

Concept note

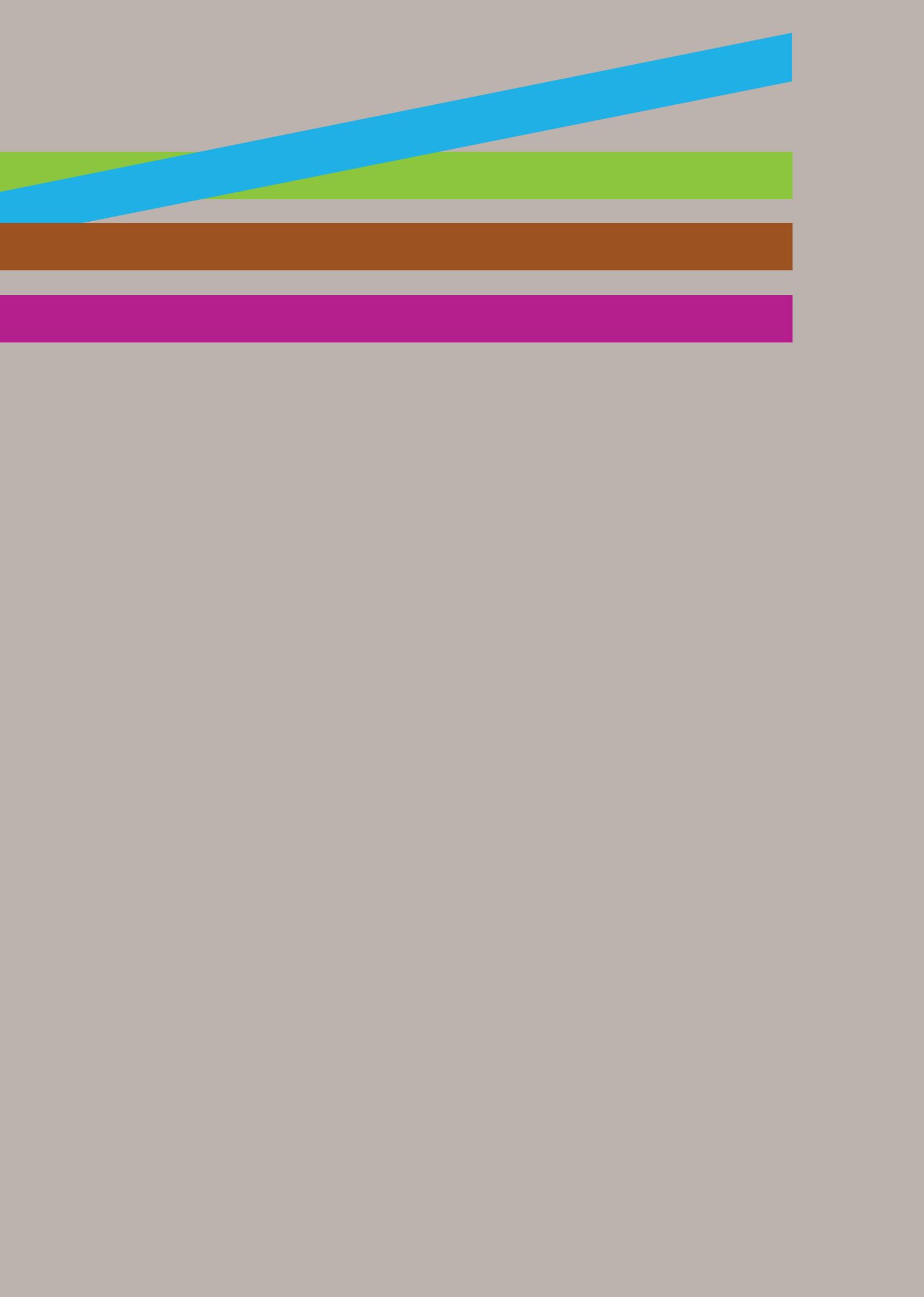
# Smallholder agriculture finance and investment network

**Investing in inclusive rural transformation**

Innovative approaches to financing

International Conference

Rome, 25-27 January 2017



## Introduction

There are about 3.4 billion people living in rural areas in the world today. Two-thirds of these people depend on roughly 500 million small and family farms for their livelihood and up to 600 million people on these farms may be undernourished. Despite the attention given to the urbanization trend over recent years, ending extreme poverty and hunger in the world will not be possible without inclusive and sustainable transformation of millions of small and family farms into more dynamic small enterprises. In turn, many small and medium rural enterprises will need to grow into larger businesses.

Through the 2030 Agenda for Sustainable Development, the world has set for itself an ambitious set of objectives to end poverty, hunger and to overcome inequality in a sustainable manner by 2030. Realizing the 2030 Agenda will require a profound transformation of food systems, including the agriculture sector, as well as a transformation of rural economies and rural areas, as recently highlighted in the IFAD Rural Development Report, 2016. Accordingly, achieving this transformation will require mutually reinforcing actions in many areas – spanning finance and investment, policy, technology, data and knowledge.

One critical part of the challenge is about creating an enabling environment for investment in and by smallholders and rural and agrifood small and medium enterprises (SMEs), who constitute the backbone of rural economies as well as of food systems in many parts of the world, and who are set to play a critical role in advancing the agenda of inclusive and sustainable rural transformation. In this context, on the side-lines of Expo 2015, IFAD, together with the Italian Ministry of Economy and Finance, convened Finance for Food: Investing in Agricultural for a Sustainable Future, a gathering of international financial institutions and the private sector to discuss a future agenda in the area of finance for rural and agrifood SMEs. Among the event's conclusions was the need to deepen collaboration among key actors working on this issue, as a critical step towards achieving smallholder development and realizing the 2030 Agenda.

In January 2017, once again with the Italian Ministry of Economy and Finance and in collaboration with the Brookings Institution and University of Warwick, IFAD will convene a high-level conference entitled Investing in Inclusive Rural Transformation which will build on the meeting held in 2015 and widen the conversation to a greater scope of actors committed to finance for smallholders and rural SMEs. The conference will be a space to consider and take forward new approaches and instruments to advance investment in and by smallholders and rural and agrifood SMEs, and to strengthen relevant policies and knowledge sharing in this domain.

The conference will create an important forum for the growing smallholder finance and investment community to come together and lay the grounds for the creation of a more cohesive movement of actors. Building on the moment, the conference will culminate in the announcement of a Smallholder Agriculture Finance and Investment Network (SAFIN), an ongoing, multistakeholder forum that would serve to deepen the knowledge base and strengthen the positioning of smallholder finance on the global agenda. This network would bridge across existing initiatives and actors, to help ensure greater alignment and coherence, while also improving connectivity by taking stock of and forging new initiatives and strategic partnerships for inclusive finance in this regard. Moreover, it would seek to strengthen the alignment of efforts in this space with the SDGs, particularly those targets that are most relevant for smallholders and rural SMEs.



## A new policy agenda for smallholder agriculture finance

The universal and interlinked 2030 Agenda has many relevant entry points for smallholders; but, when considering smallholder finance specifically, the key elements include:

- **SDG Target 2.3:** By 2030 double the agricultural productivity and the incomes of small-scale food producers, particularly women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets, and opportunities for value addition and non-farm employment.
- **SDG Target 8.10:** Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.
- **SDG Target 9.3:** Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.
- **SDG Target 10.1:** By 2030, progressively achieve and sustain income growth of the bottom 40 per cent of the population at a rate higher than the national average.
- **Elements of SDG 17, namely:**
  - **Target 17.3:** Mobilize additional financial resources for developing countries from multiple sources.
  - **Target 17.16:** Enhance the global partnership for sustainable development, complemented by multistakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries, in particular developing countries.
  - **Target 17.17:** Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.
- **The Addis Ababa Action Agenda** identified sustainable agriculture and rural development as a priority and calls on Member States to continue to build on recent progress on financial inclusion. Countries have agreed to consider financial inclusion as a policy objective in financial regulation, and further, the Agenda includes a package of measures aimed at strengthening access to finance for micro, small and medium-sized enterprises, including through the use of development banks and innovative instruments.
- **Paris Climate Agreement:** Smallholder farmers must become a more central focus of global and national efforts to adapt to and mitigate the impacts of climate change. It will be impossible for most developing countries to meet their Intended Nationally Determined Contributions (INDCs) or the SDGs without significant investments in climate smart agricultural practices for smallholders.

Taken together, this outlines an ambitious policy agenda for smallholder finance. As these agreements now shift into implementation stage, sorting and carrying out the “how” to achieve this agenda is not one that can be answered by any single institution.

## An emerging smallholder agriculture finance sector

A critical remaining and cross-cutting barrier to transformation relates to access to finance for smallholders. The need and demand for finance at this level is huge. A 2016 report estimated global demand for smallholder finance at US\$200 billion.<sup>1</sup> Yet, current supply is estimated at no more than US\$50 billion due to market fragmentation and vast underdevelopment.<sup>2</sup> This presents a fundamental challenge in linking the segment of organized producers and rural SMEs that have benefited and grown beyond microfinance, yet still sit far below what most commercial funds consider floor investment levels. Strengthening this business segment is key for countries to meet their sustainable development objectives.

In response, the smallholder agriculture financial “sector” is one that has received greater attention and – subsequently – some exciting innovations and new players in the space. To cite a few examples:

- **Root Capital** – a social lending firm – has disbursed more than US\$900 million in credit to over 600 businesses in Africa and Latin America since 1999.
- **The MasterCard Foundation** has been a catalytic player, supporting the creation of knowledge and research hubs such as the Initiative for Smallholder Finance and investing directly in agribusiness challenge funds for rural SMEs in in sub-Saharan Africa.
- **Triodos Bank** – a Dutch bank which lends to and invests in organisations that benefit people and the environment – directly paid 100,000 smallholder farmers in 16 countries upon delivery of their harvest in 2015 through the Triodos Sustainable Trade Fund.

Given the growth in the sector, new partnerships and associations have begun to develop, among them including:

- **Council on Smallholder Finance** 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.
- **Consultative Group to Assist the Poor (CGAP)** – a global partnership of 34 organizations (housed at the World Bank) that seek to advance financial inclusion to improve the lives of poor people – has recently launched a new workstream centred around researching the financial service needs of smallholder families.
- **Rural and Agricultural Finance Learning Lab** is an initiative to foster knowledge creation, sharing and collaboration among partners to devise better financial solutions for smallholder farmers/rural clients and to forge effective partnerships.
- **Global Agriculture and Food Security Programme (GAFSP)**: In 2016, GAFSP launched a new pilot initiative called the “Missing Middle Initiative” which promotes improved access to finance (grants, concessional finance or commercial finance) and complementary services (extension, capacity building, technology or access to markets) to smallholder farmers.

1. Goldman, Tsan, Dogandjjeva, 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.

2. Ibid. These estimates are for Latin America, sub-Saharan Africa, and South and Southeast Asia.

- **Improving Capacity Building in Rural Finance (CABFIN)** is an initiative to jointly facilitate knowledge dissemination and capacity development for relevant public and private stakeholders working to increase the availability of a wide range of financial services adapted to the needs of rural livelihoods. It hosts the Rural Finance and Investment Learning Centre (RFILC), a web platform for knowledge dissemination.

These initiatives<sup>3</sup> are helping to attract attention and galvanize partners to drive greater investment, however, each on their own are operating within a narrow segment of space and cannot be expected to deliver the needed transformations to drive greater access to finance for smallholders and rural SMEs on their own. There is also a need to strengthen and strategically align the sector with the 2030 Agenda.

3. Annex I includes a more complete – but still initial - mapping of the various collective efforts and individual funds and players operating in this space.

## Why a network?

The bottom line is that a gap persists between aspirations, potential and the reality for achieving inclusive and sustainable smallholder agriculture finance at the scale and depth that is needed. Moreover, there is limited inter-connection between these many initiatives, leading to lost opportunities for learning, innovation and scaling up. Donors and international financial institutions must also learn how to move beyond traditional aid to the agricultural sector and embrace approaches that can more fully support a rural transformation agenda. Finally, and perhaps most urgently, there is also a need to bring the perspectives of smallholders and rural and agrifood SMEs more prominently into these initiatives to ensure that their voices and perspectives help shape all efforts working towards their development.

There is, however, no existing effort to link the various partnerships and key actors aligned under the shared objectives relating to smallholder agriculture finance. Without a central point of information and greater alignment in the space, potential synergies, partnership opportunities and knowledge are being lost and – in some cases – various actors may even be working at cross purposes.

Now is the time to bring together the actors working to close the rural finance gap to ask whether there are better ways to organize and deliver the collective action that will be needed to make the objectives of the 2030 Agenda a reality for smallholders. Bringing together a community of like-minded partners – smallholders and rural SMEs, policymakers and financial institutions, private companies and technical experts – to advance this agenda, has great value at this time, as the global community has set for itself just 15 years to achieve an ambitious set of objectives. The 2017 meetings of the G7 and G20 will each place special emphasis on sustainable agriculture and the need for rural transformation, which can add momentum to bringing together such a network. Therefore, given its knowledge, rural finance expertise and relationships with millions of smallholders around the world, IFAD is bringing together a core group of committed partners to create such an alliance and marshal the multiplicity of actors working towards this goal.

A Smallholder Agriculture Finance and Investment Network would create the space for collaboration first and foremost in fostering better alignment among existing efforts, and in developing and taking forward new approaches and instruments to facilitate improved access to rural finance under the 2030 Agenda. Operating as a platform where the core work is undertaken in strategic thematic workstreams, the Network would serve as a multistakeholder community of practice across the public, private and philanthropic sectors together directly with smallholder producer organizations and associations of rural and agrifood SMEs. It would provide an opportunity for existing funds and initiatives to learn from one another and to recognize ways to increase impact in a pre-competitive space. It may also serve to help identify and address the key missing building blocks needed to enable more effective investment in, and disbursement of, rural finance.

Accordingly, the Network would have four overarching objectives:

1. Creating a space for sharing best practices and knowledge among a diverse, multistakeholder membership;
2. Leveraging the collective knowledge of the members, identify gaps that require additional research and/or investment;
3. Supporting and encouraging innovation; and,
4. Promoting policy alignment, dialogue and joint progress towards a progressively more enabling environment for smallholder agriculture finance.

Above all else, the Partnership would work to ensure a closer link between smallholders and rural SMEs with the partners and initiatives driving this work globally, thereby operating as a hub for efforts committed to smallholder development at different levels.

Following the January 2017 announcement of the Network, over the coming year, various thematic workstreams would be identified and developed by Network participants to facilitate these objectives and identify critical gaps in the global environment from a perspective of promoting smallholder development. These may include areas ranging from finance to risk management, to data generation and analysis, value chain integration, monitoring and evaluation and others as guided by its participants.

## Proposed focus areas of the network

In line with the nature of any multistakeholder collaboration, the activities of the Network will be developed by its participants. These may include work in the following areas:

- **Building the community of practice:** Annual or bi-annual meetings to strengthen and better connect the community – particularly across different sectors (public, private, DFIs, philanthropy and impact investments among them) – and foster the sharing of best practices; additional sub-meetings around specific topics; and, curated match-making between Network participants.
- **Advancing research and knowledge:** The collective knowledge of the network should be leveraged through research, identifying opportunities for public and private investment to achieve the ambitious policy agenda for smallholder finance. Research may also lead to improved innovations for scaling up finance and making concrete recommendations based on in-depth analysis on gaps in the global research agenda. In particular, it could map out specific strategies to attract the additional investment required and – in part through the identification of best practices – show the path for the pace and scale of financing to be ramped up. Additionally, the Network could explore how participants could report against the global indicators that are supporting the SDG targets that make up the “smallholder finance agenda” – an important addition both in terms of knowledge and policy engagement.
- **Investing in innovation:** Embedded in the Network architecture could be a smallholder financial “innovation” or “challenge fund.” Such an instrument could be a tool to provide grant financing to innovative projects or it could take an approach of providing “challenge” financing to reward success. Another activity in this area could be a space for peer review and constructive feedback of new ideas under development by Network participants.
- **Incubation of new funds and financial products:** The Network could serve as grounds to identify the gaps and bottlenecks in available finance for and to rural SMEs and producers’ groups, and help spur the launch of new funds with support from a wider scope of development partners to ensure complementary elements are delivered alongside financing – including technical assistance, business development services and enabling infrastructure.
- **Global engagement and advocacy:** Smallholder agriculture finance needs more champions in the formulation of public policies to ensure that policy enables the transformations and growth that are needed, particularly at the global level. The Network and its participants can potentially be those champions and it could be supported through events, targeted publications and other forms of strategic engagement.

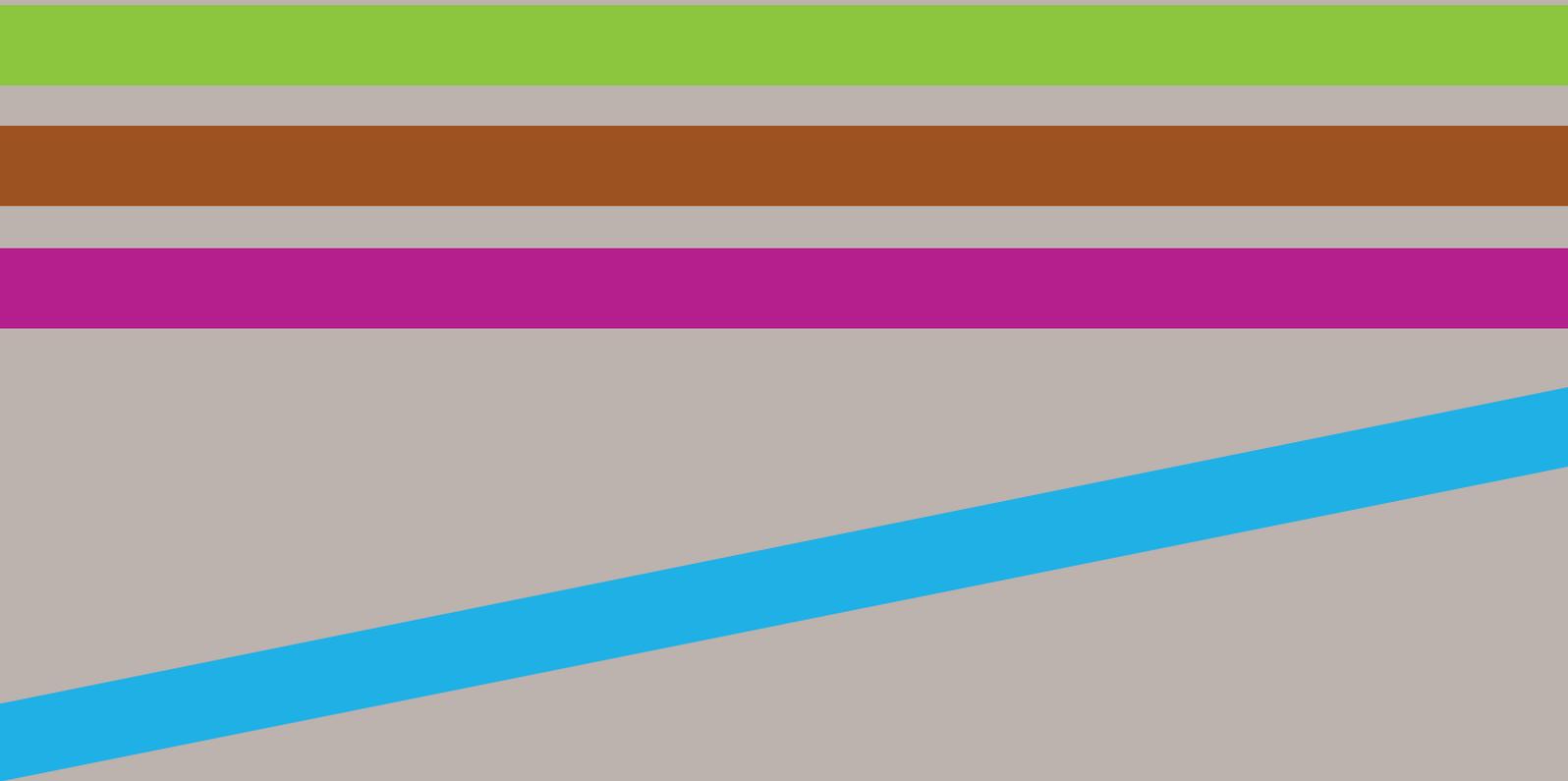


## Timeline of the network

At this moment, IFAD is facilitating strategic dialogue among a range of partners who have expressed an interest to explore the creation of a network of partners committed to smallholder agriculture finance and investment. To this end, a multistakeholder workshop dedicated to exploring the scope of such a network was held in November 2016 at IFAD, and a second working meeting will be held on 25 January, 2017, with an aim to further define the envisioned mission and scope of the Network, and agree upon its high level deliverables. These consultations are further shaping the overarching rationale for and concept of the Network. IFAD is committed to ensuring that the shape of this global alliance is guided by its future participants, in order to deliver pragmatic value and carry the incentives required to ensure broad participation.

Following an announcement of intent to form the Network at the Investing in Inclusive Rural Transformation conference on 27 January, a small secretariat will be incubated by IFAD in Rome to start work on the agreed priority activities and assist with the formation of an interim steering group in the lead up to its formal launch later in 2017. The interim steering group of the Network will be charged with defining successful outcomes of the Network and key performance indicators (KPIs) to track that success. To ensure a continually reflective and accountable initiative, the Network will undergo a thorough review linked to KPIs in five years (2022) – roughly halfway on the timeline to meeting the 2030 Agenda – at which time the Network could be affirmed, transformed or even dissolved.





[www.ifad.org/ruraltransformation](http://www.ifad.org/ruraltransformation)