Finance for Food: Investing in Agriculture for a Sustainable Future
INTRODUCTION

Agriculture and food are critical areas in the 2030 Agenda for Sustainable Development – a global action plan aiming to guide the actions of governments, the private sector and a range of other stakeholders over the next fifteen years. The agrifood sector is a key area of investment for food security and nutrition. It is also the central theme of Expo Milan 2015 and the focus of commitments laid out in the Milan Charter. Most people living in extreme poverty derive their livelihoods from this sector, which is also where growth has shown a disproportionately large impact on poverty reduction. It also has major economic importance in countries at all levels of income. Finally, it is a sector where new economic opportunities are emerging, which call for new investments and financing. These opportunities are drawing interest from private investors and financiers at all scales, and this is likely to increase with population growth and dietary changes across the world.

Small and medium enterprises (SMEs)¹ and smallholder farmers² are major investors in the agrifood sector in countries at all income levels. Their role in meeting growing demand for food in the coming years is likely to be critical. However, both SMEs and smallholders are often seen as unattractive clients by financial institutions, due to their small asset base, fragmentation, lack of credit history, mixed commercial orientation and the informal nature of their businesses.

And while more commercial actors operating on a larger scale in value chains are now using smallholders as suppliers, they often see them as undesirable partners because of their low productivity and fragmentation. On their part, many financial institutions lack products and services suited to the needs of agrifood SMEs and smallholders, or capacity to manage the risks involved. Many also lack experience in supporting value chain arrangements that can facilitate access to finance.

In recent times, new public commitments to boost access to finance to support the investment capacity of smallholders and agrifood SMEs have been made. Many initiatives are also emerging that aim to position smallholders and agrifood SMEs as competitive actors in increasingly dynamic value chains. The regional and multilateral development banks (MDBs) are among those involved in these efforts, as they invest in promoting both supply and access to agrifood and SME finance. A recent joint MDB

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¹ This paper does not propose a definition of SMEs, noting that what constitutes an SME may vary depending on country context as well as sector. For instance, in the rural sector the figure of 250 employees, frequently used as the ceiling for the definition of an SME, may need to be reduced to 10-100 workers. By including smallholder farmers, the paper de facto also includes agricultural microenterprises (but not other rural microenterprises).

² This paper does not address the financing concerns of subsistence-oriented smallholder farms or agricultural activities meant for self-provisioning for households that engage primarily in non-farm activities. It focuses on smallholders with a tradable surplus and the need for financing for investment to generate financial returns from agriculture.
paper affirms the need to support in-country financial systems to expand their reach to underserved groups such as micro, small and medium enterprises (MSMEs). And while the International Fund for Agricultural Development (IFAD) alone is specifically focused on financing for smallholders, agriculture is present in the portfolio of all the MDBs, to varying degrees.

Through development projects and technical assistance, the MDBs leverage public finance to help SMEs and smallholders gain assets, skills and market linkages to attract private finance. Increasingly, they help connect smallholders to other value chain enterprises. On the finance supply side, MDBs work with financial institutions serving the agri-food sector to strengthen their products, outreach and risk management capacity, and to put in place efficient, market-oriented and inclusive financial “ecosystems.”

Far from least important, they support governments to create enabling policies and institutions. However, there is a need for the MDBs to intensify their efforts in all these areas. This note identifies some areas of action as particularly important for the coming years.


4 This term refers to a combination of legal, policy and regulatory environment for agricultural finance, as well as institutional and supporting infrastructure.
SMALLHOLDER AND AGRIFOOD SMEs FINANCE AS AN ENABLER OF SUSTAINABLE DEVELOPMENT

Over the past two years, the international community has worked on an inclusive and sustainable development agenda, embodied in part in seventeen sustainable development goals (the SDGs), which form a core part of the 2030 Agenda that was endorsed at the United Nations Sustainable Development Summit at the end of September. Among these, SDG2 focuses on hunger, nutrition and sustainable agriculture, and includes a target on boosting investment in the agriculture sector. SDG8, related to inclusive and sustainable growth, includes a target on support to entrepreneurship and access to financial services by MSMEs, and another related to strengthening institutional capacity to foster financial inclusion. Financial inclusion also features in SDG1 in relation to the eradication of poverty (target 1.4).

Implementation of the 2030 Agenda represents a significant challenge. The mobilization of development finance from a range of sources (including public and private finance) and achieving financial inclusion will be critical factors. Both issues were at centre stage at the Third International Conference on Financing for Development in Addis Ababa, Ethiopia, in mid-July. The conference outcome – the Addis Ababa Agenda for Action (AAAA) – recognized agriculture, food security and nutrition and support to MSMEs as areas where increased financing and investment could yield cross-cutting benefits for sustainable development.

The recent global debate around these issues highlights a number of important facts for the implementation of the 2030 Agenda in terms of agrifood finance and financial inclusion of smallholders and SMEs. First, investment needs in agriculture are quite large, if the sector is to meet the aspirations of Agenda 2030 related to food security and hunger, employment, climate change and environmental sustainability. There is a great need for development finance for the sector, but in addition the challenge of financial inclusion of small-scale operators in the sector is very large. It is estimated that most of the 2.5 billion people in the world who lack access to formal finance reside in rural areas, where agriculture provides the majority of livelihoods. Second, smallholders play a major role in on-farm investment in agriculture, as over four fifths of farms can be considered “small” based on different country thresholds (HLPE 2013) and produce around 70-80 per cent of the world’s food. As for non-farm SMEs, they represent the bulk of the agrifood sector in terms not only of number of operators but also of employment and value generation in many countries.

A third critical point is the rising interest by a range of other private investors in the sector, which now represents a business of US$5 trillion globally, fuelled by growing demand for food and a shift towards diets based on better-quality, highly processed, standardized products. Globally, commercial operators are leading the transformation of value chains, and are often important sources of finance for smallholders and agrifood SMEs, both directly and as facilitators of access to financial institutions. Finally, public finance remains essential to provide public goods that all value chain actors need –

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6 For instance, J. Sachs and Schmidt-Traub (2014) estimate incremental investment needs to reach SDG2 by 2030 as requiring financing of US$48 billion for food security and US$250 billion in agriculture per year.

including research and development to good governance, a sound policy environment, infrastructure, education and market information. Realizing the sustainable development agenda requires that the public and the private sector operate in a complementary manner to boost financing for agriculture and promote the financial inclusion of smallholders and agrifood SMEs.

CHALLENGES TO ACCESS TO FINANCE FOR INVESTMENT BY SMALLHOLDERS AND AGRIFOOD SMEs

Smallholders and SMEs need a broad range of financial products and services, including credit, savings, insurance, payment services, remittance transfers, leasing and warehouse receipts.8 They also need technology, skills and market opportunities to attract and then make good use of finance. In the past – and in some contexts still today – the public sector played a major role in providing access to such technology, skills and markets, while agricultural finance in developing countries was primarily administered by public or parastatal agricultural development banks, postal savings institutions and retail banks. Agricultural banks were often supported by subsidy programmes aimed at offsetting the transaction costs and risks of doing business in the sector.9

As with the decline of many other public extension systems, the weakening or demise of many agricultural banks during the 1980s-1990s has left behind an institutional vacuum. Indeed, a 2011 IFC study on agricultural SME finance states that agricultural SMEs today largely fall within a “missing middle” between commercial banks and microfinance institutions (MFIs). There are, however, cases of successful reform of state banks. There is also an increasing number of non-state banks specializing in the smallholder and agricultural and rural SME sectors, and a large number of banks with a diversified portfolio that includes agricultural finance. Across the world, self-help groups also remain very important providers of finance for smallholders and rural SMEs.

Today, access to agricultural and SME finance varies greatly among and within countries. It is typically more challenging for operators at the beginning of agricultural value chains (input provision and farming) than for those whose business is in processing or marketing – activities that may be located close to or in urban areas and with faster and more predictable returns. It can vary significantly also within the smallholder population depending on location, gender, degree of commercial orientation of the farm, product specialization and type of value chain in which a farm participates. There is thus a need to analyse patterns of access to finance and related challenges based on the segment of the smallholder population and variables affecting productivity, asset base, self-financing capacity, market orientation, and others.

10 IFAD’s toolkit on community-based financial organizations (CBFOs) provides a systematic typology of CBFOs, which range from informal (decentralized, unsophisticated) to formal (sophisticated). CBFOs with an array of products and services, paid staff, and often centralized management and governance structures (http://www.ifad.org/knotes/ruralfinance/index.htm)


12 IFC (2011). Scaling up access to finance for agricultural SMEs. Policy review and recommendations. Washington, D.C.: International Finance Corporation. This source defines agricultural SME finance as: “financial services for SMEs with respect to agricultural production (i.e., farming) and production-related activities (i.e., input supply, wholesaling, processing, marketing, and trade)”.


Self-help groups and agrifood finance
Informal financial self-help groups (SHGs) are found across the developing world, including among smallholders and rural SMEs. There are three categories of SHGs, all in principle savings-based. These are: indigenous-traditional (including rotating and accumulating savings and credit associations, ROSCAs and ASCAs), indigenous-modern (including ROSCAs and ASCAs, investment clubs and others), and promoted or facilitated SHGs. The expansion of banks and MFIs has not diminished the attraction and outreach of these groups, but all three may benefit from improvement and upgrading. Among other things, mobile banking and mobile money, offered by banks and Mobile Network Operators, respectively, are creating a new world of opportunities for all types of SHGs. MDBs can play an important role in helping create a conducive environment to facilitate SHG integration into this new world of rural finance.
Different segments may have differential access to various sources of finance, formal or informal, and types of finance, from short- to long-term, from bank loans to value chain finance and financing from savings. A similar analysis is required for SMEs located downstream or upstream in the value chain.

With these considerations in mind, it is possible to list a set of common factors typically holding back access to finance by small-scale, poorly capitalized but commercially oriented farms and agrifood SMEs – which are the focus of this note. These include:

- Informal legal status of smallholders and SMEs and of their associations.
- Limited or non-existent asset base to use as collateral for loans (often due to weak entitlements over land, especially when farms or businesses are operated by women), and poverty – the most important factor mentioned as an obstacle to access to formal financial services by African respondents to a survey quoted in the Africa Progress Report 2014.14
- Weak property rights regimes and lack of collateral registries.
- Lack of a credit history, making it costly for financial institutions to assess borrower creditworthiness.
- Geographic dispersion or remoteness from bank branches, and in some cases (especially for rural women) limited mobility of the potential clients to visit branches.15
- Low human capital of operators (e.g. lack of business training or financial literacy).
- Small actual or projected size of business and related returns, and limited opportunities for economies of scale (notably in weakly organized value chains).
- Irregular income flow and preference for cash flow-based repayment schedules.
- Limited capacity of financial institutions to develop products suited to the needs of small operators in agriculture in terms of product size, interest rates, repayment schedules or packaging of complementary services (e.g. technical assistance, savings and insurance, etc.).

Risk is also a major factor hindering both supply and demand of finance for investment for these actors.16 Principal risks in agricultural lending are the borrower’s capacity and willingness to repay a loan, or the viability of the farm or SME business, and the borrower’s character. Production risks and market risks are the main specific risks in the sector, alongside political risks.17

Principal credit risks are associated with the informality of most smallholder and SME businesses, resulting from prohibitive land and business registration procedures, lack of separation between household and business activities, low education and financial literacy, absence of book-keeping and financial reports, and lack of appropriate collateral and collateral registries, all leading to an information gap.

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15 For instance, the Africa Progress Report 2014 reports a bank branch-to-population ration for Africa of just 3 to 100,000.
16 However, Meyer (2011) claims there is no firm evidence that agricultural loans are more risky; and Maurer (2014: 146) concluded “that in an overall perspective the principal risks matter more than the specific risks of agriculture.” Perceived risk may thus be more important in agricultural exposure decisions that actual risk.
Poor information creates risks for both lenders and borrowers: lenders fear moral hazard and adverse selection, while loan applicants cannot be sure to receive adequate credit at the appropriate time with suitable repayment schedules. In addition, poor legal systems create enforcement problems. Poor state of physical infrastructure can further increase costs and risks, which together may result in financial exclusion of large population groups.

Production risks arise from uncertainty due to such threats as bad weather, pests, diseases and natural calamities. Market risks may result from price volatility. Production and market risks affect single households, areas or whole countries. Finally, political risks may result from public concerns with food security, employment, income, urban cost of living, or export earnings. Populist interventions such as interest rate subsidization or ceilings, interest waivers, debt relief and debt forgiveness may lead to a drop in recovery rates of state banks and state-controlled financial cooperatives, and generally undermine agricultural and rural finance. Unstable policies related to the agrifood sector can also be a risk factor hindering financing for investment.
SOME ELEMENTS OF AN ENABLING ENVIRONMENT

The ingredients of an enabling environment vary depending on context, the characteristics of the sector, and types of value chains and actors. Nonetheless, the basic elements are common. They include well-functioning and transparent property rights regimes, inclusive land tenure systems (ideally with clear provisions for promoting gender-equal access and security of tenure), good governance and absence of corruption, and solid institutions. Policies underlying well-functioning agrifood markets and sound and accessible market information are important to reduce transaction costs, increase incentives, and reduce risks related to both supply and access to finance. A policy environment ensuring inclusive access to assets, technology, skills and markets is also important, particularly to enable smallholders and agrifood SMEs to attract private finance. Finally, an enabling regulatory and policy framework for associations of farmers and SMEs is critical to empower them to become attractive clients for financial institutions and good partners for larger commercial actors, and also to reduce the risks and costs they themselves face in interacting with these actors.

The MDBs are already working in these areas. Going forward, the AAAA points to some relevant issues requiring more efforts on the policy front, such as exploring the possibility of reforms to enable use of collateral substitutes, exceptions to capital requirements, allowing MFIs to mobilize savings, and strengthening the capacity of financial institutions for cost-effective credit evaluation. The authors of a 2011 IFC study prepared for the G20 also point to a number of areas for policy action in the coming years, all of which can feature a role for the MDBs in support of policymakers and regulators. These are:

- Participatory diagnostic studies of supply and demand for agricultural SME finance and building strategies based on such diagnostics for different segments in the agrifood SME population.
- Enabling legal and regulatory frameworks, including legal ensuring enforcement of contracts within agricultural value chains, gender-sensitive land tenure systems, regulations for warehouse receipt financing, and the functioning of farmers’ organizations.
- Effective mechanisms to deliver public investments and public goods, e.g. smart subsidies supporting financing institutions in a time-bound manner, risk-sharing facilities supported by public funding, public-private partnerships for infrastructure underpinning agrifood finance (e.g. weather stations, storage facilities for warehouse receipt systems, market information systems or commodity exchanges), and fiscal support for reinsurance markets.
- A financial infrastructure with adequate reach to rural areas, which may include credit reference bureaus, collateral registries, and a network of diverse financial institutions (e.g. rural credit cooperatives, commercial banks, and others) working collaboratively.
- Collecting, organizing, analysing and disseminating data related to agricultural finance and the agrifood sector in order to measure the finance gap over time, inform effective policies, and serve sector operators by reducing transaction costs and risks related to poor information.
• Building the capacity of financial institutions and their clients with a focus on assisting banks to enter into value chain financing arrangements and on strengthening farmers’ organizations so they can operate as effective partners for other commercial actors.

Also in terms of the enabling environment, the existence of sound strategies and tools to address risk related to agricultural finance is of major importance. Within financial institutions, individual credit risk is mostly addressed by appraising the repayment capacity of the borrower and by asset-backed lending. Savings and loan groups typically also generate data on the savings, borrowing and repayment behavior of members. Many banks and MFIs are adopting a solidarity group approach, lending to individual operators of SMEs backed by joint liability, shifting credit worthiness examination and recovery pressure to groups. This approach can be combined with the opportunity to graduate to substantially larger and longer-term collateralized individual loans for those with larger investment opportunities. Mobile money and mobile banking are creating avenues to expand this methodology cost effectively to remote areas.
At the portfolio level, financial institutions apply risk management tools such as diversification, exposure limits and loan loss reserves. In addition, the mobilization of savings serves as a source of low-cost funds, a service to customers, a source of information on prospective borrowers and as security. Interlinked transactions between smallholders, SMEs, buyers and intermediaries in agricultural value chains can also substantially reduce lending risks, while also presenting their own set of risks for the parties involved due, for instance, to poorly applied or enforced contracts. With the spread of mobile banking and mobile money, opportunities are arising for automated credit scoring based on digital information on savings, transfers and payments. This may open up new methods for risk management for financial institutions in the sector, including SHGs and financial cooperatives.18

All these measures require a supportive regulatory and policy framework. Additionally, the enabling environment from a risk perspective may include different elements that aim to strengthen risk mitigation or management strategies at different layers of risk – which can be defined by level of risk, degree of correlation, probability of occurrence and magnitude of losses.19 The first layer typically refers to losses at the level of individual smallholders or SMEs, for which strategies include self-protection, risk diversification (intercropping, crop rotation, and diversification of income sources), and financial strategies (precautionary savings). The second layer corresponds to more significant but less frequent risks affecting aggregates of smallholders or communities – this is the insurance or market solutions layer. Strategies include crop insurance, shifting from public to market-based agricultural insurance, and index-based agricultural insurance schemes. All of these require enabling measures in terms of institutional development, public investment in infrastructure and information, and so forth. An enabling environment in the international financial system is also very important to allow governments to play their role in addressing the third layer of risk – the market failure layer, which comprises risks that are rare but catastrophic.

HOW THE MDBs ARE CURRENTLY WORKING IN THIS AREA
The MDBs have a rich experience in the area of finance for agrifood SMEs and smallholder farmers. The approaches they use vary depending on their policies and strategies, the institutional and policy context, the size and characteristics of the agrifood sector, and the specific circumstances of the target groups concerned. Particular MDBs may specialize in certain types of contexts (e.g. specific regions or countries at different levels of income) and thus also in different approaches. In general, however, their portfolios are increasingly market oriented and feature initiatives that support the private sector – including private financiers – to operate in value chains where business opportunities are increasing. Generally speaking, their work is also guided by principles similar to those guiding IFAD’s work in this area, which include support to a variety of financial services and financial institutions, models and delivery channels, demand-driven and market-oriented approaches; supporting long-term strategies for sustainability and poverty impact (a critical factor in IFAD’s approach to rural finance); and commitment to policy dialogue to promote an enabling environment.

The main areas of work of the MDBs typically span the following:

- Supporting financing for public goods underlying agrifood SME and smallholder investment, notably in the area of infrastructure but also in areas indirectly related, such as education.
- Helping build the capacity of these actors to attract private finance (from banks, traders, processors, etc.) and to make good use of private finance as effective entrepreneurs.
- Working with a range of public, private and membership-based financial institutions to develop their capacity to serve this client group sustainably and at scale, and strengthening their outreach, their product and service portfolio, and their risk management strategies.
- Fostering inclusive and sustainable value chains that enable access to finance for actors in the agrifood sector, by brokering value chain arrangements, developing financial products that leverage value chain linkages, reducing risks in smallholder-inclusive chains, gathering and disseminating knowledge on good practice, and promoting inclusive dialogue platforms.
- Supporting governments in designing and implementing policies and strategies for agricultural development, agrifood and SME finance, and agricultural risk management.
- Studying, documenting and disseminating knowledge and facilitating knowledge platforms advancing good practices in the area of agrifood SME and smallholder finance.

Regarding investment in public goods, virtually all the MDBs support governments to invest in infrastructure and services that are essential to reduce costs and risks in doing business in the agrifood sector, as well as to enable the sector to meet new challenges, such as those related to climate change and increasing value chain integration. Virtually all the MDBs also have effectively supported the capacity of smallholders and agrifood SMEs to sustainably attract and use finance. Increasingly, this includes entrepreneurial capacity – which is critical in terms of attracting private-sector operators interested in working with, and possibly financing, smallholders as suppliers in the value chain. An innovative example is the ENABLE youth project currently under preparation at the AfDB with support from a number of partners, aiming to enable about 800,000 African youth to become agro-entrepreneurs. The design of projects to submit for financing is also an area drawing attention and financing from some of the MDBs, most often for large projects in infrastructure, but in some cases also for agrifood SMEs – as is the case for instance of the AfDB-hosted Agriculture Fast Track Fund, which targets bankable food security and agricultural transformation projects in Africa.

The work of the MDBs in building the capacity of financial institutions is increasingly oriented towards putting in place well-functioning institutional systems, and therefore capacity-building is often combined with facilitating networks among a diverse set of institutions. For instance, IFAD’s recent experience in the area of rural finance in

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20 For instance, the EBRD Small Business Support (SBS) and Advice for Agribusiness Program is designed to enable agrifood SMEs to benefit from improvements in technological know-how, management and operational practices, and financial and corporate governance standards. It introduces international best practices by engaging experienced senior executives from the agribusiness sector with hands-on experience as well as industry experts as advisers to work with the management of targeted SMEs. The ultimate goal is for the companies to be able to use the knowledge they gain to attract financing.
Ethiopia has focused around two types of institutions, namely rural savings and credit cooperatives (RUSACCOs) and MFIs, as the only institutions in the country with a capacity to deliver targeted financial products for smallholders in the remote areas where they often operate, with a strong focus on gender equality. The approach has combined institutional capacity-building, improvement of regulation and supervision of these institutions, and a credit line to address their liquidity gaps. In Nigeria, IFAD has worked with government to develop local MFIs and link them to formal financial institutions, while enhancing the accessibility of financial services for poor rural people – notably women – to raise their productivity as farmers and MSME operators. In Ghana, instead, rural and community banks as well as MFIs have been targeted with support to institutional performance, outreach and client orientation. In several countries, IFAD also targets a range of financial providers to address issues related to remittance transfer and remittance-based financial services such as credit, savings and insurance, notably under the umbrella of the IFAD-hosted Financing Facility for Remittances. Going forward, remittance-based financial inclusion is likely to be a key area of work for the MDBs and for many other operators in agrifood finance, given the huge size of remittance flows and their potential to direct much-needed sources of private finance towards small-scale operators in the sector.
Credit lines for financial intermediaries are also often used by the MDBs and other actors to enhance capacity for outreach in the financial system, as well as an entry point to upgrade skills and procedures in local banks who serve SMEs and smallholders. For instance, EBRD provides financing to local banks and microfinance lenders, combined with technical assistance to help them to provide more and better financial products for small businesses. Dedicated agricultural financing facilities can be effective in channelling financing to farmers and agri-SMEs in cases where the terms offered by banks are not favourable. The IDB also maintains programmes supporting a range of second- and first-tier public financial entities, particularly development banks, through long-term loans on favourable terms that can be on-lent to producers, or by helping establish partial credit guarantees that promote financial access.

Although not focused on agricultural finance, the Global SME Finance Facility is also a good example of MDB efforts to scale up their work to support the capacity of financial institutions. The facility, hosted by IFC, mobilizes funds from different sources to help banks scale up their lending to SMEs, with an inclusive approach targeting women-owned SMEs, agriculture, and SMEs in fragile states. The United Kingdom Department for International Development and the European Investment Bank are also key partners in the facility. In a similar scaling up effort, the African Guarantee Fund for Small and Medium-sized Enterprises aims to facilitate pooling of resources to support SMEs in Africa. It was launched in 2012 as a market-friendly guarantee scheme funded by the AfDB in partnership with the governments of Denmark and Spain. It has two lines of activity, namely provision of partial guarantees for financial institutions to incentivize them to increase debt and equity investments in SMEs, and capacity-building of financial institutions for SME appraisal and portfolio management. The AfDB also manages a Microfinance Multi-donor Trust Fund to support the bank’s Private Sector Development Strategy by providing technical assistance and capacity-building for MFIs and related industry operators. A major activity of the Trust Fund is to support innovative product development and delivery channels, covering value chain finance, mobile and branchless banking, insurance, and diversification of credit products (including leasing or warehouse receipts).

As noted, value chain development is increasingly important to the MDBs also from an agricultural finance perspective, and occurs in different forms and at different levels. For instance, various MDBs work in value chain finance strictly speaking, for instance supporting farm machinery manufacturing companies to introduce agricultural equipment leasing schemes targeting farmers and SMEs. Some support inclusive dialogue platforms linking different value chain actors in policy processes, for instance in the EBRD-FAO Private Sector for Food Security Initiative, which brings together governments and large and small agribusinesses for technical cooperation and policy dialogue. MDBs also promote policy developments that make possible the scaling up of viable value chain finance solutions, which includes legislation enabling use of crop or warehouse receipts, which support risk management and also give small-scale farmers a way to finance their investments in the absence of hard collateral.

21 For example, the Georgia Agricultural Financing Facility – which provides credit lines for 40 million that can be used in local currency – provided over 15,000 loans through three local partner banks by the end of the third quarter of 2014.

22 Among these is IDB’s Productive and Inclusive Rural Financing (US$1,000 million) programme, which aims at improving smallholder access to credit to finance acquisition of productive assets and improved technologies.
IFAD’s approach to smallholder and rural SME finance shows a strong focus on inclusive value chains, and in particular its Public-Private-Producers Partnership (PPPP) model. Besides working with governments to support enabling policy environments and public investments in infrastructure and other public goods, IFAD acts as an honest broker by promoting win-win relationships between small-scale producers and other enterprises, notably those that make up the local private sector (many of which are SMEs) – buyers, input suppliers, MFIs and commercial banks. This model has succeeded in leveraging public and private investments in inclusive value chains in different contexts in recent years.

The capacity to help spread or mitigate risk is very important in facilitating value chain finance. As noted above, value chain linkages can indeed both bring about and help mitigate risks and risk exposure. For instance, the IDB Risk Sharing Facility to Support Small and Medium Coffee Farmers is a US$100 million programme with ECOM, a coffee trader, for small and medium-sized coffee producers with less than 50 hectares in Costa Rica, Honduras, Mexico, Nicaragua, and Peru affected by the coffee rust. The programme has set up a multi-stakeholder, donor-supported partnership that has enabled both financing and risk spreading. The programme provides long-term loans to help SMEs coffee growers avoid the devastating effects of the coffee rust by planting new varieties, technical assistance in financial management and extension services for smallholders, and financial products that accommodate the production cycles of different crops. Some innovative mechanisms for scaled-up support to agrifood SMEs through a value chain finance approach are also under consideration at the AfDB, which may involve use of a combination of concessional first loss guarantees, project preparatory and technical assistance to provide direct private and public investment financing.

Under the last two headings, two initiatives worth flagging for their breadth and reach are the (not agriculture-specific) IFC-hosted SME Finance Forum, an online knowledge hub aiming to accelerate access to finance for small and medium businesses by promoting knowledge exchange and policy change, and the IFAD-hosted Platform for Agricultural Risk Management, an effort promoted under the G20 to build capacity for risk management in agriculture in developing countries through participatory diagnostics, development of solutions, knowledge-sharing and network-building.23

KEY AREAS OF WORK FOR THE MDBs AND PARTNERS IN THE COMING YEARS

As has been shown, the MDBs already have experience in supporting finance for SME and smallholder investment, which gives them a strong basis to work with governments, private financiers, organizations of smallholders and SMEs to develop sustainable and inclusive agrifood finance systems to help achieve the 2030 Agenda and the AAAA.

Under the six headings introduced in the previous section, the following emerge as key areas for scaled-up efforts in the coming years:

(i) Boosting investment – at scale and down to the last mile – in public goods needed for smallholders and SMEs to build viable businesses in light of new environmental and market challenges. This includes in particular climate-sensitive agricultural and rural infrastructure, market information systems, and infrastructure and services specifically supporting risk management in agriculture (e.g. weather stations).

(ii) Building the capacity of smallholders and SME operators – both women and men – to meet food quality and safety standards while improving their business practices. This is particularly urgent in middle-income countries with dynamic food supply chains, but increasingly also in low-income countries where urban demand for food is growing fast.

(iii) Promoting an enabling environment for collective action by SMEs and smallholders, including a conducive regulatory and legal framework and participatory frameworks for policy design, implementation and impact assessment, and support to organizations of smallholders and SMEs to engage in policymaking in a gender-inclusive manner.

(iv) Continuing to promote the capacity and rural reach of financial institutions. This includes restructuring and reform of agricultural development banks, postal retail banks, rural banks and other financial institutions to become viable, self-reliant financial intermediaries providing a range of market-based financial services, as well as improving the legal and regulatory environment to enable them to operate sustainably at scale.

(v) Catalysing private investment in agriculture through financial and non-financial tools, brokering inclusive business relations and helping reduce the risks faced by investors in food value chains, monitoring impact on smallholders in a gender-sensitive manner. This also relates to provisions in the AAAA for
maximizing positive spillovers from foreign direct investment, by encouraging the integration of local MSMEs into value chains, and supporting project preparation for investments related to agriculture.

(vi) Assisting policymakers and regulators to develop strategies for the agriculture sector and for agricultural finance that aim both for increased financial inclusion and for better management of risks related to investment in the sector.

(vii) Developing a joint knowledge agenda around innovative models and tools for sustainable supply and access to finance for agrifood SMEs and smallholders, with particular focus on risk management, gender-sensitive agrifood finance, long-term lending, value chain finance and PPPPs.

NEAR-TERM AGENDA: SEIZING THE MOMENTUM OF EXPO AND AGENDA 2030

Expo Milano 2015 provides an ideal setting to launch concrete initiatives to boost MDB efforts in the areas of work elaborated here, under the umbrella of Agenda 2030 and the Addis Ababa Action Agenda. It is recommended that three proposals are considered for immediate action in this context:

(i) A joint MDB effort to deepen the knowledge base on financial inclusion in the agrifood sector. Such an effort could gather solid evidence about access to inclusive financial services for smallholders and agrifood SMEs. This could identify challenges and gaps as well as the impact of access to inclusive services in terms of investment capacity, asset development, resilience and productivity, thereby contributing to an evidence-based theory of change related to inclusive agricultural finance from a sustainable development perspective.

(ii) Biannual MDB and private-sector forum on smallholder and agrifood SME finance. This forum would be held every other year with the sponsorship of one or more Member States. It would aim to provide a venue for discussion, identification of good practices and promising innovations, and coordination of approaches among the MDBs and private-sector agricultural finance operators with an interest in expanding outreach to SMEs and smallholders. It would sustain a joint knowledge agenda by the MDBs and interested members of the private sector, but it would also be designed to broker new collaborative efforts. It would focus on identifying and supporting concrete institutional, technological and operational solutions to challenges confronting both finance providers and users – notably SMEs and smallholder farmers. The first forum could focus on agricultural risk management.

(iii) Smallholder and SME agri-finance challenge. Modelled upon the G20 SME Finance Challenge, this initiative would be designed as a marketplace for innovative approaches by both public and private institutions in the area of financing smallholders and SMEs. The initial call for entries would run through 2016. Outstanding entries would be documented and strategies for scaling up identified and supported individually or jointly through MDB and private-sector collaboration, in partnership with the public sector as appropriate.