



## Smallholder and SME Investment Finance (SIF) Fund

Smallholder and Agri-food SME Finance and Investment Network – SAFIN  
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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

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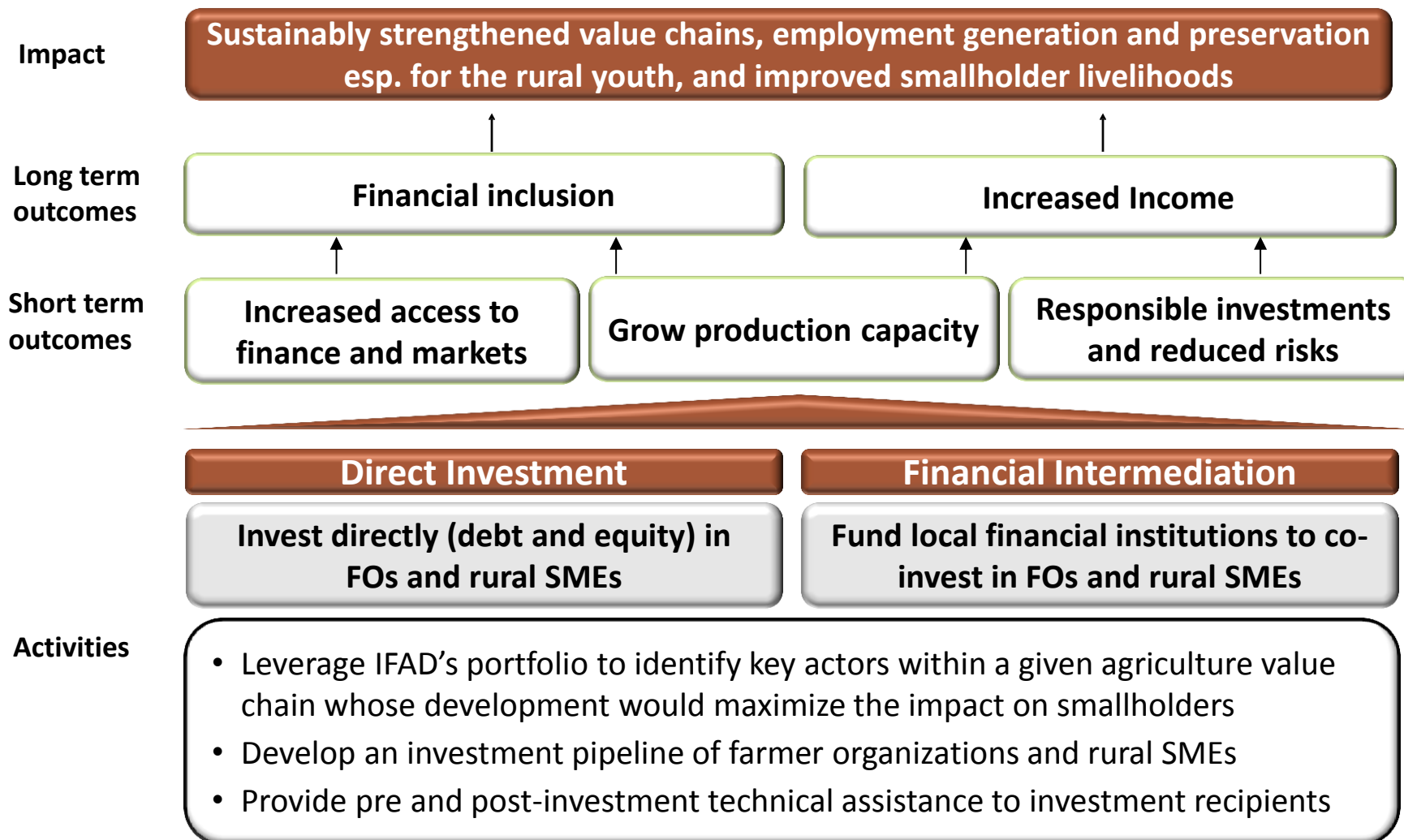
- Gap in financial needs of smallholder agriculture estimated at US\$140 billion
- Challenges in attracting capital for smallholder farmers and rural agriculture businesses globally in a context of reducing ODA resources
- The incapacity of rural economies to provide decent employment to the youth generates 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

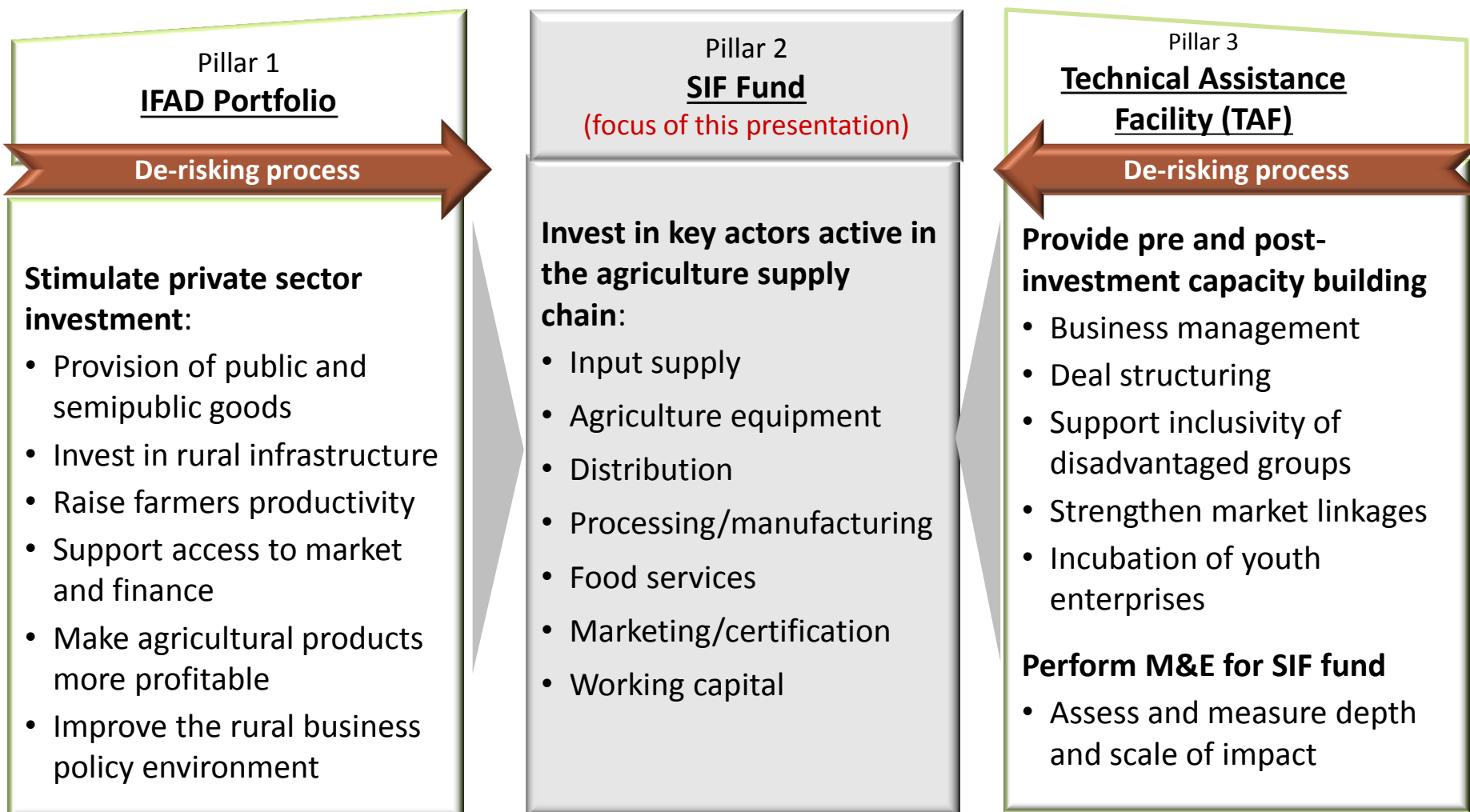
|                                     |                                | "Frontier plus"<br>agriculture funds   | Early stage<br>venture funds  | Local or small<br>regional funds   | Niche<br>impact funds  | Wholesale multi-<br>sector or ag funds   |
|-------------------------------------|--------------------------------|--|---|--|--|--|
| Examples                            | <b>SIF</b>                     | <ul style="list-style-type: none"> <li>• Root Capital</li> <li>• ResponsAbility</li> </ul> | <ul style="list-style-type: none"> <li>• Factor(E)</li> <li>• AECF</li> <li>• Acumen</li> </ul> | <ul style="list-style-type: none"> <li>• AAF</li> <li>• LAFCO</li> <li>• Annona</li> <li>• Indonesia TLFF</li> </ul> | <ul style="list-style-type: none"> <li>• Althelia</li> <li>• Clarmondial</li> <li>• ABN AMRO value chain fund</li> </ul> | <ul style="list-style-type: none"> <li>• DFID Impact Fund</li> <li>• Arise</li> <li>• AATIF (KFW)</li> </ul> |
| Mission focused on smallholders     | Yes                            | Yes  | No  | Not a core focus   | In some cases  | Limited  |
| Specialized ag. expertise           | Yes: leveraging IFAD expertise | Yes  | No: typically diversified   | In some cases  | In some cases  | In some cases  |
| Deep local expertise                | Yes: leveraging IFAD footprint | No: Global focus   | No: Global/ regional focus  | Yes  | No   | No   |
| Supplementary source of pipeline    | YES: Ready access via pillar 1 | No   | No  | No   | In some cases: value chain clients   | No   |
| Aligned TA funding                  | YES Via pillar 3 (TAF)         | Rarely   | In some cases   | In some cases  | In some cases  | In some cases  |
| Aligned programme support           | YES Via pillar 1               | No   | In some cases   | No   | In some cases  | No   |
| Access to concessional capital      | Yes                            | Yes  | Yes   | In some cases  | Typically no   | Yes  |
| Able to offer small loans (<\$500k) | Yes                            | Rarely   | In some cases   | No   | No   | No   |

# Theory of Change

SIF aims to generate positive and measurable social and environmental impact for actors in agriculture value chains alongside financial returns for investors



# SIF Operating Environment – 3 pillar approach





# SIF Investment Strategy

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## 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:
  - **Potential for growth**
  - 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

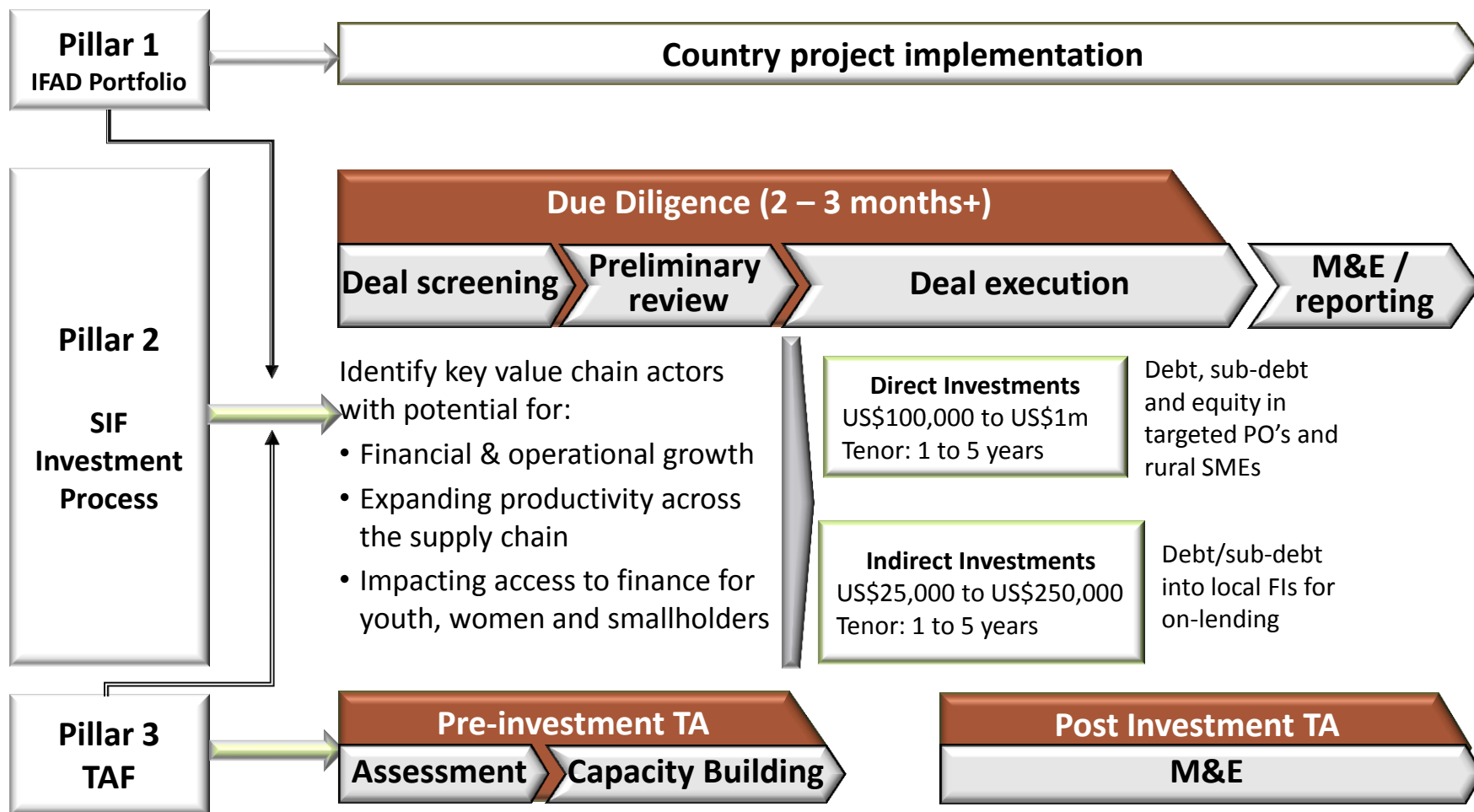


# SIF Investment Process

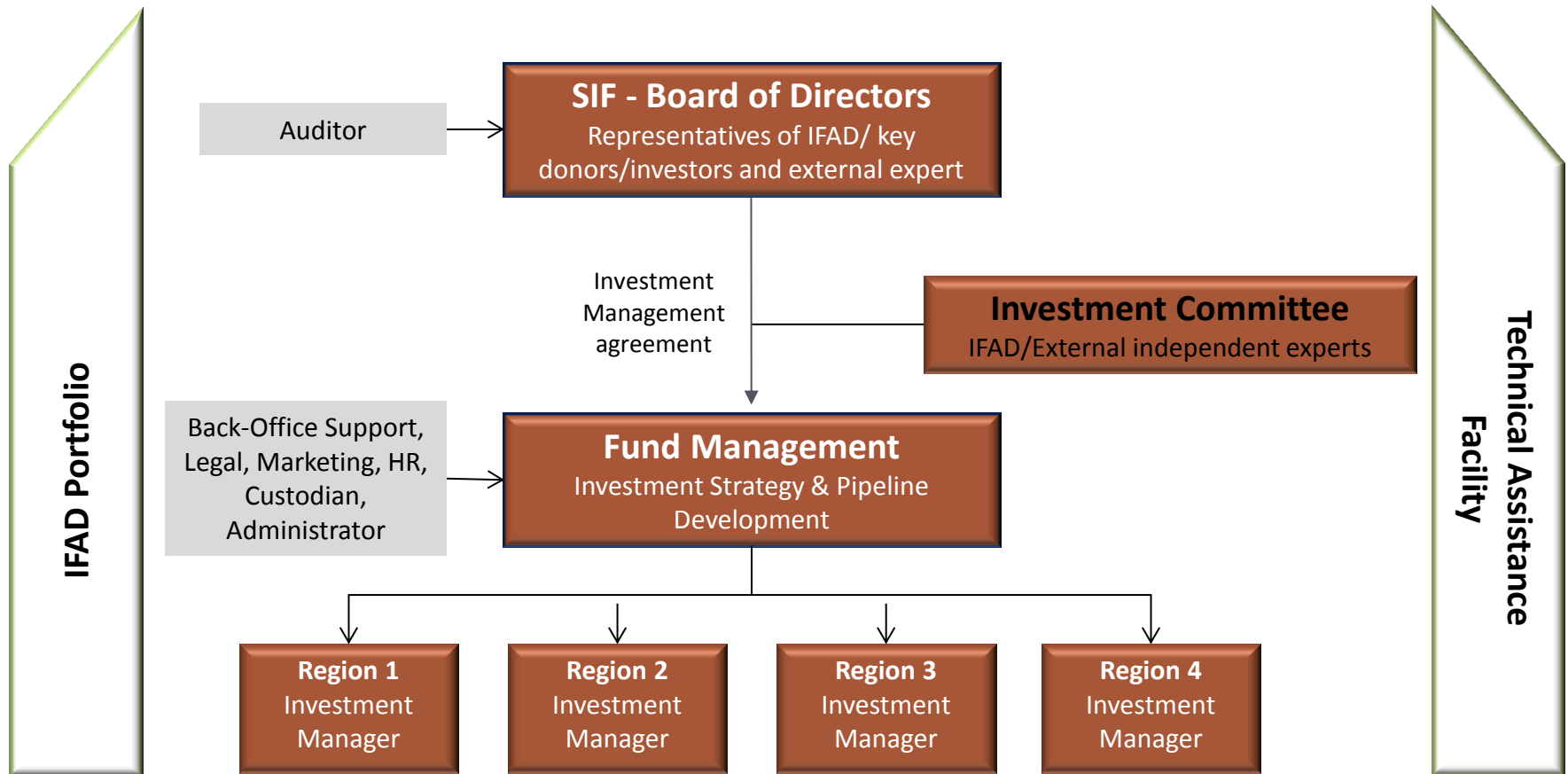
## 1. Pipeline Sourcing

## 2. Due Diligence/execution

## 3. M&E



# SIF Governance Structure



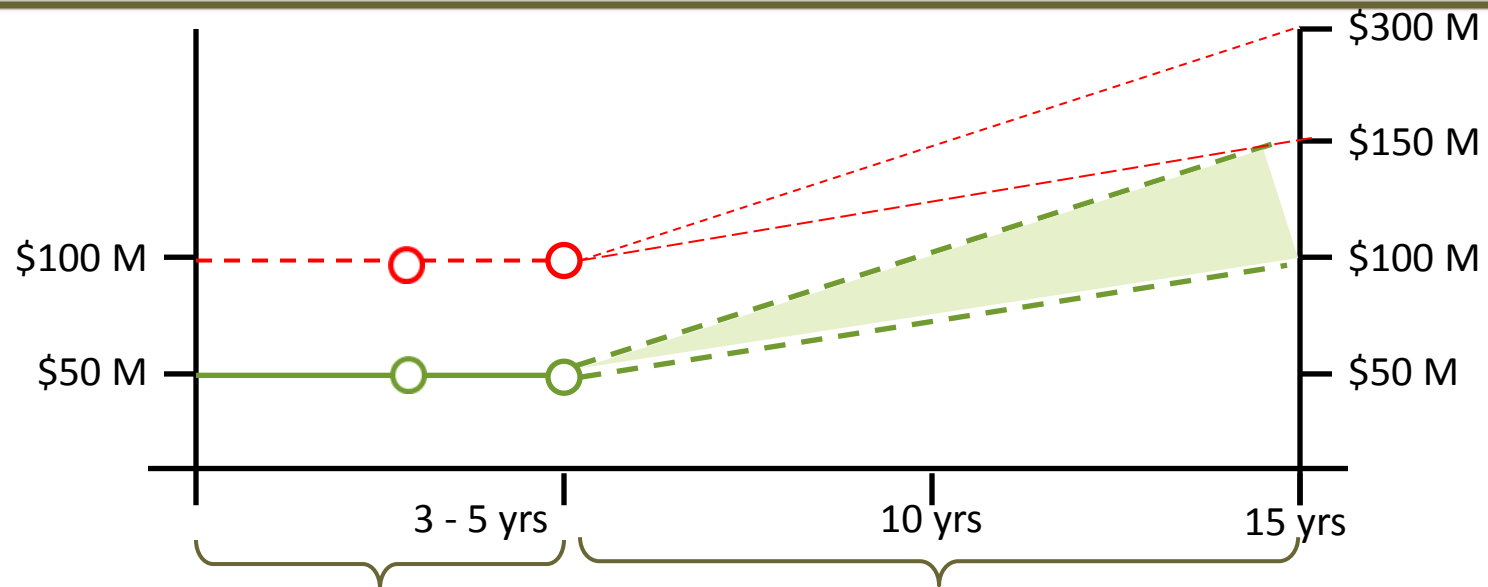
*SIF Investment Managers will be co-located with IFAD project staff to support pipeline development*

# Corporate Governance

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- 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



## 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

- HNWIs: High Net Worth Individuals
- DFIs: Development Finance Institutions
- PRIs: Program Related Investments

# Key Features of M&E Process

## Regularly Monitor Investment Portfolio

### Collection of core indicators

#### 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

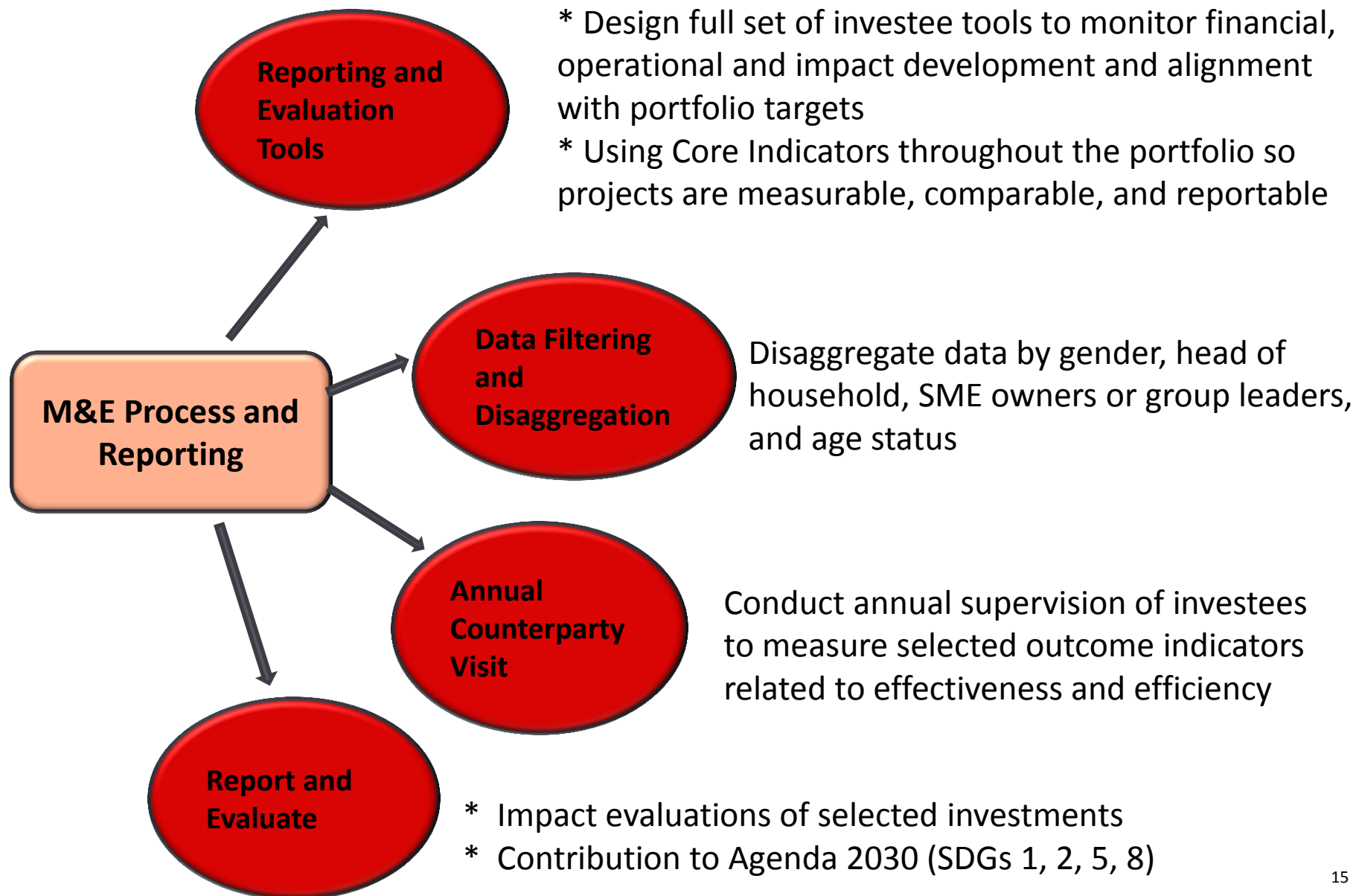
### Deep dive evaluation

- \* 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





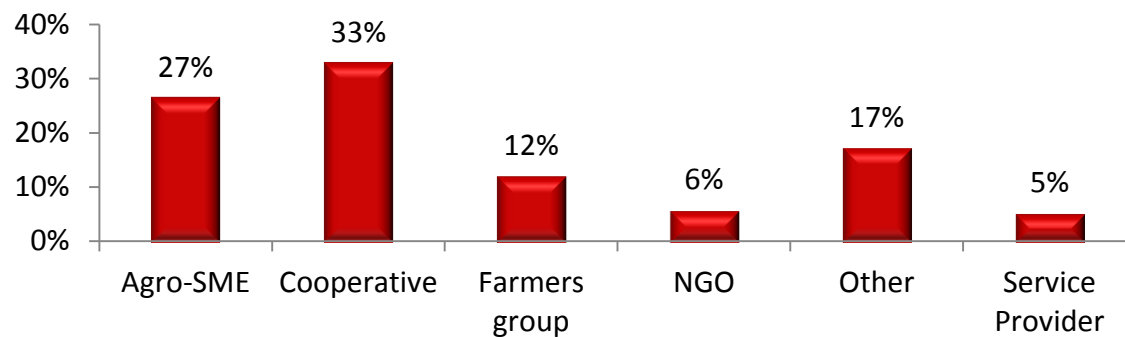
# Indicative Pipeline

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

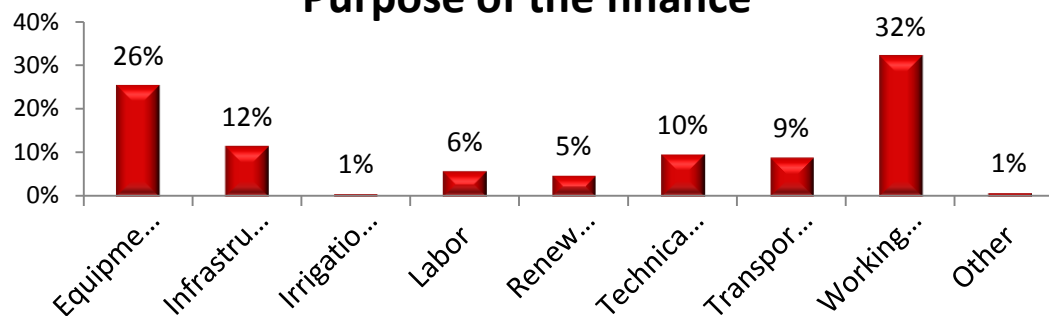
## Sample (Sept. 2017)

- Surveyed countries = 12
- Responses = 260 requests

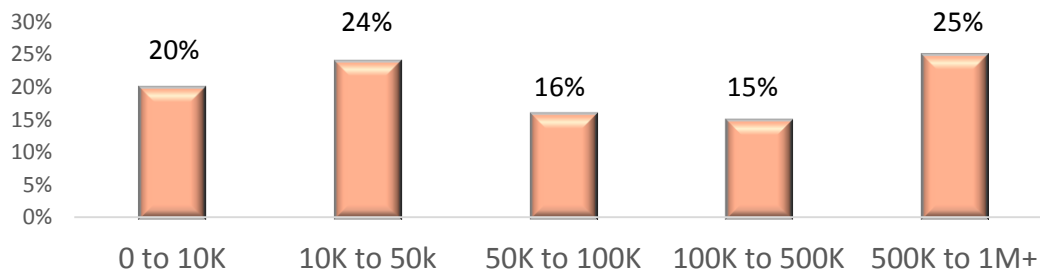
### Type of Organization



### Purpose of the finance



### Loan Size (USD)



# SIF Next Stages of Development

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- 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**