

## **Smallholder Agriculture Finance and Investment Network – SAFIN<sup>1</sup>**

### **Rationale**

The global imperatives of investing more in agriculture and the rural sector as well as in small and medium enterprises (SMEs) are laid out in the Addis Ababa Action Agenda (AAAA) and in the Sustainable Development Goals (SDGs). Needs and gaps are huge in both areas and the expected dividends of more investment are immense and cut across the 2030 Agenda. However, progress on both fronts is occurring too slowly to meet the ambitious targets of the agenda. Moreover, the intersection of these two imperatives – in other words, the need to invest more and better in rural and agri-food SMEs, including smallholders - is far from receiving adequate attention.

Many relevant commitments have been made and initiatives embarked upon in recent years. Across the world, agriculture and agro-industry are increasingly seen as offering good business opportunities. Financial institutions, service providers, and policymakers are responding to different extents. However, major gaps remain in volume and quality of finance for investment, policy frameworks, institutional capacity, availability and uptake of both inclusive and efficient business models, knowledge, and feedback loops across research, policy and practice. High transaction costs and risks prevail across the sector, especially in the lower and lower-middle market segments, and adequate appreciation of such costs and risks and sound strategies and tools to mitigate or manage them are still lacking in many contexts.

The domain of finance for agri-food and rural SME investment is a critical entry point and lever for change on all these fronts, but it is also a domain where systemic gaps are numerous and profound. At present, these translate for instance into an estimated 150 billion dollar gap for smallholders in Latin America, South and Southeast Asia, and sub-Saharan Africa alone<sup>2</sup>, which we are not *en route* to bridge by 2030. On the positive side, momentum for change is growing in this particular domain, with more development institutions, private sector, and other actors getting involved or doing so in innovative ways. Many initiatives are also emerging that connect different kinds of actors. However, initiatives addressing "enabling environment" issues are often poorly connected to those with an operational focus, and while much learning is taking place in different parts of the ecosystem, there is no overall strategic knowledge agenda guiding it, nor strong linkages across research, practice-oriented knowledge sharing, and policy. In general, no initiatives exist that link different stakeholder groups across all five key action areas for eco-systemic change – including knowledge building and knowledge sharing, work on the policy environment, innovation, alignment of investments and of business practices, and accountability.

Better linkages and synergies across the agri-food and rural SME finance ecosystem would arguably help to accelerate progress both in this specific domain and in the broader domain of agri-food and rural SME investment, including investment by smallholder farms with potential to operate effectively as small-scale enterprises. Working towards stronger linkages and synergies in this domain would help to focus resources and attention where the greatest needs and opportunities for impact may be found, to address systemic bottlenecks, and also to track progress both in specific country contexts and regionally or globally. However, this requires a conscious effort to connect like-minded actors across different communities and to align their different roles to accelerate progress in agri-food and rural SME finance and investment.

This agenda lies at the heart of IFAD's work, as rural poverty eradication is its mandate, investment is its core business, and rural people are, along with national governments, its core partners. As a result, in the past two years IFAD has convened or attended several international dialogues on this theme, involving among others the multi-lateral development banks, governments, different types of finance providers and financial intermediaries, different parts of

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<sup>1</sup> This note results from extensive consultations among a group of over a dozen institutions during the first half of 2017.

<sup>2</sup> Goldman, Tsan, Dogandjieva, Colina, Daga and Woolworth. (2016). *Inflection Point: Unlocking growth in the era of farmer finance*. Dalberg, Initiative for Smallholder Finance, MasterCard Foundation, Rural & Agricultural Finance Learning Lab.

the private sector, and farmers' organizations. These dialogues have shown shared concern about current lack of prioritization of investment in agri-food and rural SMEs in national and global strategies for the SDGs, insufficient volumes and diversity of sources of finance for investment in the sector, need to accelerate innovation in finance and investment around the "missing middle" of commercially viable but underserved agri-food and rural SMEs, insufficient alignment around inclusive business models, and need for better understanding and tracking progress with respect to the 2030 Agenda.

Against this "problem statement," different actors **have signalled commitment to:**

- use their respective instruments and capabilities to increase supply of and access to finance for rural and agri-food SME investments;
- advance learning for better impact in their own work and channel that learning more effectively towards other relevant forums and communities;
- encourage and directly engage in innovation in the delivery of rural and agri-food SME finance, building on existing successful practices and seeking to scale up successes;
- advance progress on the "enabling environment" within the scope of the mandate of each institution;
- be accountable and transparent for principled engagement and for the impact of their work, thereby also contributing to accountability for progress towards the SDGs;
- work through an inclusive and principled "multi-stakeholder" approach.

### **The concept for SAFIN**

The *Smallholder Finance and Investment Network* – SAFIN (where the S stands also for agri-food and rural SMEs) brings together a diverse set of actors who share the above commitments and who believe that their work can benefit from greater alignment and strategic partnerships with actors working in different parts of their respective ecosystems. Over time, the network aims to increasingly cover all key action areas for ecosystem change – e.g. work on the enabling environment, innovation, alignment of investments, strengthening the knowledge base, and promoting greater accountability for progress.

*In concrete terms, SAFIN is an inclusive partnership of actors operating in different parts of ecosystems for agri-food and rural SME finance and investment, who are committed to pool knowledge and resources and to align their efforts to achieve greater, better, and more sustainable impact on closing the financing and investment gap for this market segment by 2030.*

**The asset base for SAFIN are the capabilities of its partners**, which are expected to evolve over time as the network expands. Initial prospective partners span the development finance community, impact investors, financial sector associations, think tanks, and associations of farmers and cooperatives. **Three main types of assets exist across this group of actors**, namely:

1. concrete portfolios in agri-food and rural SME finance and investment, which can be leveraged for synergistic investments, learning, replication and scaling up of successful innovations, and pooling of complementary services;
2. capacity for data collection, analysis, and knowledge management, and membership in several knowledge sharing initiatives, which can be leveraged to identify strategic gaps, define strategic investment opportunities, and problem-solving;
3. access to a range of policy and regulatory forums where work on the enabling environment can be achieved, which actors with primary focus on the operational side of the ecosystem can leverage to advance space for positive impact.

The value proposition for different types of SAFIN partners varies depending on which of the types of assets each partner has in greater or lesser supply. In general, SAFIN can deliver: access to different partners' knowledge, learning, and peer support, helping to address each partner's specific policy, operational, or institutional challenges; access to opportunities for collaboration

or alignment of efforts, from the operational level to the policy level, helping to increase likely positive returns; and, identification of strategic needs, gaps, and investment opportunities, helping to maximize likely scale and sustainability of individual and collective impact.

## **Work-streams**

In joining SAFIN, **partners aim to address in a coordinated manner the following questions**, stemming at the same time from their operational challenges and capabilities and from the ambition to cover all five key areas of work for eco-systemic change:



1. How to more effectively bring our knowledge and experience to bear upon relevant policy processes?



2. How to leverage our different roles and assets to mobilize greater and more diverse resources for larger impact?



3. How to identify and seize the most strategic opportunities for collaborative engagement in specific contexts?



4. How to tap our different knowledge and capabilities to accelerate innovation, replication, and scaling up of successes?



5. How to help advance a strategic knowledge agenda for accelerated progress in agri-food and rural SME finance and investment?

These questions will be addressed in a time-span aligned with that of the 2030 Agenda, with milestone moments of stock-taking and recalibration in 2020 and 2025. During 2017-2020, between 2 and 4 activities will be pursued around each of the above questions, as indicated below, supported by a light Secretariat. The role of the Secretariat and of individual partners with respect of each activity as well as measures of success are defined under separate cover.

### **Question 1**

**Activity 1.1** Coordinated participation by relevant partners in selected regional and global policy forums (notably the High Level Political Forum, Financing for Development Forum, Regional Forums for Sustainable Development, other relevant regional forums and forums related to the G20), to sensitize decision-makers about needs, gaps, opportunities and progress in this domain.

**Activity 1.2** Preparation and dissemination of up to 4-per-year targeted policy briefs and other policy oriented products informed by the experience and knowledge of partners, aiming to inform and influence deliberations in the above forums.

*Additionally, the network will facilitate peer support and provision of quality inputs to partners who are on the front line of engagement with policymakers, standard setters, and regulators. Reporting on SAFIN members' commitments and results and of policy-relevant lessons, through a biennial report to be released in the first instance at the end of 2019, will also contribute towards this objective by supporting engagement in relevant forums in 2020.*

### **Question 2**

**Activity 2.1** Development of up to 5 regional rural and agri-food SME investment prospectuses laying out opportunities and appropriate financing tools, allowing partners to better focus their

investments as well as targeting interested governments and private investors with different interests, entry points and types of investment vehicles and capital to bring to smallholders, agri-food and rural SMEs and farmers' organizations and cooperatives

**Activity 2.2** Convening of structured dialogue among relevant institutional actors around systemic obstacles and opportunities for scaling up and diversification of financing for investment in this sector, including traditional and non-traditional sources, to define a policy roadmap to address such obstacles that can be advanced in relevant global and regional forums (e.g. the Global Partnership for Financial Inclusion and the Alliance for Financial Inclusion).

### **Question 3**

**Activity 3.1** Supporting different partners in identifying and leveraging synergies among their work and with that of other actors, to support, amplify, and strengthen systemic impact, through global, regional, or country-specific maps of key actors and initiatives, complemented by analytical work on complementarities, overlaps, and gaps.

**Activity 3.2** Pooling technical assistance capacity and facilitating access by organizations of smallholders and rural agri-food SMEs to technical assistance provided by individual partners via "match-making" facilitated by the Secretariat, upon demand from partners or anchored in opportunities provided by relevant country or regional investment plans.

### **Question 4**

**Activity 4.1** Pooling partner support around the design and launch of new financing vehicles for agri-food and rural SME investments, through structured exchanges around technical and governance issues and systematic identification of possible synergies.

**Activity 4.2** Organizing an in-person or virtual platform of peer knowledge sharing among innovators in the ecosystem anchored in existing platforms for knowledge sharing or linked to the SAFIN partners' annual or biennial conference.

**Activity 4.3** Pooling partners' knowledge and expertise around the solution of operational challenges facing individual partners that require scouting for innovative solutions.

### **Question 5**

**Activity 5.1** Definition of a strategic research agenda around the main knowledge gaps impeding progress at scale in the sector, through a structured dialogue between SAFIN partners and academic and research institutions from countries in the global North and South. The design of a roadmap to address a selected number of key research questions, with milestone moments at 2020, 2025, and 2030, will be completed by the middle of 2018. SAFIN will accompany implementation of the roadmap by allowing researchers to tap its collective repository of practice-grounded knowledge and by other means (e.g. access to funding) to be determined.

**Activity 5.2** Biennial SAFIN conference of partners and other stakeholders, as a meeting space for the wider community as well as for the partners to dive deep into specific themes, take stock of, and cultivate momentum around partner activities, and encourage progress in policy discussions. The first such conference is expected to take place in late 2018, the second in late 2020.

**Activity 5.3** Facilitating candid, solutions- and collaboration-oriented interaction among donors, implementing partners, governments, lenders and SME clients around sensitive or contentious issues, both of a general thematic nature and related to specific initiatives, through virtual or in-person small-group meetings and thematic roundtables.

## **Building the network**

SAFIN is expected to evolve by leveraging the roles, assets, and interests of its initial partners and delivering concrete value to them while also reaching out to others, with a view to progressively expand the contribution that the partnership can give to the systemic challenges at hand.

Towards this end, a series of focused meetings will take place in 2017 in parallel with the formalization of participation in SAFIN and with preparatory work on the above activities. A plenary meeting of SAFIN will take place in the last quarter of 2017 in Rome.