Overview of recent developments across our work streams

After an intense plenary meeting in the last quarter of 2018, the first months of 2019 have been a time of reflection, planning and rethinking our ways of working. While some of these changes will kick in in the second and third quarters of the year, some are already in motion. For example, a SAFIN LinkedIn group has been established and more collaborative ways of working have been agreed upon for each of our major collaborative work streams, under the leadership of our Steering Committee.

Meanwhile, progress has been made under each of the main collaborative work streams bringing together SAFIN partners. Activities on advancing policy and good practices in the use of blended finance for agriculture, in dialogue with colleagues at the Organisation for Economic Co-operation and Development (OECD), have picked up pace. So have those related to aligning partners’ investments at the country level through the SAFIN Investment Prospectus Framework.

On innovation and knowledge sharing, which last year focused on business models for technical assistance to agri-SMEs, we have started a conversation with leading actors in the landscape of match-making platforms for finance in order to understand what actions or tools can expand the ecosystem-wide impact of existing platforms. Highlights of each of these work streams are included below.

1. SAFIN’s knowledge agenda on blending for agri-SME finance

On 16 January, the joint SAFIN/OECD “deep dive” on the OECD principles on blended finance and agriculture was officially kicked off by a panel during Private Finance for Sustainable Development Week at OECD headquarters in Paris. The newsletter’s cover photo shows SAFIN Senior Coordinator Bettina Prato (center), who moderated the panel, along with (from left) Brian Milder, Director of the Council on Smallholder Agricultural Finance (CSAF); Aliyu Abdulhameed, Managing Director, Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL); Gwen Yu, Head of Engagement Transformation at BNP Paribas; and Tanja Havemann, Director and CEO of Clarmondial. Joining remotely was Bhavana Srivastava, Associate Director at Microsave India. The
Besides describing the major elements of the current landscape of blended finance for agriculture, the panel drew attention to the significant scope for greater action to address investment risks in the sector – and the rationale for blending to address some of these risks. The panellists gave practical examples of how blending can be part of integrated solution packages to mobilize investment – including investment in and by smallholders and agri-SMEs, which is of central concern to SAFIN.

Brian Milder presented the work of the SAFIN consortium of impact lenders in agriculture, illustrating constraints such as: the cost of capital sourced from development finance institutions; high project origination and management costs; and comparatively low returns from serving the agri-SME market. He also spoke about SAFIN’s efforts around transparent benchmarking of the cost of lending to agri-SMEs, and about a new facility being developed in East Africa, which will use blended capital to support investors committed to delivering smallholder finance in a financially sustainable manner.

Aliyu Abdulhameed presented the NIRSAL blended risk-sharing model, which is anchored in: (i) a risk-sharing facility enabling banks to lend more to agriculture; (ii) an insurance facility aiming to support product expansion for the sector; (iii) a technical assistance facility targeting both the finance demand and supply actors; (iv) a holistic bank rating mechanism; and (v) an incentive mechanism for rating banks on agricultural lending and social impact. There is currently great interest in the NIRSAL model in several countries, but replicability is a challenge. Necessary conditions include: political independence and strong governance; a whole-value chain development approach; and a clear roadmap from reliance on concessional capital to progressively greater contributions of commercial capital.

Gwen Yu’s intervention cast light on the key role that large commercial banks like BNP Paribas can play in the blended finance landscape, particularly by structuring financial products for institutional and retail investors in order to draw capital into agriculture and related investments such as land restoration. She illustrated some recent examples of how banks can play this role effectively, which are particularly relevant from a blending perspective. They included the development of investment products based on securitizing cash-flow projections from off-take contracts in a land restoration programme implemented in India. She also underscored the complementary roles that different public and private partners – including donors – need to continue playing in these initiatives as the financial sector’s capacity to develop and support investment solutions that mobilize capital for agriculture grows – and as the perceived and actual risks of investment in the sector evolve.

Finally, Bhavana Srivastava presented the work of Microsave in advising policymakers and donors on programme design and financial vehicle structuring for financial inclusion in rural areas of Asia.

Between January and March, a landscape report on blended finance and agriculture to frame the joint OECD-SAFIN deep dive was prepared by Tanja Havemann of Clarmondial in collaboration with the SAFIN and OECD teams. The report benefited from the contributions of many SAFIN partners and conversations with key players in the landscape, including several national development finance institutions (DFIs). It covers: major trends in agricultural and development finance for the sector; the main sources of data on blended finance in agriculture; and an annotated taxonomy of approaches and instruments based on blending that are used in the sector. Among its conclusions, the report notes the following:

1. The definition of what constitutes blended finance in agriculture is unclear given the high share of finance in the sector that flows among value chain actors as opposed to through formal financial institutions. We currently lack adequate concepts and instruments to provide a precise definition of “blending” and its specific modalities of engagement to facilitate investment by mitigating specific risks – particularly in tight value chains.

2. There is a wide variety of players in the agricultural blended finance landscape, including: capital providers (donors, multilateral development banks, DFIs, governments, private investors and others); capital intermediaries (banks, common investment vehicles and others);
and capital recipients (e.g. cooperatives, companies). Although not always recognized as such, the role of actors working in the policy environment or on the demand side of capital in the sector (e.g. farmers’ organizations, non-governmental institutions) is also critical for the success of blended finance initiatives. The role of different types of national DFIs in this landscape is also important and possibly growing, although these contributions are not always labelled as blended finance.

3. Among the many data gaps that make it difficult to gain an in-depth understanding of the landscape, a critical gap concerns the classification of blending for agriculture and whether it adequately captures initiatives that mobilize finance for agri-SMEs. While flows classified as moving through agricultural blended finance structures are a small fraction of all blended flows, it is unclear what percentage of flows under the heading of financial inclusion or banking end up serving rural or agri-SME markets.

4. Blended finance initiatives and vehicles for agriculture target a mix of clients that includes enterprises, local banks and microfinance institutions. There have been several cases in which blended approaches were applied to support local banks’ capacity to lend to agri-SMEs – in some cases with an additional focus on supporting sustainable (or “green”) investments.

5. According to the OECD, financial mobilization rates in agriculture are highest through blending that relies on guarantees, syndicated loans and credit lines. However, given the classification challenges noted above, it is unclear what the mobilization rates are for blended finance involving national (non-OECD) DFIs or value-chain actors.

The next steps in the deep dive include: the collection of case studies; and at least two regional learning events to be organized with the Secretariats of the Asia-Pacific Rural and Agricultural Credit Association (APRACA) and Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), and the African Agricultural and Rural Credit Association (AFRACA) – all of them SAFIN partners. These events are expected to take place in mid-September and early October respectively. In addition, a global learning event around the release of the final report is expected to be hosted by OECD in Paris early next year.

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2. Alignment of Investment through the Investment Prospectus Framework

Implementation of the SAFIN Investment Prospectus Framework has continued around the five pilots launched in 2018, along with initial scoping for additional pilots to be launched in the second half of 2019 (tentatively in Latin America, sub-Saharan Africa and South-East Asia).

Draft investment prospectuses (IPs) for the coffee and oilseed (particularly sunflower and soya) value chains in Uganda were presented to SAFIN partners through a webinar in December 2018 by the Uganda Agribusiness Alliance (UAA) – a pilot anchor.

These prospectuses were completed in early 2019 and will soon be available on the SAFIN website.

The prospectuses lay out investment opportunities in these two value chains given the current state of the financial sector, relevant policies and SAFIN partners’ portfolios. In the oilseed value chain, opportunities lie in soybean bulking for local markets, soybean farming, medium-scale sunflower processing, small-scale sunflower processing and smallholder sunflower farming. In the coffee value chain, they focus on dry processing, coffee farming, and export grading. For each value chain, the prospectuses provide information about: investment requirements; rate of return on investment, with data on net present value; internal rate of return; and payback period. They also provide data on the sensitivity of net present value to the equity/capital ratio and interest rate.

On 26 March, two validation meetings took place in Kampala (see photo above) including representatives of local SAFIN partners, the Ministry of Agriculture, producers in the
oilseed and coffee sectors, and others.

Planned next steps include conversations among SAFIN partners on how to use the findings to foster alignment of their portfolios around these value chains. Another next step is to engage financial institutions and investors in the identified opportunities.

Between January and February, a team from SAFIN partner Fundación Capital began preparations for developing an IP for the value chains of coconut and associated crops in the Dominican Republic. In March, the team held interviews in Barahona, Nagua, Samana, Mao and Santo Domingo with support from pilot anchors Junta Agroempresarial Dominicana (JAD) and the Ministry of Agriculture, and work stream co-leader the International Trade Center (ITC). This work involved producer associations, farmers, processors, financial institutions like Cooperativa FONDAGRO, Banco BHD Léon, BanReservas, Banco ADEMI, Banco ADOPEM, government entities, the National Coconut Platform and SAFIN partners the European Commission, ITC, the French Development Agency (AFD) and JAD.

Preliminary findings from this field work indicate that many actors in the Dominican Republic’s coconut value chain are reorienting their focus towards the local agricultural economy, with processors making greater investments along the supply chain to increase access to local raw materials and reduce their reliance on imports. Challenges include the age of many plantations (50 per cent are older than 50 years), a lack of available technical assistance (particularly for producers) and poorly functioning financial services. However, there is strong profitability potential for smallholders in coconut production and there are important investment opportunities along the value chain – for instance in producing coconut shells for export. The Fundación Capital team has prepared a draft prospectus for presentation at a validation workshop on 23 April at JAD’s office in Santo Domingo.

Work on the Nigeria and India prospectuses has also been proceeding. A learning agenda around the IP processes has been developed by the Secretariat and learning events are being planned around each pilot. A global learning event on these pilots is also planned for July in the Dominican Republic. Lessons learned from the process will feature prominently at the 2019 SAFIN plenary meeting.

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Upcoming events

SAFIN and the International Coffee Organization (ICO) joined forces to organize two sessions at the Financing for Development Forum of the United Nations Economic and Social Council (ECOSOC), which will take place on 15-18 April at United Nations headquarters in New York City. The first session is a “café conversation” about challenges and innovative solutions for financing investment in coffee value chains across different regions. The second session will discuss investment risks in the coffee sector and the role of policy, partnerships, and market-based hedging and insurance mechanisms in addressing such risks.

In the coming months, the network has agreed to work with the Alliance for a Green Revolution in Africa (AGRA) on the investor “deal room” at the African Green Revolution Forum to take place in Accra, Ghana, from 3 to 6 September. SAFIN will seek to mobilize both investment proposals and potential investors from across the network for the deal room, and engage with AGRA partners on a long-term agenda for matching investment capital demand with supply in African agriculture.

The next SAFIN plenary meeting will take place on 10 and 11 November in New Delhi. It is timed to take advantage of the Sixth World Congress on Rural and Agricultural Finance, which will take place in New Delhi on 12 and 13 November. The Congress, which takes place every three years, is jointly organized by APRACA, AFRACA, the International Confederation of Agricultural Credit (CICA), the Latin American Association of Development Financing Institutions (ALIDE) and the Near East–North Africa Regional Agricultural Credit Association (NENARACA). The event is expected to attract practitioners, experts and policy makers from 90 countries. Besides being a forum for knowledge sharing, the Congress will issue the New Delhi Declaration – pledging support to inclusive growth through rural and agricultural development, with a focus on the role of finance.
Partners in the Spotlight: Gloria Román Peco and JAD

Each issue of this newsletter covers one or two SAFiN partners as a way to foster mutual understanding among those who make up the network. This issue features Gloria Román Peco, Manager of the Prorural Programme at the Junta Agroempresarial Dominicana (JAD).

Can you tell us about JAD and its history?

Very often we are asked: what is JAD? We always reply: the Junta Agroempresarial is the leading organization in the Dominican Republic’s agricultural sector and gathers more than 160,000 producers from across the country. This answer sums up concisely the strength of JAD and its presence in the country. However, it does not capture its essence nor why it is so important. Only when you are inside it and you directly witness its daily business – and what it aims to do – can you really understand what JAD is about and grasp its importance. The truth is, JAD is not a great, dedicated or powerful organization because it has a large number of associates. It is great because it is able to gather together all the productive sectors in the Dominical Republic’s agricultural and rural space – whatever their focus area – and bring them to the same table. It is dedicated because from its origin it has been entirely focused on the wellbeing of Dominican producers, and it looks after the improvement of their living conditions day and night. It is powerful because through its institutional relationships and the work of its staff, it can achieve genuine changes in the sector, which translate into better conditions for growth – both among small producers and large entrepreneurs.

This year JAD turns 35 – marking 35 years of continuous service for the country’s rural sector. During this time, JAD has brought together more than 3,500 international and local experts to work in a direct technical assistance programme for producers. It has set up the most modern agriculture laboratory service in the country and created a commodity exchange to support the marketing of food products. Moreover, it has set up FONDAGRO, which has a microcredit portfolio of over 300 million Dominican pesos lent to small producers. And it created the first agro-business information centre, which as far back as 1989, when the Internet was still unknown, was already reporting in real time on international market prices for export products. Today this centre provides daily price information via mobile messages to hundreds of farmers across the country.

JAD also organizes Agroalimentaria, the only international food, tobacco and beverage fair in the country, which has drawn more than 1,000 international buyers and investors to the country’s rural sector. Fulfilling its environmental and social responsibility, JAD maintains the Agrobusiness Reforestation Programme, planting more than 30,000 tareas [one tarea is about 629 square meters] of forest in the country’s watershed areas.

The institution has become the Government’s focal point for policy dialogue in the interests of the agricultural sector, proposing initiatives with cross-cutting impacts across the rural space in the areas of finance, land titling, food safety and health, innovation and technology transfer, and rural infrastructure. In addition, JAD has worked with the Government on proposals for new agricultural export policies, a differentiated fiscal policy for the sector, policies to address climate change and environmental considerations, the reform of rural public-sector institutions and new mechanisms to organize small and medium-sized producers.

In these 35 years, JAD has managed more than US$100 million from international and local institutions for the development of agriculture in the Dominican Republic. It has a surveying and geo-data systems unit with sophisticated measurement equipment including drones, and a quality unit focused on capacity building and certification of producers for the export of quality products.

Working through its own staff as well as a number of institutional agreements, JAD has focused objectives and a clear role as the...
Can you tell us about yourself and your role in JAD?

My name is Gloria Román. I am Spanish. I am an agricultural engineer trained in environmental issues, quality and international cooperation, and hold a post-graduate degree in project management. In my 14 years of professional experience, I have focused on rural and environmental project design, management and monitoring in the Caribbean, Latin America and Europe. For me, being able to design and implement projects is very fulfilling. It is wonderful to see how you can create things that help to change people’s lives and, by doing so, also bring about cultural and social change in a country. This is worth the major effort that is often required to realize a project with concrete impact.

Within JAD, my main role is to manage rural development projects focused on support to associations of poor rural people. Any project that can make an impact on the development of the poorest rural communities and their associations is relevant to us. Therefore we work with institutions like the International Fund for Agricultural Development (IFAD), the European Commission, the Spanish Agency for International Development Cooperation (AECID), the United States Government, the private sector and the Government of the Dominican Republic. We do this by implementing programmes for capacity building, technical assistance, supplying equipment and infrastructure, and working towards economic sustainability and improved quality of life for the most disadvantaged communities.

What are the most important recent developments in rural finance in the Dominican Republic?

The main institutions in this area include Banco Agrícola, which lends to producers at low interest rates. There is also a government programme called the Special Fund for Agricultural Development, which features surprise visits by the President to rural producer groups every Sunday, accompanied by a loan agreement to invest in agricultural projects. Credit institutions include JAD’s FONDAGRO, which lends to poor and other small producers in order to develop their agricultural activities. Investments are primarily directed to rural infrastructure, planting and renewal of plantations, and equipment. In recent years the Government has given strong support to agriculture because it is seen as key for food sovereignty and development.

Why did JAD join SAFIN?

The real question is: why not join? As I mentioned last October during SAFIN’s plenary meeting, today we are in a globalized world open to social media and other communication networks. In our society, being connected is essential in order not to be left out of a system that is constantly changing. For this reason, institutions are required to be “online” in order to develop and grow. What may be strong points for some may be weak points for others. Therefore, we need networks that allow us to connect and create alliances through which we can overcome the weaknesses that we face individually.

Networks make such alliances possible, and SAFIN allows us to connect with each other. It creates linkages and discussion spaces among institutions in different parts of the world with a similar focus on agricultural development. Through these networks, we speak, learn, plan, and implement actions that contribute to rural development from a broader perspective, with a global vision of actions undertaken in other parts of the world. As a great Dominican leader said: “In life, you should always add and multiply, never subtract or divide”. This is what we do with SAFIN and what we have to continue working on in this platform.

How is JAD contributing to SAFIN?

JAD joined SAFIN in 2017. Since then, it has been working with SAFIN on an IP for the coconut value chain in the Dominican Republic. Through JAD, SAFIN has an open door to access rural producers, information about national markets, laboratories, project management, political relationships, and more – not to mention a wide range of specialists who work in the institution and who can bring technical, logistical and institutional support to SAFIN in the Dominican Republic. Here, you have a home and can count on us for whatever partners may wish to undertake to promote the rural sector. Moreover, JAD has already worked as an agricultural advisor in other countries. We can bring our experience to initiatives outside the Dominican Republic.

Who knows where this may take us? We only know that we have
started and that we have a lot to do and a long way to go!