Public Development Banks and private financiers for food security & food systems

Report of ECDPM-IFAD-CDP informal event at FICS, Abidjan, 19 October 2022

Introduction

Catalytic investments in agriculture and food systems are critical to realising the ambitions of the 2030 Agenda and the Paris Agreement, and to tackling global food insecurity, now greatly worsened by the ripple effects of Russia's war against Ukraine. This requires action across a range of policy areas and vast investments, both from public and private financiers.

Public Development Banks (PDBs) have an important role to play in food security and can be strategic enablers of blended finance for sustainable food systems. For this reason, the **Finance in Common Summit (FICS) of 2021 launched the Agricultural PDBs Platform** for Green and Inclusive Food Systems (coordinated by IFAD).

On the occasion of the 2022 edition of the FICS, **the ECDPM, IFAD and CDP organised an informal closed-door meeting** on the 19th of October, at the Sofitel in Abidjan, with the objective to discuss the status of the work of the Agricultural PDBs Platform as well as exchange best practices and blended finance pipelines for upscaling investment in sustainable food systems (SFS), both through relevant global processes (e.g. UNFSS Food Finance Architecture) and in-country investment pilots (e.g. coordinated investment pipelines preparations by PDBs).

After IFAD provided updates on the status of the PDBs Platform, **twenty participants, including members of the PDB Platform, private banks, donors and food value chain actors, animated a lively debate** around diverse experiences with blended finance approaches in agriculture and food systems; and discussed ways to strengthen the synergies between the PDBs and private financiers and their networks.

Presentation of the Agricultural PDBs Platform for Green and Inclusive Food Systems

The PDB Platform – comprising 72 PDBs, of which 45 specialised in agriculture – **is now becoming operational.** It will provide technical assistance (TA), sharing of experience, training and support to innovation for Green and Inclusive finance, including with a national-level focus. Since its launch, the coalition has been an active forum where PDBs shared experiences and practices. Recently, interesting experiences were shared in working group meetings and at other events on designing strategies for sustainable finance, or promoting public-private partnerships in financing renewable energies, but also on the ways a public bank can act to mitigate the social and economic consequences of Russia's war against Ukraine on small producers, in particular through support to local production for local markets, diversification of imports, adaptation of credit schedules for the most vulnerable.

The activities of the Platform are structured around three main pillars, namely (i) TA, aimed at helping banks build their capacity to tackle key operational and governance challenges, better assess and monitor risks and development impacts, and leverage access to international financial instruments; (ii) communication and learning, to spread best practices between the PDBs, ensure targeting of the increased volume of rural financing to better-performing projects, and stimulate the use of sustainable banking methodologies; and (iii) support to innovative PDBs projects, in particular, to design their rural outreach strategies, improve financing for climate change adaptation, and implement tools to measure environmental and social impacts.

The Platform also promoted a mapping of PDBs based on a number of criteria (such as degree of specialisation, size, government role, level of intervention, rating, country context, and financial performance) and conducted a survey to identify their diverse needs for support. **As next steps, the Platform will:** share the results of the mapping, the typology and the business model with the Platform members; continue discussions with potential financial partners; hire the Secretariat staff and deliver the first concrete services at the national level; and continue to mobilise the PDBs Working group and strengthen the group with new partnerships.

Additional insights from the interactive dialogue

Participants shared **experiences on obstacles and best practices with blended finance investments in SFS** and access to finance by local value chain (VC) actors. Several barriers hindering investment were identified, along with some opportunities for improvement:

- A need for **more TA** for both VC players and public and private investors.

- Difficulties for financial institutions and private investors to assess profitable opportunities within agribusiness markets, especially those involving smallholders: **the risk-return-impact (RRI) profile of the investments in SFS should be clarified**, allowing to get a more balanced RRI profile for the VC (e.g. investing in still underdeveloped sectors like African Indigenous vegetables may yield a low return in the short term but reduces the risk of soil degradation and increases impact on women's income).
- The need to **use blended finance mechanisms more systematically** to derisk smallholder-based VCs by using public concessionary funding to leverage additional private capital, including from commercial financial providers. However, **the jury is still out** on whether this is happening. Public guarantees and TA work effectively, but derisking is not enough; there is a need to look closely at returns and opportunity costs for investors as well, as blended finance so far works well when there is high risk but also high returns; while it does not attract private capital when return is as low as 5% (which is more common with smallholders) even if the mechanism provides TA and guarantees. And oftentimes, donor funds end up leveraging additional development funds (i.e. through Development Finance Institutions), rather than private finance.
- Several participants stressed the **need to simplify and standardise blended finance**, arguing that **blended finance procedures are still too slow and entail very high transaction costs** (project deployment took 3-4 years in some cases): the procedures to access these schemes (too complicated for most final beneficiaries as well as commercial banks and with different standards for different schemes) and the large number of criteria and conditions to follow (including reporting and due diligence requirements) can make the funds almost non-deployable, and put additional strain also on beneficiary SMEs. There are also issues with the governance of blended finance schemes (too deep donors' involvement in blended finance funds can slow deployment and in some instances be an obstacle to attracting private investors); the sourcing, which remains still quite centralised; and the difficulties that several funds face in providing equity solutions because of requiring an exit strategy which is often not readily available (equity is in demand particularly for younger firms).
- To increase the effectiveness of blended finance schemes and improve access to credit for smallholder farmers and micro and small agribusinesses, they should, in particular, be **better adapted to smallholder-based VCs**: namely, repayment schedules should be longer (more patient capital), minimum ticket sizes reduced and the flexibility of the interest rate increased (yearly revisions, within a range, to account for actual business and VC trends). All of this would be commercially feasible and justified by a better RRI profile of investments, which can also be facilitated by working with partners with deep knowledge of the VC and the territory (local actors including larger farmers, but at times also international companies with long-established local presence).
- There is also a **need for stronger partnerships and coordination among public and private financers, based on greater clarity** on their respective comparative advantages in blended finance and on the use of the schemes (which specific co-investors are being targeted for example), as well as a need for increased focus on additionality and quality of the projects.
- There are also still many **question marks on how to concretely work towards SFS** (including metrics), beyond greenwashing (i.e. investments that break the status quo to transform African food systems: from exporting cash crops to supporting regional agri-food markets, from calories to nutrients, from extractive to regenerative agriculture, etc).

Participants also provided some **ideas on the process and dialogue moving forward.** At the global level, a roadmap could be designed towards supporting a more systematic relationship of the PDBs platform with VC actors such as farmers, SMEs, insurance companies and micro-finance institutions as well as with the private investors' initiatives such as the **Good Food Finance Network** (GFFN), which is in the process of developing a **Co-Investment Platform for Financing Food Systems Transformation**. At the national level, there is interest in discussing opportunities for **coordinated investment pipeline preparations by PDBs**. With these objectives in mind, for example, CDP and FAO recently presented to the EU Commission a joint proposal (TERRA) to de-risk SFS financing in developing countries. Together with IFAD, CDP also presented another program (InclusiFi+) focused on Agricultural SMEs. Both programs are designed as open platforms to attract and leverage resources and expertise of other partners and stakeholders.

Next steps

The meeting concluded with a **consensus on the need to strengthen momentum for SFS in different ways,** including by identifying more bankable deals in low-income countries and scaling up existing blended finance schemes, as well as through the **commitment by PDBs Platform members to enhance synergies with private**

financiers and their networks, such as the GFFN. While recognising that financing SFS is considered by many public and private financiers as 'transitions finance' (business models and RRI assessments are difficult to change from one year to the next and require a gradual transition), all participants agreed to recommend **adopting integrated and comprehensive approaches to financing inclusive and resilient SFS**, strengthening local stakeholder initiatives and ecosystems.

The next steps will be a continuation of the dialogue, starting with COP27 discussions and side events on how to finance the adaptation of food systems to climate change, as well as a follow-up meeting in Rome in December 2022 to go deeper into the issues raised at this meeting.