Smallholder and SME Investment Finance (SIF) Fund

Smallholder and Agri-food SME Finance and Investment Network – SAFIN Working Meeting, 28 November 2017

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IFAD
Investing in rural people
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IFAD – Investing in Rural People

Unique Capabilities of IFAD

- Specialized UN Agency and IFI exclusively dedicated to serve the rural & agricultural sector
- Raison d’être: last mile smallholders support capacity
- Local presence and proximity to the target groups
- Leveraging the private sector. Smallholders organizations as next-frontier market
- Strong expertise on value chains and rural finance
- Policy dialogue

IFAD Portfolio

- **Outstanding portfolio (sovereign loans):** US$6 billion (plus US$7 billion of mobilized co-financing)
- **Projects:** 220 (175 with a Value Chain approach)
- **Countries:** 100 countries with active program
- **People reached:** 130 million
- **Producer organizations:** 125,000
- **Avg. annual lending programme:** US$1.1 billion
- **Grant programme:** US$60 million per year

Financing sources

**Replenishment Funding**

- Core contributions from member states

**Sovereign Borrowing**

- KFW Borrowing Facility
- Spanish Food Security Trust Fund
- Agence Française de Développement

**Supplementary Funding**

- Yield Uganda Investment Fund
- African Agriculture Fund (AAF) Technical Assistance Facility
- Remittance Facility (FFR)
- Agricultural Risk Management (PARM)
- Weather Risk Management Facility (WRMF)
Filling the gap

- Gap in financial needs of smallholder agriculture estimated at US$140 billion

- Challenges in attracting capital for smallholder farmers and rural agriculture businesses globally in a context of reducing ODA resources

- The incapacity of rural economies to provide decent employment to the youth generates new risks of political instability and disruptive migration

- The SME sector is key to generate rural employment opportunities and growth

- Attracting private investments in agriculture is faced with high risks and transaction costs that have kept the private sector “on the fence”

- IFAD’s resolve: catalysing investments for smallholder agriculture in contexts that private firms would not otherwise entertain (priority to impact)

- IOE’s Private sector evaluation in 2009 had already recommended that IFAD establishes a private sector window
## Landscape Analysis

<table>
<thead>
<tr>
<th>Examples</th>
<th>“Frontier plus” agriculture funds</th>
<th>Early stage venture funds</th>
<th>Local or small regional funds</th>
<th>Niche impact funds</th>
<th>Wholesale multi-sector or ag funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>SIF</td>
<td>Root Capital</td>
<td>Factor(E)</td>
<td>AAF</td>
<td>Althelia</td>
<td>DFID Impact Fund</td>
</tr>
<tr>
<td></td>
<td>ResponsAbility</td>
<td>AECF</td>
<td>LAFCO</td>
<td>Clarmondial</td>
<td>Arise</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Acumen</td>
<td>Annona</td>
<td>ABN AMRO value chain fund</td>
<td>AATIF (KFW)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mission focused on smallholders</th>
<th>Yes</th>
<th>Yes</th>
<th>No</th>
<th>Not a core focus</th>
<th>In some cases</th>
<th>Limited</th>
</tr>
</thead>
</table>

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<thead>
<tr>
<th>Specialized ag. expertise</th>
<th>Yes: leveraging IFAD expertise</th>
<th>Yes</th>
<th>No: typically diversified</th>
<th>In some cases</th>
<th>In some cases</th>
<th>In some cases</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Deep local expertise</th>
<th>Yes: leveraging IFAD footprint</th>
<th>No: Global focus</th>
<th>No: Global/regional focus</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Supplementary source of pipeline</th>
<th>YES: Ready access via pillar 1</th>
<th>Rarely</th>
<th>In some cases</th>
<th>In some cases</th>
<th>In some cases</th>
<th>No</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Aligned TA funding</th>
<th>YES Via pillar 3 (TAF)</th>
<th>Rarely</th>
<th>In some cases</th>
<th>In some cases</th>
<th>In some cases</th>
<th>In some cases</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Aligned programme support</th>
<th>YES Via pillar 1</th>
<th>No</th>
<th>In some cases</th>
<th>No</th>
<th>In some cases</th>
<th>No</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Access to concessional capital</th>
<th>Yes</th>
<th>Yes</th>
<th>Yes</th>
<th>In some cases</th>
<th>Typically no</th>
<th>Yes</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Able to offer small loans (&lt;$500k)</th>
<th>Yes</th>
<th>Rarely</th>
<th>In some cases</th>
<th>No</th>
<th>No</th>
<th>No</th>
</tr>
</thead>
</table>
SIF aims to generate positive and measurable social and environmental impact for actors in agriculture value chains alongside financial returns for investors.

**Impact**

- Sustainably strengthened value chains, employment generation and preservation esp. for the rural youth, and improved smallholder livelihoods

**Long term outcomes**

- Financial inclusion
- Increased Income

**Short term outcomes**

- Increased access to finance and markets
- Grow production capacity
- Responsible investments and reduced risks

**Activities**

- Leverage IFAD’s portfolio to identify key actors within a given agriculture value chain whose development would maximize the impact on smallholders
- Develop an investment pipeline of farmer organizations and rural SMEs
- Provide pre and post-investment technical assistance to investment recipients

**Direct Investment**

- Invest directly (debt and equity) in FOs and rural SMEs

**Financial Intermediation**

- Fund local financial institutions to co-invest in FOs and rural SMEs
SIF Operating Environment – 3 pillar approach

**Pillar 1**
**IFAD Portfolio**

**De-risking process**

**Stimulate private sector investment:**
- Provision of public and semipublic goods
- Invest in rural infrastructure
- Raise farmers productivity
- Support access to market and finance
- Make agricultural products more profitable
- Improve the rural business policy environment

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**Pillar 2**
**SIF Fund**
*(focus of this presentation)*

**Invest in key actors active in the agriculture supply chain:**
- Input supply
- Agriculture equipment
- Distribution
- Processing/manufacturing
- Food services
- Marketing/certification
- Working capital

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**Pillar 3**
**Technical Assistance Facility (TAF)**

**De-risking process**

**Provide pre and post-investment capacity building**
- Business management
- Deal structuring
- Support inclusivity of disadvantaged groups
- Strengthen market linkages
- Incubation of youth enterprises

**Perform M&E for SIF fund**
- Assess and measure depth and scale of impact
SIF Investment Strategy

Country Selection Criteria

• Focus on Sub-Saharan Africa but not exclusively
• High need of financial resources (loans and equity investment)
• Active IFAD country programme with value chain and private sector linkages
• Donors/Investors preferences
• Maturity of the local private sector market
• Policy and regulatory framework

Investee Selection Criteria

• Farmer organizations and SMEs that are part of the “missing middle”*
• Key actors within agriculture value chain:
  o Potential for growth
  o Activities adhere with IFAD’s social and environmental standards

* The “missing middle” is defined as Farmer organizations and SMEs that require investments in the range of US$25,000 - US$1,000,000, but have limited or no access to private sector capital
SIF Investment Process

1. Pipeline Sourcing

Pillar 1
IFAD Portfolio

Pillar 2
SIF Investment Process

Pillar 3
TAF

2. Due Diligence/execution

Country project implementation

Due Diligence (2 – 3 months+)

Deal screening

Preliminary review

Deal execution

M&E / reporting

Identify key value chain actors with potential for:
• Financial & operational growth
• Expanding productivity across the supply chain
• Impacting access to finance for youth, women and smallholders

Direct Investments
US$100,000 to US$1m
Tenor: 1 to 5 years

Indirect Investments
US$25,000 to US$250,000
Tenor: 1 to 5 years

Debt, sub-debt and equity in targeted PO’s and rural SMEs

Debt/sub-debt into local FIs for on-lending

3. M&E

Pre-investment TA

Assessment

Capacity Building

Post Investment TA

M&E
SIF Governance Structure

SIF - Board of Directors
Representatives of IFAD/ key donors/investors and external expert

Investment Committee
IFAD/External independent experts

Fund Management
Investment Strategy & Pipeline Development

Back-Office Support, Legal, Marketing, HR, Custodian, Administrator

Region 1
Investment Manager

Region 2
Investment Manager

Region 3
Investment Manager

Region 4
Investment Manager

SIF Investment Managers will be co-located with IFAD project staff to support pipeline development
Corporate Governance

- SIF to operate as an independent entity (company structure) with its own governance while remaining aligned with IFAD strategic objectives and existing portfolio (Pillar 1)

- Representatives of IFAD and key donors/investors will be members of the Board of Directors

- Fund Management and Investment Team to be recruited and to be co-located with IFAD (HQ and field hubs)

- No IFAD core resources in the SIF capital and no transmission of risks between SIF investments and IFAD normal operations.

- Separate balance sheet, reporting, and control mechanisms

- TAF governance to be developed in partnership between IFAD and external service provider or outsourced
Overview of SIF Evolution

Phase 1 - Concessional
Establish a proof of concept for the SIF’s funding strategy and de-risking process:
• Test development of an investment pipeline
• Structure robust fund management team
• Refine operational procedures

Fund characteristics
• Target size: US$50 million to US$100 million
• Funding type: Concessional
• Lifespan: Up to 5 years
• Products: Debt and sub. debt (direct & indirect)

Phase 2 - Blending
Scale up size and impact of investments:
• Attract concessional and commercial funding
• Expand product offering to include equity
• Expand number of countries and regions

Fund characteristics
• Target size: US$150 million to US$ 300 million
• Funding type: Commercial and concessional
• Lifespan: Ever green
• Products: Debt and sub. debt (direct & indirect) and equity
**Capital Structure**

### Initial funding sources (capital preservation)

- Concessional Capital
- Capital from impact-oriented investors
- Credit Guarantee (if needed)
- IFAD contribution from non-replenishment resources (set-up costs, possibly TAF)

### Long term SIF capital structure

- **Capital Stack**
  - **Senior Tranche**
  - **Mezzanine Tranche**
  - **First Loss**

### Expected returns and type of investor

**Return profile:** Commercial or discounted return
- **Investor type:** DFIs/Private sector investors

**Return profile:** Discounted rate/capital preservation
- **Investor type:** Social investors, DFIs, HNWI, PRIs *

**Return profile:** First loss/capital preservation
- **Investor type:** Donors, philanthropy

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- HNWIs: High Net Worth Individuals
- DFIs: Development Finance Institutions
- PRIs: Program Related Investments
Key Features of M&E Process

Regularly Monitor Investment Portfolio

Areas of Thematic Focus
- Productive capacities
- Market participation
- Employment
- Financial inclusion

Selected Output Indicators*
- Number of SMEs/FOs reached
- Number of beneficiaries served by SMEs/FOs
- Number of rural youths/women employed
- No. of SMEs/FOs using formal financial services
- No. of SMEs/FOs benefitting from TA services
- Volume of produce marketed

Perform Impact Evaluation of Selected Investments

Collection of core indicators

Deep dive evaluation

* Selected projects will serve for more extensive evaluations
* Use as a learning tool for project design

* Evaluating use of blended finance solutions
* Evaluating long term financial sustainability of investments
* Retention capacity of youth in rural areas
* Evaluating financial performance of participating financial intermediaries
* Impact on the SH producers’/youth income

* Some indicators for direct investments only
Tools for M&E Process

- Design full set of investee tools to monitor financial, operational and impact development and alignment with portfolio targets
- Using Core Indicators throughout the portfolio so projects are measurable, comparable, and reportable

Disaggregate data by gender, head of household, SME owners or group leaders, and age status

Conduct annual supervision of investees to measure selected outcome indicators related to effectiveness and efficiency

- Impact evaluations of selected investments
- Contribution to Agenda 2030 (SDGs 1, 2, 5, 8)
Indicative Pipeline

- IFAD projects = 220
- VC projects = 175
- Active countries = 100

Sample (Sept. 2017)
- Surveyed countries = 12
- Responses = 260 requests
SIF Next Stages of Development

• Finalize legal structure and governance of the fund
• Fund-raising. Develop club of initial partners
• Selection of fund management team/company
• Define target market (countries) and pipeline development/screening
• Develop currency hedging strategy & diversification strategy
• Completion of detailed financial model
• Detailed M&E approach
• IFAD Board Presentation (December 2017)
• Formal Launch (first half 2018)

Thank You