of 4 years. The Danish Agribusiness Fund (DAF), launched in January 2016, is a DKK 800 million (US\$115 million) fund (Figure 2). The state will contribute DKK 88 million (US\$12.5 million), IFU will contribute DKK 212 million (US\$30.5 million) and the pension funds will contribute DKK 500 million (US\$72 million) over a 5-year period, with IFU as the fund manager. A few participants highlighted the non-availability of information for countries in Africa about opportunities offered by IFU, and so IFU promised to make the information more accessible and establish a new strategy to focus on growth and to boost the impact and relevance of blending finance as a tool.

The Danish's experience with pension funds investing in blended finance is promising, but there are currently not enough projects to invest in. More project developers are needed.

Case study 6: Farmers Economic Advancement Through Seedlings

Farmers Economic Advancement Through Seedlings is a CA\$22 million (US\$16.5 million) facility that will be implemented between 2015–2021 in Ghana. Global Affairs Canada (GAC) provided grant funding of CA\$10.75 million (US\$8 million). MEDA invested CA\$1.25 million (US\$1 million) from its Sarona Risk Capital Fund, and GAC invested



Charles Wetherill
*Country Program Manager,
Nordic Development Fund (NDF)*

NDF is the joint climate finance institution of the five Nordic countries financing investments in adaptation and mitigation in Africa, Asia and Latin America.



Max Kruse
*Vice President, Agribusiness,
Investment Fund for
Developing Countries (IFU)
and Head of the Danish
Agribusiness Fund*

He has been with IFU from 1981 to 1984 and again since 1990.

DAF - Investments in the agricultural value chain “from farm to fork”.

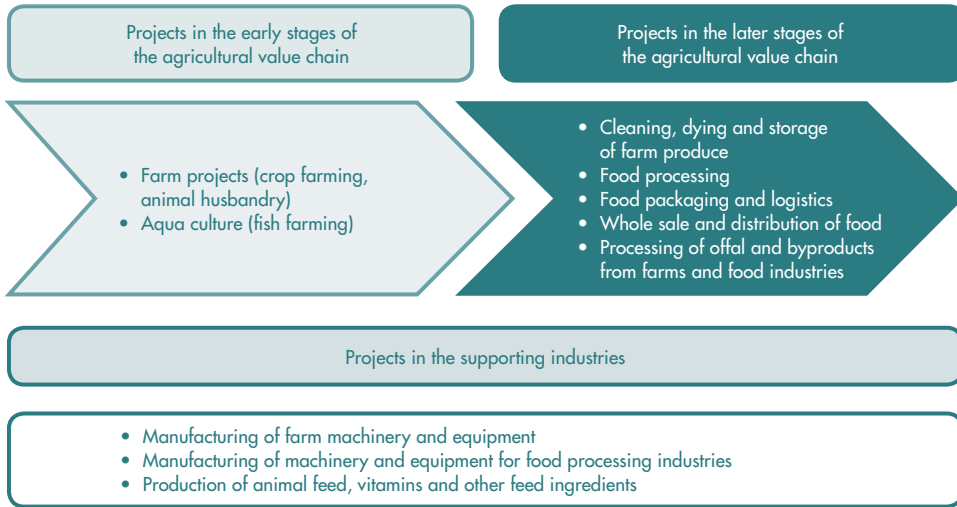


Figure 2: DAF investments in the agricultural value chain

nearly CA\$1 million (US\$750,000) in Tree Global, both as concessionary loans to help Tree Global establish modern, large-scale production nurseries in Ghana with an annual production capacity of 4 million seedlings. This blending finance facility helped to attract substantial private sector investment including CA\$5 million (US\$3.7 million) from Tree Global, plus cash and in kind contributions from other organisations. This resulted in over 100% leverage, amplifying the total project value to CA\$22.26 million (US\$16.5 million).

The project focuses on tree crops: cocoa, cashew, rubber and shea. The goal is to improve incomes and the well-being of Ghanaian tree crop farmers by developing sustainable supply chains and markets for high-quality seedlings. The project targets 100,000 smallholder farmers (40% women; 40% youth). The aim is to produce 20 million quality seedlings over 6 years, leading to the establishment of 50 new distribution centres by small local entrepreneurs, and resulting in an increase in productivity and incomes, environment sustainability, climate change benefits, gender equality and youth inclusion.



Majid Mirza
Senior Project Manager,
Global Programs, MEDA

Lead Manager on a blended-finance initiative, Impact Investing in Frontier Markets, in partnership with three private organisations and the Government of Canada.

Agricultural markets are often highly subsidised, and farmers and small value chain actors are highly price-sensitive. It is therefore important to conduct more in depth economic, environment, policy, and market assessments to inform better project/business design. It is critical to ensure that business/supply chain partners devise and implement effective marketing, communication and training plans, and deploy dedicated expert resources to promote, inform and educate farmers on long-term economic benefits of investing in improved agricultural inputs.



Shakir Machhiwala
*Senior Project Manager,
MEDA*

Manages and provides technical assistance to complex market systems development projects that leverage blended finance across agriculture and other value chains.



Interview with Paul Horrocks: Defining blended finance

By Helen Castell

As the OECD prepares to publish a much-anticipated report on blended finance, Paul Horrocks, its Lead Manager for Private Investment, talks about the need to create a common definition for the structure and what blended finance could mean for agriculture.

Why is blended finance an important issue for the OECD and what stage have you reached in your work on the topic?

At a time when official development assistance is barely growing, blended finance is increasing at quite a steady clip, in terms of participation by both aid agencies and development bank institutions.

The OECD is trying to establish a landscape around what exactly blended finance is, which sectors and regions are involved, where the market is going and how fast it is growing. We're looking to provide some policy leadership, and thinking on this, to members that are looking to scale up and mainstream blended finance.

We are currently working on a paper that will address that, but we're also trying to develop a bit of community. We don't want to do this in an ivory tower – we want to consult and take institutions, bilateral donors and multilateral development banks and on that journey with us.

How important is the issue of defining blended finance?

Although a lot of people talk about blended finance, they're often unsure whether they're referring to the same thing. Blended finance means something different for different players. The EC, for example, defines it as including using public funds to attract other public funds. Some DFIs meanwhile take a view that what they do is not blended finance because they offer money at market rates. In my view however, they are backed by a state's sovereign guarantee and they are taking risks that private sector participants wouldn't take.

The OECD has set up an expert group to look at this and try and achieve a certain level of consistency, because it is difficult for policy-makers to influence things if there's not a common view about what sits under the blended finance umbrella.

We are of course consensus driven so we can't impose definitions, and we don't want to exclude part of the market by applying an overly rigorous definition, but we can at least try and reach at one that will satisfy all the players in blended finance. That's where we see our value in terms of building a community.



How should the blended finance model be tailored to fit the needs of agriculture?

We have seen a lot of work done on blended finance in the infrastructure space. However, it's new areas like agriculture that we want to help members in developing countries move into. These require more innovation, more flexible thinking and different approaches.

Agriculture obviously has an important development impact but it also plays a big role in attracting foreign exchange and a lot of the bilateral donors we're talking to recognise that.

Indeed, what we've discovered is that many of the blended finance instruments that are useful and that the private sector is interested in are, in certain respects, external to projects, addressing, for example, foreign exchange or political risk.


One innovative and promising area for blended finance in agriculture is an initiative that is providing financing to cocoa farmers in Ghana to allow them better access to seedlings to renew their plantations (see Case study 6 in *What can we learn from experiences with blended finance* in this chapter). It demonstrates how blended finance can be a pathfinder in creating or reinvigorating a market and should show private sector participants how that's possible. My hope is that sharing experiences of blended finance innovations, at events like Blending4Ag, will trigger ideas about how to scale up and mainstream some of these applications as well as how they could be replicated in other agricultural sub-sectors.

Is there strong enough private sector appetite – even in blended structures – to support a sector like agriculture, which is perceived to be particularly high-risk?

Using blended finance to fund infrastructure investments could of course support the agricultural sector indirectly. Compared with infrastructure, however, the agricultural sector may require more concessional finance to ensure development outcomes, particularly when financing individual smallholders.

That said, if you can demonstrate that an agricultural project has a revenue stream and that risks can be properly aligned, then there is private sector appetite. This is of course more true for sectors with ready export markets or track records, or for projects like irrigation where it may be easier to develop an income stream.

It's important however to ensure that the enabling environment is in place first. Governments need to play a role in this, for example by helping address political or foreign exchange risks. You can't do it in isolation.



It's also critical to have domestic capital involved, not least to ensure an agricultural scheme has on-the-ground political support. Encouragingly, there are a number of pension funds now applying capital to agriculture and this could be mixed with foreign and domestic private capital.

How can sponsors and donors ensure that blended finance leverages fresh private capital rather than simply attracting money that may have flowed to agriculture anyway?

This is one of the big risks in blended finance – that it might crowd out or undercut private finance that might have come anyway. It is critical that time and money is spent structuring blended finance, calibrating it correctly and doing a lot of upfront market testing. It's about aligning incentives so that the private sector doesn't feel like it's getting a public subsidy and ensuring that risk is addressed in a targeted manner so that the private sector can take over a project commercially in the future.

You need to be able to prove that a project stands up and can be a commercial success. Otherwise, the whole rationale of blended finance risks being tarnished. You only need a few bad projects to trigger a political backlash.

What's next for your work on blended finance?

The message from our donors is that they want us to do more of the tougher work, such as with agriculture. So this will be a sector on which we try and provide further guidance, best practice and policy approaches that will help governments when they're developing their programmes.

I think we'll be taking work forward on this – thinking about innovative areas, holding workshops and developing more case studies that can help the role of blended finance in agriculture, given the importance it has to sub-Saharan Africa in terms of economic and development impact.



Mobilising Climate Finance

Effective financing of climate change adaptation and resilience

This session was coordinated and chaired by Clarmondial and the Climate Bond Initiative. The main speakers were Christine Negra, Principal at Versant Vision, Tanja Havemann, Director of Clarmondial, and Anna Creed, Standards Manager at the Climate Bonds Initiative.

The first working group discussed how climate certification criteria for debt capital markets and fixed income can facilitate investments in inclusive and sustainable agricultural value chains. Most institutional investors need to be 100% sure that when they buy 'climate bonds' they are getting real, certified climate bonds. Having criteria agreed will therefore enable investors to identify bond issuances that enhance climate change adaptive capacity and resilience in the land sector, which in turn will encourage the direction of significant capital towards green growth.

Anna Creed opened the session with an introduction to the Climate Bonds Initiative (CBI) Standard's eligibility criteria, discussing how activities are assessed for both climate and finance benefits, and how activities can be screened to ensure and attribute environmental and social impact.

The critical importance of robust certification criteria to define the threshold standards of climate bonds, in order to incentivise a market, was explained by Versant Vision's Christine Negra. She also described the need for independent verification for consistent and comparable due diligence. Tanja Havemann, from Clarmondial, noted the increasing attractiveness of certification of climate bonds (demand is greater than supply), along with an acknowledgement that there is a diversity of climate-related activities, and they don't all have the same attractiveness for investment.



Anna Creed
Standards Manager,
Climate Bonds Initiative

Began her career in the private sector, where she worked in consultancy and then in industry, including as a Strategic Planning Manager in a large FTSE 100 company.



Christine Negra
Principal, Versant Vision

An experienced scientist with a strong and dynamic track record of linking science with policy in the areas of climate change, food security, land use and ecosystem services.

The debate turned to the complexity of attribution in climate interventions, especially with regards to agriculture-related activities, such as the interdependence of ecosystems and the impact of environmental timeframes on return guarantees.

The session concluded by focusing on whether climate bonds should aim to set strict criteria to maintain flexibility in order to balance both demand and impact. While CBI uses existing proxy standards to assess bonds (e.g. building energy efficiency), this poses critical and significant challenges in standardising and broadening the scope of climate bonds to more complex areas, such as agriculture. This must be done by stakeholders other than investors in order to create incentive for investment, and will require much work.



Tanja Havemann
Director, Clarmondial

A seasoned environmental finance expert, with experience in developing and supporting sustainability-focused investments for investors, companies, NGOs and governments.

Four step certification

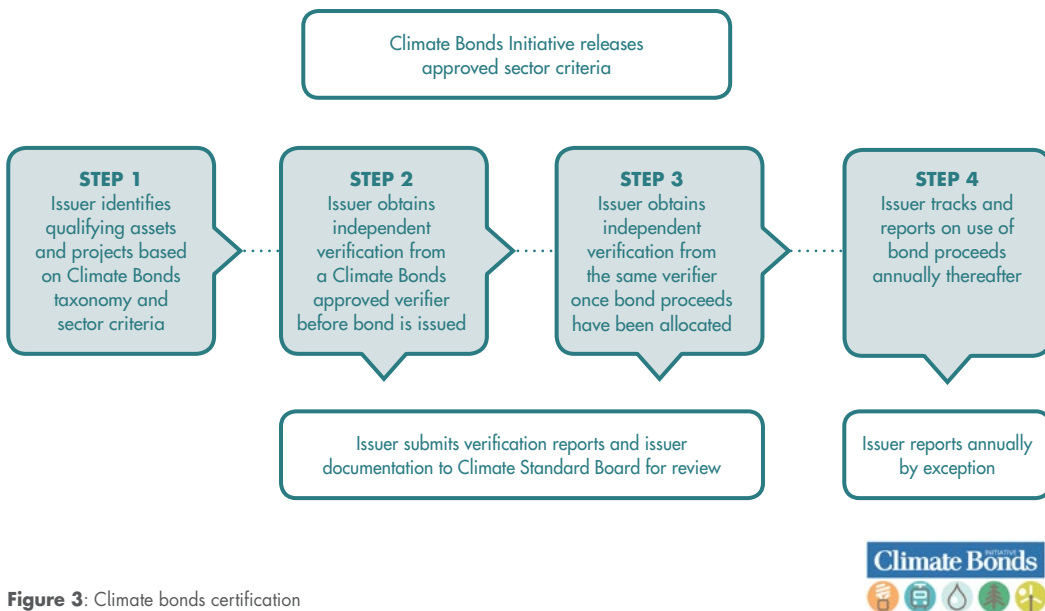


Figure 3: Climate bonds certification

Linking climate bond investors to farmers: building the chain

This session was facilitated by a team from the African Export-Import Bank, headed by Samuel Loum, its Director (Credit).

This session challenged the participants to explore how a US\$200 million bond issue for climate smart agriculture in Africa could be structured. The scope for climate-agriculture bonds in Africa, and practical challenges for moving forward, were discussed.


Key questions posed by African banks regarding climate bonds – including concerns regarding rates of investment, the promised impact of investment, the role of various stakeholders (e.g. non-governmental organisations [NGOs], local banks, and microfinance institutions [MFIs]), the affordability for farmers, and methods for ensuring reliable climate grades – were outlined. The African Export-Import Bank's (Afreximbank) Samuel Loum argued that it is in African banks' interests to attempt to catalyse a new market in green bonds, even if this may be riskier and less profitable, as they must begin to address the weaknesses in African agriculture, both relating to the long-term economics of environmental sustainability and to food security.

The discussion then turned to the strategies for mitigating risk within investment portfolios. Several people recommended designing 5–10 times more projects than could be expected to be funded, allowing investors to balance between low-risk, low pay-off projects and high-risk, high pay-off projects. Tony Simons from the World Agroforestry Centre (ICRAF) suggested structuring a large-sized bond in many smaller-sized projects in a way that distributed the risk in the case of project failure (a proportion of which is inevitable), and ensured that the risk burden is not placed on the smallholder farmer. Participants also emphasised that as there is always some degree of risk of project failure, it is especially important to be clear on the environmental, social and governance safeguards around smallholders with such social investments.



Samuel Loum
Director (Credit), African Export-Import Bank (Afreximbank)

Samuel joined Afreximbank in 1998. His duties include reviewing the bank's credit policies and procedures as well as undertaking other credit issues related to the operational activities of the bank. Prior to joining Afreximbank, he worked at the External Operations Department of the Bank of Uganda for 16 years.



Simons also advocated ‘piggy-backing’ on existing successful projects, to minimise complex project design and potential failure, as well as the investment in assessments such as due diligence, a recommendation which was supported by Joan Larrea of Convergence. Several participants spoke about the need to make sure investments are worthwhile for those designing and facilitating the investment, ensuring that establishing proposed projects will not require large amounts of resources. Tanja Havemann, from Clarmondial, also suggested that although standards such as climate bond certification may be beneficial for promoting investments, considering small, niche or more impactful projects may be more sensible, depending on the portfolio of the investor.

The implications of climate certification of investments were also explored, particularly in relation to the usefulness of such certification for the assurance of viability of investments. Simons argued for the need to be clear in defining climate smart agriculture; although a project may be climate smart in its objective, if the mitigation/adaptation/resilience benefits cannot be delivered within the lifetime of the investment, it cannot be considered as an eligible climate smart investment. It is therefore advisable to provide technical assistance and involve organisations working on the ground in the design of products/projects – who can verify the technical scope of projects to potential investors – in addition to the standard provision of financial expertise. This point also highlighted the need to enhance understanding of agriculture, climate change and environmental terminology within the banking and finance sectors.

The session finished with the assertion that there is a large and unsatisfied appetite for climate bonds in the current market, with large amounts of money available for public-private partnership investment opportunities, if they are shown to be viable.

What kind of agricultural activities can be financed through climate bonds?

A wide range of investments can, in principle, meet the requirements of the climate bond market; they can reduce the impact of agriculture on climate change; or they can enhance the capacity of farmers to adapt to climate change; or make them more resilient in the face of climate change.

Activities can involve primary production (what is produced; how it is produced and what is the impact on the wider ecosystem), as well as inputs to the production system (including seeds and new varieties), the outputs of the production system (eg. investments that reduce the loss of greenhouse gasses), and associated infrastructure and technologies, including supply chain facilities.

Interview with Tony Simons: The climate challenge and the importance of scaling up

By Helen Castell

Agriculture is responsible for two-thirds of global land use, three-quarters of global water use, 25% of global emissions and more than 50% of global employment, but just 4% of GDP. Tony Simons, Director General of ICRAF, explains why that needs to be rebalanced and how climate bonds and initiatives like the Tropical Landscape Finance Facility (TLFF) can help.

What are the main challenges facing agriculture from a climate perspective?

We need to frame the full costs and benefits of agriculture. Farmers are only interested in their cashflow, not profit and loss, and they're drawing down their natural capital.

Let's say you decide you want some cash, so you sell a kidney. You get US\$2,000, so have a positive cashflow, but you've actually made a bit of a loss. Next year you decide to sell a lung for US\$3,000 – another positive cashflow but another loss.

So you're accumulating losses but recording a positive cashflow. That's what farmers are doing with their land, with their forest, with their water resources, with their biodiversity. Many are also drawing down their social capital – their social systems, their cooperatives, traders, associations – and their ability to organise. So some of the industry is becoming unviable.

To what extent can green and climate bonds help address that?


The market for green and climate bonds is still very small to tackle such a huge problem. The world's total bond market is worth around US\$90 trillion but the labelled climate bond market is worth only about US\$120 billion, while bonds that could be labelled as climate bonds are worth about US\$650 billion.



Tony Simons

Director General of the World Agroforestry Centre

Worked for 30 years on issues at the agriculture/forestry interface in over 50 countries in the private sector (Shell), academia (University of Oxford), official development assistance (UK's Department for International Development) and research (CGIAR).



So, is it that we want to have more bonds that are climate friendly or climate reinforcing and that there's a business case for it? Or is it just that it's a huge problem and that we know that overseas development assistance and private corporate investment is not going to solve the problem and therefore we've got to go to financial markets?

The Sustainable Development Goals (SDGs) have a financing gap of about US\$2.5 trillion a year, but we need to understand what is the reinforcing mechanism for having blended finance. We have to look at the performance measures associated with these investments – what's the reinforcing mechanism around what we're trying to do, and is a lack of short-term working capital for farmers and other input suppliers to start working the constraint? Is it patient capital that is going to grow infrastructure and grow a new industry? Are there things that have changed inside an industry? For example, we've seen vanilla prices in Madagascar go from US\$20/t to US\$200/t and that obviously changes the economics of doing things.


We then have to think about focusing on scale. Pilots never fail, because people keep throwing money at them. Any organisation can get a US\$500,000 grant and work with 250 farmers. If you interview the farmers at the end of the project and ask if their income has increased, they might tell you it has grown by US\$75 per year. If you ask them however whether they would have preferred to be given the US\$2,000 that was spent on each farmer, rather than the technical assistance, most would take the cash.

It's not until you start getting up into the high numbers that you can make something work. People who generate and validate knowledge – their interest is proof of concept. But what we fail to do is the proof of application – trying to link large numbers to think about how you combine a science of discovery of something large with a science of delivery.

Development people talk about the last mile. Well, it's how do you connect the first mile and the last mile together – that's the important side. Any of these bonds that are going to affect the lives of fewer than 20,000 farmers – they're never going to be viable. They'll be boutique. The challenge is to ramp that up.

What is the TLFF and could it be replicable outside of Indonesia?

The TLFF is a blended finance facility that launched in Indonesia in October 2016 and will use public funding to unlock private finance in renewable energy and sustainable landscape management. It comprises a US\$1 billion loan facility, plus a US\$100 million grant that will support monitoring and evaluation, technical design and other aspects. ICRAF see in time there being a TLFF India, TLFF Sri Lanka and a TLFF Africa.



ICRAF hosts the Secretariat for the TLFF and is focusing on making sure it has really good environmental safeguards, social safeguards, covenant safeguards, good mechanisms and a strong pipeline of project ideas. The Centre is also looking at how it can bring others in to help de-risk some things, and at government and sub-national jurisdiction policies that support more green investments, with a view to keeping the government on side, but not having them in a position of control, while reassuring investors that TLFF is a viable opportunity.

In terms of disbursement of the TLFF – and for blended finance generally – ICRAF has to be really careful about what performance looks like and the metrics it uses to assess it. If you don't have performance driving a project, it's not going to work. Concessional financing can actually distort the market and stop true microfinancing and other initiatives because it's temporary. If it's taken away, a project may crash, but by then other options or financial instruments are not there.

ICRAF could have a project ready in 3 months, but it would be riskier than a project that you'd taken 18 months to design. If somebody else has already done the due diligence and designed a project, but say they wanted to come in and support new livestock breeds, they could.

What were some of the highlights of the Blending for Agriculture (Blending4Ag) conference for you?

The Technical Centre for Agricultural and Rural Cooperation (CTA) and its partners have done a fantastic job in getting a very diverse group of stakeholders in the room – from banks, finance houses and investors to technical experts, certifiers and aggregators.

The Afreximbank ran a really interesting session on how we would go about designing a new US\$200 million green bond that it wants to launch (see *Linking climate bond investors to farmers: building the chain* in this chapter). It looked at what definitions would be used, who would rate it, what returns investors would be interested in, and what would be its lifetime. It was a real-life example and they want input to help design it and think about how they could piggy-back on other initiatives.

Other interesting sessions were about cocoa value chains and the CBI. What they're trying to do is make sure that those that are calling themselves green are truly green.

Case study: Countering the effects of climate change on Central American coffee plantations

As a result of climate change, pests and diseases are spreading into previously unaffected areas. A particularly devastating example is coffee rust fungus, which by 2015 had affected 40% of coffee plantations in Honduras and Nicaragua, and over two-thirds of plantations in Costa Rica, El Salvador and Guatemala. The livelihood of 1.5 million people was at stake.

Rust cannot survive temperatures below 10°C, so in the highlands of these countries, where most of the Arabica coffee was grown, rust was not a problem; but nights are now no longer cold enough. The disease can only be combated by replanting healthy trees and implementing good agronomics – but small farmers do not have the means to do this. In Nicaragua, therefore, an innovative blended finance structure is providing a solution.

The Nicaraguan financing structure includes loans, of US\$3 million each, from the International Finance Corporation (IFC) and the Inter-American Development Bank (IADB), ECOM (the world's second largest coffee trading company) and Starbucks, to the Nicaragua branch of ECOM (a company called Atlantic). To reduce the risks for IFC and IADB, and thus the interest rates that they charge, the Global Agriculture and Food Security Program (GAFSP), administered by IFC, provides a guarantee on half of the loan.

Atlantic will be managing a programme to replace the coffee plantations of smallholder farmers that have been destroyed by coffee rust, providing them with new coffee varieties that are resistant to the fungus. Farmers will pay back the costs of the replanting by delivering coffee to Atlantic over the next few years. Similar structures are planned to combat the coffee rust fungus in other Central American and Latin American countries.

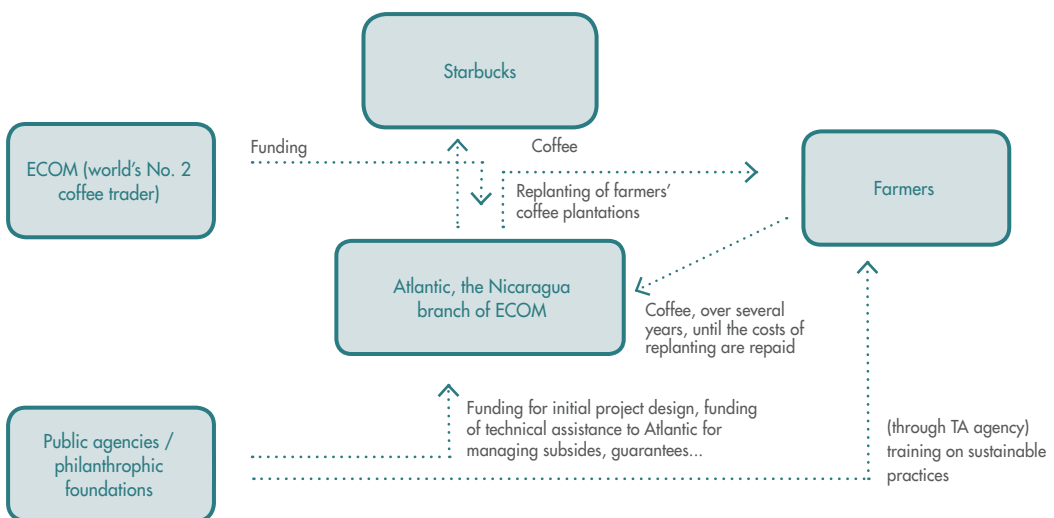


Figure 4: A blended finance structure for coffee growers in Central and Latin America

Linking International and National Blending Schemes

Leveraging central banks and other national agri-finance and guarantee schemes

This session was chaired by Mr Millison Narh, Deputy Governor of the Bank of Ghana, and Chairman of the African Rural and Agricultural Credit Association. The main speaker was Dr Aliyu Abdulhameed, Managing Director and CEO of the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending.

Most of the people who really depend on agriculture are small producers who are often subsistence farmers. The limited resources of these small producers condition their production levels and make them highly dependent on public assistance. The fact that agriculture depends on public assistance does not favour its development in Africa. Public sector bureaucracy is one of the factors limiting private sector involvement, therefore development organisations need to harmonise their interventions with more targeted interventions in collaboration with central banks.

Central banks have an important role to play. In West Africa, the Central Bank Governors Committee has pledged to support agriculture. Indeed, central banks must address the question of financing in a differentiated manner. It is necessary to consider different strategies such as:

- Adopting innovation as a means of addressing current challenges.
- Reducing funding constraints for small producers.
- Encouraging investment where risks are limited.


In order to achieve this, experts from different backgrounds agreed that governments must create enabling environments, especially in the form of tax incentives for blended funds.

In West Africa, the Nigeria Incentive-Based Risk Sharing system for Agricultural Lending (NIRSAL) is generally considered as a model which can be improved and applied to other countries. The Bank of



Millison Narh
Deputy Governor,
Bank of Ghana

Served the Bank of Ghana since 1976, and became Deputy Governor in 2008. He is also Chairman of the African Rural and Agricultural Credit Association.



Ghana, for example, borrowed ideas from NIRSAL and has launched their own Ghana Incentive-Based Risk-Sharing System for Agricultural Lending (GIRSAL). The target of GIRSAL is to double private sector lending to the agricultural sector from 4% to 8% in 5 years or better. GIRSAL has an incentive model for financing with the following pillars:

- Risk sharing through a guarantee programme set-up which covers up to 75% of the risks (borne by the bank), while the remaining 25% is borne by the producers.
- Producers subscribe to an insurance premium for their operation.
- Most farmers live in areas with low penetration of financial institutions. Faced with financing constraint, therefore, GIRSAL will work with microfinance institutions (MFIs) that work in these remote environments.

One crucial role of central banks, that was identified, was to provide incentives that will attract every stakeholder needed to finance different aspects of the value chain. Central banks must therefore be innovative in proposing methods that alleviate the burden of collateral between financiers and farmers. However, political support to central banks is also important and must come from governments. It is governments that must give the first guarantees to banks and credit institutions.

The issue of insurance is also important because insurance increases the cost of credit and not all producers even have the means to access it. Experts therefore concluded that there is a need for collaboration between various stakeholders (public and private sectors) because no single player can provide the necessary resources on their own. The way forward to unlocking private funding for smallholder agriculture was concluded to include:

- Effective partnerships between financiers and value chain actors, and collaboration between various institutions and individuals working in the same landscape.
- Scaling up of digital finance to create enabling environments.
- Implementation of risk sharing strategies.
- Research – learning from best practices and previous mistakes.



Developing countries' own financial sector can support blended finance arrangements

Much of the formal sector's finance for agriculture in developing countries comes from their own public bodies, through state banks, guarantee facilities and the like. However, particularly in Africa, there are sound opportunities for central banks to play a more deliberate role in agricultural finance, and in particular, to introduce and expand facilities that will crowd in private sector funding (from local sources – banks and investors – as well as international ones). A forthcoming Technical Centre for Agricultural and Rural Cooperation (CTA) report by Hans Balyamujura, *Global Best Practices in Central Bank Support Programmes for Agricultural Value Chain Finance* (including warehouse receipt finance) discusses what central banks are already doing, and what they can do to achieve greater leverage.

The report highlights how critical central bank support for agricultural finance has been for the development of agriculture in western countries, and how it remains of major importance in Asia and Latin America. The report reviews policies and practices in Brazil, India and Pakistan, and compares this with what has been done by the central banks of Kenya, Nigeria and Uganda. It then sets out a new approach to the central banks' roles, and how proactive measures can help bring funds to farmers.

Replicating international blending schemes in national ones

This session was coordinated by the African Rural and Agricultural Credit Association.

There is a need to eradicate poverty and achieve inclusive growth in Africa. Lack of finance is a major hindrance. Infrastructure funding falls far short of needs, which has a negative impact on critical production factors such as rural roads and electricity supply. With respect to agriculture, most financing needs remain unmet, in particular when it comes to longer-term finance, but blended finance can help alleviate the problems.

Participants identified that sustainable blended finance for agriculture is characterised by three points:

- Leverage.
- Impact (social and environmental).
- Alignment of financial institutions with market principles.


Agricultural finance lacks an organised forum to bring potential partners together and spread best practices. Unified platforms involving private investors and the public sector should be promoted in order to avoid fragmentation of the market. Also, financing for development in the agricultural sector needs to be accompanied with technical assistance that is tailored to reduce the risks to financiers (such as support to farmers to ensure that they are profitable enough to repay their loans). It was noted that organisations such as the Food and Agriculture Organization of the United Nations (FAO) invest in capacity-building programmes, and there is much to learn from their approach and collaboration with them.

In the longer-term, it is necessary to build strong institutions in order to achieve efficient agricultural financing. In this regard, central banks must ensure price stability. For example, if the dependence on food imports is to be reduced (which reduces the risk of imported inflation when global food prices increase), governments should promote crops that can substitute imports, for example by having dedicated financing windows for specific crops.



Saleh Gashua
Secretary-General of the African Rural and Agricultural Credit Association

Has previously worked in development finance, both nationally and internationally.




It is also important to build knowledge within agricultural financing institutions that can make the connection to, and initiate dialogues with, international donors. This kind of knowledge platform was identified as the responsibility of organisations such as CTA and the African Rural and Agricultural Credit Association (AFRACA) to shoulder. According to the Secretary-General of AFRACA, Saleh Gashua, AFRACA is already facilitating the exchange of experiences among stakeholders and collaborating with CTA in promoting knowledge exchange in agricultural finance.

What are the potential obstacles to blending finance mechanisms? It was noted that in some African countries, there are limitations for financial institutions to collaborate with international development institutions or agencies because of incremental costs. To mitigate the problem of incremental costs:

- International donors and the public sector must create efficient partnerships to help local financial institutions.
- Central banks should ensure that financial system regulations allow for credits at the local level at a reasonable cost.
- Local banks need to use technology that decreases the cost of credits, therefore, digital finance should be properly integrated into agricultural finance programmes.

In Ghana, the Bank of Ghana, with support from the United States Agency for International Development (USAID), has experimented with a system of agricultural credit incentives. They contracted local banks and signed agreements to the effect that if the banks succeeded in collecting repayments from beneficiaries, the Bank of Ghana returned 50% of the interest received from the funds to the local banks. This is an example of how national governments can work with international donors to enable successful blended finance deals for agriculture.



Oil and water: How to link up national and international blended finance schemes

By Helen Castell

Although replicating blending mechanisms used by international development finance institutions (DFIs) in national schemes is desirable, DFIs should be careful that their concessionary pricing does not crowd out local finance providers, attendees to a Blending for Agriculture (Blending4Ag) session on the subject heard.

In some African countries, local commercial banks are resistant to joining international DFIs in blended finance structures because it would involve them lending to the agriculture sector at significantly lower rates than they usually would, one delegate told the session. “We are now seeing an oil and water kind of situation of international funds failing to blend because of cost differentials,” he said. “As farmers, we see money on the shelf fairly priced, but we cannot get it.”

Indeed, in one jurisdiction in Ghana, DFIs made available US\$3 million that was ultimately not subscribed to because of pricing differentials, noted Millison NARTH, First Deputy Governor of the Bank of Ghana, without providing further details. “This is making it difficult for foreign counterparts to actively play within the local space.” Insufficient domestic lending capacity in many countries means agriculture needs to look to foreign partners – its ‘natural allies’ – to plug the gap, he added. However, “if pricing becomes a problem we cannot achieve our objectives.”

One way the Government of Ghana sought to address this issue was to adopt market rates for lending via its ministries, departments and agencies, which administered credit to farmers directly. Once a farmer had repaid 100% of a loan, however, 50% of the interest paid was returned to them. This way, farmer credit was made more affordable without immediately distorting market rates.

At the same time, local commercial banks need to investigate why they are not able to lend to the agriculture sector at a lower cost, argued Harald Hirschhofer, Senior Advisor at the Currency Exchange Fund (TCX). If high credit risks and defaults are the sole reason, and DFIs are truly underpricing market risk, local banks are justified in viewing DFIs as unfairly advantaged competitors rather than partners. If, however, local banks are overpricing risk because they are not using the latest credit measurement methods, they need to invest in new technology to rectify this. Ultimately, “I think the fault lies in both, in many countries,” Hirschhofer added.



The risks associated with local versus hard currency is another key problem when blending foreign and local finance for agriculture, noted Jørn Olesen, Chief Consultant at the Ministry of Foreign Affairs of Denmark. To help overcome this, donors need to focus on building strong national or regional institutions, Olesen argued. “It’s hard but it’s one way to make real progress. We see too much focus on making programmes and projects, and far too little on building institutions. Donors have to take the first step here. We need to link them up to local pension systems and then you wouldn’t have these currency issues.”

Another issue lagged by several session attendees was a lack of awareness in many African countries about the many blended finance schemes spearheaded by international donors and DFIs that local players are eligible to join. “How do we manage this information symmetry problem between foreign partners and domestic operators or counterparts?” asked Lucas Meso, CEO of the Agricultural Finance Corp. “In this information age, why should information be lost? Should we always have to be brought physically into a room like this to be informed about the existence of these schemes or programmes?”

If national and international players are to collaborate in blended finance schemes for agriculture, each side needs to respect the other’s comparative advantages, said Narh. While international funders have influence and access to research, national agencies understand the terrain and have valuable knowledge to share in the early stages of a scheme’s development. DFIs should therefore reach out to potential national players at the point when they are designing schemes, Narh argued.

How does blended finance fit into the International Labour Organization's Social Finance Program?

By Matthew Adetunji

CTA met with Craig Churchill, Patricia Richter and Pranav Prashad from the International Labour Organization (ILO) to discuss the organisation's Social Finance Program.

Can you define blended finance with respect to ILO's Social Finance Program? Is there a correlation between social and blended finance?

Agricultural finance is still perceived as a high-risk business. ILO observes this to be the case in the countries where it is implementing agri-related projects. Thus, addressing the perceived and actual risk is our entry point for engaging in the blended finance space. What does this mean? As an international agency – note: not an international finance institution – ILO brings to the table international and national expertise on sustainable development. Here, ILO focuses on the social side of development as well as equitable growth. This technical expertise ‘blends’ blended private and public money for increased social impact and scales sustainable finance approaches to eventually push the frontier of financial services. For example, through collaborating with a blended finance vehicle of the German government, the Africa Agriculture and Trade Investment Fund (AATIF), ILO helped the Fund to establish and implement a solid social and environmental management system. In addition, ILO supports the Fund's partner institutions in their efforts to mitigate risks related to occupational safety and health, child labour, or community concerns over land issues which are all very relevant for financing smallholder schemes. Another example is ILO's work on innovative insurance solutions where it blends its ‘intellectual capital’ with funding from the private sector to expand the reach of affordable insurance, and with governments to help them achieve their policy objectives.



Craig Churchill
Chief of the International
Labour Organization's Social
Finance Program

He focuses on the potential of financial services and policies to achieve social objectives.

ILO works with the World Bank and USAID in creating knowledge that can be used by both private sector implementation organisations as well as government and regulatory bodies which can help to expand agriculture financial services including insurance.

How do you think a blended finance approach should be addressed to upscale financing for development in the frontier and emerging market?

Our experience tells us that each of these markets require different approaches. In frontier markets, where philanthropic capital is available and can be utilised, government plus public money has a big role to play and blended finance is of high relevance. This is especially true for addressing actual risks in agricultural finance that can be mitigated through expanding insurance coverage. The goal for these markets would be to use blended finance instruments to reach growth beyond a certain threshold. For emerging markets, it is more important to support governments to develop facilitative policies and then utilise blended capital in growth areas.

Relevant for all stages of market development is the inclusion of sustainable finance principles very early on – in policy formulation, in monitoring and reporting requirements, and in capacity building measures – across blended finance stakeholders, including private and public financiers plus agricultural producers, processors, distributors, and consumers. ILO is particularly active in this area of work.

What's your view about using blended finance to address issues of child labour in smallholder agriculture?

While the latest statistics show a significant reduction over the last 15 years, 168 million children are still child labourers today. Agriculture has the highest prevalence; 59% of all child labourers are found in the sector. We are of the opinion that blended finance has a great potential to engage with this issue, especially because child labour is primarily found on smallholder family farms that face the biggest finance gap. Through inclusion of 'no child labour policies' in blended finance instrument guidelines, and making sure that progress indicators report on achievements of reduction of child labour, public finance can help reduce the problem. It is not about condemning smallholder families




Patricia Richter
*International Labour
Organization*

She manages the Social Finance Program's collaboration with the Africa Agriculture and Trade Investment Fund, looking at how positive social and environmental impacts of agricultural investments can be ensured and improved.



Pranav Prashad
*International Labour
Organization*

He leads the Social Finance Program's work on agriculture insurance and provides technical expertise on alternative distribution and mobile services.



but about designing blended finance instruments that consciously address an existing problem. ILO is providing technical advice to financial sector players on the inclusion of effective policies and their operationalisation. Technical assistance given to value chain actors involved in blended finance for agriculture is needed to build the capacity of producers and processors to effectively reduce child labour. Sessions on why and how to avoid child labour in farmer field schools are one concrete example.

How does a blended finance approach come to play in climate smart agricultural financing?

This is an exciting new area of work that ILO has fully embraced. The ILO Social Finance Program and the ILO Green Jobs Program work together to support the design of integrated finance packages, e.g. in the Philippines, which put forth collaboration with private and public financing partners to offer productive loans, insurance solutions, and training on good agricultural practises that make sense for smallholder farmers exposed to climate change.

Can you predict the impact of blended finance on sustainable agricultural development by 2030?

The Sustainable Development Goals (SDGs) make numerous reference to the role that the financial sector plays in making this world a better place. This is not only about increasing the pledges of public and private financiers. ILO thinks that the financial sector needs innovation, like integrating blended finance with technical assistance on sustainable finance and sustainable agricultural practices as described above. Only if we change HOW smallholder farmers are financed will we get closer to a world without poverty and hunger.

Leveraging Private Sector Finance

Venture capital: A channel for blended finance for agricultural investments

“Joan Larrea, CEO of Convergence, chaired this session which focused on innovative ways to apply blended finance in a setting where there is a venture capital or private equity fund operating in the agricultural space. Panellists showcased how they have applied blended finance or experienced it in their transactions or investments.

The participation of venture capital in blended finance can make the model more sustainable and scalable. Venture capital funds have a keen sense for projects and business structures that will work, plus they have the motivation to identify and implement risk mitigation solutions across the value chain. They will also nurture young people or agripreneurs who will then help funnel blended finance funds to smallholders.


Kushal Agrawal represented Aspada; an investment fund in India which has total assets under management of US\$100 million invested in 17 portfolio companies. Seven of these businesses are in agriculture, three in health care, three in education and four in financial services. In India, four sources of finance can be put together with venture capital to establish a blending finance facility: grants; commercial bank loans under the government’s priority sector guidelines for the allocation of assets to agriculture (forcing banks to allocate part of their funds to the sector); corporate social responsibility (CSR) finance; and government subsidies. According to Agrawal, venture capital and private equity funds make it possible to identify sustainable business models where blended finance can be the most efficiently used to have a positive development impact.

From Aspada’s portfolio, Agrawal showcased an experience of blended finance where an agri-processing company in the potato supply chain partnered with the Bill and Melinda Gates Foundation in Uttar Pradesh. The Gates Foundation assisted in setting up a network of shops by training 100 youths in sales, distribution, quality management, farm management and distribution of financial products and provided them



Kushal Agrawal
Chief Financial Officer,
Aspada Investment Advisors

Leads the agriculture portfolio at Aspada and serves on the boards of three horticulture supply chain companies and a cold chain logistics company.



with working capital. This network of stores then became the channel through which the agri-processing company provided high-quality potatoes seeds to the farmers and bought back high-quality potatoes at a higher price. The network of stores allowed local banks to channel microcredit to farmers for the acquisition of inputs, and also gave farmers access to a government insurance programme. This blended facility therefore created a sustainable value chain through which farmers' income went up, and the food processing industry were supplied with better quality potatoes, which previously had to be imported. The fact that Aspada's investors agreed to a flexible life span for its fund – rather than being constrained to a specific duration or size – also “enables us to make more aggressive bets in areas where no one else has invested, then nurture and bring them to scale,” Agrawal added.

Other examples Agrawal gave included: the use of a company's CSR budget to set up a technical assistance facility that will improve the quality of produce delivered to its processing plant, reducing the quantity of chemical and pesticide residues in vegetables; and the use of CSR money by a corporation to subsidise artificial insemination in an area where, in a few years' time, they would like to set up a dairy plant.

Although the government requirement for Indian banks to invest a certain proportion of their income in agriculture is a positive for the sector, Agrawal noted that many are unsure where to place the money. “One skill that venture capital and private equity funds bring to the table is their ability to identify commercially viable companies that are worth investing in,” he argued. “These companies become the right funnel for blended finance.”

The blended finance model can also help funds attract investors, as was the case for South-east Asia and India-focused Unitus Impact. Several of the impact investing firm's early stage investors were ‘on the fence’ over its Livelihood Impact Fund until the Overseas Private Investment Corporation (OPIC) lent it US\$12.5 million of ‘somewhat subsidised capital’, according to its Principal, Samir Malviya. “Bringing OPIC to the table was incredibly catalytic in terms of us being able to bring in other investors,” he said. “That's a great example of blending.”

On another occasion, OPIC's provision of lower-cost debt to an Indonesian producer of coconut sweeteners that Unitus Impact was looking at made it easier for the fund to come in with equity finance, he adds. As a result, Big Tree Farms, the largest producer of coconut sweeteners in the world, received investment for a processing facility and working capital.

Unitus Impact is an impact fund focused on improving the livelihoods of low-income communities in India and South-east Asia. They invest in agricultural supply chains, the retail sector to distribute food and services and the access to services such as education and health. The company has US\$45 million under management with 14 portfolio companies, three of which are in agriculture.

Other examples Malviya highlighted included: the use of weather index insurance in Indonesia, supported by the Syngenta Foundation, to reduce the risks of an agricultural financing scheme; financial literacy training, given to farmers in Malawi to help them understand that they should not side sell/default on the vegetable processor that was financing and supporting them; and the use of guarantees to support the use of a drip irrigation system by horticulture producers in Zimbabwe.

In Africa, Cultivating New Frontiers in Agriculture (CNFA) deploys catalytic finance (loans and equity, from US\$100,000 to US\$5 million, with return targets of 10-12%) and technical assistance. They partner with leading institutional donors (United States Agency for International Development [USAID], Deutsche *Gesellschaft für Internationale Zusammenarbeit* [GIZ], and Denmark's development corporation, Danida), targeting specific country sub-sector in agriculture, and work with small and medium-sized enterprises (SMEs) in agricultural value chains.

In the Republic of Georgia, for instance, they partnered with Ferrero Rocher, the largest buyer of hazelnuts, to enhance productivity in the production of the crop in the country. CNFA provides technical assistance on agronomic practices and to ensure traceability. Ferrero Rocher developed new varieties, investing significant sums in research and development (R&D). At the centre of this project is a partnership between USAID and Ferrero Rocher, with each putting in US\$1-2 million; the project targets 50,000 smallholder farmers.

To set up this type of blended structure, two instruments are used: grants and guarantees. CNFA tends to deploy grants in a matching way or as a challenge grant (i.e. the grant will only be paid out when a certain milestone is reached), and in some cases CNFA uses guarantees with local financial institutions.



Samir Malviya
Principal, Unitus Impact

Prior to joining Unitus Impact in 2012, he worked at Developing World Markets, an asset management firm based in New York, where he originated debt and equity transactions for microfinance institutions based in South East Asia and Latin America.



Keith Polo
*Managing Director of
Cultivating New Frontiers
in Agriculture*

Led the creation and expansion of Mercy Corps' global agricultural development practice across 35+ countries for 10 years. He has focused on expanding responsible agricultural investments into inclusive agribusinesses in Africa, working directly with private equity, development finance institutions, African-based businesses and other development partners.

In India, Arya Collateral Warehousing Services acts as a post-harvest value chain integrator. It enables effective integration of smallholder farmer organisations into the agricultural value chain by certifying and guaranteeing warehouse receipt loans. It also works as a collateral manager for banks (and has also brought in investors because banks are often slow), and acts as a supply chain partner with large agricultural corporations (agricultural processors in particular). From a lender's perspective, the company addresses the risk of lending to producer organisations by establishing warehouse receipt systems partly funded by corporate philanthropy or CSR funds, as first-loss guarantees. This allows formal financial institutions to go ahead and lend to farmer organisations. Blended finance can also be seen through the technical assistance and initial capital non-governmental organisations (NGOs) provide to farmer organisations, making them sustainable and investment ready.

From the borrower's perspective, Arya noticed that farmers' organisations were averse to price falls (downward risk) associated with their products stored in a warehouse. With the help of a challenge fund they set up a commodity price risk fund where the initial capitalisation for the fund came through an Indian based development finance institution (DFI). The objective is to act as price insurance for the farmer organisations. "Blended finance works best when entrepreneurs take operational risks, reputation risks and implementation risks, and DFIs or philanthropic organisations take financial and credit risks," explained Arya Collateral Warehousing Services Managing Director, Prasanna Rao.

Consumers are increasingly willing to pay premium prices for high-quality foods. This covers the costs of better structuring value chains.

Adwitiya Mal, Co-Founder and Executive Director at EM3 Agri-Services, explained how his company works on the pre-harvest side of the agricultural value chain by providing mechanisation services to farmers. With respect to its blended finance experience, they worked with the Tata Foundation to deliver mechanisation services where EM3 did not see any economic opportunity at first. To incentivise them to invest in this field the Tata Foundation covered the expected loss of operating in this area.



Prasanna Rao
Managing Director of Arya
Collateral Warehousing
Services, India

A rural management graduate by qualification, he has been a banker for most of his career, including head of agricultural finance for one of India's main banks. He has also been a part of the supply chain, marketing and sales teams of Coca-Cola and Amul, the largest farmer cooperative in India.

How to attract pension funds to join blended finance for agriculture

By Helen Castell

Blended finance needs to find a way to meet pension funds' needs when schemes are structured.

According to Jorn Olesen, Chief Consultant to the Ministry of Foreign Affairs of Denmark, private players are more interested than ever in joining hands with development financial institutions to invest in agricultural or climate-related projects. However, the sector needs to find a way to satisfy pension funds' desire for fewer, larger and more thematically flexible funds with lower transaction costs.

The Sustainable Development Goals (SDGs) now face a US\$2.5 trillion funding gap, and "there is no way that donor funding – about US\$132 million per year – can cover that. It's a drop in the ocean," Olesen said. Fortunately, "there is a shift in the private sector – they are interested in blending. They are much more interested in responsible finance."


Denmark's Ministry of Foreign Affairs has been working closely with pension funds to collaborate on blended schemes for the past 10 years and "we understand and trust one another," he added. "We know our objectives have to be balanced." That said, "there are areas where blended finance on non-concessional terms won't work," and attracting capital in sufficient quantities has been slower than hoped.

In a review of the Danish Climate Investment Fund, the ministry asked pension funds what they require from blended finance. The findings were that "they want fewer and larger funds – they want to get the transaction costs down," Olesen said. "They would like to have a broader thematic scope, simply to get more flexibility into the investments." Pension funds also want to be able to enter and exit funds more easily, Olesen added, noting that liquidity constraints can currently make this challenging. Although DFIs are ready to finance and implement projects, they are not used to finalising or preparing 'bankable projects', he explained. "We need someone who can make the projects ready."



Helen Castell
*Business and Financial
Journalist*

Written for publications such as Devex, Shares Magazine, TXF News, Trade Finance Magazine, Global Trade Review, Newsbase and Global Mining Finance.



The Danish Agribusiness Fund (DAF) was launched in January 2016 with DKK 500 million (US\$72 million) of pension fund investment plus contributions from the Danish state and the Investment Fund for Developing Countries (IFU). The fund has a 5-year investment period and can invest in anything across the agricultural value chain. Its investments are fairly well spread geographically but only 2% is invested in food processing, noted Max Kruse, Vice President of Agribusiness at IFU and Head of DAF.

DAF follows a preferred return model and has so far given binding commitments for a total DKK 250 million (US\$266 million). “We are having an investment committee meeting later this month where I expect we will give binding commitments for about another DKK 125 million (US\$130 million),” Kruse revealed.

The strategy is to raise a succession of closed-end SDG funds, starting a new fund before the first is fully exhausted and closed. “This we believe will be very much appealing to the appetite of other pension funds,” Kruse said. Combining money from the IFU, the Danish government and pension funds will enable that money to “work much harder,” Kruse added.



Interview with Adwitiya Mal: Mechanising Indian agriculture

By Helen Castell

A lack of access to modern farming machinery has long held back India's smallholders from achieving better productivity and income. And at a time when urbanisation is pulling a once large pool of available labour away from agriculture, the problem has taken a fresh twist. EM3 Agri Services' CEO Adwitiya Mal explains how its pay-per-use mechanisation service is enabling farmers to overcome that hurdle, and how blended finance has helped.

Why did Indian agriculture need a company like EM3 Agri Services?

India is a country of very small farms, with average landholdings of only around 2.5 ha, and many farmers cannot access contemporary technology. The latest machinery is unaffordable for them and many lack the skill to operate it anyway. The large rural labour pool that farmers traditionally relied to climb over this productivity barrier is also shrinking.

At the same time, 70% of the area under cultivation in India is used for field crops such as wheat, paddy, soya bean and maize. For crops like this, half of a farmer's cultivation costs go towards efforts that could be mechanised if the technology was available. Since its launch in 2014, EM3 Agri Services has focused on addressing that pain point.

We are essentially a mechanisation services provider, offering all sorts of mechanisation technologies – including both machinery and operators – on an hourly or per acre pay-for-use basis. We cover the entire cultivation cycle, from land development and preparation to sowing, harvest and post-harvest management.

To begin with we ran a fleet of assets owned and operated by us. We're now evolving into a more asset-light model, acting as aggregators for other asset owners although still providing our own assets. They are all individual asset owners rather than big companies and they attach themselves to our platform.

Since we are asset owners ourselves, we are able to provide assurance to other asset owners and aggregate fairly effectively. You could compare it to transforming from being a traditional taxi company to adopting an 'Uber' approach.

Our model is very different from leasing. Having good machinery is only half the battle for farmers – they also need a good operator who knows how to run it. So when we aggregate, we make sure that machines that come onto the platform – and their operators – are of a certain standard.



What impact has access to mechanisation had on farmers' livelihoods?

The work we do has a significant cost reduction impact on farmers and we see productivity improving, not only from the introduction of mechanisation but from the application of it at the right time.

Our increasingly intelligence-driven system allows us to map when an individual farm needs work done and deliver on that. Because we cover the entire cultivation cycle and visit the same fields again and again, we pick up a lot of information, such as when a seed was sown and harvested, which variety was used and what the output was. So we're able to get a fairly granular view of what's happening on the field, improve transparency for farmers in their day-to-day operations, and use that data intelligently.

How is EM3 Agri Services funded and what experience have you had of blended finance?

The company was initially funded by family, shortly followed by an equity investment from Aspada. Our technology partner is tractor manufacturer John Deere and they financed our initial asset purchases. A local Indian bank then financed our next round of asset purchases. We also arrange financing for the assets that we aggregate on our platform. Assets are fairly easy to finance with debt.

Our first experience of blending came around a year ago when we financed two of our service centres. India's Tata Trust provided grant capital to part-finance the centres, which are located in a region that we knew would benefit from our service but, which because of the nature of cropping patterns, was not going to be commercially attractive for us to enter otherwise. So the grant capital came in to bridge that gap. And interestingly, it was the Trust that approached us rather than the other way around. The grant was topped up with a mix of debt and equity. Blended finance is definitely an area that we're exploring. I can see other avenues for grant makers as well, particularly around capacity building, as well as extension activities and even infrastructure.

We didn't experience any tensions between Tata Trust's requirements from the transaction and our own, and that speaks a lot about who the donor is. Obviously, they have their own mandate and we have ours. We are probably the only company in India that has managed to help organise a very disorganised sector, and that I think gave us some credibility. But even though part of the reason we entered this business was to produce a positive social impact, when we got into dialogue with Tata Trust we were quite clear that we were still too young as an organisation to be able to afford not to make a real return on capital. They accepted that and we aligned well.

What's next for EM3 Agri Services? Could your model be replicated elsewhere?

To this point we've been fairly focused on central India but we're now expanding our footprint and this will be our focus for the next year or so. India is very diverse, so entering any new market here is like entering a new country, but I think our model is fairly scalable. We have the recipe right and the cookie cutter is ready. Our ability to expand in India gives me confidence that we could expand into pretty much any other market that is fundamentally similar.



Interview with Joan Larrea: Blended finance matchmaking service

By Helen Castell

Joan Larrea talks about Convergence Finance – a new platform that acts in part as a matchmaker between public, private and philanthropic investors seeking partners for blended finance structures – that expects agriculture to be a major focus of its efforts.

“Agriculture is a really strong sector for us. It touches on so many things, from climate change to food security and consumer goods, and it is a huge employer in many countries,” Larrea says. “A lot of blended finance transactions are going to be needed to get finance into the hands of farmers, food processors and everybody else in the chain.”

Bringing investors together

To this end, Convergence already has nearly 80 foundations, development banks, fund managers, commercial banks and other private sector investors signed up to its Investor Network, which has what Larrea describes as a ‘club atmosphere’.

The idea is that deal sponsors in the club will use the network to post details of blended finance deals for which they are seeking funding. Other members will then be able to study the proposed transaction to see if it fits their mission or investment goals.

Currently, “it’s very hard for blended finance project sponsors to find capital,” notes Larrea. However, “If you have a community of institutions who know that everybody else in the club is also serious about participating in blended transactions, you should see some real deals flow. I think the thesis is going to prove out.”

“We are highly motivated to see actual transactions happen,” she adds. “We’re not a broker, we’re not handling people’s money and we’re not a crowd funding platform – we just want to help capital flow toward good blended finance deals that cannot otherwise get done.”



Finding common ground

Blended finance is of course not without its challenges. Public and private investors have very different motivations and requirements from a transaction, and aligning these is not always easy.

“It comes down to institutional culture,” Larrea notes. “Their timelines are really different and their idea of right and wrong even is very different, because it’s your duty towards your shareholders in one case and towards your mission in the other.”

“The private sector has a fiduciary duty – they need to maximise returns for their investors. That can mean, for example, making sure management has a free rein to act commercially,” she adds. “A foundation or other philanthropic institution is going to want to ensure the non-financial outcome of a deal fits its mission.”

Often, even the words each side uses are different. For example, in one blended finance transaction Larrea witnessed, “the aid agency was talking about the need to follow procurement rules, and the private sector guys were like ‘We’re not procuring – we’re a company. We’re operating. What do you mean we have to put things out for bids?’”


These issues could be just as pronounced when investors look to exit blended finance deals. While financial or strategic players might want to sell to the party offering the highest price and be ready to strike a deal quickly, mission-focused organisations might want to identify a buyer that shares its values, and that takes time.

Convergence itself also has more work to do. Blended finance ‘deal-flow’ from North Africa and the Middle East is still light, says Larrea. Convergence wants to help balance this out by identifying more transactions in this region and in South-east and East Asia.

Funding innovation

One Convergence offering that is already up and running is its design funding window, which has more than US\$7 million available in grant finance to fund the design of innovative blended finance tools.

“We’re trying to support early-stage blended finance instrument design,” Larrea explains. “The grants are intended to allow people to take an idea that would otherwise languish because it is considered too risky or complex to spend time developing.”



Of the first three grants disbursed by Convergence, one was in the agriculture space. In the first quarter of 2016, Convergence awarded the Rainforest Alliance a feasibility stage grant (for more information see *Designing a blended lending facility for cocoa smallholders in Ghana* in chapter, *Managing Risk and Efficiency*).

The Rainforest Alliance are using the money to design a risk-sharing or guarantee mechanism that it believes will encourage financial institutions in Ghana to lend their own capital to blended finance deals supporting smallholder cocoa farmers. Rabo International Advisory Services is supporting it throughout the process.

“That whole offering is going really well,” says Larrea states. “We’re getting great applications and a lot of interest.”

Education

Convergence also offers a knowledge resource that runs blended finance workshops like the one it hosted at Blending for Agriculture (Blending4Ag).

In workshops, Convergence talks new and experienced investors through a range of blended finance structures and instruments, explaining how the process works and providing best practice examples. The aim is to spread the word about what blended finance is and how it works at its best, says Larrea.

Convergence also produces case studies of concluded blended finance deals, breaking down how the deal worked, what the individual parties wanted to achieve from it, how their different aims were aligned and why that transaction needed to be blended to get it done.

“The case studies are getting a lot of attention of our website, so the thesis that people are hungry for examples is clearly correct,” Larrea adds. “We’re trying to give people comfort that they are not the only ones trying to work within this unfamiliar structure.”

Interview with Scott Overdyke, Root Capital: Pushing the frontiers for impact investing

By Helen Castell

With 186 years behind it, Root Capital was one of the first investors to embrace blended finance for agriculture. Scott Overdyke, its Senior Programs and Planning Manager, talks about the Lending for African Farming Co (LAFCo) venture and Roots' ambitions to support more local value chains.

How does Root Capital define and apply blended finance?

Root was launched in 1999 with an explicit social mission to grow rural prosperity in environmentally vulnerable places, so we have been blending philanthropic capital with private return-seeking capital for the last 168 years.

Our very capital structure is blended. We have a net asset base which is primarily philanthropically funded. This is our equity and these are precious dollars for us that we can then go and leverage four to one or five to one with more private sector-seeming dollars – in our case, return-seeking capital with relatively low returns of 1% to 3%. We have subordinate debt as well as senior debt, so we have a tranching vehicle that we deploy.

We also offer capacity-building services or technical advisory services alongside our capital and this is supported primarily philanthropically. The vast majority of our clients, and certainly first-time borrowers, would likely not qualify for a loan without some financial management training, so the technical advisory services help to preserve our risk but also strengthen the borrower as a business.

Some of our technical advisory services have been provided by private sector enterprises, particularly businesses that are buying crops or produce from suppliers supported by the technical advisory services. So it's in their best interest. This is the case with the Coffee Farmer Resilience Initiative, where we're offering long-term loans to producer organisations in Latin America that are producing coffee and selling it to buyers like Keurig Green Mountain and Cooperative Coffees.



Scott Overdyke

Senior Programs and Planning Manager at Root Capital

Scott is a senior manager focused on strategic initiatives at the cross-section of Root Capital's lending, advisory, and field building activities. These include mobile technology advisory for Root borrowers as well as fund design and management for mission-aligned investors.



Those two businesses have both been willing to provide some of the capital that we use for technical advisory services to those groups.

Over the past few years we've deployed guarantees from USAID's Development Credit Authority and these have been really helpful in terms of de-risking certain value chains for us and de-risking loans in certain geographies where we may have a loss share. We purchase the guarantees, so it's not just a straight grant, but it has been certainly useful for us to preserve our capital and manage risks that we otherwise would find difficult to do.

How is the LAFCo initiative progressing and what impact has it had?

In Africa, we have our on-balance-sheet lending, which constitutes the majority of our work since 2004. Over the course of the past year, Root has disbursed roughly US\$40 million in total, split between around 65 loans.

LAFCo was then launched in 2015 with participation from KfW, AgDevCo and Root Capital. We manage LAFCo on behalf of those primary shareholders and it operates in parallel with Root's own lending on the continent.


LAFCo has a slightly different investment mandate in that we're looking primarily for companies that are operating within local value chains and offering slightly larger loan sizes than Root has done before.

It completed about five loans in 2016, with about US\$3.5 million of disbursements and US\$40 million in committed capital. Because of the scale of the enterprises that LAFCo is financing, these five businesses account for about 100,000 farmers, 110,000 ha of land under sustainable management practices, 600-plus employees and aggregated sales of roughly US\$27 million, of which we estimate about US\$20 million are paid back to their producers. So there is quite a significant multiplier effect.

Right now, the size of the fund is about US\$15 million and we hope this will grow. I don't think there's a magic number that we're trying to hit but I think we'd love to see a US\$50 million fund in the coming years.

Do you see any shift in Root Capital's strategy or the way it works with partners?

Root Capital is a mission-oriented organisation and we will continue to seek out capital providers who have a very strong mission alignment. In the case of LAFCo, both KfW and AgDevCo have exactly the same mission as us, which is to grow global prosperity among smallholder farmers. So any business that we're financing through either of these two vehicles would be strongly aligned to that mission, with smallholders as a crucial part of the value chain.



However, we do see other sources of capital that have complementary missions to our own. One would be green or climate financing. I think this is a pretty interesting area where if you put money on the table then it could be a proper incentive for organisations like Root Capital or other impact investors to seek out aligned opportunities with that particular capital.

In our case, we know that we have certain social and environmental indicators that we're measuring for all of our portfolio companies, but we have a certain threshold above which all of our companies have to meet certain criteria before they could even qualify for a loan.

So we could take it a step further and say 'What are the lending opportunities that we see on the table that could further climate smart agriculture and green investment goals that have been put forth by the United Nations (UN) and others?' This could represent new opportunity areas for Root Capital.


We currently consider environmental indicators and environmental opportunities through our technical advisory service. If a particular client does not qualify for a loan through Root because of these criteria, we would potentially put some dedicated advisory capital towards that opportunity, where they could receive some training in order to move above that threshold.

Otherwise, I think we would be open to institutional funders who are interested in this. And it wouldn't just be environmental factors, but could be other issue-oriented investment opportunities. Examples would be around gender inclusion. Another would be around opportunities for youth.

Again, these have traditionally been technical advisory opportunities for Root. If we're working with particular farmer organisations or small businesses, we might deploy some training in order to improve gender inclusion or in order to create certain opportunities for youth, potentially in things like mobile technology, data aggregation and information management at a cooperative level or at a small business level. Thus far it has not driven our actual investment decisions. That's not to say that we couldn't but that we do have a strong investment mandate around smallholder livelihoods.

What's next for Root Capital?

From an operational perspective, Root will continue to be better, faster, stronger and leaner. We want to continue to prove the model for investing in agribusinesses, primarily such that we can demonstrate impact and others might replicate.



From a market perspective we also want to push the frontier of agricultural lending. We are highly focused on additionality, so we want to go to the places where certainly private markets aren't willing to go, but also to where even other impact investors may not be looking to place capital because of different levels of risk appetite or agricultural experience.

Any business with less than US\$2 million in annual sales has an extremely hard time getting capital from private markets or from other impact investors. So that's exactly the kind of market that we want to help serve, and that's where we also think the majority potentially of global demand is.

Currently, Root will make loans down to US\$50,000 – so to small, early stage businesses. It's a really hard space to work in and there's a lot of risk involved. It's a place where we'd love also to support local value chain companies that aren't necessarily producing for export but for local African markets. This again requires a greater risk appetite, and with that comes a greater need for appropriate risk hedging mechanisms, which would come from subsidised capital from blended capital vehicles, from guarantees or from first-loss capital. These are all partners that we will continue to cultivate within our own capital structure and as partners.

On the technical assistance front, we will also continue to innovate and seek out partnerships. We've been working with Partners in Food Solutions, which is a group that matches engineers and food production experts from primarily large food and agri-companies in the US and elsewhere with small agribusinesses in Africa and the developing world.

This is a way for us to take highly technical expertise and plug it into some of our portfolio companies in addition to the financial management training that we would be providing to those groups. It's about continuing to build out and innovate on the technical assistance model but also look for innovative partners in the area.



Managing Risk and Efficiency

Risk management support structures for Blending4Ag: What is available, what has to be further developed

This session presented various technical support mechanisms with scope to assist a Blending for Agriculture (Blending4Ag) approach. The speakers were Mark Rüegg, Founder and CEO of CelsiusPro, Ernesto Costa, from the Climate Insurance Fund at BlueOrchard, Hans Smit, Project Coordinator at WeatherInDe, Edward Wambua, Head of Microinsurance and Agribusiness at APA Insurance, and Patricia Richter, Social Finance Expert at the International Labour Organization.

Blending aims to help private financiers achieve an acceptable return given the risk of financing (a loan, bond or investment). That can be done by simply mixing capital (if an investment has a return of 12%, and the public financier is willing to accept a return of only 6% on its half of the investment, then the private financier can have a return of 18% on its half). But more often, it also involves the absorption of selected risks by the public financiers and other service providers (such as insurers). Furthermore, public financiers justify their involvement by their impact – which needs to be assessed, often independently (e.g. to determine that a project indeed alleviated poverty or improved climate change resilience). And in the particular case of agriculture, because it is so important for the success of the financing that farmers are profitable, the support of non-governmental organisations (NGOs) and others who can help build farmers' productivity and revenues is often critical.

Mark Rüegg opened the session with a presentation on CelsiusPro, which is working in Africa on creating customised weather-related derivatives to the insurance industry, to help farmers in Africa improve production and more effectively mitigate climate impacts. Although much data is available, and the systems used to analyse the data are highly adaptable



Mark Rüegg
Founder and CEO, CelsiusPro

Mark Rüegg has a 15-year background in investment banking and foreign exchange brokerage.



Hans Smit
Coordinator, WeatherInDe

WeatherInDe sells customised weather derivatives to consumers in Southern Africa to hedge against weather related risk.

to a variety of environmental scenarios, a key focus of their work is in visualising and analysing this data in a way that is accessible and useful for the farmers, as local insurance companies often lack the knowledge, access to data, and tools to do so.

CelsiusPro has also teamed up with BlueOrchard, through their technical assistance facility, to provide loans/equity investment and technical support to create initiatives in climate insurance, and improve the knowledge, technology and actuarial expertise of local insurers, enabling them to develop more effective services and increase the developmental impact.

Hans Smit emphasised the importance of this work in Southern Africa, presenting the work of WeatherInDe which is utilising real-time data, scenario testing and risk management tools to provide information and financial products to clients. In South Africa, currently only 14% of acreage in has weather insurance, generally as a condition of financiers. Small farmers in particular do not yet understand insurance and are unwilling to pay.

Ernesto Costa expanded on CelsiusPro's work alongside BlueOrchard, through their Technical Assistance facility; he explained how together, they provide loans/equity investment and technical support to create initiatives in climate insurance, and improve the knowledge, technology and actuarial expertise of local insurers, enabling them to develop more effective services and increase the developmental impact.

Charles Wambua from APA Insurance then gave a case study of insurance products in Kenya, which include crop insurance, livestock insurance, and insurance of farm infrastructure (e.g. greenhouses) in Kenya. Wambua not only highlighted the need to educate farmers on the logical benefits of insurance products, but also emphasised the responsibility of organisations such as APA to create simple, easy-to-access and sensible products to ensure uptake in the target market.

Patricia Richter from the International Labour Organization (ILO) followed on from this point, offering practical solutions and examples to overcome the challenges of a lack of product literacy and economies of scale in insurance. She discussed methods of 'bundling' – where products can be added onto other services, such as weather



Ernesto Costa

Fund Manager, Climate Insurance Fund (CIF), Blue Orchard

CIF, a KfW initiative, aims to reduce the vulnerability to extreme weather events of low-income households, in particular smallholder farmers, and micro, small and medium enterprises.



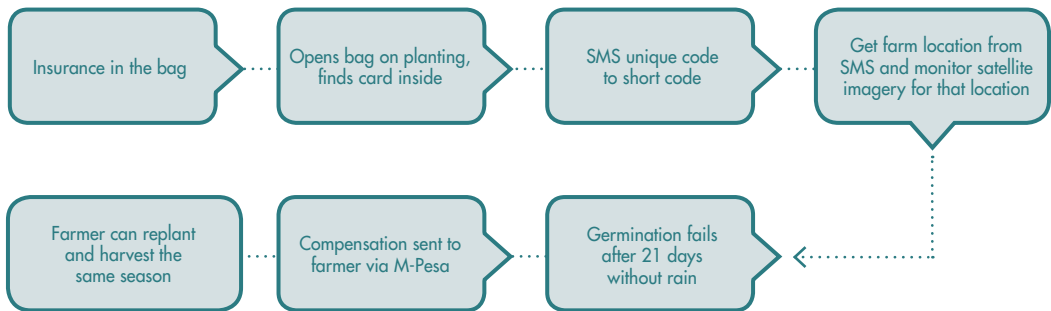
Charles Wambua

Head of Microinsurance and Agribusiness, APA Insurance

Charles has over 22 years of experience in microfinance/rural finance and micro-insurance.

alerts added into to the purchase of farm inputs – and the need to strategically consider where in the value chain the bundling of services can have the most impact. Syngenta’s system to distribute weather insurance bundled with seeds is an example (see Figure 5).

Bundling with inputs



New segment for insurer: builds trust
Farmers insured grew from 200 to 350k over 4 years

Figure 5: Syngenta’s insurance bundles

Ms. Richter also highlighted the business case for incorporating social impact mechanisms into investment opportunities. Financing agricultural value chains invites social issues into financial decisions: risks, impacts and opportunities. Considering social issues is thus as much a business case as a ‘moral’ responsibility. Done well, it increases the stability of projects, enhances the welfare of the labour force, and improves the capacity of institutions to manage the social and environmental risk of projects, and (important in the context of blended finance), it can attract social impact investors to a project.



Patricia Richter
*Social Finance Expert,
International Labour
Organization*

With over 15 years of experience, her expertise covers areas in social performance and impact measurement, rural finance, and risk management with a focus on Africa and Asia and the Pacific.

Local currency issues: local currency financing, and facilities for managing currency risk

This session was moderated by Harald Hirschhofer, Senior Advisor at the Currency Exchange Fund.

The Currency Exchange Fund (TCX) began in 2007, mainly with the support of the Dutch and German governments. Since then it has grown to be a fund with an equity of US\$700 million with a currency exposure of about US\$1.2 to US\$1.3 billion distributed over 15 currencies (but none of it related to agri-finance). Today TCX hedges more than US\$4 billion in term of development loans; most of the development loans hedged went to the microfinance sector (60%), 20% for small and medium-sized enterprise (SME) support and the rest for infrastructure support.


TCX is a facility built up on a blending finance strategy. When it started, there were no development finance institutions (DFIs) willing to partake, perceiving it as a too risky and untested business model. The contribution of the Dutch government through its Ministry of Foreign Affairs and the German government through its Ministry of International Cooperation provided the first-loss tranche which enabled TCX to go into business. This contribution from the two governments enabled TCX to attract the 20 DFIs which are currently shareholders of TCX.

TCX wants to improve the sustainability of development finance by offering tools to manage the risks associated with the exchange rate of local currency. In many countries, domestic savings will not suffice to cover all of the financing requirements of a rapidly growing economy. Hence there is a need to tap into external savings which need to be repaid in the same currency in which they were given; that is hard currency such as dollars, euros, and yens. This leads to exchange rate risk both in the short- and long-term. TCX focuses on the long-term risks since many domestic banks are already providing hedging services in the short-term. TCX is expanding the long-term hedging market by offering hedging instruments in local currency finance which are not already covered by the commercial banks. Hence, TCX does not provide subsidised hedging. And its strategy is to apply a risk-relective price in order to not crowd out the commercial banks.



Harald Hirschhofer
Senior Advisor, TCX

A trained macro-economist, he joined TCX in 2008 to implement a macro-fundamental-based pricing approach to provide hedging tools in small frontier markets.



Harald Hirschhofer, TCX senior advisor, sensitised the audience about foreign exchange risks. He explained that currency crisis and crashes are not exceptional; they happen all the time. These crises should be a cause of concern for central bankers and policy-makers because they have strong negative implications for GDP and economic growth which, in turn, affect social performances and social indicators. He also noted that development finance usually shifts exchange rate risk to the recipients of the development loans, which are usually the weakest links in the chain.

To deal with local currency hedging, TCX pools 50+ currencies in one global market portfolio. This diversification allows them to smoothen the return. This hedging facility is fully scalable, hence TCX would like to include more local currencies for an even better diversified portfolio. The Fund can also hedge up to 15 years in investment finance such as irrigation schemes and therefore they need to work with commercial banks and local banks to find a solution at the retail level.

Hirschhofer ended his presentation by showcasing the use of a hedge fund to deliver solar energy in Kenya with the International Solar Alliance. He noted that TCX instruments are wholesale so it will be challenging to deploy this instrument for small projects.

Many participants acknowledged the importance of dealing with local currency risks to bring stability and predictability to one's business model. However, they noted that the cost of the hedging is too high to be covered by the recipient of the fund who is usually in a developing country. Some then suggested that the local currency risk should be moved to the provider of the development finance because they have a large balance sheet and they work across many different countries. Other participants proposed the use of a reserve fund; however, they recognised that it would not be as efficient as a global diversification platform.

Designing a blended lending facility for cocoa smallholders in Ghana

This session was coordinated by Convergence, Rainforest Alliance, and Rabobank Investment Advisory Services.

Convergence provides grants of up to US\$750,000 to design the first stage of blended finance, which is all about understanding and managing risks. In 2016, Convergence provided a feasibility award to a collaborative effort of between the Rainforest Alliance and Rabobank to explore an investment and risk-sharing facility that will encourage local financial institutions in Ghana to lend their own capital to smallholder cocoa farmers and their organisations for climate smart agriculture investments. It is a risk sharing investment opportunity and it is at its feasibility stage.

The Rainforest Alliance works in biodiversity conservation and improving livelihoods by providing technical support, capacity development and financing, to improve farmers' profitability. Rainforest Alliance works with 160,000 farmers in Ghana through its certification method scheme and collaboration with other stakeholders in the sector.

The feasibility study is important because there is a global financing gap of US\$6.4 billion, needed to re-establish cocoa production in the world; 6% of this financing need is attributed to cocoa reestablishment in Ghana and Côte d'Ivoire. To help fill this gap, Rabobank is designing financing and business strategies for cocoa farmers.

There was much discussion on the risk involved in this project and what Rainforest Alliance and Rabobank are doing. Firstly, it is important to note that there are no data indicating what works or what doesn't work in the space of blended finance for agriculture. Most projects are still in their pilot stages.

Blended finance requires a systematic treatment of risks. Risks should be borne by those best placed to manage them; now, all too often risks are shouldered by the weakest parties in the chain, the smallholders. Furthermore, as part of a proper financing structure, risks should be reduced by giving farmers the right seeds and right technology.



Hélène Roy
Sustainable Finance Senior
Manager, Rainforest Alliance

Member of the Rainforest Alliance's Global Landscapes and Livelihoods team. Responsible for designing, managing and executing the Rainforest Alliance's sustainable finance strategy across value chains and geographies. Previously, worked at Amundi Asset Management in Paris and New York.



However, experts in this session were given the opportunity to look at the strengths and weaknesses of this the project and suggest ways forward.

The cocoa sector in Ghana is more structured than many other crop value chains. Rainforest Alliance and Rabobank may not yet have fully engaged with stakeholders working in this sector in Ghana, such as the Ghana Cocoa Board or the central bank, which is very important if the project is to be successful. The engagement of rural banks in rural areas was also highlighted as one of the factors that will enable this kind of blended finance to work.

Overall, experts in this session suggested that a typical blended finance deal for cocoa production would be successful if the following points were taken into consideration:

- At the initiation of a project, actors should be fully aware of others working in the landscape trying to solve the same problems. It is very important because this will promote success and avoid replicating the same approach.
- Don't bring in outside financing if it is not necessary. If a project is not commercially viable, think about how to bring in concessional loans.
- Beware of tunnel vision, of focusing on cocoa problems rather than on the needs of smallholder farmers. Consider diversification, price stability and introduction of good agronomic practices. For example, ensure crop diversification, especially in cocoa farming. Not all farmers should be involved in cocoa production. Farmers can also be involved in producing other crops. Because the cocoa sector is getting more crowded and improved practices are increasing cocoa production per hectare, some farmers need to be involved in producing other crops otherwise farmers will feel that the price will go down and will not want to maintain best practices.
- There are interesting implications for climate smart agriculture finance and compensation – stakeholders should be aware of the resources available.
- There is need for proper identification of who are the real beneficiaries, at ground level and throughout the system.

In conclusion, the CEO of Convergence, Joan Larrea, expressed the hope that Rainforest Alliance and Rabobank will learn a lot from this 1-year feasibility study. The findings will be collated and published, which will be useful for many other stakeholders as a guide to initiating blended finance deals.

Creating effective technical assistance facilities for agricultural impact investments

The session was chaired by Lamon Rutten, Manager, Policies, Markets & ICT, at the Technical Centre for Agricultural and Rural Cooperation, and the main speaker was Abigail Thomson, Program Director at TechnoServe.

According to Lamon Rutten, for a blending finance facility to be successful, one needs to make deliberate efforts to ensure that the funded value chain is profitable. Since a lot of smallholder agriculture is not profitable or only marginally so, technical assistance is needed to improve the profitability of agribusinesses and hence create the most basic conditions for success of blended finance facilities. He also noted that establishing technical assistance facilities requires collaboration between people who are not often used to working together, for example NGOs and private sector organisations.

TechnoServe's Abigail Thomson remarked that 64% of the investment funds in African agriculture use technical assistance, often or always. When technical assistance is linked to an investment fund, it strengthens the client's commitment to adopting and implementing advice that is provided.

TechnoServe's African Agriculture Fund (AAF) was set up in 2008–2009, on the back of the 2008 food crisis. Investors are mostly DFIs, coupled with a minority of private investors. The fund manager, PhatisaHATISA, raised US\$250 million to invest in debt and equity in agribusinesses in Africa; the largest fund, managed by PhatisaHATISA, can invest up to US\$20 million in large businesses, while a fund for SMEs, managed by Databank Agrifund Manager, can invest up to US\$4 million per business. These investors have a strong focus on environmental, social and governance criteria, and are looking for a healthy return on their investments of about (10%).

The Technical Assistance Facility (TAF) is set up alongside and very much linked to the AAF. The majority of the funds (just under US\$€10.5 million) come from the European Union's (EU) food security unit, with the remainder from funders such as the Alliance for a Green Revolution in Africa (AGRA), the United Nations



Lamon Rutten
Manager, Policies, Markets &
ICT, CTA

30 years of experience on commodity marketing, risk management and finance, with the United Nations Conference on Trade and Development, the World Bank and CTA, and in the private sector as CEO of India's largest commodity exchange and Africa's largest commodity collateral management company.

Industrial Development Organization, and the Italian Development Cooperation. TechnoServe's main objectives are to support the SMEs in the AAF portfolio, and also to work with smallholder farmers, producers and consumers involved in these agribusinesses.

AAF and TAF allow TechnoServe to link suppliers back to the investment with the target of increasing productivity and income. The goal is to impact 50,000 farmers and 1,000 employees by creating and maintaining on-farm jobs, jobs at the SMEs themselves, and linking producers and consumers with SMEs. TechnoServe is seeking to achieve a 20% increase in annual farm income, as well as a 50% increase in the turnover of the SMEs.

Thomson noted that to be able to work efficiently in this domain, staff need to have a hybrid personality, having worked both in the private sector and in development. The activities need to be scoped and designed around the AAF portfolio companies so TechnoServe developed technical assistance recommendations which were then approved by the project's technical assistance committee, which includes the AAF managers and all of the donors.

Some investors prefer to provide and pay for technical assistance themselves, some work with independent technical assistance projects, and in yet other cases investors and technical assistance facilities are intertwined. In this latter case (the case of TechnoServe), the linked technical assistance facility is separately funded but linked to an investment fund. TechnoServe has to use its technical assistance funds for activities linked to the investments, but has independence regarding decisions around what type of activities to invest in and what not to. Independent technical assistance facilities are not linked to a specific investment fund and have flexibility to decide which agribusinesses or fund manager to support. They are also more suitable for the pre-investment phase to help a company to ready itself for potential investors' due diligence by putting its businesses plan together, have a good human resource HR policy, etc.

What type of technical assistance is the most effective depends on the stages of enterprise development (Figure 6). TechnoServe makes a distinction between three types of technical assistance:



Abigail Thomson
Program Director,
TechnoServe

Program Director of the African Agriculture Fund's Technical Assistance Facility, Technoserve, based in South Africa. Previously, worked as Deputy Director at the Gatsby Charitable Foundation in the UK, and as Project Manager with Imani Development in Malawi.

- Core technical assistance is meant to fix fundamental business functions such as human resources, finance, function, and marketing strategy; this is more suitable for SMEs.
- Inclusive technical assistance looks at various business models and possible innovations that can improve a firm's social impact; this is more adapted to large agribusinesses.
- Group training, for example on financial literacy, is much more suitable for micro-enterprise and smallholder farmers.

One-fifth of TechnoServe resources in technical assistance go into core business support projects and the other 80% into inclusive business support that indirectly involves smallholder farmers. It includes support to outgrower schemes, downstream distribution, bottom of the pyramid distribution schemes, and rural finance schemes for smallholders.

The early challenges faced in the development of core business support is that it is difficult to establish the objective of the technical assistance; and in particular, to what extent the technical assistance is additional

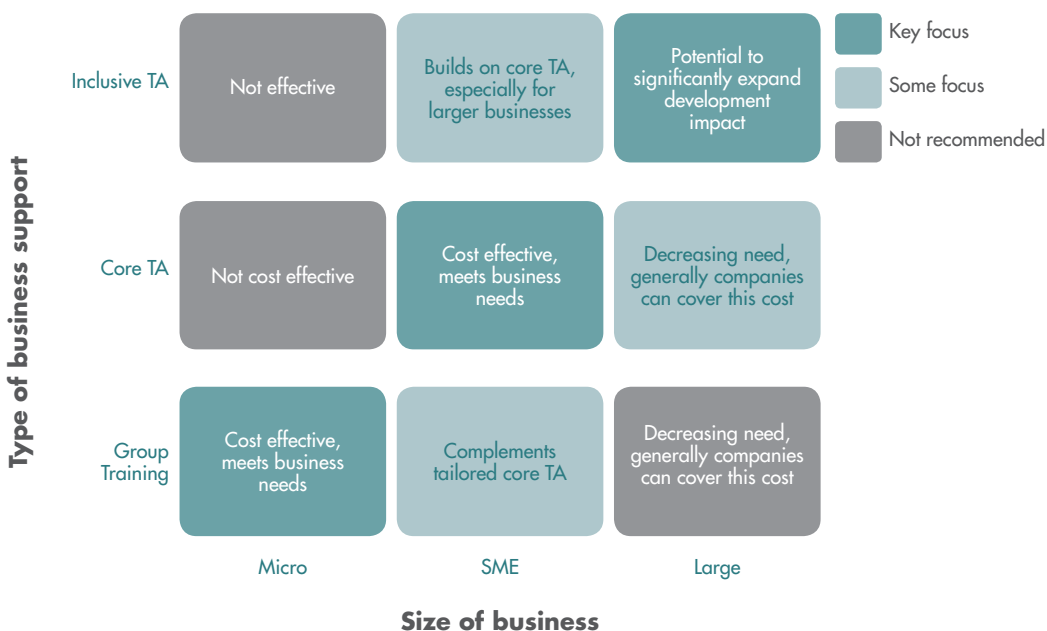



Figure 6: Types of technical assistance (TA) most effective for different sized businesses



and what the expected return for the business is, so that an appropriate level of co-founding by the firm can be defined.

As an example of core business support, Thomson highlighted a project in which a veterinarian from South Africa went to Cameroon every 4 months for 2 years, to make recommendations on how an agribusiness could improve the health and productivity of their piggery unit. This yielded a productivity increase from seven pigs per litter to 14.

Examples of inclusive business support programmes included an out-grower scheme in Zambia for the supply of maize and soya to a poultry company; and activities to incentivise a Malawian fertiliser producer to blend appropriate fertiliser formulas for smallholder farmers. However, not all companies are ideally suited to receive inclusive business support. Furthermore, finding good service providers to provide all the skills needed on these value chain projects is quite challenging. In particular, this has been barrier to the development of appropriate loan products.

In her conclusion, Thomson noted that the presence of technical assistance can influence the decision of a fund manager to invest in the business. She also noted that convincing companies about the benefits of the innovations proposed is usually not easy. However, she advised adopting a feasibility approach to convince investors that a company can work.

While private equity can bring many benefits, it is not a panacea. Private equity funds tend to have a short-term view and are likely to be moving out from primary production to processing and distribution channels. Patient long-term vehicles to finance primary production are therefore still required.

The creative tension between a technical assistance provider and the private investor will help pull sceptical investors into new 'bottom of the pyramid' business opportunities.

The project pipeline in Africa is weak, and investors often have to compete with each other for deals. Being able to provide good technical assistance can give a critical edge.



Interview with Harald Hirschhofer: Hedging currency risk for agriculture

By Helen Castell

Harald Hirschhofer, Senior Advisor at TCX, explains how foreign exchange movements represent a major but often underestimated risk for producers, processors and traders of agricultural produce and the institutions that lend to them – and how TCX’s offering of long-term foreign exchange hedges and synthetic local currency loans can help the sector mitigate this risk affordably.

The risks

A number of currency mismatches inject instability into the finances of agricultural players. Borrowers in emerging markets who need finance for long-term assets typically have only one long-term financing option: borrowing in foreign currencies such as the US dollar. If they are paid for their produce in local currencies, any sudden weakening of the home currency makes repayments on these loans expensive and potentially unsustainable, notes Hirschhofer.

To avoid this, they should borrow in their local currency. But if loans are offered at all in local currencies by local banks, these often have short tenors that don’t match the long-term nature of the assets they are funding.

Eliminating these mismatches could “provide another piece in the puzzle to allow the agricultural sector to grow more smoothly and rapidly,” says Hirschhofer.

From a developmental perspective, effective foreign exchange hedging could also have a “very important social and poverty alleviation impact,” seeing as it is often the poorest people in a society that shoulder currency risks, he notes.

Many borrowers, however, underestimate the currency risk they are exposed to. Some take too short-term a view of currency volatility, looking back no more than two or three quarters to form an opinion on future foreign exchange moves. In fact, such relatively short periods of stability can represent the “quiet before the storm,” leaving borrowers badly burned if volatility suddenly spikes, he says.

Other borrowers may be seduced by the low interest rates available on US dollar loans compared with hedged local-currency loans, without factoring in how quickly a strengthening in the dollar may wipe out that price advantage, Hirschhofer explains.



Long-term currency hedges

While it is possible to buy currency hedges from local commercial banks in many emerging markets, these tend to be short-term, making them suitable only for short-term trade finance. For longer-term investment, for example in infrastructure, hedging with TCX may often be the only or most cost-effective solution, Hirschhofer says.

TCX is able to provide long-term hedges of up to 15 years on more than 70 currencies. It offers cross-currency swaps or forwards, typically to hedge the lender, which can then provide a local currency loan to borrowers.

Working on an ‘additionality principle’, TCX only offers its hedges in frontier and less-liquid markets where commercial financial institutions are not providing a solution. “We have a privileged capital structure so we don’t want to compete with them,” Hirschhofer says. That said, its hedges are not subsidised, with each swap priced to fully reflect the risks that TCX assumes, he stresses.

At the same time, there is a potential role in the market for donors that would be willing to provide insurance products or other foreign exchange hedges at concessional rates to very small-scale farmers or other low-income portions of populations, especially in very volatile currencies or high-risk markets, Hirschhofer states. Supporting adequate distribution channels for small-scale lending and dealing with credit risk remains a challenge however.

Trickle-down protection

One obstacle that has prevented TCX from being able to serve the agricultural sector to date is that, as a wholesaler, its offering is less suited to the very small transactions that individual farmers might require.

Because of its large upfront costs, TCX’s minimum transaction size for one-off deals is US\$5 million but this does not apply to banks with which it forms a relationship and conducts multiple transactions. For this reason, TCX is looking to build relationships with commercial banks, mobile financial services providers and other aggregators that serve the sector.

“I’m optimistic that we can deploy our hedging services for agriculture because people are increasingly recognising that foreign exchange risk is a real problem,” especially at a time when development banks are becoming reluctant to provide US dollar loans to borrowers without a dollar income, Hirschhofer adds.



Also, “there is a group of aggregator vehicles emerging that will make it easier for TCX to deliver its products on a wholesale basis,” he says. “We are increasingly reaching out to such new players to help them de-risk their investments into Africa, and I think that will be very helpful for agricultural finance that these investments can flow into the sector via appropriate vehicles.”

The proliferation of mobile banking and advanced credit scoring mechanisms using big data should also accelerate access to local currency finance, he reveals.

Energy

One big focus for TCX that has an indirect but potentially large impact on agriculture is transactions that promote access to energy such as biogas, solar installations and other renewables.

Insufficient access to refrigeration, for example, remains a big challenge for agricultural value chains in Africa, with a large share of crops rotting before they reach a market. By de-risking transactions that expand the sector’s access to energy and related long-term investments, TCX hopes to contribute to improving value chain efficiency, Hirschhofer says.

Tackling the Last Mile Challenge

Tackling the last mile challenge: How can actors in blended finance collaborate to viably finance farmers who sell only in local markets?

By Helen Castell

Adam Gross, consultant for the United States Agency for International Development, the Food and Agriculture Organization of the United Nations and Director of Darhei Noam, chaired this session, which focused on experiences of cooperation among actors in blended finance to viably finance farmers who sell only in local markets.

This session challenged the participants to explore how national and international banks and funds, as well as value chain actors, can collaborate to structure a comprehensive working capital and investment financing facility, with technical assistance, for smallholders selling into short-distance value chains. Warehouse receipt finance, franchising, technical assistance and better-funding for microfinance lenders were identified as key to getting credit to smallholder farmers.

To tackle the last mile challenge of financing farmers who sell only in local markets, commercial banks should be encouraged to refinance microfinance institutions (MFIs) rather than lend directly, delegates to Blending for Agriculture (Blending4Ag) heard. Actors in blended finance can also help farmers find markets for their produce and mitigate the risks involved with tools such as warehouse receipt finance, franchising and technical assistance.

Central banks should stop encouraging commercial banks to finance the last mile and instead support them to refinance MFIs, said Hans Balyamujura, CEO of Zed Group. MFIs typically have a more detailed understanding of the farms they lend to so can measure risk better, argued Balyamujura, who early in his career worked in the agricultural division of First National Bank in Johannesburg. “The bulk of our efforts in trying to increase access to finance and stimulate development has got to be in supporting access to finance at the lower



Hans Balyamujura
CEO, Zed Group

Zed Group is a consulting, management and investment firm focused on African agriculture. Until 2013, he was General Manager of Absa Agribusiness Africa.

ends of the financial services pyramid,” he said. “We should not expect the commercial banks to play a very active role in the last mile.” Technical assistance should also be packaged around microfinance products, “Because then we would have a greater concentration of efforts around the last mile,” he added.

Although the affordability of finance – specifically, the level of concessionality in credit – remains very important in helping meet the last mile challenge, blended finance players have other tools available, said Adam Gross, a consultant for the United States Agency for International Development (USAID) and the Food and Agriculture Organization of the United Nations (FAO).

To help overcome a challenge in Malawi where agribusinesses were nervous about allowing their own warehouses to be integrated into a warehouse receipt system and allow third parties such as small farmers or traders to deposit produce in them, the European Investment Bank (EIB) offered some concessionality in finance to those companies if they built warehouse capacity that was open to third parties such as smallholder farmers and traders, he notes. This would not have been possible given the local financial resources that were available at the time.

That was backed by an FAO capacity building programme that worked with smallholder farmers and small and medium-sized enterprise (SME) associations in the vicinity of such warehouses. “We see a number of additional components that were able to generate a solution that would not have been possible given the resources that were available in the market at that time,” Gross said.

Gross is now working on another project in Malawi, trying to attract blended finance investment to small-scale rural warehousing. “One of the main challenges is that Malawian banks are not accepting rural assets as collateral,” he explained, which constitutes a challenge not just for the agribusinesses but also for the small traders and farmer associations too. The financier of a rural warehouse would therefore not be able to use that warehouse as collateral when financing either its construction or aggregation.



Adam Gross
Director, Darhei Noam

He is also the Investments and Capital Markets Advisor to the New Partnership for Africa's Development Business Foundation, and consultant to the Food and Agriculture Organization of the United Nations and the International Finance Corporation.

“One of the areas we’re looking at is a donor facility to provide a certain level of equity up front, in return for certain privileged access rights for smallholder farmers for a certain capacity of the warehouse,” Gross said.

Warehousing is also an important component of the franchise system developed by Nigeria’s Babban Gona, which in four 4 years helped smallholders in its network increase their yield 2.3 times above the national average and expand their net income 3.5 times above the national average, according to its Managing Director, Kola Masha.

Babban Gona helps smallholders create mini farmer cooperatives. After helping to identify leaders, the organisation provides them with management training, and each farmer receives training on agronomy skills and how to migrate to a ‘commercial’ mindset. The mini farmer cooperatives have enabled members to benefit from economies of scale, cutting their input costs, and by marketing farmers’ produce, the prices their output commands have grown 25% to 40%. Credit is also a major part of its offering to smallholder farmers who receive on average US\$500/ha.

As well as leveraging traditional systems to obtain information guarantees (e.g. endorsement by traditional chiefs), Babban Gona also uses integrated technology and remote sensing to track activities in the field, provide tailor-made advice to farmers in a timely way, and offer index insurance products, such as yield index insurance and price insurance, coupled with a weather alert system, to reduce the risks that can affect farmers’ return. In addition, the credits are delivered in kind by providing a holistic set of inputs, based on farm analysis and soil health assessments, and farmers are provided with training in agronomy skills. Land preparation services, high-quality seeds, regular extension and harvesting services, storage and marketing services are also provided. By addressing all of the risks that can affect a farmer’s return, Babban Gona has therefore achieved a repayment rate of 99.98%.

Babban Gona now supports close to 2,000 mini farmer cooperatives, impacting over 8,000 farmers, and in 2016 became Nigeria’s single biggest maize producing entity. To provide its farmer organisations with additional services, Babban Gona is working to leverage additional finance (US\$20 million) using a blended finance strategy.

The creative tension between a technical assistance provider and the private investor will help pull sceptical investors into new ‘bottom of the pyramid’ business opportunities.

Adam Gross



Kola Masha
Managing Director,
Babban Gona

Babban Gona, a sustainable private sector solution, provides the members of hundreds of franchise farmer cooperatives with a holistic set of services to enable them increase their yields and their profitability.

Niraj Shah explained that the International Finance Corporation (IFC) has also been very active in blended finance, including in agriculture, with a variety of structures. Many of these have included local banks. IFC manages the Global Agriculture and Food Security Program (GAFSP), which provides finance, guarantees and technical assistance grants to improve the economics of a project so that it can become attractive for financiers, making it possible for IFC to enter into projects it would not be able to finance otherwise. The aim is to provide the minimum possible level of concessionality, so as to crowd-in, not crowd-out, the private sector. GAFSP support is mostly used to de-risk projects, and normally linked to advisory services to broaden the impact of the project. Still, projects require a lot of detailed structuring. A recent rubber renovation facility in Liberia is a good example (Figure 7).



Niraj H. Shah
Senior Investment Officer,
Global Agribusiness Group,
International Finance
Corporation (IFC)

Niraj is the IFC Global Sector Lead for the agri-commodity trading sector.

Case Study: Rubber Renovation Facility in Liberia

- Firestone buys rubber from farmers in Liberia. IFC provides financing to Firestone farmers in collaboration with a local bank in Liberia so farmers can rehabilitate and replant rubber trees.
- First loss provided by GAFSP and BioCarbon Fund (the World Bank).
- Extensive advisory services are planned for both farmers and the local bank.
- Firestone commits off-take agreements with individual farmers.
- IFC is providing assistance to local bank on E&S risk screening process.

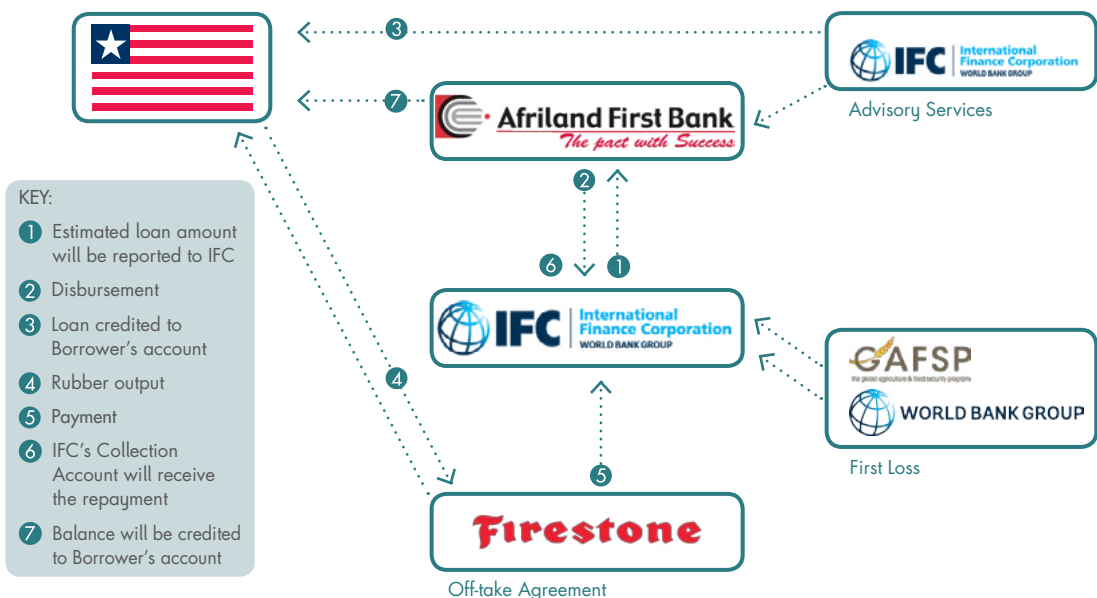


Figure 7: Rubber renovation facility in Liberia

Interview with Rt Hon. the Lord Boateng: Navigating challenging waters for the AECF

By Helen Castell

Since its launch in 2008, the Africa Enterprise Challenge Fund (AECF) has trailblazed the challenge fund model while taking a uniquely pan-African approach. As the fund now enters a transition phase – seeking to broaden its contributor base, bring more fund management functions in-house and widen its focus to look more at agricultural infrastructure and women – its new Chairman, Rt Hon the Lord Boateng, describes how he plans to navigate that change.

What are the biggest challenges now facing African agriculture?

The collapse of agricultural infrastructure, higher education and logistics, is a major challenge for the sector, and one that women have suffered from disproportionately.

My grandmother was a cocoa and cassava farmer from eastern Ghana. She was an innovator and a successful farmer. She and my grandfather educated my dad at King's College on the proceeds of a cocoa farm. You couldn't do that today.


There was however a very different climate for agriculture in the 1940s and 1950s – the infrastructure, the agricultural extension, the focus on research and development (R&D). Our cocoa and cassava farms, for example, were next door to the West African Cocoa Research Institute, which produced more than a dozen PhDs every year.

Now, however, you've seen a decline in R&D in agriculture and in institutional support for SMEs. That has led to the collapse of agricultural productivity within Africa.



Rt Hon. the Lord Boateng
*Chairman of the Africa
Enterprise Challenge Fund*

Lord Boateng is a former British MP, Cabinet Minister and British High Commissioner to South Africa.



Coffee is a classic example. Ghana has been overtaken in global markets by newcomers like Vietnam, which 25 years ago produced next to no coffee but now produces more than the whole of sub-Saharan Africa put together. That's a terrible indictment of African agriculture. So the new AECF will seek to address that collapse of agricultural infrastructure.

Scalability is another major challenge for the sector, and there are no easy answers. We are constantly looking to ensure that the investments we make are capable of being scaled up and there's some real progress in that area. But my sense as I come into the detail of this sector – I've only been doing this job for the past nine 9 months – is that there remains a real need for conferences such as Blending4Ag and for further study into how you scale up.

The funding gap in Africa alone for SMEs is estimated at US\$140 billion. That's massive. And given the state of the world in which we live – the levels of market turbulence, the current geopolitical situation – that's going to take some doing. But we're up for it. I'm excited by the possibilities. And frankly, if we don't tackle the issue of agriculture and renewables, we're not going to make the most of Africa's potential and this whole 'Africa Rising' agenda will stall.

I think the challenge for the whole sector is not to lose the momentum around agriculture and renewables, but to link it to the global preoccupations of the time: employment, inequality and meeting the Sustainable Development Goals (SDGs) in that respect.

How confident are you that the blended finance model can be more widely applied in agriculture?

My hope for blended finance is that we will move from the rhetoric around it into some really practical steps to make it more possible. It's one of those things that are very easy to talk about but actually quite tough to do.

The idea of public, philanthropic and private capital all working together sounds good, but actually getting these sometimes very different worlds on the same page and delivering to the people they're meant to help – that requires real skill and commitment. I think the purpose of gatherings like Blending4Ag is to share and acquire skills and to redouble that commitment.

What's next for AECF and how do you see the fund evolving?

It's a time of change and transition for the fund but a time in which I'm happy to say donor confidence in this approach remains high. As evidence of that, we're just about to launch a new React Southern Africa window.



AECF has been successful in the sense that we have continued to attract the support of major donors including from Australia, Canada, Denmark, the Netherlands, Sweden and the UK, as well as initially some international financial institutions such as the International Fund for Agricultural Development.

We've seen US\$156 million in grants and loans to more than 250 businesses, and we've seen some real additionality as a result of that – some US\$426 million we estimate in co-financing, whether it's in the form of cash, in kind contributions, third-party debt equity or other grants. That's a track record which we are proud of.

There are however some real continuing challenges. At this next stage of the AECF's development – we are remaining within the Alliance for a Green Revolution in Africa (AGRA) family in the sense that they are our main shareholder but we now have an independent, high-level, pan-African board whose sole focus is the AECF – we want to broaden the base of contributors to the Fund, going beyond the traditional donor model to include high-net-worth individuals and especially African philanthropists and foundations.

We think that's important because one of the strengths of AECF is its capacity to respond to pan-African needs. So we are looking to broaden our outreach into more of Francophone Africa and into Lusophone Africa, where we haven't been in the past. We are also taking much more of the Fund management function in-house. Before, we outsourced a lot of that to external, for-profit fund managers.

At the same time, we are looking to address women in agribusiness and women as entrepreneurs – an issue I feel particularly passionate about. Sixty percent of the workforce in agriculture are women, and yet if you look at the representation of women in agribusiness, it's very poor. So we are looking, with the support of our donors, at the best way to develop a window that is focused specifically on women in agriculture and women in renewables.

We also want to build on the success of AECF in working in fragile states, which is one of our strengths. We've worked very effectively in Somalia. We have worked in areas where, unless Africa and the donor community put a greater focus on land and agriculture as a source of employment, migration patterns behind the migrant crisis of recent years are going to worsen.

Alongside that, we need to recognise the importance of better agricultural inputs. So we'll be looking at how the Fund can increase investment in high-yielding seeds, improved fertiliser and livestock vaccines. We already have some track record of investment in most of those areas and estimate that 825,000 households have benefited as a result, but we believe there's still more to do.





Conclusion: Blending4Ag Forges Path for Blended Finance

More than 150 experts from development finance institutions (DFIs), central banks, governments, venture capital funds, farmer organisations, traders and microfinance providers gathered in Brussels on 7 and 8 November 2016 to discuss the opportunities blended finance presents for agriculture and how such structures can be brought to scale.

With agriculture already critically underfunded, and farmers facing pressure to meet surging global food demand from existing farmland, the world needs to find new ways of financing efficiencies in food production. This was the message from Michael Hailu, Director of the Technical Centre for Agriculture and Rural Cooperation (CTA), as he opened Blending for Agriculture (Blending4Ag) on 7 November 2016.


“To achieve the United Nations’ Sustainable Development Goals (SDGs) by 2030 will require an extra US\$2.5 trillion of financing per year and it will be impossible for governments and donors alone to plug that gap. If we want to achieve the SDGs, it is absolutely critical that we invest in agriculture,” and blended finance may be the best solution, Hailu added.

Under the Maputo Declaration on Agriculture and Food Security in 2003, African governments committed to invest 10% of their budgets in agriculture to drive 6% annual growth for the sector, noted Erick Sile, Senior Advisor – Agricultural Finance at the German development agency, *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ), and New Partnership for Africa’s Development (NEPAD)/Making Finance Work for Africa (MFW4A), noted at the conference’s opening session.

More than a decade later however, “most countries haven’t even reached half of that commitment,” creating an urgency to find fresh funds, Sile said. “The private sector represents an alternative that can leverage government funding.” Unmet demand for finance in agriculture, across all value chains, is triggering a push to find innovative new funding mechanisms, Sile added. “That’s why today we’re talking about blended finance.”

“The public sector alone will not achieve the sort of transformation of the rural sector” that is needed, agreed Bernard Rey, Deputy Head of Unit, Rural Development, Food Security and Nutrition at the European Commission’s Directorate-General for International Cooperation and Development (DG DEVCO). “Employment is largely in private sector hands and it is our collective task to work with the private sector,” he added. “We must establish incentives for the private sector to invest in agriculture.” Joan Larrea, CEO of Convergence, agreed, noting however that the private sector is “not going to come to the party unless we do something different.”

The rest of Blending4Ag was spent discussing what donors, DFIs and project sponsors need to do differently to ensure that private sector money is drawn to blended finance structures, and in significant enough quantities to ensure the solution reaches scale.



The benefits that private sector investors can offer – on top of simple cash – were also discussed. For example, at one session on venture capital's contribution to blended finance, representatives from funds like India's Aspada argued that venture capital firms are ideally suited to nurture the entrepreneurs that are necessary to funnel money from the financial system to farmers.

Additionality and scale

The concept of additionality was a major theme at Blending4Ag, with participants exploring ways that public sector money can truly leverage additional private investment, rather than crowding it out.

In a presentation on the European Union's (EU) Agricultural Finance Initiative (AgriFI) initiative, Bernard Rey explained how achieving additionality will be a litmus test for the blended finance scheme, which is currently in its early stages. "If grants from the EU replace what would be the normal flow of resources, then we miss the critical objective of incentivising private sector investment," he said. Rey noted, however, that the dearth of private sector capital currently flowing to agriculture means that proving additionality will not be difficult.

The low pricing at which international DFIs lend to agricultural projects in Africa can however prove difficult for local commercial banks to compete with, and sometimes deters them from joining blended finance schemes. Millison K NARTH, First Deputy Governor of the Bank of Ghana, noted in a session that explored ways to link up international blended finance initiatives to local players or replicate them in-country.


Getting big institutional investors on board in blended finance schemes is one way to create additionality and scale, but sponsors need to be more flexible in terms of meeting such investors' needs, delegates heard at a plenary session hosted by the Organisation for Economic Co-operation and Development (OECD).

In a 2015 review of the Danish Climate Investment Fund, the country's Ministry of Foreign Affairs found that pension funds want to reduce transaction costs by participating in fewer and larger funds that are forced to compete with each other and which have broader thematic scopes, said Jørn Olesen, Chief Consultant for the Ministry. He also outlined the Ministry's ambitions to create blended structures that partly use mobile capital from pension funds with state guarantees as equity investment. "That will generate more additionality," he said. "It's more risky and difficult to manage, to do cashflow management, but we hope it will be possible."

Achieving scale was a closely connected theme, with Tony Simons, Director General of the World Agroforestry Centre (ICRAF), calling on delegates to "set the bar high" when exploring blended finance solutions. To be relevant, any blended finance project must involve more than 20,000 farmers and at least US\$20 million of funding, he said, noting that "pilots never fail, but pilots never scale."

Climate

With climate change becoming more widely recognised as a critical issue – and smallholder farmers increasingly acknowledged as bearing the brunt of its impact – environmental themes ran like a thread through Blending4Ag.



At the opening session, Simons lagged up the recent launch in Indonesia of the US\$1 billion Tropical Landscape Financing Facility (TLFF) amid hopes that it can be replicated in other parts of the world. Out of the world's US\$90 trillion bond market, only US\$118 billion is classed as climate or green bonds, and only 6% of that finances agriculture. "We are way behind," he stressed. "We have to be way more ambitious."

The topic of climate sector bonds was also covered in a separate session that lagged the symbiotic relationship between the climate and agriculture and focused on the challenges of proving green credentials for any agriculture-based bond. While traditional blended finance may be a more appropriate source of early stage investment for smallholder farming, bonds may become a useful re-financing tool once such metrics are better established, delegates heard.

The African Export-Import Bank (Afreximbank) separately hosted a session that challenged attendees to pool their expertise to help it realise its ambition of issuing what would be Africa's first climate bond. Advice from delegates included that Afreximbank should start by identifying existing loans within its portfolio that could already be classified as green, rather than starting from scratch. Discussions also covered how the impact of an African climate bond could be defined, what role there would be for other organisations such as non-governmental organisations (NGOs), and who would subscribe to the bond.

Another session looked at how possible it would be to create a blended finance solution for cocoa farmers in Ghana to enable them to become climate smart. Discussions focused on the need to take a more holistic approach when structuring finance that considers the needs of all stakeholders in a value chain, rather than simply the mechanics of the finance.


The close relationship between agriculture and renewable energy was also highlighted repeatedly throughout Blending4Ag, with poor power connectivity in many very rural locations identified as one factor making it hard for value chains to function smoothly. Lack of refrigeration, for example, means much produce rots before it can be sold. It is no accident, therefore, that the EU's AgriFI initiative is preceded by a similar ElectriFI blended finance scheme designed to tackle power shortages, Rey noted.

Risk and efficiency

The many risks associated with agriculture are largely to blame for underfunding in the sector, so how to mitigate risk – from the perspective of both farmers and financiers – was a recurring topic at Blending4Ag.

A master class by Abigail Thomson, Program Director at TechnoServe, on how to provide technical assistance alongside blended finance schemes highlighted both the importance of the offering and how widespread its use is by impact investors. Delegates heard how innovation is sometimes best achieved by providing entrepreneurs with technical assistance that they have not necessarily requested. This kind of tension can help pull agribusinesses in a new direction that creates a greater development impact as well as boosting their bottom line.

Another session that specifically covered risk focused on the rapid progress that has been made in weather insurance solutions. Speakers also stressed, however, the necessity of charging fairly for risk-mitigation tools like insurance so that farmers understand the value of the product and its providers can gradually move away from subsidisation.



Reputational risk was also lagged as an issue that becomes more pressing as large private investors enter blended finance structures. Pension funds, for example, need to be assured that money they invest does not facilitate child labour or slavery, and this creates an even greater need for social due diligence.

Currency risk was addressed in another standalone session that was hosted by Harald Hirschhofer from the Currency Exchange Fund (TCX). At a time when a stronger US dollar has put unexpected pressure on emerging market borrowers who took loans in the currency and have seen their repayments effectively increase, he talked delegates through the often-underestimated risks of currency mismatch and explained the advantages of borrowing in local currency. Hirschhofer also revealed how currency derivatives like swaps and forwards can be used by lenders to agriculture to manage currency risk.

The right environment

For blended finance to work, governments need to create an enabling environment, while other stakeholders need to ensure that information about available schemes flows freely.

National governments must ensure that a conducive legal framework is in place so that impact investors, private equity funds and other private sector partners are comfortable joining blended finance schemes, noted Sile.

There was also an element of surprise at many sessions which outlined blended finance schemes already available, with some emerging market delegates complaining that they had not been informed of the opportunities. Linked to this was a feeling that not enough is yet being done to ensure that the needs of participants are equally met when blended finance schemes are designed. Donors therefore need to reach out more to grass-roots partners at an earlier, exploratory stage of structuring, delegates heard.

Convergence CEO, Joan Larrea, called on Blending4Ag attendees to apply for one of the grants it offers to fund the development of innovative blended finance tools. The start-up has since also launched a ‘match-making’ service for donors and private investors seeking blended finance partners.

Outcomes

With just 2 days to work with, Blending4Ag did not steer delegates and speakers to a solution for every challenge facing agricultural finance. It did however open fresh questions for attendees and connect them with other experts who might help them find answers.

As Niraj H Shah, Senior Investment Officer at the International Finance Corporation (IFC), noted that as Day 2 drew to a close, just 5 or 6 years ago, agriculture took it as a given that big agribusiness was financed by commercial investors and smallholders by donors. The fact that so many major blended finance schemes are now on the table for agriculture – and the idea that industry experts would have dedicated 2 days to find ways to improve those that come next – would have been unthinkable then, he stated. This alone demonstrates how much progress is already being made, and how much is yet to come.

Read more...

<p>Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders An overview by the Organisation for Economic Co-operation and Development and the World Economic Forum of the strategic use of development finance and philanthropic funds to mobilise private capital for development.</p> <p>http://bit.ly/22y22Vp</p>	<p>Trending: Blending the Fad for Mixing Public, Charitable and Private Money The point of blended finance is to use public or charitable funds to allow private money to flow to places and projects it would usually shun.</p> <p>http://econ.st/1YKmtO8</p>	<p>A How-To Guide for Blended Finance A practical guide by the Organisation for Economic Co-operation and Development and the World Economic Forum for development finance and philanthropic funders to integrate blended finance best practices into their organisations.</p> <p>http://bit.ly/2fhXlxd</p>
<p>Blended Finance in a Nutshell Blended finance, the mixing of public, philanthropic and private capital in emerging and frontier markets, can bridge the gap between sceptical investors and financing needs in order to address global challenges like poverty, food security and climate change.</p> <p>http://bit.ly/1O1y6ZO</p>	<p>IFC: How Blended Finance Helped Turn \$385 Million Into More Than \$4 Billion (3 of 3) Before allocating large amounts of capital, investors generally look for successful first-of-their-kind demonstration projects to ensure that risks in that particular sector are manageable. And for years, blended finance has provided exactly that.</p> <p>http://bit.ly/2fxGB5Z</p>	<p>Blending Donor Funds for Climate-Smart Investments The Blended Climate Finance team manages concessionary donor funds to be deployed for investment and advisory projects. These funds aim to address climate change by catalysing private sector investments and advisory projects that would not otherwise happen under current market conditions.</p> <p>http://bit.ly/1wrsfFF</p>
<p>Blended Finance: Catalyzing Private Capital for Development Impact Blended finance has tremendous potential to transform development finance as we know it. Through blended finance transactions, public investors can leverage their funds and often higher risk appetites to direct billions of dollars of private capital towards advancing important development priorities.</p> <p>http://dalberg.com/blog/?p=3565</p>	<p>From Billions to Trillions: Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance To meet the investment needs of the Sustainable Development Goals, the global community needs to move the discussion from 'billions' in official development assistance to 'trillions' in investments of all kinds: public and private, national and global, in both capital and capacity.</p> <p>http://bit.ly/1GO8jpl</p>	<p>Initiative for Smallholder Finance, Unlocking Local Currency Lending: Foreign Exchange Risk in Agricultural Finance Managing foreign exchange risk is a critical issue facing finance managers who provide financial services to farmers. Lenders who fund themselves with foreign currency will limit their local currency exposure by restricting the types of financial products they offer and the volume of capital they make available. This briefing explains that donors can play an influential role in mitigating foreign exchange risk.</p> <p>http://bit.ly/2gC77jP</p>
<p>Four Challenges for Blended Finance and Development Finance Institutions Overseas development assistance amounts to about US\$135 billion annually, but the cost of paying for the Sustainable Development Goals will be in the trillions. As a result, blended finance is something of a buzz phrase these days.</p> <p>http://bit.ly/1QqkTcM</p>	<p>Blending Grants and Loans for Private Sector Development: The use of Grant Elements and the AfDB's experience Grant elements in private sector operations are an integral part of the toolkit used by development finance institutions for supporting private sector development.</p> <p>http://bit.ly/2quZyui</p>	<p>Innovative Financial Instruments (Blending) Investment needs in European Union partner countries are substantial. Government and donor funds are far from sufficient to cover these needs. Countries need to attract additional public and private finance to drive economic growth as a basis for poverty reduction.</p> <p>http://bit.ly/1wwOJRQ</p>

Conference programme

Day 1 Monday 7 November 2016

9:00-11:00	<p>Opening session</p> <p>Viwanou Gnassounou, representing Patrick Gomes, Secretary-General, African, Caruiveab and Pacific Group of States Secretariat</p> <ul style="list-style-type: none"> - Bernard Rey, representing Roberto Ridolfi, Director for Sustainable Growth and Development, European Commission's Directorate General for International Cooperation and Development Erick Sile, representing Ibrahim Assane Mayaki, Chief Executive Officer, New Partnership for Africa's Development - Tony Simons, Director General, World Agroforestry Centre - Michael Hailu, Director, Technical Centre for Agricultural and Rural Cooperation (CTA) <p>Keynote speech: "What role can blended finance play in the agriculture sector?", by Joan Larrea, CEO, Convergence</p>		
11:30-12:30	<p>The Agricultural Finance Initiative (AgriFI): plans and expectations</p> <p>Coordinated and chaired by the European Commission's Directorate General for International Cooperation and Development.</p>		
12:30-13:30	Lunch		
13:30-15:15	<p>Plenary panel: "Blending4Ag – what can we learn from the experiences with blending techniques so far in agriculture and other sectors?"</p> <p><i>Coordinated and chaired by the Organisation for Economic Co-operation and Development.</i></p>		
15:45-17:30	<p>Working group 1: Partnership for effective financing of climate change adaptation and resilience projects – eligibility criteria, proving compliance, key stakeholders.</p> <p><i>Coordinated and chaired by Clarmondial and the Climate Bond Initiative.</i></p>	<p>Working group 3: Achieving leverage in central banks and other national agri-finance and guarantee schemes – what are the experiences in using public support to unlock private funding for smallholder agriculture?</p> <p><i>Coordinated by the African Rural and Agricultural Credit Association.</i></p>	<p>Working group 9: Venture capital and blending – how venture capital investors in developing countries can collaborate with foundations and other sources of blended finance for agri-investments.</p> <p><i>Organised by Aspada Investment Advisors</i></p>

Day 2 Tuesday 8 November 2016

9:00-10:45	<p>Working group 2: Linking climate bond investors and lenders to farmers: building the chain (a 'challenge session' on how a US\$200 million bond issue for climate smart agriculture in Africa could be structured). <i>Coordinated and chaired by Afreximbank.</i></p>	<p>Working group 4: Which blending mechanisms used by international development finance institutions can be replicated in national schemes; and how can national schemes be linked with international ones? <i>Coordinated by the African Rural and Agricultural Credit Association.</i></p>	<p>Working group 10: Creating effective technical assistance facilities for agricultural impact investments. <i>Coordinated by Technoserve.</i></p>
11.15-13.00	<p>Working group 5: Designing a blended lending facility for cocoa smallholders in Ghana. <i>Coordinated by Convergence, Rainforest Alliance, and Rabobank Investment Advisory Services</i></p>	<p>Working group 7: Local currency issues: What is the scope for raising local currency financing from domestic sources for agriculture finance? What are the international facilities available for managing currency risk (e.g., cross-border local currency loans, currency swaps, political risk insurance)? <i>Coordinated by the Currency Exchange Fund</i></p>	
13:00-14:00	Lunch		
14:00-15:30	<p>Working group 6: Risk management support structures for Blending4Ag – what is available, what has to be further developed. <i>Introductory presentation by CelsiusPro, on the evolution and current state of the market for weather risk management</i></p>	<p>Working group 8: Tackling the last mile challenge: How can actors in blended finance collaborate to viably finance farmers who sell only in local markets?</p>	
16:00-17:00	Plenary panel and closing session: Reporting on and discussing the working groups' recommendations.		

About the conference organisers

Lead organisers:



The Technical Centre for Agricultural and Rural Cooperation (CTA) is a joint international institution of the African, Caribbean and Pacific (ACP) Group of States and the European Union (EU). Its mission is to advance food security, resilience and inclusive economic growth in Africa, the Caribbean and the Pacific through innovations in sustainable agriculture. CTA operates under the framework of the Cotonou Agreement and is funded by the EU.

For more information on CTA, visit www.cta.int



Convergence launched in January 2016 as the first and only platform that helps public and private investors find and connect with each other to co-invest in blended finance deals in emerging and frontier markets.

www.convergence.finance



The mission of the Organisation for Economic Co-operation and Development (OECD) is to promote policies that will improve the economic and social well-being of people around the world. The OECD provides a forum in which governments can work together to share experiences and seek solutions to common problems.

www.oecd.org

Conference partners:



Overall management of the conference was conducted by Lamon Rutten. Matthew Adetunji and Armelle Degrave played important supporting roles. The conference website was managed by Thierry Lewyllie. Anna Sellars, Yvon Saroumi and Sehou L. Fanou contributed to report writing and the social reporting team was coordinated by Bunmi Ajilore. Press relations were handled by Stéphane Gambier and Anne Legroscollard.

Conference website: www.blending4ag.org

Twitter handle: [blending4ag](https://twitter.com/blending4ag)

LinkedIn site: [Blending4agIntroduction](https://www.linkedin.com/company/blending4ag/)



**Technical Centre for Agricultural and Rural
Cooperation ACP-EU (CTA)**

P.O. Box 380
6700 AJ Wageningen
The Netherlands
www.cta.int

