Global Donor Platform for Rural Development

SHAMBA CENTRE for food & climate

High-Level Session on Sustainable Finance

Making Donor Funding More Catalytic

SESSION CONCEPT NOTE

Friday 27 October 2023, 09:30-12:20 CET
IFAD HQ, Rome & on Zoom
Registration link

1. Background and rationale

The estimated additional public investment needed from donors and recipient countries to achieve SDG2 by 2030 ranges between US$33 and 50 billion per year. The research community[1] agrees that the donor share of this total is about additional US$14 billion per year, or roughly double the current level of spending on agriculture and food security, excluding emergency food assistance.

Despite significant efforts by donors and development banks to fill the investment gap, there is now consensus that **development finance alone is insufficient**. The investment gap will not be filled by the public sector exclusively. More is needed to make other sources of finance work, **including commercial loans from multilateral development banks, and blended finance from both public and private sectors.**

Donors are well aware of this challenge and are seeking financial additionality through blending their finance with commercial lenders. Defined by the Organisation for Economic Co-operation and Development (OECD) as “the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries”, blended finance offers an untapped opportunity to fill the investment gap.

2. Session topics and objectives

The Shamba Centre for Food & Climate conducted an enquiry on sustainable finance in agri-food systems for the members of the Global Donor Platform for Rural Development (GDPRD) to explore how donors and development banks are working to make aid more catalytic. Interviews took place

[1] Laborde, D., Murphy, S., Parent, M., Porciello, J. and Smaller, C. 2020. *Ceres2030: Sustainable Solutions to End Hunger - Summary Report*. International Food Policy Research Institute (IFPRI), International Institute for Sustainable Development (IISD), and Cornell University. Available from: https://ceres2030.iisd.org/wp-content/uploads/2021/03/ceres2030_en-summary-report.pdf.

under Chatham House rules with over 50 donors, philanthropic foundations, development banks, public and blended funds, fund managers, investment advisors, international organisations, NGOs, investor networks, sustainable finance networks, academic and experts on sustainable finance.

The central message is that **every dollar in development aid spent has the potential to generate four dollars in commercial finance**. **If donors and development banks take higher risks with their grants and lending, agri-food SMEs will have more financing, domestic lenders will participate, and markets will have more liquidity.** This is the catalytic power of aid.

The key findings from the enquiry are:

1. Blended finance can make the biggest contribution to SDG 2 **by focusing on the missing middle**, i.e. agri-food small and medium-sized enterprises (SMEs) seeking finance between US$25,000 and US$1.75 million.
2. **Every dollar of concessional finance can mobilize four dollars of commercial finance**. However, whether those four dollars deliver on sustainable development will determine if blended finance is truly additional.
3. Development banks are **governed by rules that discourage them from taking risks** to provide finance that would otherwise not be available from commercial lenders.
4. **More research and data on the performance of agri-food SME loans** that originate from donors is a prerequisite to make ODA more catalytic.

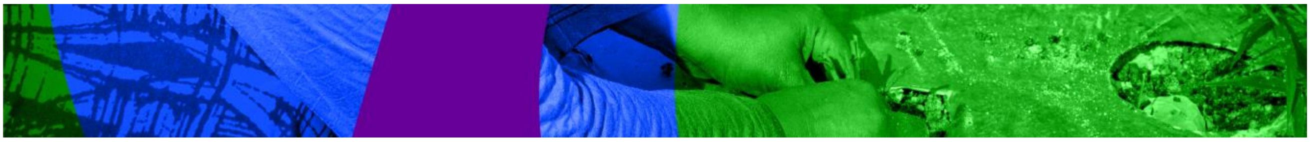
The idea of blending public and private sources of finance is not new, but it has not yet taken off. Donors are already complementing their traditional concessional financing with commercial lending. In tandem, development banks have indicated a willingness to work with dedicated funds from their shareholder governments to take on higher risks and accompany domestic lenders and institutions over the longer term. However, to take this idea to scale **will require widespread changes to the mandate and mindsets of donors, development banks and their beneficiaries in developing countries**. Doing so promises to make agri-food development finance truly transformative.

This session will present the results of the enquiry and will address the following topics:

1. How can ODA grants and loans be used to mobilize commercial finance for agri-food SMEs in developing countries?
2. How can development finance institutions be reformed to allow for more flexibility and allow them to take on more risks?
3. How can blended finance in the agriculture sector be scaled up?
4. How can data on the financial performance of agri-food SMEs loans by donors be improved?

At the end of the session, participants are expected to:

1. Understand the actions that donors and development banks are currently taking to mobilize private sector investment.
2. Assess what is needed to scale blended finance to achieve SDG 2.
3. Debate the four key recommendations on how the GDPRD and its members can make donor funding more catalytic.



3. Provisional Agenda

Day 2 – Friday 27 October 2023 (2 hours 50 min session)	
09:30 – 09:45 (CET) (15 min)	**Welcome and Opening** Carin Smaller, Shamba Centre for Food & Climate
9:45 - 10:00 (15 min)	**Keynote Address**
10:00 – 10:15 (15 min)	**Setting the scene: An overview of the findings from the GDPRD enquiry** Oshani Perera & Carin Smaller, Shamba Centre for Food & Climate
10:15 – 10:35 (20 min)	**High-Level reaction to the findings**
10:35 – 10:50 (15 min)	COFFEE BREAK
10:50 – 12:20 (90 min)	**Recommendations for the way forward and Panel Discussion**
12:20	**End of session**