Summary Note

Blended finance and smallholder agriculture – lessons from a recent Oxfam study with Hanna Saarinen

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Do we have enough evidence about the impact of blended finance projects involving international donor funding on small-scale farmers? And what does the evidence we have tell us that donors should consider, as they plan for new such projects in the coming months and years?

These were the central questions in the SAFIN/FAO co-hosted webinar of 8 July, featuring Hanna Saarinen of the Oxfam EU Advocacy Office in Brussels. Ms. Saarinen is the co-author of the recently released Oxfam study "Accountability deficit? Assessing the effectiveness of private finance blending in ensuring that small-scale farmers are not left behind" which she presented in the webinar.

The study focused on programmes involving blended finance (the practice of mixing public aid with private resources) from the Netherlands, the United States, and the European Commission, respectively. The programmes analysed were the High Quality Rose Farming partnership in Ethiopia and Micro and Small Enterprise Fund (MASSIF): Dedicated support to SMEs (both supported by the Netherlands), the Northern Ghana Feed the Future project and the East Africa Loan Guarantee Facility (supported by the USA), the Agriculture Financing Initiative (AgriFi)/ European Fund for Sustainable Development (EFSD) programme and AgriFi Kenya (supported by the EU).

In Ms. Saarinen’s summary, the findings of this analysis suggest that caution is warranted on the part of donors when considering whether and how to include blended finance among the range of instruments and approaches at their disposal to mobilize investment in agriculture through ODA. In particular, she noted the following headline conclusions:

- The assumption that blended finance is good for agricultural development, which seems to be shared by a growing number of international donors today, appears to be often made with lack of information and evidence. This undermines the capacity of donors to make evidence-based decisions about whether blending is the best use of concessional development finance to reach specific development impact in specific contexts.
- Donors tend to focus on financial additionality rather than on development additionality in the use of blended finance in the agriculture space. There is also an inverse correlation between leverage ratios and financial additionality which is often not acknowledged.
- Blending solutions tend to require the effective articulation of many actors and of sometimes long impact chains separating finance from impact.
- Blending tends to concentrate in markets and types of initiatives that benefit better-off farmers, with generally less impact on marginalized groups, poor farmers, and women farmers than other types of donor-funded spending.
- Crowding out of commercial finance is a real risk in some contexts, despite the commercial investment gap that often prevails in the sector.
One important conclusion is that there is much scope for continuing to use – and, indeed, perhaps to intensify the use of – ODA to help develop the enabling conditions for smallholders to thrive, including through public sector investment, rather than diverting significant amounts of ODA towards mobilization of private resources through blending.

Participants raised a number of questions around these findings. Among others, these aimed to tease out elements of good practice and examples of success studies, as well as to get a better sense of the taxonomy of blended finance vehicles in the agriculture space – complementing earlier analysis conducted by SAFIN with Tanja Havemann of Clarondial as part of a "deep dive" on blended finance and agriculture currently underway with the OECD. The importance of investing in capacity building among local and country-level actors, both on the supply and on the receiving ends of blended finance, was highlighted as a precondition for improving the development impact of programmes financed through blending. Some questions were also put on the table for further analysis – possibly by Oxfam in the coming years, but also by other actors including FAO and SAFIN partners. These include the need to better understand the role of national development banks in blending for agriculture and the need to develop practical guidance about how ODA can be used to improve the enabling environment around private finance mobilization in agriculture at country level.

The case studies analysed in this paper are available upon request. For any follow up questions, please write to e.kitongo@ifad.org.