



Mobilizing
Finance

Working Paper

Landscape Report

Blended Finance for Agriculture



Landscape report

Blended Finance for Agriculture

March 2019



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Comment from the sponsor

The Smallholder and Agri-SME Finance and Investment Network (SAFIN) has developed a four-stage research and validation agenda in dialogue with the OECD. This report contributes to the first part of this agenda, which is entitled "Landscape and Taxonomy Research".

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1. Introduction

1. Background

Rural areas in developing countries are home to many of the poorest and most vulnerable communities. Developing rural economies is critical to improving livelihoods but requires additional resources, in particular for the agriculture sector. The food and agriculture-related UN agencies estimate that ending poverty and hunger requires additional financing in agriculture and rural development of US\$ 140 billion annually.¹ According to the 2018 State of Food Security report there has been a recent rise in world hunger, impacted by a vicious cycle of climate change and conflict.² Under-nourishment is a particular issue in sub-Saharan Africa, where 23% of the population suffered chronic food deprivation in 2017. The situation is also deteriorating in South America, driven by the low price of key export commodities that is draining financial reserves for food imports. As stewards of agricultural land, rural populations also have large direct impacts on, and are affected by, the environment. In addition to contributing to positive social outcomes, responsible sustainable land management helps to safeguard biodiversity, soil health, sustained clean water flows and increase climate resilience. Given the importance of rural populations and their economic contributions, agriculture is also central to political stability in many countries.

Agriculture remains critically underfunded. For example, the demand for agricultural finance in Africa is estimated at US\$ 32 – 40 billion, but only an estimated US\$ 7 billion is currently met.³ According to ISF, the total financing need of the 270 million smallholder farmers in Latin America, sub-Saharan Africa and South and South-East Asia is estimated to exceed US\$ 200 billion.⁴ Less than 20% of smallholder farmers currently have agricultural insurance coverage, and this number is below 3% in sub-Saharan Africa.⁵ Persistent gaps in the provision of finance to small- and medium-sized enterprises (SMEs), including for trade of agricultural commodities also remain. The World Trade Organization (WTO) estimates that the unmet trade finance demand in Africa is US\$ 120 billion and US\$ 700 billion in developing Asia.⁶ According to the Global Harvest Initiative (GHI), global agricultural productivityⁱ must grow by an average of at least 1.75% p.a. to meet demand. And, agricultural productivity must be increased concurrently with substantial investments in climate adaptation – estimates of adaptation costs are estimated at up to US\$ 7.3 billion.⁷

Financial institutions often find it challenging to serve the agriculture sector, primarily due to real and perceived risks, which in many emerging market agricultural value chains is exacerbated by high transaction costs associated with serving smallholder farmers and SMEs in rural areas.⁸ The public sector can provide important incentives to help address this situation and attract private sector investment at scale. Blended finance is an important tool for providing such incentives.

1.2 Purpose and structure of this report

This report provides an overview of blended finance in agriculture, including how it can be used to facilitate agricultural investments in emerging markets. It builds upon earlier work by Dalberg commissioned by AfDB, AGRA, DFID and IFAD on behalf of the SAFIN network in 2017. This report should also be contextualized by a current collaboration between OECD and SAFIN on the application of good practices for blended finance in the space of agri-SME finance for the realization of the 2030 Agenda.⁹ This report seeks to ask a number of guiding questions, listed in Box 1.

ⁱ Agricultural productivity refers to the ratio of agricultural outputs (gross crop and livestock output) to inputs (land, labor, fertilizer, feed, machinery and livestock).

Box 1. Guiding questions to the report

- 1 Who are the main players in the landscape and what are their respective roles? In that context: what is the role of national and local development finance institutions in blended finance for agriculture today?
- 2 What is the size of development finance flows that go through blending vs. broader use of development finance to support agricultural investment in developing countries, and how are these flows distributed geographically? In that context, what is the underlying level of risk and maturity of ecosystems in which blended finance is more often deployed?
- 3 What is the intended development rationale for the use of blended finance in the sector? In that context, are there clear market failures in the contexts where we observe more of this use, what are these failures and how does blended finance specifically address them?
- 4 Who are the main clients and intended beneficiaries of blended finance initiatives and vehicles in the sector? And in this context, are blended finance solutions targeting the primary sources of commercial finance for agri-SMEs?
- 5 Is there evidence for the use of blended finance for investment in loose value chains and in markets or value chains oriented towards local (national) markets?
- 6 What is the evidence of direct leveraging and/or indirect mobilization impact of development finance on commercial finance for agri-SME-oriented investments?
- 7 Are there cases in which blended finance is subsidizing commercially viable transactions, and if so, how prevalent is the misuses of blended finance understood as a subsidy in markets that already operate well?
- 8 Are there any exemplary operations enabling the governments concerned to take ownership of the methods of intervention in order to build sustainable instruments for the development of the sector (sustainability of tools for long term impacts)?

The subsequent sections of this report are structured as follows: **Section 2** introduces the concept of blended finance in agriculture, including definitional challenges. It proposes a taxonomy of approaches and tools that can be considered as "blended finance" in the agriculture sector. These are further contextualized by their purpose (i.e. to meet specific challenges or risks), and the role of value chain stakeholders in mobilizing finance. **Section 3** presents an inventory and assessment of existing data and analytical sources, key gaps in terms of data and analysis, and priority areas for investment in the knowledge base about the use of blended finance approaches in agriculture. **Section 4** provides an assessment of the blended finance landscape for agriculture based on the defined taxonomy and existing knowledge base. The section also considers national and regional DFIs. Building on the database initiated for this report, to track the role of local DFIs in promoting blended finance.

- Promoting the work of local DFIs using a range of instruments, e.g. through the case studies.
- Scoping out potential collaboration methods between local DFIs and the private sector in blended finance instruments, e.g. as potential collaboration frameworks.
- Building and maintaining a database on smallholder and agri-SME blended finance instruments, including concessionary finance instruments used, mobilization rates and additionality indicators.

Section 5 concludes with brief responses to the questions guiding this report (see Box 1). **Annex 1** provides an overview of key terms and their definitions, and **Annex 2** an overview of private investor concerns about blended finance instruments.

This study is intended as an initial overview of the agriculture blended finance knowledge landscape. A summary of the main observations and recommendations, based on literature reviews and stakeholder interviews, in particular in the context of the SAFIN network, are provided in Sections 2 – 4. As this study covered a wide range of markets and sectors, the conclusions that can be drawn are of a relatively general nature. The SAFIN network is expected to continue this work, including by developing specific case studies, which will provide more tailored summaries and recommendations.

1.3 Blended finance: definition and important considerations

This report uses the definition of blended finance as the *"strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries"*¹⁰.

Blended finance can improve the risk-return characteristics of an investment, thus attracting additional capital from diverse sources. Key definitions related to blended finance are summarized in **Annex 1**.

Circa US\$ 2.5 trillion per year, over and above current development resources, are required to meet the Sustainable Development Goals (SDGs)¹¹. Without a significant acceleration in additional investment the SDGs will not be met, with dire consequences primarily for low income populations in emerging markets.¹² While Overseas Development Assistance (ODA) has experienced relatively modest growth, development finance has grown rapidly over the past decade. The expectation is that development finance from a wide range of sources, public and private, international and local, can be mobilized to address the SDG financing gap. Faced with this challenge, the OECD Development Assistance Committee (DAC), with 30 DFI members agreed to collaborate to mobilize more private sector funding and set out five guiding principles for blended finance¹³:

- (1) Anchor blended finance use to a development rationale;
- (2) Design blended finance to increase the mobilization of commercial finance;
- (3) Tailor blended finance to local context;
- (4) Focus on effective partnering for blended finance, and;
- (5) Monitor blended finance for transparency and results.

These principles are challenging to implement in practice. For example, development finance providers do not yet have fully shared mechanisms for monitoring development impacts. While there is general agreement on the definition and principles, in particular among OECD DAC members and regional development banks, there are still grey areas, which makes it more difficult to monitor amounts invested, mobilized and catalyzed and resulting development effects.¹⁴ Initiatives that aim to align approaches and definitions, such as OECD TOSSDⁱⁱ, are emerging but still need to be broadly established¹⁵ Historical data is not available to assess the evidence for different types of blended finance interventions and to inform the design of such instruments. Tailoring blended finance to a very specific local context or development rationale may also prevent achievement of the scale and diversification needed for commercial investors.ⁱⁱⁱ Although the term "blended finance" is recent, many of the stakeholders, instruments and issues are not. Over the past two years, consensus around the definition of "blended finance" has been forming, and there is a commitment to collaborate on improving data mobilization and transparency. This provides a good basis for continuing to test and scale blended finance solutions for agriculture.

ii Total Official Support for Sustainable Development (TOSSD) is a new metric that is being developed as an international statistical standard to quantify and track resources provided to developing countries to help them reach their objectives under the SDGs.

iii. Annex 2 provides an overview of investor concerns with respect to blended finance transactions.

2. Tools and approaches for blended finance for agriculture

2.1 Introduction

This section is based on a literature review, including previous work on blended finance in agriculture by Dalberg¹⁶, desktop research assessing 37 national DFI agriculture interventions, and over 30 stakeholder interviews. The stakeholder interviews indicated challenges with regards to the definitional boundaries for blended finance in agriculture, as described briefly below. The proposed taxonomy is based on common agriculture finance and value chain approaches and agricultural risk mitigation instruments that respond to agriculture finance needs by smallholders and agri-SMEs in emerging markets and was collated from stakeholder interviews and desktop research. Note that the terms "tools" and "instruments" are used interchangeably. "Approaches" refers to the way a tool is applied, and in this section focuses primarily on value chain vs. non-value chain approaches.

Definitional challenges with respect to blended finance for agriculture

There are on-going discussions as to the definitional boundary of the term "blended finance". Historically, the term has been applied to instruments where concessionary finance has been provided by developed country governments, i.e. ODA providers and intermediaries, multilateral and bilateral development agencies, to achieve development outcomes. Questions have been raised as to the role of local or regional development finance agencies and governments, companies, and farmers, as providers or mobilisers of concessionary capital.

Agricultural markets are closely linked to the "real economy", and heavily influenced by government policies, which may in turn be supported by financial instruments that indirectly leverage private capital. Policy approaches to expand agricultural finance include guarantee funds, subsidized lending, forced lending, interest rate caps, and creation of new financial entities. Government interventions that support additional agricultural investment are at the boundary of what might be considered blending. For example:

- Governments that support local subsidized lending programs by issuing government bonds that attract private capital.
- Domestic investment incentives such as tax holidays and rebates to spur agricultural investment.
- Government management of specific strategically important crops, for example through specialized commodity boards, that then incentivize private investment in production.

Farmers also provide substantial investments in agriculture, in the form of labor, for example. This is often provided "for free". Are programs that create more value for farmers that invest more in their own production considered blended finance? Additionally, companies may provide risk mitigation instruments to their suppliers, e.g. Letters of Credit^{iv}, which may help to facilitate access to finance for producers, is this considered blending? Such discussions can often become complicated, and it is worth bearing in mind the purpose of expanding the term "blended finance", and the current challenges associated with proper monitoring, even considering a relatively narrow definition.

^{iv} Letters of Credit (LCs) are an obligation of a bank, usually irrevocable, issued on behalf of their customer and promising to pay a sum of money to a beneficiary upon a certain event, e.g. delivery of a specific quantity and quality of agricultural produce at a given time.

2.2 Responding to stakeholders' agricultural finance needs

Stakeholders considered in this section include providers of capital, including concessionary and commercial capital, recipients or users, and intermediaries. Typical target beneficiaries are rural populations, in particular smallholder farmers and their communities. Potential recipients or users of blended finance include individuals, and private and not-for-profit organizations of varying forms, such as cooperatives, SMEs, corporations, DFIs, banks and NGOs. Intermediaries include asset managers (e.g. fund managers) and advisors, which can help with transaction structuring, fundraising and monitoring. Other important stakeholders include Technical Assistance (TA) providers (typically NGOs), and data providers. Providers of concessionary capital include donors and government agencies, development finance providers and philanthropies. Concessionary capital (or guarantees) can also be provided by other stakeholders such as companies or NGOs. Commercial capital providers include asset managers, banks, and other types of investors.

Financing is required by various agricultural stakeholders, including smallholder farmers and agri-SMEs, to meet a variety of needs. These range from general household (consumption) needs of smallholder farmers to that of agri-companies, including SMEs, to secure, develop and grow their businesses, summarized in Figure 1 below.

These financing needs can be met using a variety of instruments, i.e. grants, equity, debt and risk mitigation products (guarantees and insurance products, including hedging), all of which can include a "blended" (concessionary) component. The definitions of the basic finance terms on specific instruments are summarized in Annex 1. The concessionary element within agricultural blended finance transactions can be used to address many different challenges. These may include the use of public funds to ensure adequate training through technical assistance (TA), creating market facilitating infrastructure (e.g. collateral registries, warehouses), establishing subsidized guarantee programs and insurance schemes. Some of the roles of development finance in blending to achieve financial and value addition are summarized.

Figure 1. Financing needs and challenges for different agricultural stakeholders

	Agricultural value chain				
	Inputs	Production	Transport, storage, handling	Processing	Marketing, distribution
Who needs funding?	<ul style="list-style-type: none"> • Input producers • Input importers • Agro dealers • Primary producers / farmers 	<ul style="list-style-type: none"> • Primary producers / farmers 	<ul style="list-style-type: none"> • Primary producers / farmers • Local buyers, e.g. grain operators 	<ul style="list-style-type: none"> • Local buyers e.g. processing companies • International companies 	<ul style="list-style-type: none"> • Brands / retailers
What is the funding for?	<ul style="list-style-type: none"> • Input production • Export & import • Technical assistance • Transport, marketing 	<ul style="list-style-type: none"> • Access to land • Equipment, transport • Labor • Inputs • Technical assistance 	<ul style="list-style-type: none"> • Transport • Labor • Equipment • Inputs • Technical assistance 	<ul style="list-style-type: none"> • Transport • Labor • Equipment • Inputs (goods) • Export & import • Technical assistance 	<ul style="list-style-type: none"> • Inputs (goods) • Marketing • Labor • Equipment & transport
Main funding challenges include...	<ul style="list-style-type: none"> • Time critical • Technical expertise to optimize use • Currency • Repayment linked to primary production 	<ul style="list-style-type: none"> • Time critical • Technical expertise • Production risks • Market risks • Availability of monetizable collateral 	<ul style="list-style-type: none"> • Quality of local infrastructure • Time critical 	<ul style="list-style-type: none"> • Technical expertise • Quality of local inputs (reliability, quality) • Reliability of demand • Market risks 	<ul style="list-style-type: none"> • Market reliability • Local policies (e.g. import restrictions, price caps) • Reliability of supply & demand

Note: this figure excludes financing needs of governments, e.g. agricultural ministries for technical assistance provision

Table 1. Potential roles of concessionary finance providers in blended finance transactions

Role of development finance	Sample instruments	Additionality aspects
Identify and enable new financing structures	Grants, concessional loans	Research to identify opportunities e.g. market research, concept testing with investors Facilitate the design of new investment structures, e.g. the Convergence design awards
Seed new structures – first (anchor) capital	Equity, debt	Test new types of intermediation structures, i.e. proof of concept funding ¹⁷ - and help bring a financial instrument to scale, so additional private capital can engage Conduct professional due diligence that can be shared Act as a transaction lead, reference source to other investors (e.g. in syndications)
Financial de-risking	Guarantees, first loss tranches, subordinated loans, risk absorbing equity	Change the risk-return calculation for private investors (perceived & actual risk) Reduce the intermediation cost of capital, thus improving risk-return to investors
Technical de-risking	Grants	Provide grant funding alongside an investment to help increase chances of success (e.g. TA)
Remunerate additional, non-financial development impacts	Grants, rebates	Pay for additional pre-agreed impact outcomes, where appropriate. For example, building on work in Results Based Financing being pioneered by DFID, the World Bank, SDC, IADB, and private foundations.
Market development	Grants	Research and publish aggregated reports on the success of different interventions Support investor engagement and understanding, investor incentives (e.g. policy changes) Support the development of consistent ways to monitor financial and developmental impact, to appropriately subsidize additional support, and regional approaches to harmonize relevant data.

A note on agricultural risk mitigation products

While agriculture is an important contributor to GDP in many countries, there are several additional risks that make it challenging to finance. These include primary production risks, market and price risks, processing and distribution risks and political risk. These risks are magnified by loose value chains, challenges of accessing rural areas (and associated high costs), lack of market formality, geographical risk concentrations¹⁸ and typically high local opportunity costs on capital. The challenges of agricultural finance often go hand in hand with that of rural financial inclusion. Only some of these risks may be efficiently mitigated by a finance-centered approach, most are effectively addressed with a combination of policy, market, technical and resource approaches. Table 2 summarizes the main risks, and integrates the previous work done by Dalberg.

Table 3 summarizes the main agricultural risk management and insurance products, a comprehensive review of the different types of agricultural risks and risk management tools can be found in World Bank Group (2014)¹⁹.

Table 2. Main risks in agriculture finance²⁰

Macroeconomic risks	Currency risk	Decline in the value of an investment due to adverse currency movements
	Interest rate risk	Decline in the value of an investment due to changes in global and local interest rate environments
	Political risk	International and local political risks, e.g. on agricultural trade, sanctions
Business risks	Business model	Risks from underlying business model, including new un-tested business models, includes supply chain risks introduced through dependency on other value chain partners, e.g. output (off-taker) and input price risk
	Agronomic	Reduced or unpredictable harvest (quality / quantity) due to agronomic practices, i.e. production and technical risks
	Natural hazards	Unpredictable weather events, earthquakes, landslides etc.
	Commodity price	Adverse movements of commodity prices

Note: this excludes non-agricultural risks such as health risks, which may have an impact on agricultural production and smallholder household performance

Table 3. Agricultural risk management and insurance products²¹

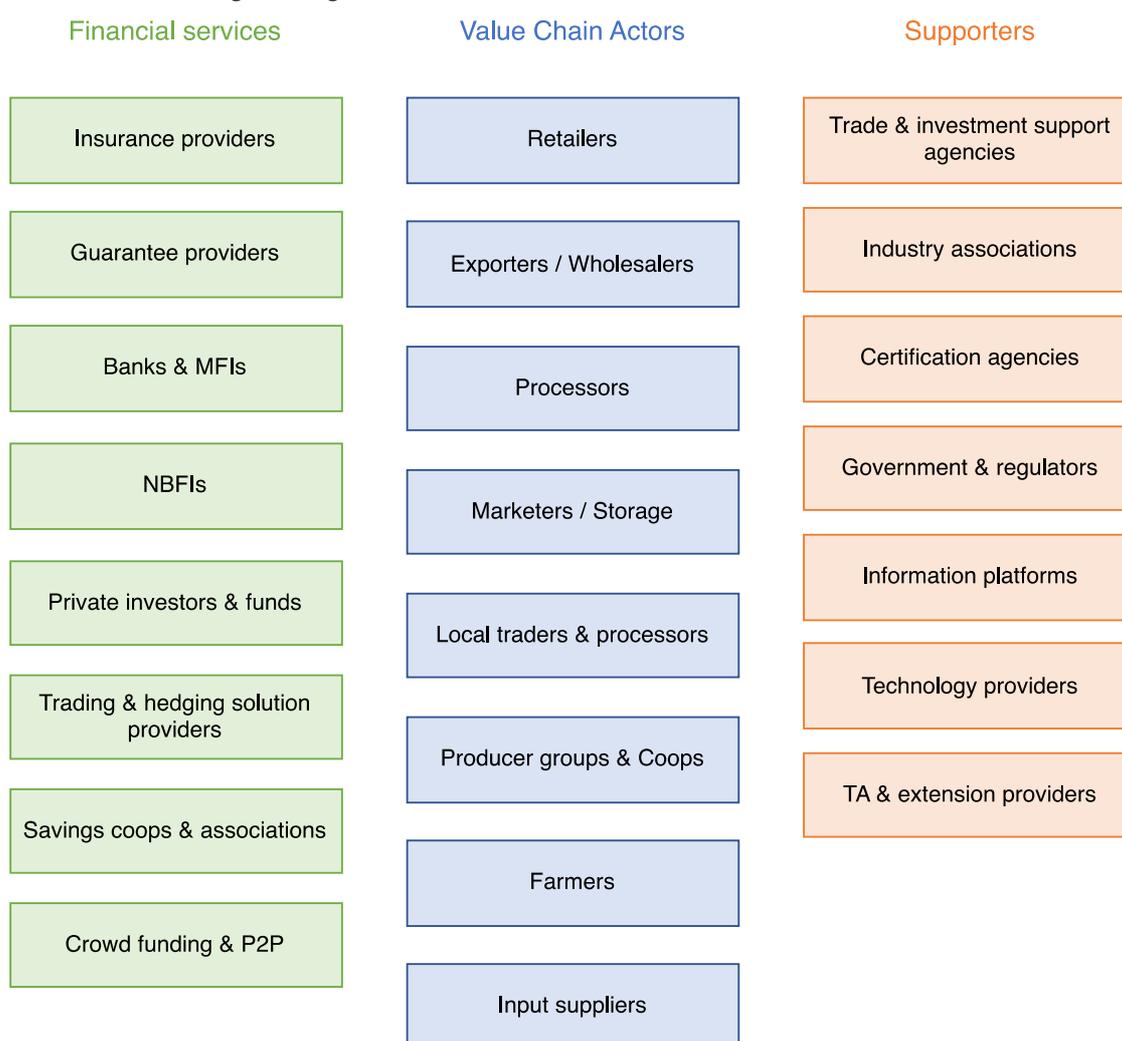
Government risk management programs	Price and income support programs	Provide minimum price guarantees and a variety of farm income support for producers of selected strategic commodities
	Disaster aid	Programs to offset losses caused by catastrophic weather events, i.e. ad hoc assistance to agricultural producers in response to catastrophic events
Agricultural crop insurance	Individual insurance products	Specific to an individual farm yield history and production outcome
	Individual yield-based insurance products	Rely on historical production data from individual farms to determine expected yields
	Individual revenue-based insurance products	Similar to the above but also incorporates expected harvest prices
	Proxy index products	Triggers and premiums determined by area or regional histories and production outcomes
	Area-based yield insurance products	Similar to yield insurance but incorporates data from a region to establish expected yields and indemnity triggers
	Weather index insurance (precipitation and / or temperature)	Precipitation and / or temperature as proxy indicators for growing conditions to trigger indemnity payments
	Weather index insurance (vegetative growth)	Indemnity payments based on measures of vegetative growth (i.e. satellite imagery)

Value chain approaches to agricultural finance

Where tight links between stakeholders in an agricultural value chain exists, finance can be mobilized through these relationships e.g. input advances. Taking a value chain approach means that financing considerations are made with reference to value chain relationships, e.g. between sellers and buyers of agricultural products and services, rather than an individual applicant. Value chain approaches can help to address some financing barriers, including access to collateral.²² Within agricultural value chain finance, there are a multitude of approaches that can be "blended", including input and output-focused agricultural product financing, trade receivables financing, factoring, forfeiting, purchase order-based financing, warehouse receipt financing, leasing, derivatives, pre and post-export finance, loan guarantees and various types of insurance.²³

An overview of value chain actors and other important stakeholders is illustrated in Figure 2 represent different opportunities to mobilize and catalyze blended finance including as providers of capital and risk mitigation. Value chain finance approaches are obviously not appropriate for all situations, notably in loose value chains and for subsistence farmers. In these cases, financial services are generally delivered by specialized for profit or not for profit financial institutions.

Figure 2. Agricultural value chain actors and related stakeholders²⁴





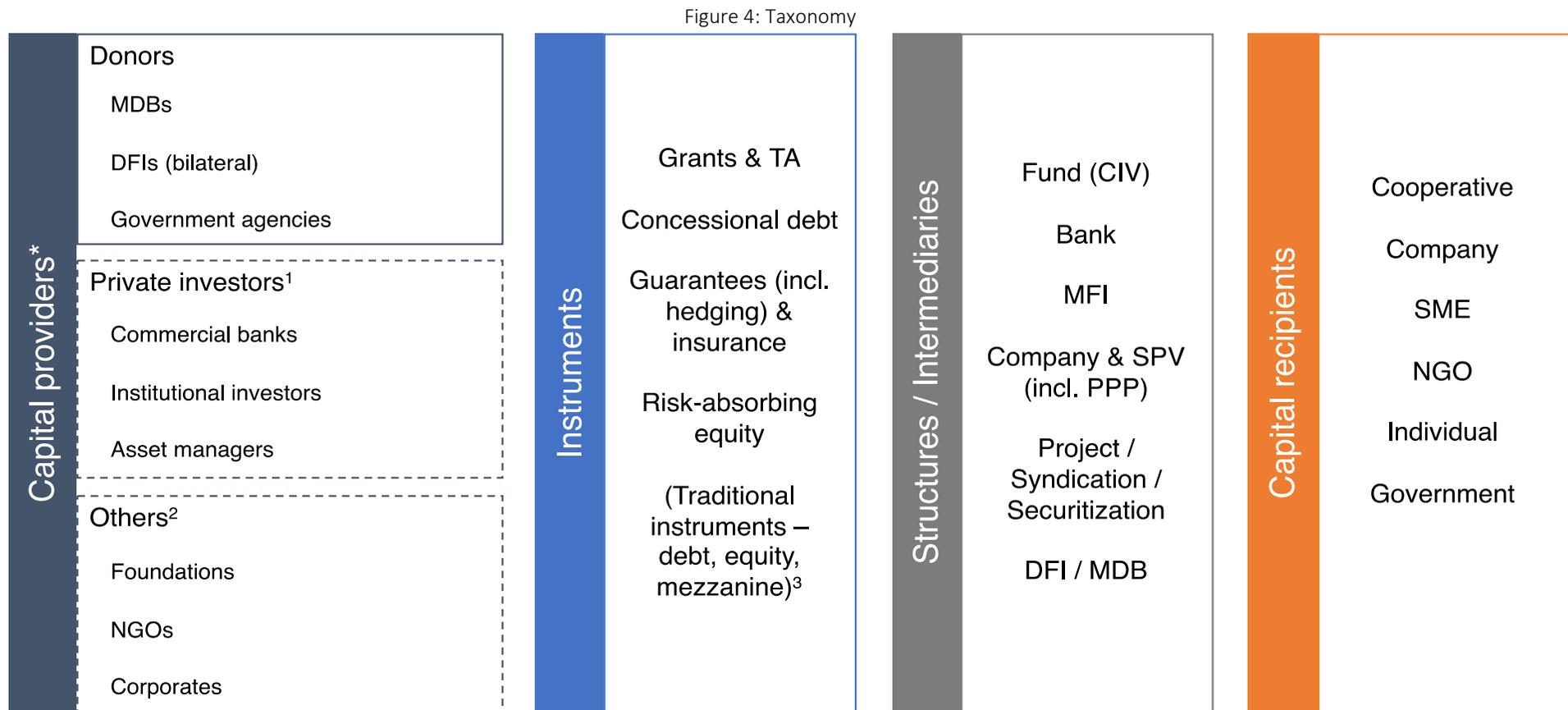
Note that insurance providers include all stakeholders in insurance provision including micro-insurers and re-insurers. NBFIs refers to Non-Bank Financing Institutions including trade finance companies. P2P refers to Peer to Peer lending platforms (e.g. Kiva). Note that not all value chains will have all market participants, financiers and service providers.²⁵

2.3 Proposed taxonomy of tools

Various financial tools or instruments can be used individually or in combination in financial structures to deliver new financing for agriculture in support of the SDGs. These include structures (such as Collective Investment Vehicles (CIVs) or Funds) and instruments (such as loans or guarantee facilities).²⁶ Relevant instruments and structures should be selected based on the specific investment needs and risks.²⁷ A taxonomy of blended finance sources, instruments, intermediaries (structures) and beneficiaries is presented in Figure 3 and Figure 4 based on literature reviews, desktop research and stakeholder interviews, and integrating previous work done by Dalberg. Note that these tools may be used within or outside the context of a specific agricultural value chain. Where a blended finance instrument (tool) is used within a value chain, a related value chain stakeholder may provide or mobilize the finance, e.g. through guarantee arrangements. The discussion below summarizes the 4 categories of blended finance tools, and their sub-categories, in the context of agriculture.

Figure 3: Description of blended finance instruments

Grants	Debt	Guarantees, insurance	Equity
<p>A sum of money given bestowed for a specific purpose, typically conditional upon certain qualifications as to the use, maintenance of specific standards.⁵ Grant funding does not have to be returned.</p>	<p>Market loans or concessionary loans, i.e. with terms substantially more generous than market loans. Concessionality is achieved either through interest rates below those available on the market, grace periods, or a combination.⁶ Note that this funding must be returned.</p>	<p>A guarantee is a promise to take responsibility for another entities financial obligation if the initial party cannot meet its obligation.⁷ Insurance refers to an arrangement where a third party undertakes to provide guarantee of compensation for pre-agreed losses or damage.⁸</p>	<p>Equity is capital invested in a firm that is not returned in the normal course of the business. Capital providers (investors) only recover their money when they sell their shareholdings to others, when there are dividends, or when the assets are liquidated and proceeds distributed.⁹</p>
<p>Grant instruments include:</p> <ul style="list-style-type: none"> • Technical Assistance • Design funding • Performance-based payments & Results Based Financing (RBF) • Challenges, prizes 	<p>In addition to more traditional instruments such as direct loans and credit lines, concessional debt instruments include:</p> <ul style="list-style-type: none"> • Repayable grants (interest free loans / zero interest loans) • Impact bonds • Advances, rebates • Subordinated loans, junior 	<p>Guarantee and insurance instruments include:</p> <ul style="list-style-type: none"> • Credit guarantees • Subsidized production insurance (various incl. parametric weather insurance) • Subsidized market insurance (various incl. minimum volumes) • Subsidized price insurance (various incl. hedging instruments) 	<p>In addition to direct equity investments in companies and collective investment vehicles / funds, risk absorbing equity instruments include:</p> <ul style="list-style-type: none"> • First loss tranches • Quasi equity • Other equity products



Note: * Donor (public sector) engagement is a requirement in blended finance structures, additional capital may be mobilized from private investors and others. (1) Note that this category may also include others, such as direct investments through lending platforms. (2) Foundations: this references their concessionary activities, this includes corporate foundations. (3) A range of standard instruments can be used directly or combined with public funds, or used with other instruments, in a blended finance structure or transaction.

Grants

Grant funding can be used to subsidize other instruments, including through design funding, TA provision and providing payments for performance, as well as challenges and prizes.

Table 4: overview of grant based blended finance instruments for agriculture

Sub-category	Role of development funder	Examples
Technical Assistance (TA)	Pay for third party, or directly select and fund, specialized TA to farmers, local companies, or intermediaries to facilitate finance. This can, for example, be agronomic expertise or business management expertise.	<p>TA Fund / Facility: e.g. the TA facility of the African Agriculture Fund (AAF), managed by Phatisa²⁸. The TA Facility was funded primarily by the European Union managed by IFAD and implemented by TechnoServe. It received additional support from AGRA, Italian Development Cooperation and UNIDO. The Fund provided TA to investees of a private equity fund.</p> <p>Demand & supply side TA program for agribusiness: FinGap Ghana²⁹ a USAID-funded program that financed business advisory services to agri-businesses and local banks to help develop the agricultural sector, using a value chain approach.</p>
Performance-based grants and Results Based Financing	Pay project developers or business owners based on achievement of pre-agreed non-financial (developmental impact) outcomes, typically once these have been verified by an independent third party.	UNCDF supported NBS Bank and Women's World Banking in Malawi with a performance-based grant to develop a tailored savings account for poor and unbanked, especially women in rural areas. ³⁰
Design funding	Provide grants to entities that develop and implement new business models or financial instruments to mobilize additional capital to sustainable agriculture.	<p>Convergence³¹ has provided grants to entities designing innovative blended finance structures including for agriculture.</p> <p>IFAD provides grant funding to promote innovative, pro-poor approaches and technologies that have the potential to be scaled up.</p>
Challenges, prizes	Provide a sum of money to an entity that has won a competition to achieve a specific pre-defined result. This differs from performance-based grants in that it is competitive, and that performance-based grants do not necessarily require third-party verification.	AgResults ³² is a US\$ 147 million multilateral initiative that uses prize competitions to incentivize the private sector to overcome agricultural market barriers by investing in innovative research and delivery solutions that improve the lives of smallholder farmers.

Debt

This comprises debt (credit) that can be provided directly to users (e.g. agri-SMEs), as well as through other relevant institutions. In addition to relatively common development finance products, e.g. direct loans and credit lines through local financial institutions, other types of more concessionary instruments are possible such as repayable grants (interest free loans and advances), rebates, impact bonds and subordinated loans. Note that other tools exist that sit between debt and equity e.g. EIB's quasi-equity structures³³ (non-dilutive equity risk capital that is remunerated based on the company's performance, i.e. debt that is paid back like equity), and the "demand dividend"³⁴ structure (debt vehicles where payments are tied to cash flows, including a grace period, fixed payoff amount and term sheet covenants and business plan focused on cash to align incentives). These could potentially be applied to agriculture but are not specifically designed for this sector.

Table 5: overview of debt based blended finance instruments for agriculture

Sub-category	Role of development funder	Examples
Direct loan (including credit facilities and credit lines e.g. for trade, export, bonds and notes)	Provide a direct loan, typically on market terms, to a counterpart, e.g. to crowd in additional funders. This also includes the provision of a dedicated agriculture credit line through an existing financial institution.	Proparco, FMO and Société Générale provided a EUR 90m loan to a West African corporate (SIFCA) to finance the agricultural investments of its subsidiaries, ³⁵ NABARD provides various forms of credit lines, e.g. to the agricultural operations of commercial banks. ³⁶
Repayable grant (interest free loan), advances	Provide a sum of money that must be repaid at some pre-agreed time, and that bears no interest. In the case of advances, a development funder may advance payment for a good or service, ahead of that good or service being delivered. Effectively providing credit at zero interest.	ECLOF Kenya monthly CSA dairy loan, where a repayable grant from DFID helped to eliminate the loan cost of capital for ECLOF to provide the loan to smallholder dairy farmers without collateral. This also funded TA. ³⁷
Rebates	This is a discount given to a purchaser of a good / service at the time of purchase. These are commonly used by local governments in developed markets to incentivize investment. Rebates could be funded by the local government or a third party.	NIRSAL, a Nigerian program supported by the Central Bank to promote agricultural investments, offers an interest rebate program to borrowers who pay back their loans on time. ³⁸
Impact bonds	Provide upfront investment, or act as the outcome funder to subsidize private investment into an instrument.	The IDB climate-smart agriculture development impact bond for productive improvement of agroforestry products and forest conservation in the Peruvian amazon. ³⁹

Subordinated loans	Provide funding in a more junior position in the capital stack compared to other private funders, thus accepting lower returns or higher risk, or both.	<p>Provision of a US\$ 2 million subordinated loan by IDB Invest, combined with senior loans from IDB Invest and others, as well as TA to channel medium-term resources to Banco de la Producción (Produbanco) to finance SMEs and provide a green credit line for SMEs in Ecuador.⁴⁰</p> <p>The Eco.Business Fund has a sub-ordinated loan of US\$ 60 million to support green business practices in Latin America and the Caribbean. This 60 million is provided partially by IDB Invest and the China Co-financing Fund for Latin America.⁴¹</p>
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Guarantees, insurance

There are various commercial and concessionary guarantee and insurance products available. These include instruments that cover political risk, production related risks (including weather), price insurance and performance insurance.

Table 6: overview of guarantees and insurance blended instruments for agriculture

Sub-category	Role of development funder	Examples
Credit guarantee	Cover a pre-agreed quantity of losses incurred by agricultural lenders.	<p>USAID Development Credit Authority (DCA) provides credit guarantees, for example it has supported local banks and lenders such as Root Capital.⁴²</p> <p>African Guarantee Fund⁴³, supported by DANIDA, AfDB, the Spanish government, AFD, Nordic Development Fund and KfW with the mandate to assist financial institutions to increase their financing to African SMEs through the provision of partial financial guarantees and capacity development assistance.</p>
Production insurance	Cover all or part of the costs of insuring against production-related losses, e.g. due to weather, climate, pests or disease. This may be done directly, or through a derivative.	The African Risk Capacity (ARC) ⁴⁴ established by the African Union (AU) as an index-based weather insurance pool and early response mechanism. This created two entities: ARC Ltd., which is a sovereign-level mutual insurance company providing weather-related insurance coverage to Member States; and ARC Agency, a grant funded TA provider.
Subsidized market & price insurance	Cover all or part of the costs of insuring against market-related	Local currency bond: with the support of the Private Sector Window Local Currency Facility ⁴⁵ the IFC was provided a

	losses, including on volumes and currency.	US\$ 20 million open currency swap to enable it to subscribe to the first local currency bond issued by a Cambodian MFI (with rural exposure). ⁴⁶ Several donors support TCX, for example to create a currency management facility in Myanmar, under the Livelihoods and Food Security Multi-Donor Trust Fund (LIFT). ⁴⁷
Payment, performance, surety bonds	Commonly used in real estate and trade finance, these de-risks a transaction between a provider of goods / services and payer. Development funders may subsidize these directly or through a third party (e.g. insurance company) and may participate directly e.g. provide Letters of Credit (LCs) and reserve accounts as a form of guarantee.	IFC covers the obligation of the issuer of a financial instrument for trade financing on-lent to clients through its Global Trade Finance Program (GTFP) ⁴⁸ , i.e. import letters of credit (LCs), standby letters of credit (SBLCs), the obligation of the issuer of performance bonds, bid bonds and advance payment guarantees. Other DFIs such as the AfDB have similar programs.

Equity

Equity, both direct and through CIVs / Funds, have generally played a lesser role compared to other types of development finance tools. And, most equity investments are in the form of mezzanine / quasi equity (preferred shares, subordinated debt). Equity investment are expected to generate higher returns, but often have significantly higher volatility and illiquidity. While development funders can make direct investments in companies and "normal" investments in CIVs, they can also provide more catalytic, risk absorbing equity. Of those, first loss tranches and subordinated equity positions in CIVs are the most common.

Liquidity, in particular, is often considered a challenge to mobilizing more investors to provide equity. While it would in theory be possible to structure various forms of liquidity facilities and equity derivatives (puts, options) to help crowd in private capital, this is an area that has not been widely addressed. While some countries have created incentives that encourage the public listing of smaller companies, including agricultural companies, these are medium to larger entities and illiquidity remains due to thin trading volumes.

Table 7: overview of equity based blended finance for agriculture

Sub-category	Role of development funder	Examples
Direct equity (minority / majority)	Take a direct equity stake in a company, SPV or CIV (Fund), alongside other investors.	Various development funders engage in this, for example Uganda Development Bank (UDB) can provide equity investment in startup and existing projects in partnership with private co-investors. ⁴⁹
First loss tranche	The capital from the development funder absorbs	The European Union has provided EUR 10m in first loss capital to Yield Uganda

	the first losses that impact the investment. In the case of development funders, this position in the structure, without taking commensurate returns, catalyzes additional investors.	Fund ⁵⁰ , managed by Pearl Capital Partners.
Junior equity	takes a subordinated position compared to other equity providers, for example by buying into a different share class in a CIV or buying common stock (vs. preferred stock). This means that they may have fewer rights, including on dividends and on assets in case of a bankruptcy.	AFD recently committed junior equity to the Land Degradation Neutrality Fund, managed by Mirova Althelia. ⁵¹

Blended finance in the context of agricultural value chains

The potential for blended finance in agriculture is enhanced where value chain links are tighter, and thus where support from the agricultural value chain can be leveraged. The breadth of possible blended finance instruments for agriculture seems to be particularly affected by value chain tightness with respect to debt (credit) and insurance and guarantee transactions e.g. trade credit, bill discounting, factoring and reverse factoring, and forfeiting.⁵² In non-value chain approaches, finance is provided directly, e.g. to a cooperative, company or farmer, or through a financial intermediary such as a bank, MFI or insurance provider.

While several blended finance investment structures that focus on agriculture have made investments in loose value chains (e.g. for seeds and cereals), no existing labelled blended finance funds purely dedicated to loose agricultural value chains were identified.

Table 8: overview of instruments within agricultural value chain approaches

Instrument / tool	Examples
Grants	An input provider pays for farmer training on good practices and farm services, e.g. provided by an experienced NGO, which supports higher revenue generation by smallholders
Debt / credit	A trader advances credit to farmers through a local MFI prior to production to enable farmers to meet their household needs
Guarantees, insurance	A buyer provides legal assurance to a financier that they will be paid a certain amount if a farmer delivers a pre-agreed volume product at a certain time and quality, enabling the financier to extend credit
Equity	An international company that takes an equity stake in a local company to encourage more business under responsible practices with smallholder farmers

2.4 Instruments and approaches: observations and recommendations

Observations

Definitional challenges with respect to what blended finance in agriculture actually encompasses remain. Interviewees had differing views on when structures that use blended finance instruments actually qualify as "blended". Agriculture-based development is also impaired by several systemic issues, e.g. related to trade rules and local government policies, and there is no consensus on the extent to which those should also be addressed as part of blended finance interventions. As shown in the next chapters, this is an impediment to drawing conclusions about the state and success of blended finance in agriculture.

The taxonomy provided in this Section are should provide a reference frame to categorizing instruments. However, there are almost endless possibilities in terms of potential combinations of blended finance instruments into structures and through intermediaries. Blended finance instruments must be applied with both the users and providers of capital in mind, and with consideration to structures and intermediaries. And, for the providers of capital, the needs of both concessionary and commercial capital providers. The blending approach, which risks could be covered, and how to cover them, obviously also differ depending on the nature of the value chain, i.e. a wider range of potential blended finance configurations are possible in tighter value chains.

Recommendations

In the context of the SAFIN network:

- Develop a shared approach to blended finance, noting that there are certainly systemic issues to be addressed in the agriculture sector, but there may be limited usefulness in labelling *inter alia* policy-related interventions as "blended finance" instruments. These could, though be considered in the context of addressing the enabling environment or "systemic issues".
- Develop a shared inventory of blended finance instruments within the network to begin systematically categorizing the prevalence, use and experience of different instruments. This could also differentiate the instruments by value chain linkages.

3. Data sources and needs on blended finance for agriculture

This section considers existing data sources, and more broadly knowledge, concerning the use of blended finance in agriculture. It assesses whether such data and knowledge are sufficient to enable the appropriate use of blended finance in the sector, and if not, what the key data and learning challenges are.⁵³ It is based on desktop reviews and stakeholder interviews.

3.1 Data needs for blended finance in agriculture

There are significant data investments needed to ensure abidance with the 5 blended finance principles, and their sub-categories. Example data needs as per the blended finance principles are summarized in Table 9 below. Specific data needs will depend on the context, for example priority social and environmental outcomes, and information on finance flows available locally.

Table 9: sample data needs according to the blended finance principles

Principle	Sub-category principle	Example data needs
Anchor blended finance use to a development rationale	1A. Use development finance in blended finance as a driver to maximize development outcomes and impact	Up-to-date baseline data on relevant development outcome areas, e.g. localized rural household data such as nutrition status
	1B. Define development objectives and expected results as the basis for deploying development finance	Evidence base for deploying development finance to a specific intervention, i.e. regularly updated datasets with a statistical basis for causality
	1C. Demonstrate a commitment to high quality	Corporate governance principles and standards applied and adhered to, e.g. labor violations
Design blended finance to increase the mobilization of commercial finance	2A. Ensure additionality for crowding in commercial finance	Information on the availability and pricing of existing financing sources
	2B. Seek leverage based on context and conditions	Time series data on commercial finance mobilized from different instruments to track leverage, e.g. resultant additional amounts mobilized to agriculture
	2C. Deploy blended finance to address market failures, while minimizing the use of concessionality	Timely data on the availability and pricing of different financing and risk mitigation instruments e.g. cost of various export credit guarantees
	2D. Focus on commercial sustainability	Information on the financial health of counterparts, e.g. up to date audited accounts
Tailor blended finance to local context	3A. Support local development priorities	Up to date baseline and indicator information on local development priorities, e.g. rural youth employment
	3B. Ensure consistency of blended finance with the aim of	Information on availability and pricing of different types of finance in the local

	local financial market development	financial market, e.g. pricing on agri-SME loans
	3C. Use blended finance alongside efforts to promote a sound enabling environment	Comprehensive and up-to-date overview of local government policies, e.g. fiscal policies, including enforcement
Focus on effective partnering for blended finance	4A. Enable each party to engage on the basis of their respective development or commercial mandate, while respecting the other's mandate	Up to date development and commercial mandate, including assets, e.g. audited accounts
	4B. Allocate risks in a targeted, balanced and sustainable manner	Consistent categorization and valuation of risks by different stakeholders
	4C. Aim for scalability	Transparent and consistent sharing of existing programs and lessons learned, shared approaches to tracking financial mobilization
Monitor blended finance for transparency and results	5A. Agree on performance and results metrics from the start	Common and dynamic baseline data to agree on and track performance and results e.g. on agricultural input use efficiency, water use
	5B. Track financial flows, commercial performance, and development results	Estimated commercial risk-adjusted returns to each party in the transaction
	5C. Dedicate appropriate resources for M&E	Shared M&E approaches (e.g. indicators), common and dynamic baseline data
	5D. Ensure public transparency and accountability on blended finance operations	Public databases on relevant indicators and aggregated baseline information

3.2 Inventorying available data sources

Table 10 summarizes various sources of relevant information for blended finance for agriculture. Note that some of these are relevant in only certain contexts. For example, information on malnutrition rates and related indicators are only be relevant for blended finance instruments that specifically target these development outcomes. Various specialized institutions may have databases of proxies that can be applied, e.g. for assessing environmental impacts. However, applying proxies can lead to wide (or un-estimable) error margins which are typically not reported. Most of the readily available data sets, in particular those that can be more easily aggregated, are international or regional. While there are fragmented but emerging data sets that can inform estimates on the size of blended finance flows to agriculture, their targets, focus, governance, actual and intended impacts, are still nascent.

Table 10: selected existing data sets

	Relevant information source	Relevant information provided
International sources	OECD	Various relevant data sets on development finance and impacts, e.g. TOSSD ^v and the IDS databases ⁵⁴ , OECD mobilization data ⁵⁵
	FAO	Global food and agriculture statistics ⁵⁶ e.g. the share of credit to agriculture compared to GDP in a specific country, (FAO STAT), FAO's Agricultural Development Assistance Mapping (ADAM) ⁵⁷
	UNCTAD investment statistics	Documents and analyses regional and global trends in FDI ⁵⁸
	UN World Population Prospects	UN World Population Prospects (WPP) ⁵⁹ , which covers information on regional population trends
	World Bank Group	World Development Indicators ⁶⁰ , World Bank Doing Business reports, World Bank's International Development Association (IDA) Resource Allocation Index, and the Country Policy and Institutional Assessment (CPIA) which summarizes country performance on selected topic areas, the World Bank Debtor Reporting System (DRS), the World Bank International Comparison Program (ICP), Living Standards Measurement Surveys (with UNICEF) ⁶¹
	UN Statistics Commodity Trade Statistics (Comtrade) database	International trade statistics by country and volume ⁶²
	World Trade Organization	Value add trade statistics and monitoring of policies ⁶³
	World Health Organization (WHO)	Global database on child growth and malnutrition ⁶⁴
	IFAD	Annual development reports and country overviews ⁶⁵ and the Financing Facility for Remittances (FFR) ⁶⁶
	IFPRI	The Statistics on Public Expenditures for Economic Development (SPEED) ⁶⁷ , Agricultural Science & Technology Indicators (ASTI) ⁶⁸
	ILO	ILOSTAT database ⁶⁹ and ILO International Standard Industrial Classification of All Economic Activities (ISIC)
	United Nations Environment Programme (UNEP)	World Conservation Monitoring Centre (WCMC) ⁷⁰ , Environmental Data Explorer and the Global Environmental Outlook (GEO) ⁷¹
	International Union for the Conservation of Nature (IUCN)	Red list of threatened species ⁷²
GCAP	Various, including surveys on global financial inclusion ⁷³	

^v "TOSSD [Total Official Support for Sustainable Development] aims to complement ODA by increasing transparency and monitoring important new trends shaping the international development finance landscape including (i) leveraging / catalytic effect of ODA, (ii) the use of blended finance packages, (iii) the use of innovative risk mitigation instruments in development co-operation. TOSSD would incentivize broader external finance for development as well as a complement to developing countries' own domestic resources." For more information see: <http://www.oecd.org/dac/financing-sustainable-development/tossd.htm>

	IMF	IMF Financial Access Survey, annual survey on the global supply-side data on financial inclusion ⁷⁴ , IMF Government Financial Statistics Yearbook, Financial Soundness Indicators database ⁷⁵ , the IMF is also the main provider of international remittance statistics based on central bank data ⁷⁶
	CGIAR	CGSpace, a repository of agricultural research outputs ⁷⁷
	GODAN	Scientific working groups developing open data sets on various agriculture-related issues e.g. soils ⁷⁸
	AgMIP	An international effort linking climate, crop and economic modeling communities with technology communities to provide improved crop and economic models ⁷⁹
	SUN	Scaling Up Nutrition (SUN) Resource Tracking project, tracks nutrition investments ⁸⁰
	Development Data Hub	Database of financial resource flow data alongside poverty, social and vulnerability indicators ⁸¹
	Global Donor Platform for Rural Development	Land Governance Programme Map, which provides information on donor-funded land governance programs, primarily in the context of food security, it may in the future include information on finance instruments ⁸²
	International Aid Transparency Initiative (IATI)	Tracks ODA and NGO budgets including by locations, sectors, results and conditions (e.g. financial conditions) ⁸³
Regional sources	Regional multilateral development institutions (EBRD, ABD, AfDB, IADB)	Various, including the EBRD Transition indicators by sector ⁸⁴ , ADB's economic and poverty statistics ⁸⁵ , AfDB's Africa Information Highway (AIH) ⁸⁶ - a network of live open data platforms (OPPs) linking all African counties and regional organizations, IDB's Agrimonitor ⁸⁷ , which covers Product Support Estimates (PSEs) country level databases for LAC countries
	Regional surveys and initiatives	For example, the African Union's ReSAKKS ⁸⁸ (in collaboration with IFPRI), AGRA
National sources	Government ministries and other government bodies, including central banks	They may provide relevant information on: National poverty line(s) National population census National databases on financial statistics, including FDI National databases and tools for assessing agricultural credit provision and rural financial inclusion National databases on agricultural production (trade) National enterprise surveys National Aid Management Platforms National investment centers, which may estimate agricultural investment demands
Industry sources	MIX Market	Data platform focusing on the supply side of finance, e.g. the Smallholder Finance Product Explorer developed with One Acre Fund ⁸⁹
	Development finance providers websites	Most development finance providers have project summaries and evaluation reports on their websites
	GIIN IRIS	Various recommended metrics, including for impact investing in agriculture (note metrics rather than database) ⁹⁰

Convergence	Database on blended finance transactions, including on agriculture ⁹¹
Social Performance Task Force (SPTF)	Develops standards and practices for social performance management ⁹² (recommended approaches rather than database)
CSAF	Reports on agricultural lending by leading impact investors operating in the smallholder agriculture segment ⁹³
fDi Markets	Developed by the Financial Times, this is the most comprehensive online database of cross border greenfield investments, covering all countries and sectors (including agriculture) ⁹⁴
Sedex	Collaborative platform for sharing responsible sourcing data on supply chains ⁹⁵

Data to track developmental impacts and assess additionality

Blended finance structures should be designed with the objective of achieving additional development impacts. This means being able to assess baselines and develop and monitor indicators on a range of environmental and social indicators, including on some of the topic areas summarized in Table 9 above. Indicators should be specific, measurable, attainable, relevant, and time-based.

Though there are various sources of social and environmental data available, some of which are noted in Table 10, it may be difficult to comprehensively track development impact in a specific transaction as data will have to be combined from many different sources, or may have to be generated from scratch. In many cases, there are significant data gaps, which may be partially addressed through initiatives of international research organizations working on primary data and improved agricultural and economic models. Tracking development impact can be particularly difficult in the agricultural sector, where small-scale farmers exist in rural areas and operate in informal market settings. Many countries lack the capacity to produce and report the data necessary to inform the development debate or monitor their national trends⁹⁶.

Most self-labeled blended finance facilities have a formalized M&E function to track impact.⁹⁷ However, despite existing forums to coordinate the tracking of impact, it remains challenging. Initiatives to track development impacts are fragmented, and the quality and completeness of information is inconsistent. Many, if not most, blended finance instruments in agriculture include a contractual obligation to monitor development impact as part of receiving development finance. However external accountability of blended finance vehicles is generally weak, the additional cost of M&E is not always budgeted in, there is a lack of harmonization in monitoring tools that hampers comparability.⁹⁸ To add complexity, most DFIs and donors are organizationally diverse and have their own development impact monitoring frameworks and monitor KPIs on institutional and project levels.⁹⁹ Value chain actors, e.g. corporates, may also have their own set of KPIs and monitoring approach, which may further complicate the ability to track and assign developmental additionality.

Leading DFIs focused on agriculture have developed combined approaches. For example, the IFC GAFSP has a detailed M&E plan¹⁰⁰ that integrates indicators from FAO, the World Bank and other sources and links to the SDGs. Under the GAFSP, project activities are geo-referenced, and a dedicated portal exists to share data and collaborate on M&E. The GAFSP also coordination with the government and non-governmental initiatives, e.g. the CAADP countries Strategic Analysis and Knowledge Support System (SAKSS), Mapping for Results (M4R), and the Open Aid Partnership.¹⁰¹



Private sector impact investors tend to track development impacts as well as financial ones. However, these are not always well-coordinated with development indicators tracked by the development community or governments. Initiatives such as the Global Impact Investing Network (GIIN) maintains a database of recommended performance metrics (IRIS)¹⁰² and are working to build more consensus around tracking impact of investments, including in agriculture. Other emerging initiatives include the Operating Principles for Impact Management¹⁰³ and the Impact Management Project (IMP).¹⁰⁴

Data to track development finance flows and assess financial additionality

Tracking public and private development flows to agriculture is challenging. There are arguably more efforts to track public development flows, including by OECD DFIs. However, it is often difficult to untangle the proportion of financial services and infrastructure allocations that can also be considered as serving the agricultural sector. Monitoring development flows becomes even more challenging in emerging markets. Many emerging markets use public funds to leverage investment, but do not actively report sector or instrument mobilization rates in a coordinated manner. One entry point is through national Aid Management Platforms (AMPs), which are utilized to monitor, track and plan incoming flows of finance and support, but mostly for ODA. These may include some mapping between activities and country budget frameworks, but they are rarely accessible to export.¹⁰⁵ While FAO has data on indicators such as government spending on agriculture, these datasets do not include entries from all countries in all years.

Comprehensive, consistent and aggregated information on the activities of non-governmental stakeholders, including NGOs, but primarily on companies and investors, is more difficult to come by. NGOs that are funded by OECD governments are usually required to provide data to their funders. However, many do not publish their full project portfolios, only those that are funded by relevant donors. Information on philanthropic flows can, in some locations, be obtained by reviewing tax filings and charity returns.¹⁰⁶ Initiatives such as IATI are important in being able to track these flows.

Information from private investors, intermediaries and companies (e.g. value chain partners), is challenging to access. While datasets exist, e.g. the UNCTAD investment datasets, these are difficult to use to assess actual investments by type of stakeholder in a given value chain. For example, FAO, in its most recent assessment of FDI flows to agriculture¹⁰⁷ utilizes a dataset from the Financial Times (fDi Markets), however this database notes greenfield foreign direct investment projects, rather than investments into existing businesses, which may be more prevalent. This FAO publication also states that this data may differ substantially from data provided by UNCTAD or OECD, which are collected from official national authorities.¹⁰⁸ And, while professional private investors, intermediaries and companies have audited accounts, these may be under different accounting standards and are typically confidential. It is thus difficult to assess amounts invested, returns, etc. Where private sector entities are public (i.e. listed), more information may be available, but it may still be difficult to untangle relevant information on specific investments from public reports. There are emerging pre-competitive efforts to promote data sharing and transparency such as CSAF (summarized in Box 2 below) that can play an important role in advancing data for blended finance, including for justifying financial additionality.

In addition to absolute amounts provided, mobilization is also an issue. Mobilization refers to the amount of co-investment by other parties. In a systematic literature survey, a study found that the existing evidence on DFIs demonstration effect is limited given the relatively recent introduction of DFI impact evaluation systems and difficulty of proving causality.¹⁰⁹

Box 2: Overview of CSAF

The Council on Smallholder Agriculture Finance (CSAF) is an alliance of social lending institutions, also referred to as impact-first agricultural lenders, targeting agricultural businesses in the "missing middle" in low- and middle-income countries. The mission of CSAF is to facilitate market expansion to meet a greater share of the demand for finance among agricultural SMEs, and to promote responsible lending principles. CSAF members convene on a pre-competitive basis to exchange learning, identify best practices and develop industry standards across three areas: (1) market growth, (2) responsible lending practices, (3) social and environmental impact. CSAF publishes annual reports that highlight key achievements. In 2018 these included co-designing a new initiative to identify and address constraints to agricultural SME lending in East Africa, including a financial benchmarking analysis of the loan level economics for serving various segments of the agricultural SME market, implementing a standard loan monitoring process to streamline reporting for borrowers served by multiple CSAF members and partnering with MIX to harmonize key metrics and industry terminology across lenders.¹¹⁰

The 2018 survey data was obtained from CSAF members and was collected and cleaned by Dalberg. Circa 3,600 loans from 2010 to 2016 were screened totaling US\$ 2.35 billion and ranging in sizes from US\$ 25 thousand to more than 3 million. Operating cost data was collected from individual members. In a second phase, local financial institutions in East Africa were surveyed. The survey results indicated that loans in Latin America performed better than loans in Africa, larger loans performed better than smaller ones, loans to existing borrowers are more profitable than to new borrowers, loans in formal sectors (e.g. coffee and cocoa) performed better than in other crops, and short term loans (less than 12 months) performed better than long-term loans.¹¹¹ In the survey on East African lenders, it was found that lenders could profitably lend a wide range of loan sizes, and that local banks in particular were able to break even on loans of US\$ 40-50 thousand. However, there was insufficient data and interviews with loan officers indicated a lack of financing in the US\$ 100-500k range. Based on the collected information it was inferred that bank lending to agri-SMEs requiring more than US\$ 100 thousand is limited, heavily collateralized, and not tailored to agri-SMEs needs.¹¹²

3.3 Assessment of the current data sources: observations and recommendations

Observations

The landscape of current data sources is mixed. While many relevant initiatives exist, it is difficult to get a comprehensive picture of the most suitable approach and instrument, and thus additionality. For example, a portion of the funding categorized as flowing to financial inclusion and infrastructure, for example, is flowing to recipients in the agriculture sector. Private sector led initiatives are emergent, including their integration into development led initiatives.

Recommendations

The lack of comprehensive data sets should motivate stakeholders to invest in data collection rather than serve as a justification for inaction. In the context of blended finance for agriculture is recommended that:

- The development of existing data aggregation and statistics platforms should be supported, e.g. FAOs databases on finance flows to agriculture.
- The integration between existing developmental datasets should be improved, to ensure coverage across sectors and geographies. It is critical that potential users are provided with access points
- Gaps in data sets are identified and investments are made to close such gaps. This should include efforts to integrate more information from the full range of development finance stakeholders in agriculture, including companies, NGOs and governments. Private sector funders, companies and NGOs must be encouraged to align with national and regional initiatives on impact monitoring and assessing the status of current blended finance instruments.
- There should be additional support to pre-competitive private sector initiatives e.g. working with corporates and financial services providers, so that better data can be gathered to justify more blended finance operations in agriculture, and to test new approaches (e.g. CSAF).
- Where possible, initiatives should focus on collaborating with value chain stakeholders to align and track development outcomes associated with blended finance instruments, while recognizing that there not be full consistency between priority outcomes and that data sets will have to be developed and refined over time.

4. The landscape of financial flows to agriculture

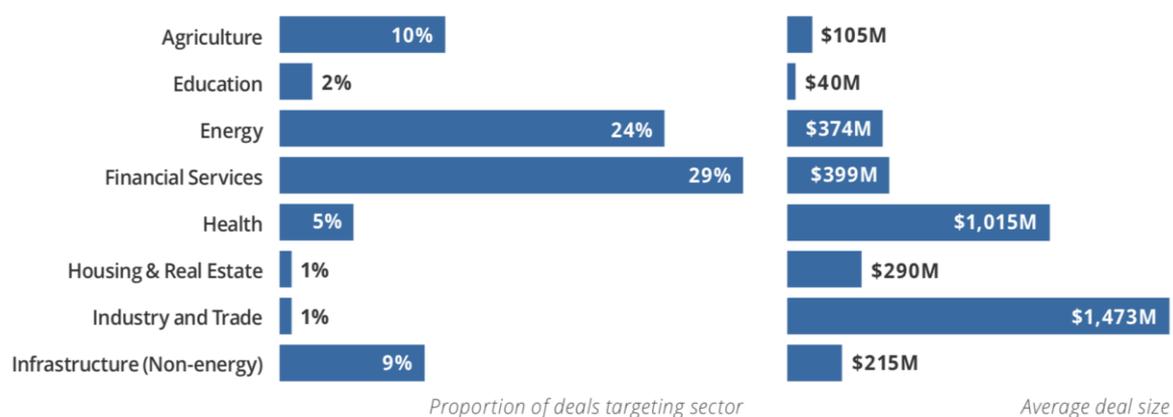
This section summarizes current estimates of blended finance flows to agriculture, both those that are labelled explicitly as such and those that are not. It begins with an overview of labelled blended finance volumes and is followed by a summary of other agricultural finance sources. The section includes an overview of the roles and experiences of regional and national DFIs. It also includes a short overview on the demand for agriculture finance. It is however not possible to distinguish between demand and supply for value chain vs. non-value chain approaches. The section also includes some information on preferred instruments, based on desktop research, literature reviews and stakeholder interviews.

4.1 Blended finance flows to agriculture

According to the OECD, the largest blended finance amounts, in general, have been allocated as credit lines to the banking and finance sector. It is not clear what proportion of credit lines to these sectors are in rural areas and could be for agricultural purposes. In terms of ability to mobilize additional finance, according to OECD, for agriculture, guarantees are the most successful in terms of mobilization, followed by syndicated loans, credit lines, shares in CIVs and direct investments in companies respectively.^{113 114}

According to Convergence, the global network for blended finance, the total volume mobilized to date through blended finance structures is over US\$ 100 billion.^{vi} Within this, funds are the most common deal type. Sub-Saharan Africa is the most popular target, followed by Latin America and the Caribbean. Most blended deals utilize concessional capital, followed by technical assistance funds, guarantees / risk insurance and design grants. The largest deal sizes are in guarantee / risk insurance. DFIs are the most active investors, followed by commercial banks and private foundations. Transactions have primarily focused on financial services and infrastructure. The extent to which financial services instruments, in particular in rural areas, target agricultural activities, is however unclear.¹¹⁵

Figure 5: Market overview



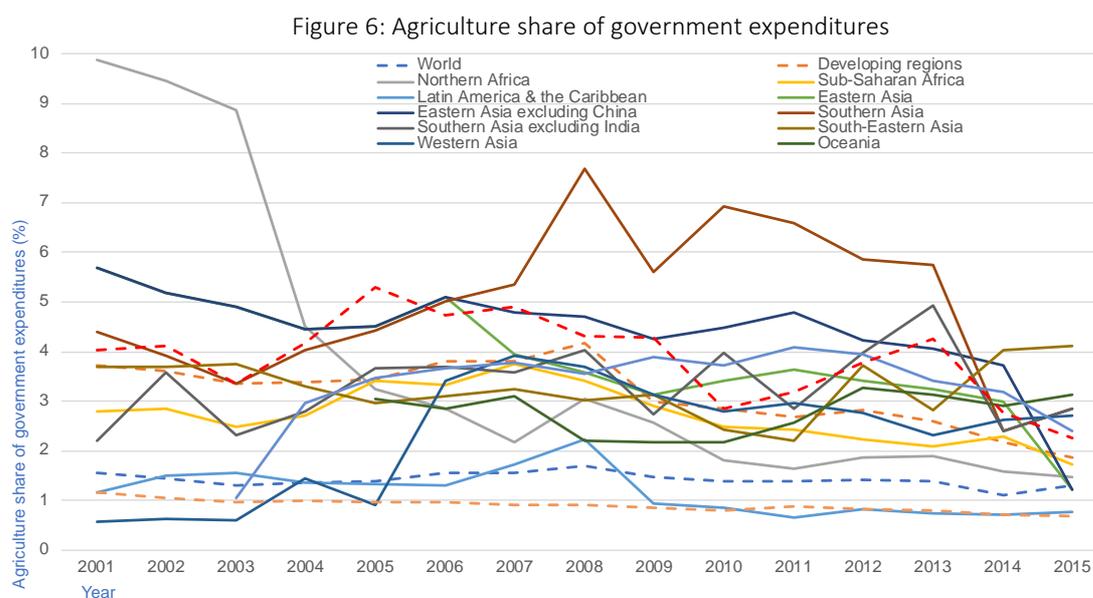
Source: Convergence ¹¹⁶

^{vi} Note that the definition used by Convergence is not the same as is applied in this paper, and the figure is likely an underestimate.

4.2 Supply of agriculture finance

Local government sources

Funding for agriculture may come from or through governments, for example in the form of emerging market government borrowing that is then used to support domestic agriculture. However, government revenues in most low-income countries remain below the 15% GDP threshold typically considered necessary for effective state functioning, which may impair their ability to adequately support agriculture. The overall supply of external resources to developing countries has declined, FDI dropped by 30% over 2016-17, and project finance by 30% in the first trimester of 2018 alone. Other financial flows are stable but relatively small, e.g. remittances by migrants reached US\$ 466 billion in 2017; ODA is US\$ 146.6 billion and philanthropy ca. US\$ 7.9 billion p.a. Innovative finance accounts for a minor share of official providers efforts.¹¹⁷ According to the FAO, there is also a declining domestic contribution to agriculture by many governments around the world. In 2015 developing nations provided on average 1.9% of their central government budgets to agriculture, despite the sector contributing 7.1% of GDP. There have however been some successes, notably in Sub-Saharan Africa and Asia.



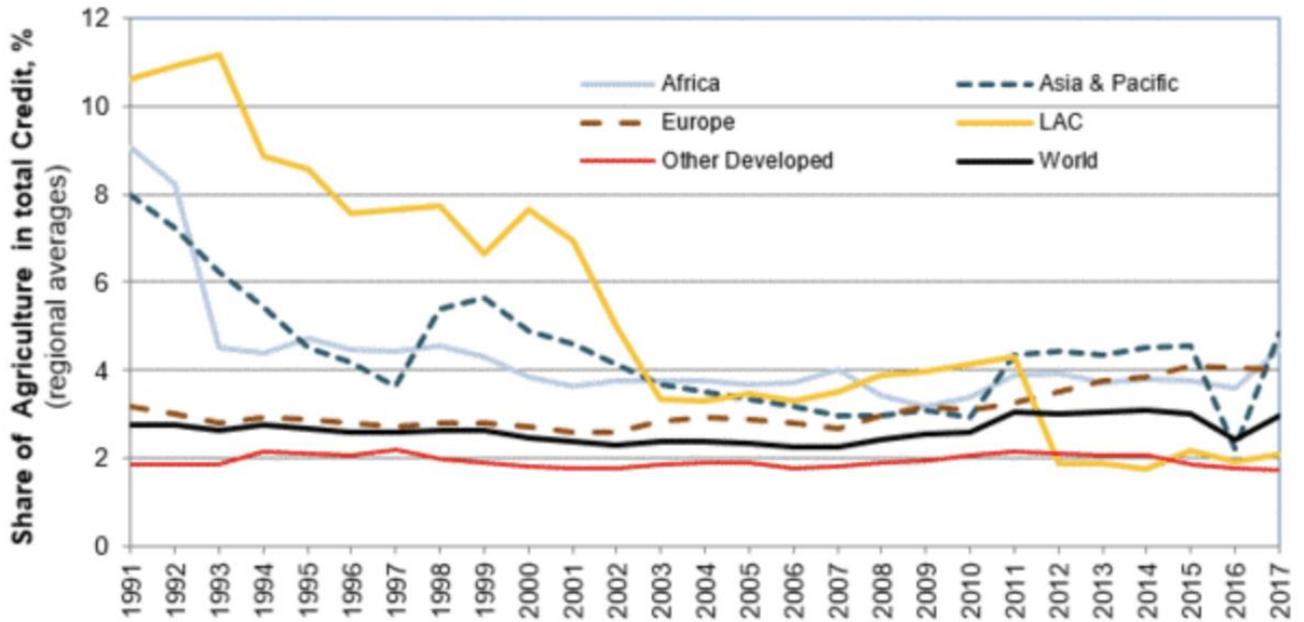
Source: FAO STAT

Local availability of credit

Despite a general increase of credit to agriculture from 2.4% in 2016 to 2.9% in 2017, availability of credit remains relatively low when compared to GDP contribution.

Formal financial institutions, including MFIs, commercial banks, and impact investors account for ca. 25% of the supply of finance to smallholders, informal and community-based financial institutions account for about 45% and value chain actors 30%. Value chain actors include input suppliers, traders, processors, distributors and marketers, who also access finance from various sources.¹¹⁸

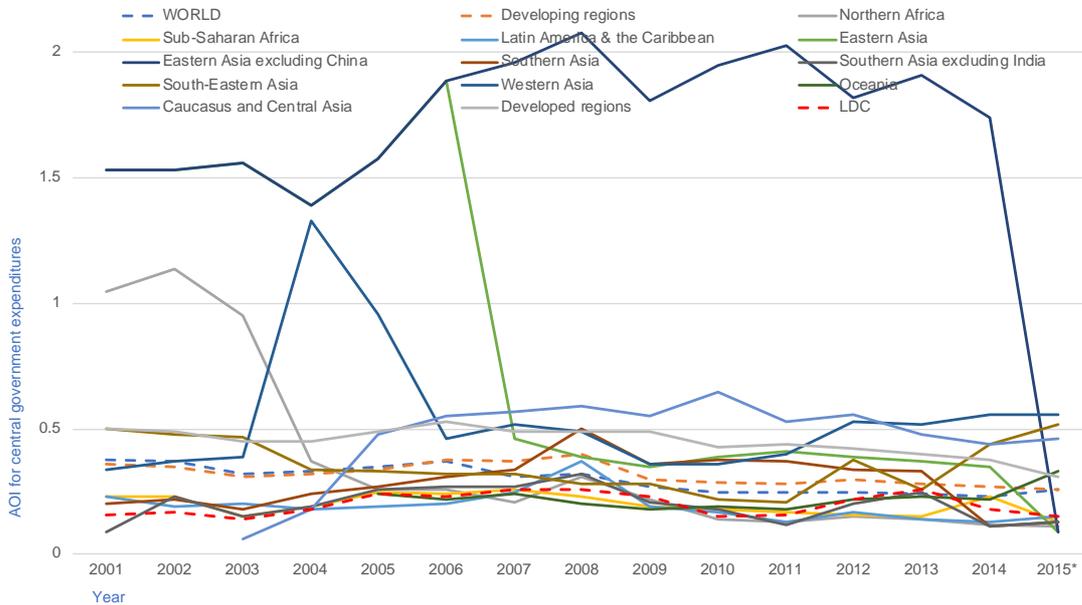
Figure 7: Share of agriculture in total credit



Source: FAO STAT

The Agriculture Orientation Index (AOI), a measure which normalizes the share of credit to agriculture by considering GDP contribution, is particularly low for many Sub-Saharan African countries, likely due to a higher prevalence of small producers with little or no capacity to provide collateral to access loans from the formal financial sector. Figure 8 indicates AOI for central government expenditures.

Figure 8: AOI for national government expenditures



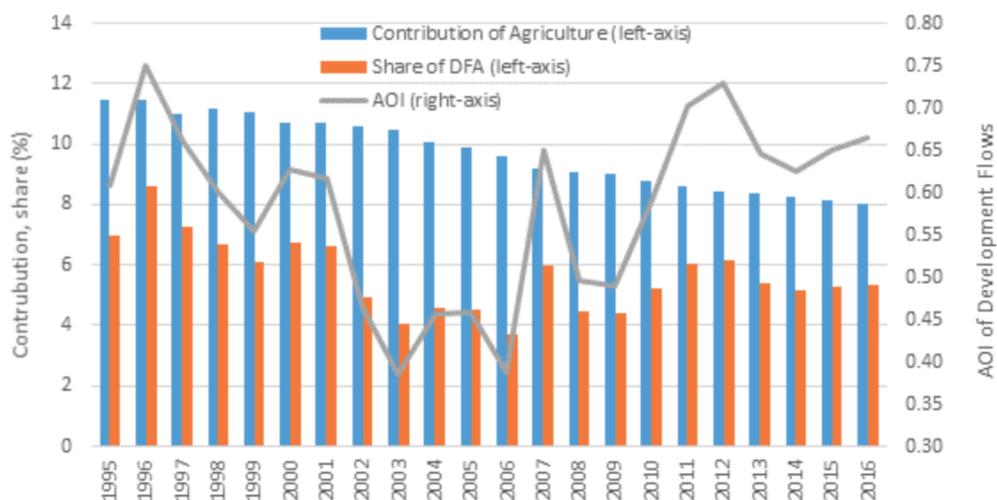
Source: FAO STAT

Official Development Assistance (ODA)

Committed Development Flows to Agriculture (DFA) in 2016 amounted to 4.8% of total development flows (US\$ 13 billion). ODA includes aid, public sector loans and government supported private

investment through DFIs. The amount disbursed was UD 11 billion in 2016. Of this, Africa received the majority (50%), followed by Asia and Pacific (27%). The AOI for DFA was 0.66, which means that agriculture is generally under-funded, and the general trend is downward. Leading donors were the International Development Association (IDA), the US and EU.

Figure 9: Development flows to agriculture



Source: FAO

International development finance flows

While ODA funding is on a downward trend, general funding through DFIs, i.e. for all sectors, has increased at an annual rate of 5% for European DFIs.¹¹⁹ Annual commitments from DFIs grew from US\$ 10 billion to around US\$ 70 billion between 2002 – 2014, an increase of 600%, spurred by new capital replenishments and retained profits, while ODA grew by only 50% in the same period.¹²⁰ One interesting relatively recent development is a proactive focus on blended finance by leading DFIs, including those in Europe. Box 3 summarizes the blended finance activities of the European Union’s External Investment Plan.

Agriculture has not received substantial amounts DFIs through blended finance^{121,122}. Blended finance instruments in agriculture have been dominated by direct investments in companies and syndicated loans. However, according to the DFI Working Group on Blended Concessional Finance for Private Sector Projects, infrastructure, banking and agriculture were the sectors most targeted by the concessional resources invested by DFIs, and climate change and support to SMEs were the most relevant themes. SME and agribusiness development finance transactions utilized a variety of debt, equity, risk-sharing and performance grant instruments. The main rationales for using concessionary capital by DFIs were pioneering technology, creating markets, reaching underserved beneficiaries, and addressing environmental externalities.¹²³

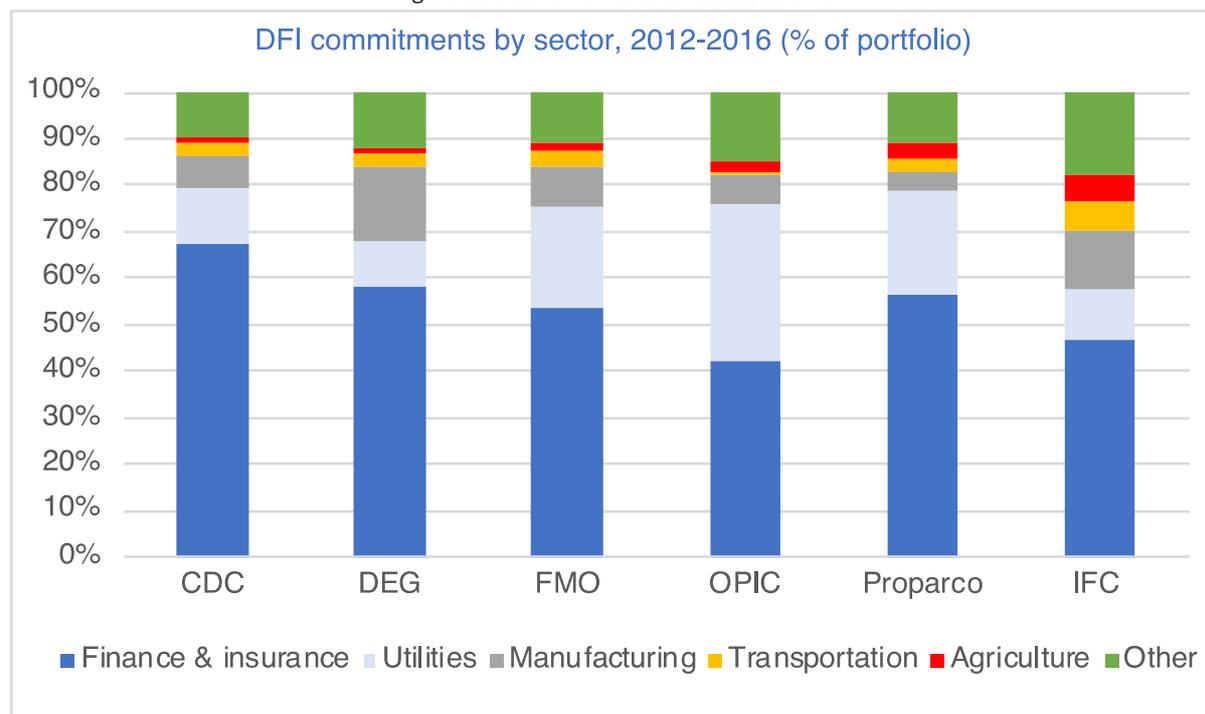
DFIs have, in general, tended to focus on relatively straight-forward sectors and instruments, rather than where the development impact is likely to be the greatest.¹²⁴ Despite the stated interest of Multilateral Development Banks (MDBs) to support capital mobilization, they currently have private capital mobilization ratios of less than 1:1 (private to public) across their portfolios, and bilateral DFIs also need to commit to higher mobilization ratios.¹²⁵ It is however extremely difficult to form an accurate view of support to the agricultural sector and associated mobilization rates, as some parts of the banking and finance as well as infrastructure investments may address agricultural needs. In

terms of instrument types, more consolidated information is available from international DFIs and MDBs, rather than from regional or national DFIs.

Box 3: the European Commission's External Investment Plan

The EU has a target of investing EUR 4.5 billion through its External Investment Plan (EIP), and to use this to leverage EUR 44 billion in investment. The EIP was launched in 2017 to attract more investment, in particular from businesses and private investors in countries near the EU and in Africa.¹²⁶ This is implemented through the European Fund for Sustainable Development (EFSD), which comprises a guarantee and blending. These are provided through approved and established DFIs (e.g. FMO, AfDB, AFD, IFC). The EU has allocated the EUR 1.54 billion guarantee budget to 28 guarantees, expected to leverage EUR 17.5 billion in investment. Notably, these include AFD's Agricultural and Rural Finance (AGREENFI) initiative with an allocation of EUR 85m and its FISEA+ EFSD SME and Agribusiness Investment Guarantee with EUR 35m.¹²⁷ Most recently, the EU announced that it will provide EUR 45m in support of the new Agri-Business Capital (ABC) Fund, in collaboration with the Africa Green Revolution Alliance (AGRA) and the Luxembourg Government. The ABC Fund is being established by IFAD with a focus on financing the "missing middle" in African agriculture.¹²⁸

Figure 10: Commitments of selected DFIs



Note: Data for 6 developed country DFIs. Note that agriculture represents from 1% to 6%, with IFC having the largest exposure.¹²⁹

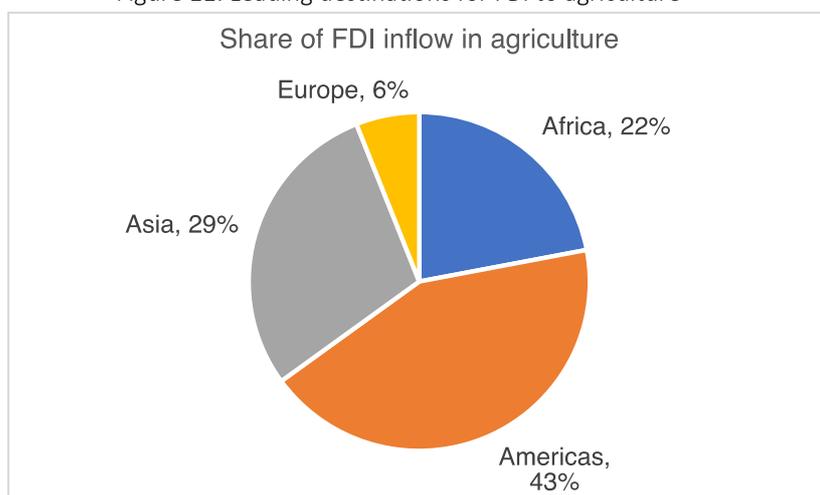
Foreign Direct Investment

According to UNDP, the largest international capital flows to emerging markets come from FDI inflows, followed by remittances and commercial banks and other investments.¹³⁰ These estimates are not specific to agriculture. Sectoral FDI flow estimates are difficult to obtain, with one of the most recent estimates suggesting it is relatively low when compared to overall FDI, typically representing only ca. 3%¹³¹. The majority of FDI flows in agriculture have primarily gone to upper-middle income and high-income countries.¹³² FDI flows have tended to be highest for Asia, followed by Latin

America-Caribbean (LAC) and Africa. In the period 2009-2014, Africa received US\$ 2.5 billion, with a focus on Nigeria, Ghana and Côte d'Ivoire attracting the largest shares.¹³³ In that same period, Central America received US\$ 13.3 billion (mostly in Mexico), the Caribbean received US\$ 73.8 million (primarily in Trinidad & Tobago), and US\$ 6.4 billion went to Southern America (primarily to Brazil). Asia receives ca. US\$ 7 billion p.a., with high proportions focused on Viet Nam, Indonesia and the Philippines, in particular where the more developed economies are excluded.¹³⁴

Despite the relatively low share of agriculture in private sector FDI, it is attracting interest from the emergent impact investing sector, with 57% of total allocations surveyed by GIIN dedicated to it, and most planned to increase it.¹³⁵ The FAO also recently published an overview of agricultural investment funds for development¹³⁶, and this should complement the knowledge base on impact-focused blended finance investments together with reports by *inter alia* CSAF. Regional studies of such funds exist, for example a study on African agri-food focused SME investment fund found that the total amount of (equity) capital dedicated to agriculture through funds was only US\$ 252 million, and most structures relied on blending.¹³⁷ These publications, and others, highlight the challenges of funding smallholder farmers and agri-SMEs in emerging markets, including by impact funds, due to the relatively low opportunities for economies of scale, modest growth rates, high risks, poor governance and management.

Figure 11: Leading destinations for FDI to agriculture



Source: FAO STAT¹³⁸

Philanthropy

Another source of funding is philanthropy, this is generally difficult to track. The overall size of private grant making continues to increase – in particular family and personal foundations, while corporate foundations have declined slightly. Most foundations are narrowly focused.¹³⁹ In terms of international giving by US and UK philanthropies, the largest focus areas are health, climate change and natural disasters. Most of this funding is channeled through domestically-based intermediaries. In terms of regions, most of the funding is focused on sub Saharan Africa.¹⁴⁰

Philanthropic funders are increasingly moving into more "innovative" finance models, including blended finance, e.g. by making Program Related Investments (PRIs), or by providing guarantees. The Rockefeller Foundation has been instrumental in seeding several innovative finance initiatives. Another example is Shared Interest, an NGO that mobilizes funding from mission-aligned investors who, while they seek a minimum return, accept below market rates in order to achieve impact. Some funders have also grant-funded loss reserves. These types of programs exist primarily in the US, where tax regulations facilitate more philanthropic activity. However, there is much to be learned

concerning these models, which though relatively small generate tailored impact, including by providing guarantees to women smallholder farmers for them to obtain loans from a local lender with the intention of building up their credit-worthiness over time.¹⁴¹ Another interesting case, though not in agriculture, is that of the Children’s Investment Fund Foundation (CIFF), which acted as the outcome funder in a successful impact bond on girls education in India.¹⁴²

4.3 Roles and experiences of regional and national DFIs

Regional and national development banks and DFIs can add value by being well-established financiers of infrastructure, provide finance in local currency, mobilize local capital, and act as a trusted actor in the national context with links to public and private sector, and as intermediaries for international development-oriented finance (e.g. the Green Climate Fund and the Global Environment Facility).¹⁴³ It is, however, difficult to get a consolidated overview of their operations by capital flows, mobilization rates and development impacts. This section explores the variety of regional and national DFIs and development banks, and their current and potential roles in blended finance for agriculture.

Types of regional and national DFIs

Regional and national DFIs differ based on many different factors, including the primary source of their capital (public vs. private), their focus on agriculture, legal set-up and roles, and instruments. Some of the most important distinctions are summarized in Table 11.

Table 11: Main differentiating factors of national and regional DFIs

Differentiating factor	Description
Public vs. private	Public sector: DFIs that are fully capitalized by the Government, and typically under direct ministerial oversight (e.g. BNDES in Brazil)
	Private sector: DFIs that receive part or all of their funds directly from private sources but retain a development focus and enhanced government oversight (e.g. SME Bank in Malaysia)
Sector / market segment focus	Agriculture & Rural Development: some DFIs focus on specific sectors, e.g. agriculture or rural development (i.e. rural sectors), for example Agrobank (Malaysia)
	SMEs / early stage businesses: some DFIs focus only on a certain segment of the market, e.g. SMEs or early stage businesses (e.g. the Omani Government’s Oman Venture Capital Company)
Legal set-up and roles	National and regional development banks: dedicated banks established by national governments or through regional associations to provide financing for the purposes of economic development of a country or region
	Central bank: the institution that manages the currency, money supply and interest rates of a state or formal monetary union and oversees the commercial banking system. Central banks have monopolies on increasing the monetary base in the state and acts as a lender of last resort to the banking sector, have supervisory and regulatory powers to ensure the solvency of member institutions, prevent bank runs and discourage reckless or fraudulent behavior. ¹⁴⁴ Their role includes monitoring key financial indicators.

Non-Bank Financing Company (NBF): some DFIs are set up as funds or facilities, e.g. strategic investment funds or ringfenced pools of capital with a specific mandate (for the latter, NIRSAL in Nigeria in Box 5 is an example)

Guarantee fund / risk capacity: special purpose vehicles to assist financial institutions (including insurers and re-insurers) to mitigate certain risks. For example, the African Guarantee Fund was established to assist financial institutions to increase their financing to African SMEs through the provision of partial financial guarantees and TA. CCRIF SPC (the Caribbean Catastrophe Risk Insurance Facility) is a company established by various member governments to limit the financial impact of catastrophic weather events by quickly providing short-term liquidity when a parametric insurance policy is triggered.¹⁴⁵ The African Risk Capacity (ARC) established by the African Union (AU) in 2012 as an African-owned, index-based weather risk insurance pool and early response mechanism is also an interesting example, and consists of ARC Agency (capacity building, educational, advocacy entity) and ARC Ltd. (a sovereign-level mutual insurance company).

DFIs differ greatly in their focus on agriculture, for example NABARD in India (see Box 4), FIRA in Mexico vs. the Brazilian Banco Nacional de Desenvolvimento Econômico e Social (BNDES). For example, BNDES manages the Amazon Fund, and has helped to develop a wind energy industry in Brazil but only has about 8% exposure to agriculture, while FIRA and NABARD focus exclusively on the rural sectors (e.g. agriculture, forestry). NABARD is described in Box 4 below. The Development Bank of South Africa (DBSA) is another regionally important DFI that disburses 30% of its budget outside South Africa in the SADC region, but with relatively little explicit direct exposure to agriculture. Other interesting nationally-supported structures that are utilizing a blended finance approach to agriculture include NIRSAL (Box 5).

Box 4. Overview of NABARD (India)

The National Bank for Agriculture and Rural Development (NABARD) is a government-owned bank mandated to promote socio-economic development in rural India. It normally lends to government bodies and financial institutions, but in some cases to private sector companies. NABARD mobilizes private sector funding through two avenues. Firstly, it issues debt instruments on the capital market, e.g. in the form of bonds, of which it had US\$ 11.4 billion outstanding as of 31 March 2018. Secondly NABARD houses the Rural Infrastructure Development Fund (RIDF), one of the recipients of the funds that banks who fail to meet their priority sector lending targets have to deposit with the Reserve Bank of India.^{vii} RIDF finances a wide range of agricultural infrastructure such as irrigation systems and storage facilities through loans to state governments, state-owned companies, self-help groups (savings groups) and NGOs. As of 31 March 2018, RIDF had a volume of US\$ 17.9 billion of which US\$ 16.9 million was invested. While NABARD does not provide guarantees, it provides donor-funded technical assistance and development grants to promote climate adaptation, rural infrastructure as well as on- and off-farm activities. Notably, these instruments are also used to promote the bankability of its recipients, for example self-help groups and farmer producer organizations (FPOs), to facilitate their access to financing from banks and microfinance organizations.

Box 5. Overview of NIRSAL (Nigeria)

^{vii} Indian banks are required to make 40% of their lending to 'priority sectors', which include agriculture, small businesses, low-income housing etc. Banks that fail to lend this percentage are required to deposit the shortfall with the Reserve Bank of India (RBI).

The US\$ 500 million Nigeria Incentive-Based Risk Sharing system for Agricultural Lending (NIRSAL)¹⁴⁶ was incorporated as a new dedicated SPV in 2013 by the Central Bank of Nigeria as a dynamic, holistic PPP to define, measure, price and share agribusiness related credit risk. NIRSAL has five pillars: a risk sharing facility to address banks' perception of high risks in the agricultural sector by sharing losses on agricultural loans, an insurance facility to expand insurance products, a TA facility to equip banks to lend sustainably to agriculture, producers to borrow and to use loans more effectively, a Holistic Bank Rating Mechanism to rate banks based on the effectiveness of agricultural lending and their social impact, and a Bank Incentives Mechanism which offers leading banks additional incentives to build their long-term capabilities to lend to agriculture.

Box 6. Overview of PROFIT (Kenya)

The Kenyan Government and AGRA partnered to implement the IFAD-funded "Program for Rural Outreach of Financial Innovations and Technologies" Program (PROFIT) starting in December 2010. This focused on de-risking the agricultural sector and incentivizing financial institutions while also providing technical assistance, both on the finance supply side - to support the development of appropriate and broad range of financial products – and on the demand side - to support agri-SMEs and smallholder farmers to improve business management, financial literacy, productivity, market and financial linkages.^{viii} PROFIT has 3 main components: (i) Rural finance outreach and innovation (US\$ 72.5m, of which US\$ 50m to be leveraged from the private sector through a Risk Sharing Facility (RSF), (ii) Technical support services (US\$ 7m) and (iii) Programme management (US\$ 3.6m).

The programme was embedded in the central government structures under the National Treasury, and it was to be implemented through various public and private partners, including AGRA. However, this model led to delays in implementation due to bureaucratic complexities in decision making. AGRA's role was later expanded to manage the first two components, with Treasury managing the third one. After 2016, the programme was extended for 2.5 years with a targeted outreach to 287,400 smallholder farmers.

Based on its most recent evaluation and the December 2018 programme report, PROFIT has been successful in supporting the development of new financing models within two financial institutions (African Finance Corporation and Barclays Bank), four MFI banks and over 48 SACCOs, with a cumulative disbursement of US\$ 46 million and reaching more than 381,000 smallholder farmers. The approaches used included the anchor borrower model, with banks triangulating with off-takers to facilitate financing in the absence of traditional collateral, and value chain financing through agribusinesses^{ix}, wholesale lending for MFI and to Savings and Credit cooperatives (SACCOs). The MFIs involved mobilized US\$ 22 million in savings over the same period, increasing their cash-flow for intermediation.

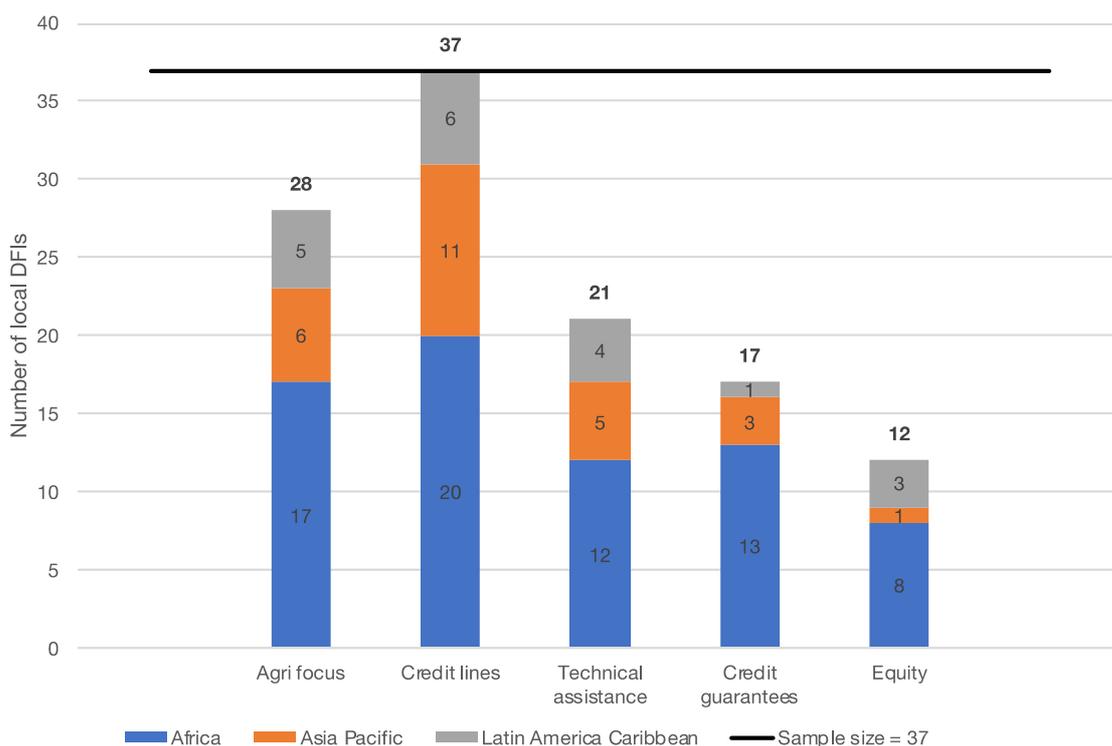
Agricultural finance activities of national DFIs

A desk-based assessment of 37 national DFIs was carried out, covering 20 in Africa, 11 in Asia Pacific and 6 in Latin America Caribbean. This assessment consisted of reviewing the DFI in terms of its mandate, specifically if it had a focus on agriculture, and the types of financial instruments it used according to the taxonomy. The results of this are summarized in Figure 12 below.

viii <https://agra.org/profit-contributing-to-the-reduction-of-poverty-in-rural-kenya/>

ix IFAD (2018), IFAD Kenya: Programme for Rural Outreach of Financial Innovations and Technologies Supervision Report. Available from: <https://operations.ifad.org/documents/654016/d05ffd26-7f25-421e-98dd-c0c7792c6ff1>

Figure 12: Agricultural focus and agricultural finance instruments across national DFIs



Note: developed by the author

Several regional and national DFIs focus on insurance products. While increasingly important in the face of climate change, it has challenging to develop and commercialize appropriate agricultural insurance products in emerging countries, and for the industry to reach maturity and graduate to commercial self-sustainability.¹⁴⁷ The cost of traditional, indemnity based insurance products are generally relatively high relative to other risk management strategies, such as income diversification, thus the demand for such agricultural insurance products, in the absence of subsidies, tends to be low. Most countries subsidize insurance premium costs, with an average subsidy rate of 47%.¹⁴⁸ While index-based systems can reduce costs, subsidies also continue to play an important role.¹⁴⁹

4.4 Demand for agricultural credit and insurance

Demand for agricultural finance comes from rural (smallholder farmer) households, and agri-SMEs (e.g. cooperatives, companies), as well as from larger corporates, governments and a range of NGOs including research & development (R&D) organizations. There is no centralized repository of agricultural finance demand. Tentative estimates of annual incremental investment needs to meet the agriculture-relevant SDGs, developed by FAO, IFAD and WFP estimate that agriculture and food security investment needs at US\$ 265 billion p.a. and climate change adaptation (primarily agriculture) investment needs at US\$ 105 billion p.a.¹⁵⁰ Other estimates suggest that this funding need is US\$ 148 billion, with 51% representing private commercial financing needs.¹⁵¹

Different types of entities seeking finance prefer different instruments. For example, governments may issue bonds or borrow from multilateral institutions (e.g. IFAD) to finance agriculture. Large listed companies may issue shares or notes, local cooperatives may seek credit guarantees and grants. There is likely a high need for all types of instruments to address the financing gap, i.e. grants, insurance, credit / debt and equity. It is not possible to get an accurate picture of the volume of funding needed per region, value chain and instrument as inadequate data exists.



According to the updated 2016 "Inflection Point" report, the finance demand of smallholder farmers is estimated at US\$ 200 billion, with only ca. US\$ 50 billion being met. Despite projected growth rates of 7% p.a. by formal institutions and value chain actors targeting this segment, this gap is expected to persevere.¹⁵² According to a recent paper by ISF, the projected insurance need (premium value) for smallholder farmers in developing countries is US\$ 8 – 15 billion, globally less than 20% of this is being met.¹⁵³ It is, however, difficult to obtain estimates of the agri-SME financing need, while WTO estimates the SME trade finance gap in emerging markets¹⁵⁴, this is not disaggregated by sector.

4.5 The landscape of financial flows to agriculture: observations and recommendations

Observations

Upper middle-income countries and lower middle-income countries are likely to have higher private commercial flows to agriculture, compared to least developed countries which generally rely more strongly on ODA.¹⁵⁵ The amount of capital mobilized in Least Developed Countries (LDCs) may be lower as there are fewer investable opportunities or a weaker enabling environment. However, according to UN Capital Development Fund (UNCDF), even within LDCs, the amount of private finance mobilized by blended finance structures varies greatly.¹⁵⁶ According to UNCDF it also seems that there is a negative correlation between the share of a country's GDP from primary industries with the amount of private finance mobilized.¹⁵⁷

Traditional finance flows to agriculture remain inadequate. It is clear that this will not be scaled up without blended finance approaches. As development funders move ODA to DFI structures it will be important to ensure that a development agenda is prioritized. Providers of concessionary capital should also carefully assess the additionality of their funding, in terms of supporting innovation, new approaches, stakeholders and addressing underserved markets. However, the issue of additionality should also be weighed against the challenges faced by intermediaries who are developing new and innovative structures in a highly competitive fundraising environment, and who also commit to relatively high M&E costs. Donors are concerned about potential trade-offs between mobilization effectiveness and additionality. However, it is important to assess additionality, in particular give the current evidence base, development additionality is particularly difficult to assess.

Governments and local DFIs are often engaged in blended finance activities, and their experience, expertise and resources could be better integrated into international discussions on blended finance. Many governments, including LDCs, have limited budgets to support such instruments, but may have a strong base to test and develop a wider suite of instruments including rebates and equity. However, in interviews several private sector stakeholders expressed concerns with regard to follow-through and danger of "political capture" in collaborations with local DFIs.

Recommendations

The SAFIN network could continue play a catalyzing role in promoting blended finance for agriculture by:

- Building on the database initiated for this report, to track the role of local DFIs in promoting blended finance.
- Promoting the work of local DFIs using a range of instruments, e.g. through the case studies.
- Scoping out potential collaboration methods between local DFIs and the private sector in blended finance instruments, e.g. as potential collaboration frameworks.
- Building and maintaining a database on smallholder and agri-SME blended finance instruments, including concessionary finance instruments used, mobilization rates and additionality indicators.

5. Reflections on the guiding questions

This section provides short responses to the 8 guiding questions based on the research presented in this report.

1. Who are the main players in the landscape and what are their respective roles? In that context: what is the role of national and local development finance institutions in blended finance for agriculture today?

The main players in the agricultural blended finance landscape are groups directly involved in blended finance transactions, i.e. capital providers (donors, MDBs, DFIs, governments, private investors and others), capital intermediaries (e.g. banks, CIVs) and capital recipients (e.g. cooperatives, companies). Supporting ecosystem players such as UN organizations, the World Bank Group, research organizations and NGOs are also important, in particular to promote better practices and provide the evidence base for designing and evaluating new structures and ensuring additionality. While few national and local DFIs explicitly focus on blended finance, many already practice some form of blended finance and could serve as important stakeholders going forward.

2. What is the size of development finance flows that go through blending vs. broader use of development finance to support agricultural investment in developing countries, and how are these flows distributed geographically? In that context, what is the underlying level of risk and maturity of ecosystems in which blended finance is more often deployed?

The funding sizes that explicitly go through agricultural blended finance structures (hundreds of millions of US\$) are a fraction of the development finance flows to support agricultural investment in developing countries (at least tens of billions of US\$). While ODA tends to be focused on higher risk and less mature markets, reports suggest that most blended finance flows focus on middle-income countries and developing countries with lower levels of poverty, and to infrastructure and productive sectors rather than agriculture.¹⁵⁸ The most recent OECD overview on blended finance states that, in general, only 10% of amounts mobilized supported projects in LDCs and other LICs.¹⁵⁹ It is unclear if the same trend applies in agriculture specifically.

3. What is the intended development rationale for the use of blended finance in the sector? In that context, are there clear market failures in the contexts where we observe more of this use, what are these failures and how does blended finance specifically address them?

The development focus of blended finance in agriculture has been on rural development (e.g. farmer livelihoods, rural job creation, SME growth). The degree to which financial inclusion blended finance strategies serve agriculture is unknown. The persistent challenges of rural finance, including location of counterparts, lack of information, high opportunity costs, etc. vs. the importance of agriculture in terms of GDP contribution makes this an interesting target sector for blended finance. New approaches, including ones that leverage agricultural value chains, may provide an interesting entry point to address these failures. Climate adaptation and resilience are also increasingly in focus. The impact of climate change is already beginning to be felt in some markets, and thus finding new, efficient ways to scale agricultural insurance for rural communities is important.

4. Who are the main clients and intended beneficiaries of blended finance initiatives and vehicles in the sector? And in this context, are blended finance solutions targeting the primary sources of commercial finance for agri-SMEs?

The primary clients of blended finance initiatives and vehicles in the agricultural sector are typically cooperatives and local companies. Some blended finance initiatives provide capital to local banks and MFIs in order to reach their agricultural clients. Formal existing sources of commercial finance for agri-SMEs include local banks and MFIs. Some blended finance structures for agriculture such as the Eco.Business Fund and AATIF work with local banks to expand loans to green and social businesses, including agri-SMEs. Local agri-SMEs may also benefit from value chain finance programs, and some blended finance funds focusing on agriculture use value chain approaches to promote lending. The focus beneficiaries of blended finance structures in agriculture are rural communities, primarily smallholder farmers.

5. Is there evidence for the use of blended finance for investment in loose value chains and in markets or value chains oriented towards local (national) markets?

There is relatively little explicit evidence for the use of blended finance for investment in loose value chains or local markets. While these markets may be served by local banks and MFIs, who may benefit from dedicated development flows, these may be counted as "financial inclusion" rather than "agriculture". However, many national DFIs are employing blended finance approaches in agriculture (even though it is not labelled as such) and support the local financial institutions that serve looser and more local value chains.

6. What is the evidence of direct leveraging and/or indirect mobilization impact of development finance on commercial finance for agri-SME-oriented investments?

OECD DFIs maintain the most complete overview of direct private finance mobilization rates. According to the most recent OECD data assessments, mobilization rates in agriculture are highest using guarantees, syndicated loans and credit lines, respectively.¹⁶⁰ In terms of banking and financial services, mobilization rates were highest for guarantees and credit lines¹⁶¹ – it is unclear how much of this segment also tackles agriculture. Mobilization rates in structures that are not clearly labeled as "blended finance" and where OECD DFIs do not participate are unavailable.

7. Are there cases in which blended finance is subsidizing commercially viable transactions, and if so, how prevalent is the misuse of blended finance understood as a subsidy in markets that already operate well?

There are no known explicit cases where blended finance is subsidizing commercially viable transactions in agriculture. There is, however, evidence from other sectors including financial inclusion where commercial lenders were shown to be crowded out by DFIs.¹⁶² It is unclear if the issue that most blended finance flows to more developed markets indicates that there is a misuse of blended finance. Despite these markets being considered "more mature" they are still comparatively difficult to finance. Blended finance transactions also typically come with higher costs (e.g. for M&E, deal structuring and origination), which may counteract the effects of engaging in more mature markets. If there is a misuse of blended finance, it is not one that is recognized by the industry as being particularly prevalent.

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8. Are there any exemplary operations enabling the governments concerned to take ownership of the methods of intervention in order to build sustainable instruments for the development of the sector (sustainability of tools for long term impacts)?

Institutions such as NABARD in India, FIRA in Mexico, NIRSAL in Nigeria and regional initiatives on data sharing such as ReSAKKS, as well on developing shared risk mitigation pools (e.g. CCRF, ARC) are useful examples to consider. As more advanced emerging markets, NABARD and FIRA provide examples of long-standing institutions that have contributed significantly to agricultural development in their countries and could provide interesting insights on blended finance for agriculture.

6. Annexes

6.1 Selected terms and definitions

Term	Applied definition
Additionality	As government funds are relatively scarce, there is emphasis on "additionality" of blended finance instruments. Transactions are considered for financial or value (development) additionality, or both. Transactions are financially additional when funding is extended to an entity that cannot obtain finance from local or international private capital markets with similar terms or quantities without official support, or if it mobilizes investment from the private sector that would not have been otherwise invested. Value additionality occurs if the public sector offers to recipient entities or mobilizes, alongside its investment, non-financial value that the private sector is not offering, and which will lead to better development outcomes. ¹⁶³
Agricultural value chain finance	Any or all of the financial services, products and support services flowing to and / or through a value chain, be it a need to access finance, secure sales, produce products, reduce risk and / or improve efficiency within the chain. This includes "internal value chain finance", which takes place within the value chain such as when an input supplier provides credit to a farmer, or when a lead firm advances funds to a market intermediary and "external value chain finance", which is made possible by value chain relationships and mechanisms such as a bank issuing a loan to farmers based on a contract with a trusted buyer or a warehouse receipt from a recognized storage facility. ¹⁶⁴
Bilateral DFI	Bilateral DFIs are either independent institutions or part of larger bilateral development banks.
Blended finance	The strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries ¹⁶⁵
Collective Investment Vehicle (CIV) / Fund	Structures established to pool investments and implement a specific strategy. Investors can purchase shares (equity) in such structures, that can then be used to provide debt, equity or guarantees. In some cases, it is also possible to leverage Funds / CIVs, i.e. secure debt on the basis of appropriate equity in the Fund / CIV. Where these are in well understood legal structures and domiciles, they tend to be preferred by many larger professional investors as they are tax exempt.
Concessionary loans	Loans that are extended on terms substantially more generous than market loans. The <i>concessionality</i> is achieved either through interest rates below those available on the market or by grace periods, or a combination of these.
Credit line / Direct loan	Development funders can provide direct loans or credit lines to existing financial institutions for on-lending.
Development finance	Finance from a range of institutions, domestic and international that have the objective of promoting sustainable development. This includes for example domestic funding to support a specific sector (e.g. through a state-owned agricultural bank), multilateral and bilateral ODA, grants and concessional and non-concessional development lending and investment by multilateral, bilateral and local financial institutions, guarantees, grants (philanthropy) and other official flows for development purposes.
Development Finance Institution (DFI)	Specialized development banks or subsidiaries set up to support private sector development in developing countries. ¹⁶⁶ These organizations are usually majority owned by national governments and source their capital from

	national or international development funds and, in some cases, the capital market.
Equity investment	In addition to taking equity position in a fund / CIV, development funders can buy shares of a private company (including a financial company).
Impact investing / Social Impact Investing	Investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. ¹⁶⁷ Or, as defined by OECD (2015): "the provision of finance to organizations addressing social needs with the explicit expectation of a measurable social, as well as financial, return." ¹⁶⁸
Mezzanine instruments	This refers to hybrid debt-equity instruments. It falls between secured senior debt and equity, its usually unsecured and based on free cash flow. Claims embodied by mezzanine credit or equity represents a claim on a company's assets which is senior only to that of the common shares. This can be structured as debt (typically unsecured and subordinated) or preferred equity.
Multilateral DFI	Private sector arms of International Financial Institutions (IFIs), established by more than one country. Their shareholders are governments, and in some cases other international or private institutions.
Public Private Partnership (PPP)	A partnership between a government agency and a private sector company that can be used to finance, build and operate projects. In practice this means that a new entity (SPV) is established to manage the project, and which can take ownership over costs and revenues to engage investors.
Risk adjusted return	A measure of how much risk is involved in producing a return, generally expressed as a number or a rating, used by investors to benchmark opportunities and construct portfolios. A typical measure is the Sharpe Ratio, which measures an investment's excess return above the risk-free rate per unit of standard deviation. ¹⁶⁹
Securitization	This refers to the procedure whereby an issuer designs a financial instrument by grouping various financial assets under a single structure. This means that new investors can participate, e.g. by buying parts of the new portfolio. In other words, a new entity (Special Purpose Vehicle - SPV) is formed that takes over those assets, frees up the balance sheet of the original owner, and enables new investors.
Syndication	This refers to a financial services alliance established for the purpose of handling a large transaction (loan, equity investment, guarantee / insurance), e.g. underwriting syndicates, banking syndicates and insurance syndicates.

6.2 Addressing investor concerns in order to attract private capital at scale

In order to attract private capital at scale, blended finance instruments must address investor concerns. It is not clear that this is being adequately done: a recent study among institutional investors found that less than 40% of investors had invested in blended finance transactions.¹⁷⁰ Though there is growing interest in "impact investing", with most self-identified impact investors participating in blended finance structures in the past year, impact investment per se remains relatively niche.¹⁷¹ Increasing private sector investment will require identification and analysis of the market failures that currently leading to the sub-optimal private provision of funding for the SDGs.¹⁷²

It has generally been difficult to attract large institutional investors to blended finance structures. High transaction costs, large minimum ticket size requirements and the cost of the expertise required to assess niche transactions is a barrier. Commercial banks have also limited their risks since the

imposition of Basel III regulatory requirements, and most commercial banks in emerging markets are dominated by short-term lending. For example, from 2010 to 2012, 49% of bank loans had a tenor of less than one year, and only 19% are over 5 years in duration.¹⁷³

Some of the primary concerns of private (commercial) investors are summarized in Table 12. There are some common themes that challenge the attraction of more mainstream, and in particular, institutional capital:

Structure: most investors prefer debt, and debt-based financial products, rather than equity.¹⁷⁴ Investors generally seek simplicity and familiarity in structures, including fewer tranches, easier operational aspects and more private-sector friendly administrative procedures.¹⁷⁵ Investors prefer an investment period of 3-7 years, and have a strong preference for at least annual coupon, dividend payments, or similar events.¹⁷⁶ They prefer diversified, global investment opportunities rather than local or regional ones.¹⁷⁷ Additionally, from a private wealth perspective, local High Net Worth Investors (HNWIs) are over-exposed to local risks, and are typically advised to diversify their currency and country investment portfolios, rather than focus on local opportunities.¹⁷⁸

Note that this preference also holds true for DFIs, where the largest volumes committed by instrument are senior debt (44%) and equity (33%).¹⁷⁹ Equity is expected to provide higher returns than loans but has significantly more volatility. For example, the Inter American Investment Corporation (IIC) equity returns averaged 7% between 2001- 2015, slightly above the loan yield of 6% but with significantly higher volatility. Gross returns and volatility tend to be higher for direct investments than funds, the latter benefitting from some inherent diversification. It is likely that the majority of equity-based returns is based on macroeconomic analysis.¹⁸⁰

Role of public capital: private investors view that the most relevant contribution of the public sector is to de-risk transactions. Another important contribution that private investors expect from the public sector is the provision of initial testing and ramp-up capital during a proof of concept stage, and capacity building and Technical Assistance (TA) to develop investment-ready opportunities. Private investors viewed the provision of best practice and learning on impact management and reporting to be the least relevant.¹⁸¹

For other categories of investors, there may be additional considerations, such as:

- For foundations & endowments: tax classification and alignment with non-financial objectives e.g. in Program Related Investments (PRIs)
- For companies: shareholder structure, opportunity cost of capital
- For banks, financial institutions: opportunity cost of capital, internal efficiency
- For governments: opportunity cost of capital
- For individuals (e.g. farmers): opportunity cost of capital

Table 12: Common investor concerns

Investor concern	Explanation
Return / risk-adjusted return	Investors seek returns that can help them meet their investment targets. Investors judge the acceptable return based on perceived risk (e.g. indicated by a credit rating / an assessment of credit worthiness) and comparable opportunities in different asset class. Common asset classes include equities or stocks, fixed income or bonds, and cash equivalents / money market instruments, some investors also include alternative assets such as private equity, hedge funds, private credit.

	Blended finance instruments should address investors' high perceived and real risk, and poor returns for the risk relative to comparable investments. ¹⁸² In some cases, investors may be hampered as there is no way to adequately assess risks or benchmark risk due to the innovative nature of the instrument. The objective of most blended finance structures is to de-risk an investment or improve the risk-return profile relative to market norms. ¹⁸³ Development funders may provide grants for TA to the investor or investee, for transaction design or preparation, provide concessionary capital, or provide subsidized guarantees or insurance. ¹⁸⁴
Liquidity	For debt instruments: investors may be concerned with the frequency of payment or potential payment events. For equity instruments: investors may be concerned with the ability to monetize their investment, i.e. through sale (stock market trading, private sale), or through provision of dividends.
Correlation	Investors typically seek to diversify their portfolio. Investments that are not correlated to normal stock and bond movements can bring additional value to a portfolio. However, this must be demonstrable.
Structure & asset class	There are different asset classes as well as many different financial products and associated domiciles / jurisdictions. These are associated with different investment marketing and distribution rules. Investors prefer known financial products and service providers in well-tested investment structures and domiciles. There may be practical and fiduciary restrictions on attracting certain investors into some products or domiciles.
Comparable products	Investors will compare an opportunity to similar investment opportunities in the market. Where there are few comparable products, it may be difficult for investors to judge the investment opportunity and they may decline as they may see the risk-return as unquantifiable.
Scale	There is an opportunity cost associated with assessing a potential investment. When the potential investment is too small, or too complicated, or the proportional costs are too high, it may not justify the internal resources required to review it.
Fees	There is general pressure on intermediation fees (i.e. management fees). There are typical fee structures for different types of investment products, with private equity demanding higher fees. However, many impact investment and blended finance products are relatively complicated and expensive to structure and execute.
Technical expertise, capacity	Investors may be concerned about the ability of the intermediaries to execute an investment strategy or transaction. The cost of this execution may also surpass the fees chargeable to investors, at least initially. This means that there may additional concessionary capital required to support technical expertise and capacity building, in particular in the early stages of a transaction or investment strategy.

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The Smallholder and Agri-SME Finance and Investment Network (SAFIN) is a partnership of actors that are committed to aligning their efforts to scale up access to financial services for agri-SMEs and for small commercial farms.