

INNOVATIVE FINANCE OPPORTUNITIES FOR INCLUSIVE AGRI-BUSINESS

UNDERSTANDING THE EMERGING OPPORTUNITIES



A bunch of avocados grown by a smallholder farmer. © Neil Palmer (CIAT). CC-BY-SA-2.0.

\$12 trillion. That's the standard amount cited for funding the Sustainable Development Goals (SDGs). This call normally starts with an investment gap of \$2.5 trillion.

But did you know that reaching the SDGs is also a \$12 trillion business opportunity? According to the [Better Business Better World report](#) by the Business & Sustainable Development Commission, achieving the SDGs could open up \$12 trillion in market opportunities in the sectors: cities, energy and materials, health, and perhaps most importantly, food and agriculture.

That means agri-businesses have a huge business opportunity and a chance to contribute to the SDGs at the same time. Financing opportunities for inclusive¹ agri-business are growing. In this primer, we invite you to explore whether these options can help your company attract not only funding, but also technical advice and connections to networks that can grow your business.

¹ https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Inclusive+Business

CONTENTS

1	CLARIFYING CONCEPTS	3
2	INNOVATIVE FINANCING MECHANISMS	4
2.1	PUBLIC-PRIVATE PARTNERSHIPS	5
2.1.1	PPP CASE: PSALTRY INTERNATIONAL LIMITED AND 2SCALE	6
2.2	PROJECT FINANCE	7
2.2.1	PROJECT FINANCE CASE: AFRICA IMPROVED FOODS	8
2.3	BLENDED FINANCE	9
2.3.1	BLENDED FINANCE CASE: GLOBAL AGRICULTURE AND FOOD SECURITY PROGRAMME.....	11
2.4	RESULT-BASED FINANCING	12
2.4.1	RBF CASE: TRANSFORMATION OF AGRICULTURE SECTOR PROGRAMME	13
2.5	THEMATIC BONDS.....	15
2.5.1	THEMATIC BONDS CASE: DANONE SOCIAL BONDS	17
2.6	AGRICULTURAL VALUE-CHAIN FINANCE	18
2.6.1	AVC CASE: STARBUCKS GLOBAL FARMER FUND PROGRAM	19
2.7	CROWDFUNDING.....	21
2.7.1	CROWDFUNDING CASE STUDIES: CROWDCREDIT AND FACTS	22
2.8	IMPACT INVESTMENT FUNDS.....	24
2.8.1	CASE STUDY: AHL VENTURE PARTNERS	26
3	APPENDIX: SOME BLENDED FINANCING FACILITIES WITH A FOCUS ON AGRI-BUSINESS	27

1 CLARIFYING CONCEPTS

Let us first lay out the vocabulary to better understand different concepts we are addressing in this document.

Impact investment: Investments that are made with the intention to generate positive, measurable social and environmental impact alongside a financial return.² These characteristics differentiate them from regular investments:³

- Intentional: The investor intends to achieve a social or environmental impact.
- Financial return: Impact investments generate a financial return on capital or at least return the capital.
- Varying returns and instruments: Impact investment returns range from below-market rates to risk-adjusted market rates and may be loans or equity.
- Impact measurement: The investor commits to measuring and reporting the performance and progress of the underlying projects.

Inclusive Business: Business that provides goods, services, and livelihoods on a commercially viable basis to people living at the Base of the Pyramid—the 2.7 billion people living on less than \$2.50 per day, making them part of the value chain of companies as suppliers, distributors, retailers, or customers.⁴

Innovative financing:

This type of financing involves additional funds that:

- are generated from new funding sources beyond loans from traditional financial institutions or by engaging new partners including impact investors, development funders and the private sector.
- enhance the efficiency of financial flows, by reducing delivery time and/or costs, especially for emergency needs and in crisis situations.
- make financial flows more results-oriented, by explicitly linking funding flows to measurable performance on the ground.⁵

² Global Impact Investing Network, www.thegiin.org

³ PPP Lab Food & Water, Financing Public -Private Partnerships, Insight Series 04, pg 22

⁴ Inclusive Business Action Network <https://www.inclusivebusiness.net/IB-Universe/what-is-inclusive-business>

⁵ World Bank Group, Innovative Finance For Development Solutions, <http://siteresources.worldbank.org/CFPEXT/Resources/IF-for-Development-Solutions.pdf>

2 INNOVATIVE FINANCING MECHANISMS

Innovative financing mechanisms are diverse, and they respond to different needs and ambitions of agri-business companies. This document reviews eight financing mechanisms in terms of their structure and their application in agribusiness, followed by a case example which shows how the mechanism can work in practice.

With this document, we aim to provide a glance into the emerging opportunities with the following mechanisms: 1) public-private partnerships (PPPs); 2) project finance; 3) blended finance; 4) results-based financing; 5) thematic bonds; 6) agricultural value-chain finance; 7) crowdfunding; and 8) impact investments.

Not sure which ones are the most interesting for your company? We invite you to use the questions below as a guide.

Are you thinking long-term and large-scale?

⇒ **Public-private partnerships**

Do you have an innovative project plan and are you looking for a partner who believes in your vision?

⇒ **Project finance**

Do you operate in a challenging market, and find it challenging to engage private investors who are too risk-averse?

⇒ **Blended finance**

Are you social innovators, committed to achieve results for society and environment?

⇒ **Result-based financing**

Can you offer environmental and social returns for a new generation of investors?

⇒ **Thematic bonds**

Are you facing challenges with working capital in your value chain?

⇒ **Agricultural value-chain finance**

Are you early stage, with a new and impactful proposition, that struggles to access conventional financial institutions?

⇒ **Crowdfunding**

Is your investment need not too large (up to \$2m) and does your business model have a clear social or environmental impact?

⇒ **Impact Investment Funds**

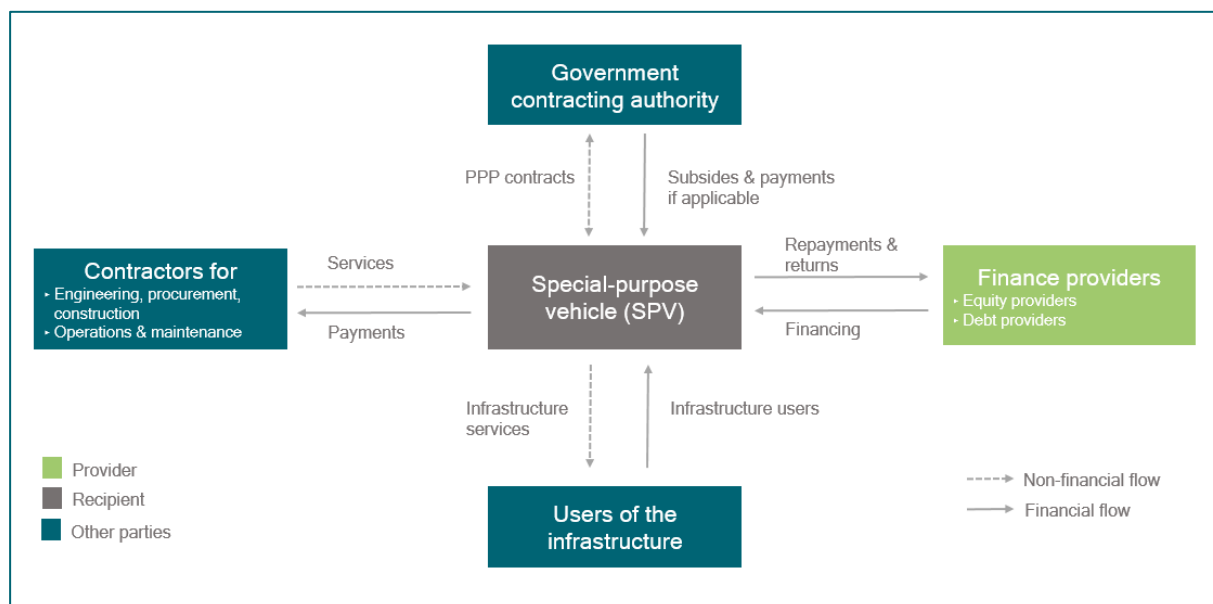
2.1 PUBLIC-PRIVATE PARTNERSHIPS

A PPP is a long-term, contractually based mutual cooperation between public and private sector aimed at the provision of public services. The resources of both the private partner and the public authority are combined and the different risks are allocated in the most efficient way to generate a successful project.⁶ In a recent study, FAO found that public-private partnerships in agriculture are mainly established around four issues⁷:

- to develop agricultural value chains;
- to run joint agricultural research, innovation and technology transfer;
- to build and upgrade market infrastructure, including cold storage, washing and packaging services, vehicle and machinery servicing, etc;
- to deliver business development services to farmers and small enterprises (BDS).

There are several ways in which a PPP might be structured. In one common model, public and private sector players come together to establish a special-purpose vehicle (SPV) – a separate entity that is in existence for a pre-determined period of time – to carry out a project. While there are several ways of structuring PPPs, in most common form, the SPV receives the contract from the government agency, as well as certain subsidies or grants and the financing from private investors.

Please see [Annex](#) for more information about PPP structures.



Actors and relationships in PPPs. Graph: GIZ, Finance Guide 2018, pg 59.

FINANCING CHARACTERISTICS

The pooling of public and private funds through PPP projects in agriculture may range from small initiatives of less than \$20,000 for innovation projects to hundred-million dollar projects for the

⁶ GIZ, PPPs in the context of development cooperation — an overview and approach, 2011
<http://www2.giz.de/dokumente/bib-2011/giz2011-0183en-ppp.pdf>

⁷ Rankin, et. al., "Public-private partnerships for agribusiness development", FAO, 2016, pg.34

construction and management of market infrastructure, such as feeder roads in rural areas. Financing through PPPs may include co-equity investments, in-kind contributions, matching grants and concessions for the private sector.

ENTRY POINTS

Open, competitive bidding is encouraged for the selection of private parties in a PPP. This means that potential partners are provided with detailed terms of the proposed partnership (e.g. the scope, timelines, expected contributions and risk distribution.) Bidders then need to go through a competitive application process to be selected as a partner.

In practice, agri-PPPs are often formed through “limited competitive bidding,” meaning that the government selects the private party from the few eligible entities.⁸

2.1.1 PPP CASE: PSALTRY INTERNATIONAL LIMITED AND 2SCALE

2SCALE, funded by the Dutch Ministry of Foreign Affairs, manages PPPs for inclusive agri-business in Africa. Through a three-member consortium - the International Fertilizer Development Center (IFDC), Base of the Pyramid Innovation Center (BoPInc.) and the International Centre for development oriented Research in Agriculture (ICRA) - 2SCALE offers support services to companies, farmer groups and other relevant stakeholders – enabling them to produce, transform and supply quality food products to local, national and regional markets, including Base of the Pyramid consumers.

In a PPP established in 2014, 2SCALE brought together Nigerian Breweries (a subsidiary of Heineken) with Psaltry International Limited (PIL) – a medium scale cassava starch producer in Nigeria. Nigerian Breweries offered offtake contracts in the initial years and provided financial support to purchase a second processing line.⁹

In addition to bringing the PPP together, 2SCALE played a major part by providing technical support to Psaltry. Recently, they focused on reducing the cost of producing the cassava.¹⁰

2SCALE also supports the initiative through training of the extension staff, and by developing local and regional networks to strengthen access to and relations with transporters, financial institutes, input suppliers, and research centres, which are developing new higher yielding, and higher quality cassava varieties.

By focusing on farmer mobilization and training, as of October 2018, PIL’s supply chain has expanded to 3,000 outgrower farmers, of which 1,300 are committed farmers cultivating about 3,000 hectares of farmland. About half of the committed farmers receive inputs, including stem cuttings, fertilizers, pesticides and other services (tractor, spraying) on credit. They plan to mobilise an additional 3,000 farmers and increase their area of cultivation to 5,000 hectares.¹¹

➔ [Read more](#)

⁸ Rankin, et. al., “Public–private partnerships for agribusiness development”, FAO, 2016 pg 109

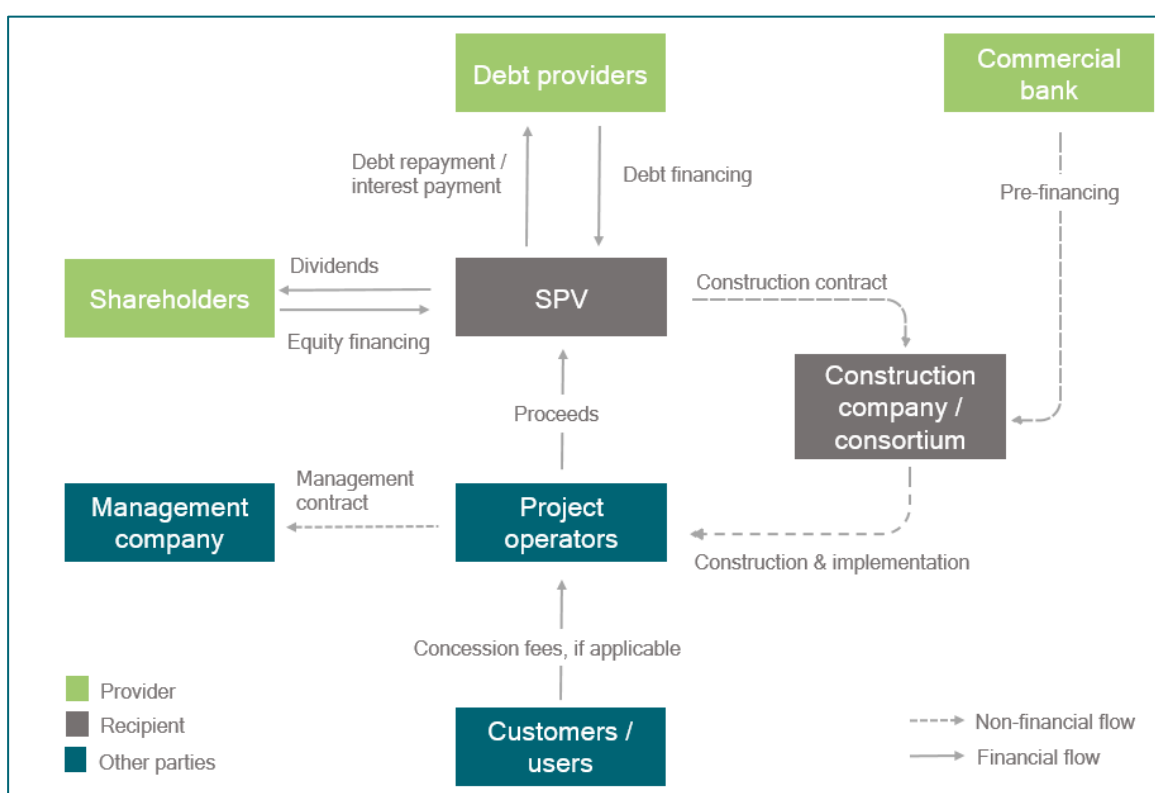
⁹ 2SCALE, Business as Unusual: Highlights 2014 https://www.2scale.org/upload/42c148_Highlights-2014.pdf

¹⁰ 2SCALE, Cassava, <https://www.2scale.org/updates/cassava> May 2018

¹¹ Discussions with Ms. Yemisi Iranloye, Managing Director, Psaltry International, September -October 2018.

2.2 PROJECT FINANCE

Project finance mainly targets large-scale (on average \$200m-\$500m) and long-term projects. It differs from other financing options that are at equal scale, as it protects the undertaking company in case of a failure. This is done by creating a different company, called a Special Purpose Vehicle (SPV) in order to carry out the project. The financing is placed into the SPV and it relies solely on the revenue from the SPV for repayment (such as tariffs for a road project), and on the SPV's assets for collateral purposes. The revenue is only expected once the project is put into operation, therefore it may take a long time for the lenders to be repaid. This increases the importance of due diligence and project structuring.



Actors and relationships in project finance. Graph: GLZ, Finance Guide 2018, pg 70.

Financing instruments may include equity, loans or bonds, or subsidies that come from public and private sources. The shareholders provide the equity, while others provide debt financing. If the shareholders are public and private entities, the SPV may even be a PPP. Depending on how much return each investor seeks and how much risk it is willing to take, project financing can be structured in different ways.

The relevance of project finance for African agriculture still seems to be relatively limited. In the period 2000-2014, of a total of \$2.1 trillion in project finance, around 8.8 percent goes into agriculture. Geographically speaking, of that same total amount, only 3.4 percent is invested in African projects.¹²

¹² https://www.researchgate.net/publication/317021292_What_is_project_finance

FINANCING CHARACTERISTICS

The scale of an average project finance deal differs, but the nature of this type of financing and the complexity that comes with it, makes it only relevant for larger ticket size. The example case below (raising an SPV starting with \$59 million) is on the lower end of the spectrum of project finance, and it would be safer to say that an average project finance deal is \$100 million and upwards.

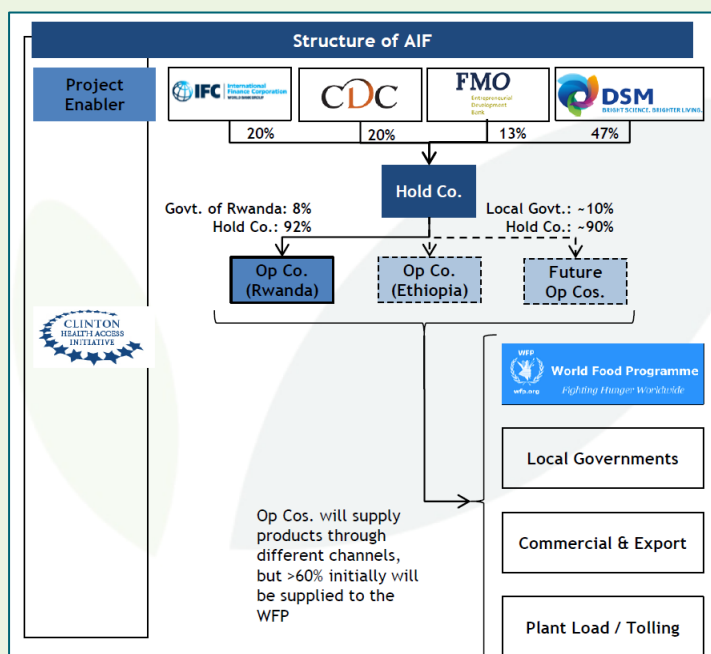
ENTRY POINTS

Project finance is a complex form of financing, given the size and the necessity of setting up an SPV. A company that wishes to set up project finance would often seek potential partners through their relationship network, most importantly public financiers such as development banks and sometimes government entities. Partnerships are tailor-made and relationship intensive. As is also described below, the presence of a more independent broker (in this case the Clinton Health Access Initiative) could greatly benefit the partners, especially when the SPV is set up for the purpose of advancing a public good, and also when the group of actors participating in the SPV is diverse.

2.2.1 PROJECT FINANCE CASE: AFRICA IMPROVED FOODS

To counter malnutrition in Rwanda, the private Dutch company DSM agreed to work with Government of Rwanda, World Food Program, CDC (the investment arm of the DFID), the International Finance Corporation (the World Bank Group) and FMO (a Dutch development bank), to create a sustainable solution to scale-up the creation and delivery of nutritious, supplementary food for the first 1,000 days of life.

Clinton Health Access Initiative brought development funders and private investors together in a joint venture that raised \$59 million.¹³ As a result, Africa Improved Foods was created in Rwanda as a Holding Company – a Special Purpose Vehicle.



The main shareholders of AIF are DSM (47%), IFC (20%), the CDC Group (20%) and FMO (13%).¹⁴ The Government of Rwanda owns an eight percent equity stake of the operating company in Rwanda, with the remainder held by the AIF holding. The Government of Rwanda and World Food Program are the main purchasers of AIF products.

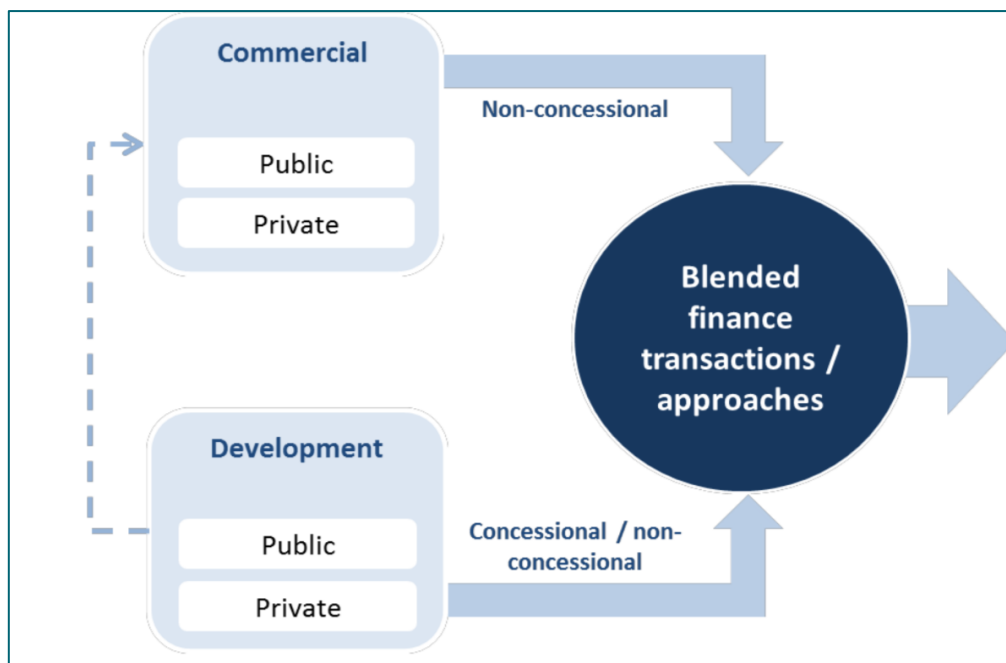
→ [Read more.](#)

¹³ OECD, "Partnership Models in Blended Finance: An Overview", January 2018

¹⁴ FMO, "Addressing Child Malnutrition at Scale", 2015

2.3 BLENDED FINANCE

Blended finance is a mechanism that uses public and philanthropic funds (in the form of financing or in guarantees, technical advice, capacity building, etc.) to leverage private capital in order to meet the financing needs of an inclusive business. It is similar to a PPP in that the public and philanthropic (development) funds serve as a de-risking tool in order to bring in private funds. However, it doesn't require an SPV to operate.



The dynamics of blended finance. OECD, 2018

Blended finance is increasingly an important source of funding; between 2000 and 2016, a total of 167 blended finance facilities were launched, with commitments of \$31 billion by development finance providers, mobilizing \$81.1 billion from the private sector.¹⁵ This makes an average facility size of around \$670 million. 4.7 percent of these facilities (nearly \$1.45 billion) were allocated to agriculture and food security. When it comes to blended finance, mature investment options were more likely to access funding and at larger amounts, compared to start-up projects. See [Appendix: some Blended Financing Facilities with a Focus on Agri-business](#) for an overview of facilities and the amount of funds available. Sometimes, especially for the larger ticket sizes, blended finance deals are not structured through facilities, but much more on a one-off basis or through financial intermediation.

¹⁵ OECD, "Partnership Models in Blended Finance: An Overview", January 2018
http://www.sustainablefinance.ch/upload/cms/user/20180116_Presentation_OECD_vf.pdf

Blended finance combines public and private capital in order to deliver along three pillars¹⁶:

1. **Impact:** Investments in sectors that have a transformative social and economic impact in emerging and frontier markets.
2. **Leverage:** Private capital funding in an investment that scales the impact of the public funds in the transaction.
3. **Returns:** Risk-adjusted returns in line with market expectations.

At the initial stages of the projects (or companies), the role of public and development funders is especially important until its commercial value is proven. Their financial support, through grants or similar financing instruments, is key in the start-up phase of the project.

While blended finance appeals to development funders as it leverages private resources and potentially also their expertise, it also appeals to private investors because it allows them to explore new markets and high-return sectors at reduced risk, with the technical support from development funders. Hence, the benefits exceed financing for all partners.

The non-financial incentives offered by public / development funders can take several forms, such as technical assistance, risk underwriting or providing market incentives (i.e. offtake guarantees).¹⁷

FINANCING CHARACTERISTICS

Blended finance deals can vary widely in range, from less than \$5 million to over \$1 billion, but the average lies at around \$50 to \$60 million. Funds are still the most common type of deal. Sub-Saharan Africa is the most popular target region, with an average deal size of \$125 million.¹⁸

ENTRY POINTS

Quite often, public investors/donors take the lead in setting up blended finance facilities. Typical public investors that do so are the United States Agency for International Development (USAID), the U.K. Department for International Development (DFID), the German Federal Ministry of Economic Cooperation and Development (BMZ) and the Dutch Ministry of Foreign Affairs (DGIS). Examples of funding instruments they have created, are the Global Agriculture and Food Security Program (GAFSP, see also below) or the Dutch Good Growth Fund, and often they are open to companies to apply. Most facilities like this have their own websites, where companies can find more information on how to apply for funding, and what the eligibility criteria are for receiving funding.

¹⁶ OECD and WEF, Insights from Blended Finance Investment Vehicles & Facilities, 2016, pg7
http://www3.weforum.org/docs/WEF_Blended_Finance_Insights_Investments_Vehicles_Facilities_report_2016.pdf

¹⁷ OECD and WEF, Insights from Blended Finance Investment Vehicles & Facilities, 2016

¹⁸ [Convergence report: The State of Blended Finance, 2018](#)

2.3.1 BLENDED FINANCE CASE: GLOBAL AGRICULTURE AND FOOD SECURITY PROGRAM

Funded by the governments of Australia, Canada, Japan, Netherlands, UK, and US, the Global Agriculture and Food Security Program (GAFSP) is housed at IFC. The program invests alongside IFC in projects that private investors have avoided in the past. By blending public and development funds, GAFSP and IFC are able to invest in early-stage or high-risk projects. The fund aims at correcting market failures in the entire food supply chain, from farm inputs to logistics and storage, to processing and financing.

In 2016, GAFSP's Private Sector Window (PrSW) funding, together with IFC, supported 42 investment projects in agribusiness with a total project size of \$1.3 million. In addition to investments, IFC also brings in technical advice and training in order to help grow production, strengthen farming standards, reduce risks and mitigate climate change effects. GAFSP invests in inclusive businesses in agriculture. In 2016, the aforementioned investments will benefit 3.3 million farmers.

One of the GAFSP projects is the Kenya Tea Development Agency Ltd.¹⁹. With a loan of \$27.5 million (\$12.5 million IFC and \$15 million GAFSP), the investment will solve the energy needs of the largest tea business in East Africa. Specifically, the investment will assist in the design, construction, operation and maintenance of seven run-of-the-river small hydropower plants. These hydropower plants will provide captive power generation for KTDA's tea factories and will sell any excess to the state-owned utility company.

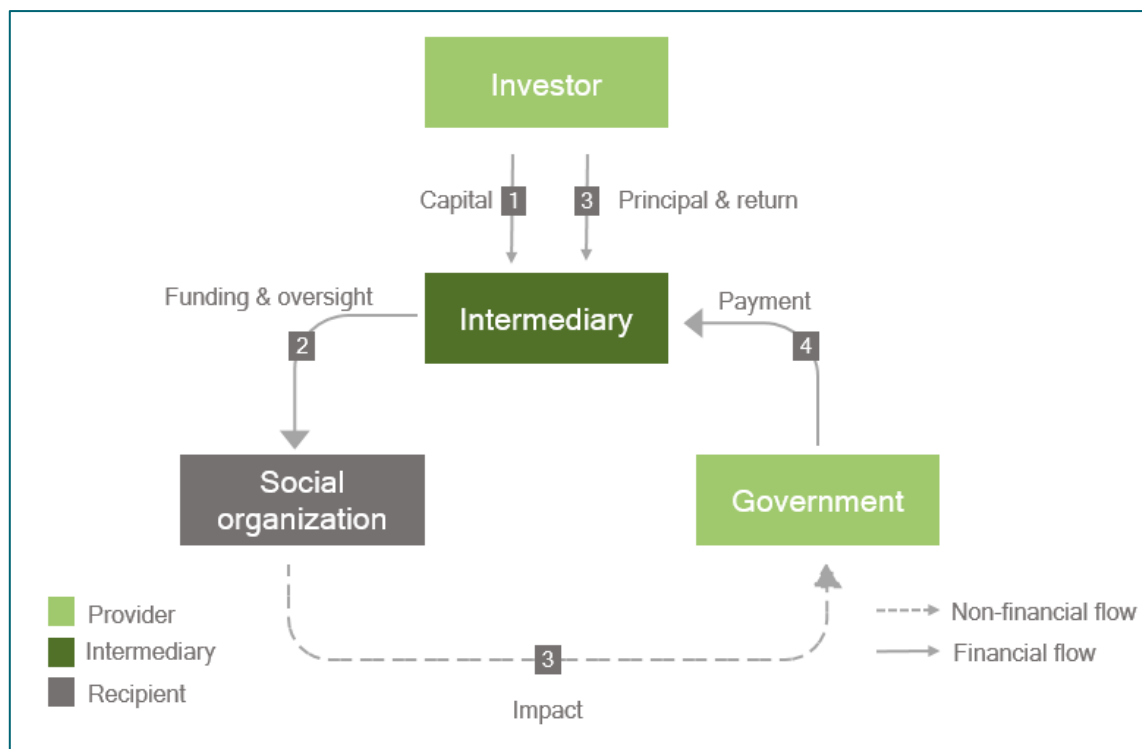
The project is expected to increase the incomes of 350,000 smallholder tea farmers.

→ [Read more.](#)

¹⁹ Kenya: A climate smart solution to supporting the tea industry in East Africa
https://www.ifc.org/wps/wcm/connect/678368804b680e36a35df708bc54e20b/KENYA_A+climate+smart+solution.pdf?MOD=AJPERES

2.4 RESULT-BASED FINANCING

Result-based financing (RBF) is used by developing country governments (national or local), state agencies, or donor agencies, in cooperation with the private sector, to incentivise the provision of goods or services, to create or expand markets, or to stimulate innovation.²⁰ The differentiating aspect from conventional financing structures is that activities, results, or end-goals are pre-defined, and the payment is tied to their achievement.



Actors and relationships in RBF. Graph: GLZ, Finance Guide 2018, pg 73.

In linking funds to results different options include **output-based aid (OBA)**, **Cash Transfers**, **Advance Market Commitments (buyer's guarantees)**, **Development Impact Bonds**, and **Social Impact Incentives**.

The World Bank has been an active RBF investor, with 77 active Program for Results investments totaling \$19.9 billion (January 2018). However, only 1% of this amount goes to agriculture.²¹ In comparison with the agricultural sector, RBF tends to work better in the health and education sectors, where the government is the main service provider and there is a clear link between the intervention and desired development outcome.²²

²⁰ DANIDA, Private Capital for Sustainable Development, 2016

²¹ <https://ieg.worldbankgroup.org/evaluations/program-for-results>

²² Janus, Heiner and Sarah Holzapfel, "Results-based approaches in agriculture: what is the potential?", German Development Institute, 2016, pg 3

Key outcome indicators might include: changes in total production levels (crop, livestock, fish); yields as a ratio of production to area cultivated or smallholder income from agricultural production; total yield; gross margins and smallholder incomes; smallholder crop areas; production and crop value; number of landless rural households; and the number of micro-enterprises and chronically poor households.²³

FINANCING CHARACTERISTICS

In RBF, payments are linked to specific results or achievements. Depending on the results defined, the scale of payments varies greatly. For example, in Nigeria, an RBF project which aims to increase the adoption of Aflasafe, a new biocontrol technology among maize farmers, offered \$18.75 for every metric ton of high-Aflasafe maize delivered. In a Kenyan project which aims to develop storage facilities for farmers, the first five service providers to reach a 21,000 metric tonnes MT threshold of storage devices sold to smallholder farmers are eligible for a \$750,000 grant.²⁴ RBF may come in the form of performance-based contracts, grants, loans or prize-based challenges.

ENTRY POINTS

RBF program examples are mostly implemented by governments or large non-profits. Private sector companies are able to access results-based financing if they can propose to the respective program how they can contribute to, or realise, the results that are set for the RBF program. Companies can then engage in contracts with the RBF program, and will be paid for their activities if and when they can demonstrate that results are achieved.

A well-documented example (not from the agricultural sector) is EnDev's results based financing for energy access in 14 different African & Asian countries, currently running different RBF options, such as auctions, conditional cash transfers or advanced market commitments, that are available for private companies.²⁵

2.4.1 RBF CASE: TRANSFORMATION OF AGRICULTURE SECTOR PROGRAMME

In an effort to move 3 million rural residents out of poverty, the Government of Rwanda (GoR) and the World Bank are undertaking this program with the aim of "raising farmers' income through diversification of crops, better use of input to combat land erosion, improved irrigation, and increased private sector investments."²⁶ The total costs of the program add up to \$1.2 billion, and the program is implemented by the Ministry of Agriculture and Animal Resources (MINAGRI).

Six different government agencies will run different aspects of Phase 3 of the program: Research and certification (Rwanda Agricultural Board), local level service delivery and promotion (Ministry of Local Government), ensuring efficiency and timely implementation of donor funded projects

²³ Janus, Heiner and Sarah Holzapfel, "Results-based approaches in agriculture: what is the potential?", German Development Institute, 2016, pg 5-6.

²⁴ [Instiglio: Results-based Financing in Agriculture and Land, 2017](#)

²⁵ https://endev.info/images/b/b6/Factsheet_EnDev_RBF_EN.pdf

²⁶ <http://documents.worldbank.org/curated/en/200501483524577743/pdf/PIDA0101994-PID-P161000-P148927-PUBLIC-RwandaAgPRAFApraisalPID.pdf>

(Single Project Implementation Units), hillside terrace construction as well as water resources (Ministry of Natural Resources), promotion of business and trade growth and development, including expanded agribusiness (Ministry of Trade and Industry), supporting districts and monitoring implementation of feeder roads rehabilitation, upgrading and maintenance (Ministry of Infrastructure), promotion of local investment (Rwanda Development Board).

The Private Sector Federation, the umbrella body for the private sector in Rwanda focused on private sector business promotion and development and Rwanda Cooperative Agency, the representative body for the cooperative movement for 1,953 agricultural and 1,307 livestock cooperatives will help implement this project.

Results will be measured against and payments will be made based on the following Disbursement-linked Indicators (DLI):

- 1) Increased Agricultural growth rate*
- 2) Decreased percentage of rural population under national poverty line (2010/11)*
- 3) Increased agricultural land under “modernised” agricultural use*
- 4) Increased agriculture export.*

➔ [Read more.](#)

2.5 THEMATIC BONDS

As sustainable investment options begin to attract a new generation of investors, thematic bonds are expected to become the largest private source of development financing. Based on their area of impact, thematic bonds are further classified as green bonds, social bonds and sustainability bonds. For example, it is estimated that green bonds might raise US\$250 billion in 2018²⁷ and Sustainable Bond issuance reached € 26.7 billion in 2017.²⁸

In October 2014, IFC launched its Inclusive Business Bond Program to support businesses which include Base of the Economic Pyramid (below \$8.44/day (PPP) income threshold) into their value chains as suppliers, distributors, or customers. Under the Inclusive Business Bond Program, five bonds were issued, raising \$296.1 million from institutional and retail investors. The bond will finance businesses in different sectors, including in agribusiness that buy products from and/or selling to small-scale farmers.

IFC outlines its selection criteria for projects that are funded by this fund as follows²⁹:

- 1) Project committed by investment team, meeting all of IFC's established environmental, social and governance standards.
- 2) Independent team within IFC reviews all committed projects to identify those that could qualify as having an inclusive business model.
- 3) Team reviews projects against an established set of inclusive business criteria for each sector. Team engages investment teams / companies for additional information as needed.
- 4) Loan projects qualifying as "Inclusive Business" are eligible for IFC's Social Bond Program.

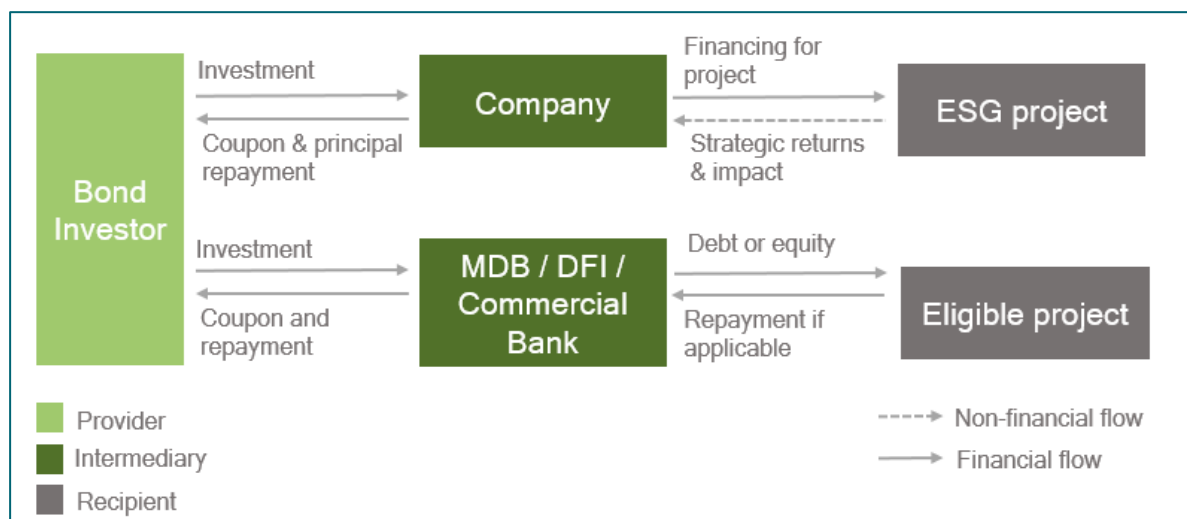
The Social Bond Principles outline a set of voluntary guidelines that recommend transparency, disclosure and integrity in the development of the social bond market³⁰. The SBP are intended for broad use by the market: they provide issuers with guidance on the key components involved in launching a credible social bond; they aid investors by promoting availability of information necessary to evaluate the positive impact of their social bond investments; and they assist underwriters by moving the market towards expected disclosures that will facilitate transactions.

²⁷https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/a+catalyst+for+green+financing+in+indonesia

²⁸ Quarterly Report, ICMA Group, April 2018

²⁹ IFC Social Program, https://www.ifc.org/wps/wcm/connect/54dd263d-1097-42f0-8ce0-16e13b762c22/IFC+Social+Bond+Program+Presentation+final_Oct2016.pdf?MOD=AJPERES

³⁰ <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>



Actors and relationships in Thematic Bonds. Graph: GIZ, Finance Guide 2018, pg 76.

FINANCING CHARACTERISTICS

As a reference, the size of loans committed to projects by IFC through its social bonds varies from \$3 million to \$100 million. The average commitment was \$20.7 million in 2017.

Beneficiaries include multinational food companies such as Friesland Campina, as well as bigger African companies such as Tropical Heat (Kenya).³¹

ENTRY POINTS

Large institutions use their extended local networks in developing countries to identify potential financing opportunities. For an example, see FMO's description about their sustainability bonds and their investment process [here](#). Similarly, IFC selects Social Bond Eligible Projects from their scrutinised loan portfolio. Read more about IFC's social bonds [here](#). Companies and projects which are potentially eligible to benefit from these financing opportunities need to go through due diligence, which may include on-the-ground research by the financing party and which require professional documentation of the company's processes.

³¹ [IFC Social Bond Report 2018](#)

2.5.1 THEMATIC BONDS CASE: DANONE SOCIAL BONDS

In March 2018, Danone issued its first social bond with a 7-year maturity and a 1.00% coupon, raising 300 million euros, listed on Euronext Paris³². This marked the first issuance of a social bond by a multinational corporation. It is based on the company's Social Bond Framework, following the Social Bond Principles. Crédit Agricole manages the bond. The Notes were rated by Moody's (Baa1) and S&P (BBB+).

With this first bond, Danone aims to finance sustainable, non-GMO food and agriculture projects; support farmers and dairy producers; assist communities affected by undernutrition; fund medical research on nutrition; support employees with enhanced healthcare coverage; and finance entrepreneurship in health and nutrition.

Projects that will benefit from the proceeds of the social bonds include:

- *Research & innovation for advanced medical nutrition: 40%*
- *Social inclusiveness: 25%*
- *Responsible farming and agriculture: 20%*
- *Entrepreneurship financing: 10%*
- *Quality healthcare and parental support: 5%*

Danone's Social Bond Framework is built around four areas of impact: Economic, social, health & nutrition and nature. Responsible sourcing practices throughout Danone's supply chain are at the core of their economic sustainability strategy. Their "One Planet, One Health" vision not only includes their customers, but also over 100,000 employees and other stakeholders.

➔ [Read more.](#)

³² Danone Social Bond Framework, March 9, 2018

2.6 AGRICULTURAL VALUE-CHAIN FINANCE

From the input supplier to the client, there is a wide-range of interdependent players across the agricultural value-chain (AVC), with diverse financing needs at different times of the season, and with exposure to different risks. AVC financing is financing provided to an actor in the chain by a financing source outside of the value chain (for instance a bank) or by another actor in the value chain, such as a larger off-taker.

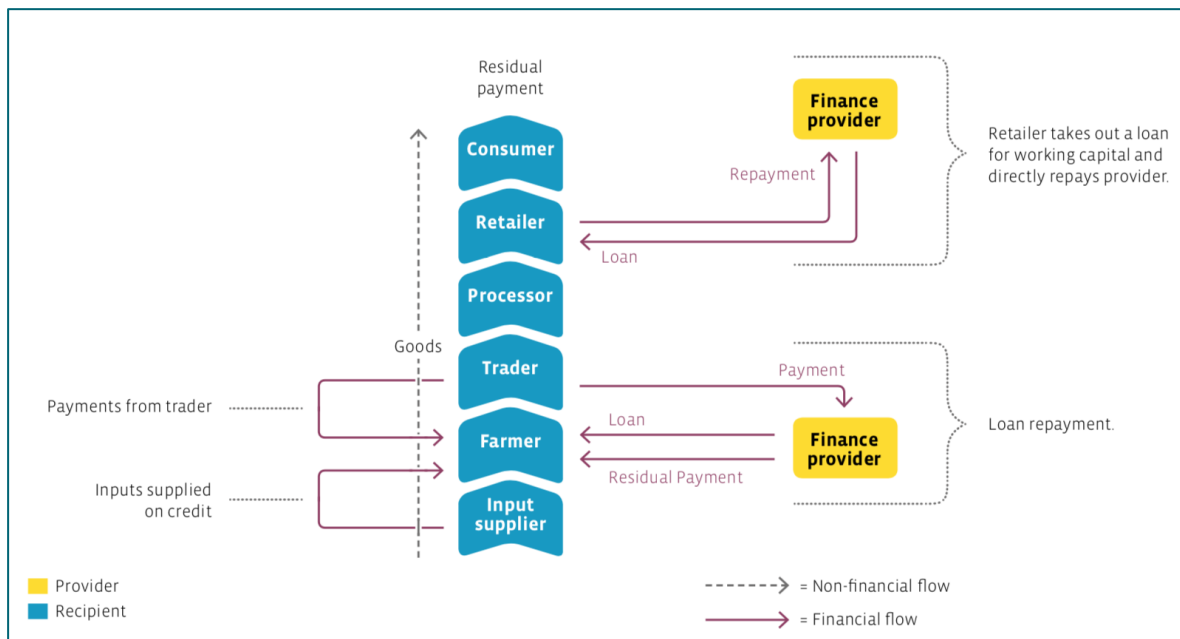
It is a structure that allows for:

- 1) the flow of funds to each player at the time they need; and
- 2) the redistribution of the risks in an efficient way among different players and external funders in order to make it appealing for the finance provider to undertake the investment.

Internal financing within the AVC is usually in-kind. It can be in the form of pre-financing; for example, when the input supplier sells seeds and fertilizer on credit to the farmer, who pays during the harvest season; or advanced purchase financing, as in the case of the trader paying in advance for the produce. Quite often, with these more internally oriented forms of value chain financing, external financiers are involved. One example of this is a bank that provides a guarantee to the financing that is provided by one of the value chain actors. In that sense, all forms of AVC involve some sort of external financing.

Most external financing instruments are credit based, including short-term and seasonal loans; long-term loans; lines of credit; overdrafts; letters of credit based on trade receivables; other collateral (such as warehouse receipts, repurchase agreements); or guarantees by third parties.

Credit analysis is often based on existing contracts and information about ongoing transactions between different links of the chain. However, the overall functioning of the AVC is also an important consideration for the lender, because failure at any stage will impact the repayment. Credit risk assessment will need to incorporate the whole chain as well as external factors.



Actors and relationships in AVC. Graph: GIZ, Finance Guide 2018, pg 62.

2.6.1 AVC CASE: STARBUCKS GLOBAL FARMER FUND PROGRAM

In order to ensure the production of 100 percent ethically sourced, high quality coffee from over 300,000 coffee farmers in 25 countries, Starbucks has provided financing to farmers through its Global Farmer Fund program since 2008.

Today, with a \$50 million fund, Starbucks finances farmers through institutions including Root Capital and the Fairtrade Access Fund. So far, 40,000 farmers have benefitted from financing through more than 62 cooperatives in eight countries. By selling their coffee through cooperatives, the farmers ensure they reach global markets at premium prices.

Using Starbucks sales contracts as collateral, Root Capital provides pre-financing to coffee cooperatives and other rural businesses. The pre-financing comes in the form of short-term loans to finance seasonal inputs. Recently, they have also introduced medium and long-term loans to finance infrastructure investments. Instead of paying the cooperatives for the full value of coffee, Starbucks deducts the amounts for loan repayments and pays them directly to Root Capital.³³

➔ [Read more.](#)

³³ <https://news.starbucks.com/news/starbucks-more-than-doubles-global-farmer-loan-commitment>

FINANCING CHARACTERISTICS

AVC financing can take different forms, ranging from guarantees to loans and other products, and funding amounts can differ greatly. The financing to any “lead firms” in the value chain can range from tens of thousands of dollars to hundreds of thousands or even more, whereas the onward lending or financing from these lead firms to aggregators or individual farmers is more likely to be in the thousands or hundreds.

ENTRY POINTS

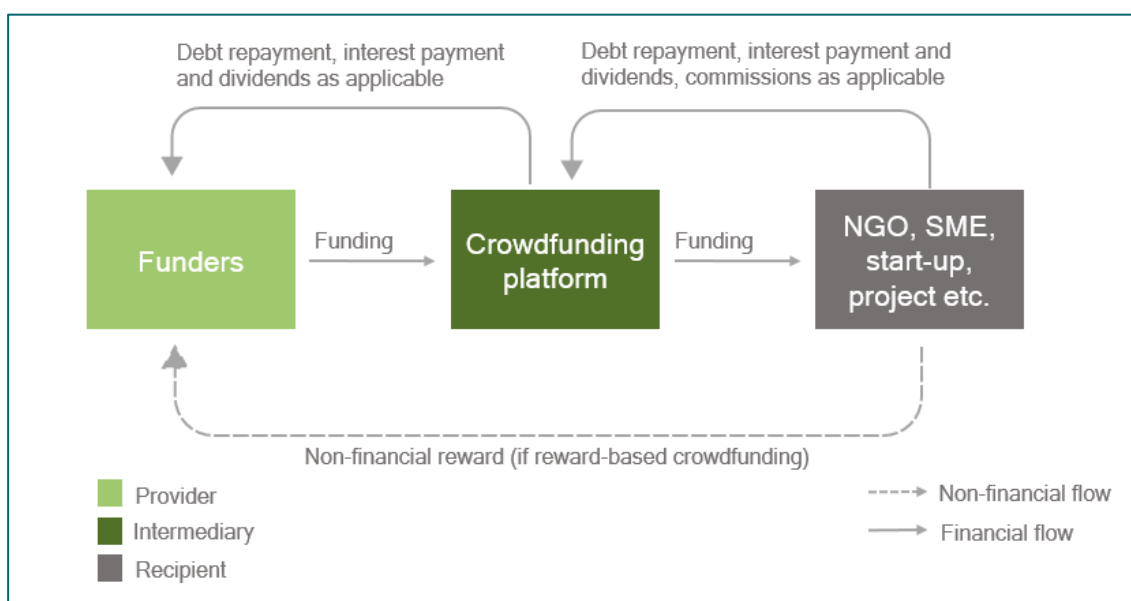
As a starting point for AVC finance, larger development banks such as IFC or EIB can provide capital, alongside more purpose-driven social investors like Omidyar Network and AGRA. These institutions channel the funding for AVC, often through local banks, like Equity Bank in Kenya. These banks are usually looking for “lead firms,” who are dominant players in a particular value chain of a certain market, and who are the main entry point for the financial institution to reach other actors throughout the value chain. These lead firms are quite often off-takers, for instance larger dairy companies that sources milk directly from farmers or through aggregators. More and more banks like Equity are open to providing forms of AVC finance, and this makes them the right entry point for companies to discuss options. Increasingly, NGOs implementing agricultural or food security projects embrace opportunities for AVC financing and broker opportunities between banks and agribusiness companies.

2.7 CROWDFUNDING

Crowdfunding brings together multiple private investors to fund a project for a specific cause. The projects are usually start-ups or early-stage companies, and their mission or desired impact is the main reason why investors choose one project over another. The projects are selected, vetted and advertised by platforms (see examples below), which also manage the relationship and flow of financing between funders and recipients.

Impact and innovation are at the core of crowdfunding. What innovative and untried solution will the project offer? The ability to raise funds partly depends on the project owner's pitch to many small funders.

By opening investment venues to the common person and allowing them to pool funding for innovative projects, crowdfunding democratises impact investment. Increasingly, crowdfunding also targets institutional investors, government agencies and multilateral banks. For instance, Google invested \$125 million in person-to-person lending through Lending Club in 2013.³⁴



Graph: GIZ Finance Guide, 2018

CROWDFUNDING PLATFORMS

Originally based in developed markets, crowdfunding is increasingly targeting developing markets. Lack of regulation and availability of platforms targeting developing countries make it difficult to gather a large number of investors around potential projects. However, projects in developing countries can be listed on the platforms that are registered in developed countries – directly or through partner financial institutions. Some examples of platforms with an agricultural focus that are active in developing countries include [Lendahand](#) (based out the Netherlands, focus on developing

³⁴ Freedman, David M. and Matthew R. Nutting, A Brief History of Crowdfunding, 2014-2015, Pg 5
<http://www.freedman-chicago.com/ec4i/History-of-Crowdfunding.pdf>

countries), [Agfunder](#) (based out the US, focused on global ag-tech) and [Lelapa Fund](#) (targeting African diaspora investors), but increasingly more local platforms are now also being established, such as [FarmCrowdy](#) (Nigeria) [M-Changa](#) (Kenya) and [ThundaFund](#) (South-Africa).

TYPES OF CROWDFUNDING

Globally, a total of \$16.2 billion was raised through crowdfunding in 2014 across different platforms, \$2.6 billion of that amount was raised through reward-based initiatives.³⁵ As an example, projects in East Africa raised \$90 million between 2013-2015.³⁶ The crowdfunding market is expected to grow by 26.8 percent between 2016 and 2020³⁷.

The platforms also offer different financing options, including donations, rewards, debt and equity. This allows for projects to be structured to appeal to a certain group of investors, based on their risk and return appetite.

Donation and reward-based models: These models do not offer a financial return to their funders. While donations usually go to charitable causes, reward-based projects offer non-financial returns, such as a sample of products that were created through the project. The amount of financing per project remains small, usually below \$10,000.

Debt-based (Person-to-person lending): Investors lend to a project at a fixed interest rate and a fixed return. They might expect a return of 3-6% per annum over the duration of the loan. Loan maturities vary between 6-48 months. Debt based projects might raise up to \$150,000. Debts might be secured by the business assets.

Equity-based: Direct investment into start-up or early-stage businesses by investors -also known as Angel Investors-, who receive shares of the company. The return for the investor is the dividend that the business pays, or profit gained when the shares are sold. While it might take between two to three months to complete equity crowdfunding, it might raise up to \$10 million.

2.7.1 CROWDFUNDING CASE STUDIES: CROWDCREDIT AND FACTS

CrowdCredit is a Japanese crowdfunding platform that mobilises individual funding from Japanese citizens. CrowdCredit was established with the idea of connecting countries with funding gaps and countries with lending gaps on a global basis. At the end of 2017, it had mobilised a cumulative amount of around US\$45 million from over 8000 individual users. The company invests the funds in a diverse range of investment opportunities, not only in Japan but around the world. In their investments in other countries, CrowdCredit closely collaborates with financial institutions in the target countries.

³⁵ <https://www.statista.com/statistics/620952/total-crowdfunding-volume-worldwide/>

³⁶ Cambridge Center for Alternative Finance, "Crowdfunding in East Africa: Regulation and Policy for Market Development", January 2017.
https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2017-05-eastafrika-crowdfunding-report.pdf

³⁷ Technavio, "Global Crowdfunding Market 2016-2020", 2016

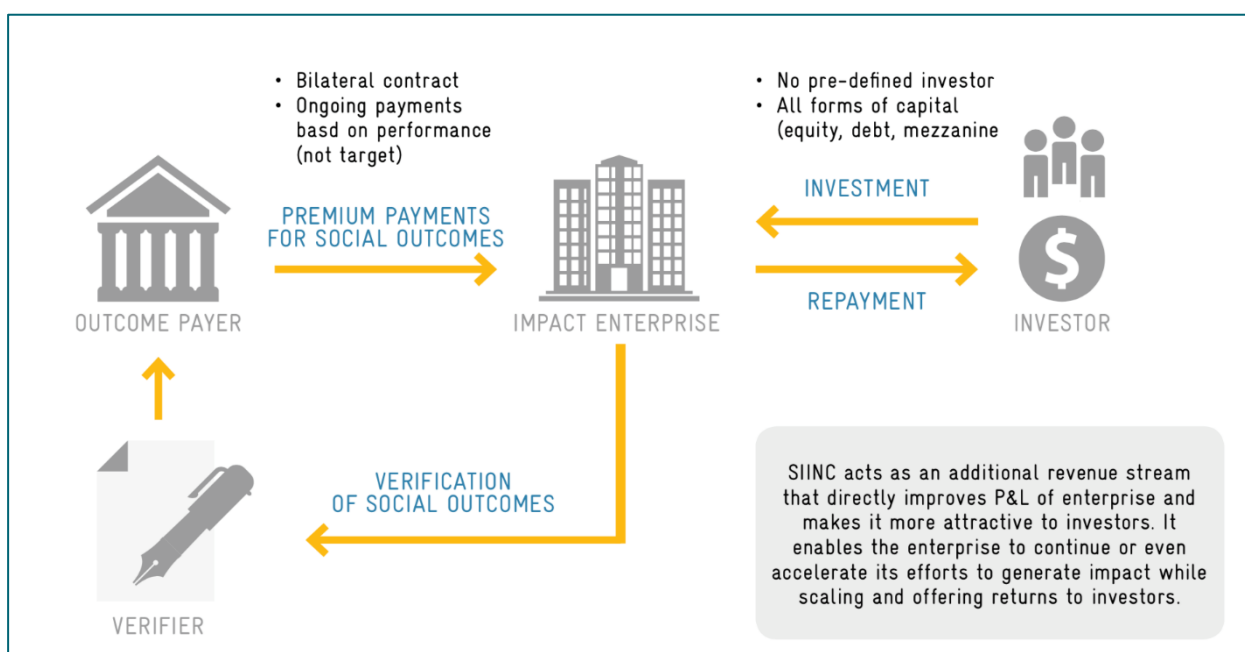
For African agriculture, CrowdCredit collaborates with Ovamba, a fintech company that provides short-term capital to agribusiness SMEs in different African countries. Through Ovamba, the crowdfunders of CrowdCredit provided, together with two other investors, a loan of US\$30million to Cameroon cocoa trading company Producam, to fund 10 000 tonnes of cocoa aggregation and export.

Another example is the crowdfunding platform FACTS, which is based in the Netherlands, and operates in Kenya and Uganda. FACTS is a fintech company that finances SMEs, mobilised through the crowdfunding platform Symbid. The crowdfunding campaign raised EUR 330,260 from 133 individual investors in just six weeks. When it comes to the cost of funding, Symbid charges a set compensation for the preparatory activities, in addition to a success fee based on the final amount of funding.

2.8 IMPACT INVESTMENT FUNDS

Impact investment funds curate a selection of carefully vetted businesses, which seek funding towards an impact area or around a regional focus. The funds offer a wide array of investors opportunities to become part of businesses that have a measurable social and/or environmental impact, while getting positive financial returns, which may be below-market rates.

These funds invest in various impact areas, including agriculture, job creation, energy access, affordable healthcare, housing, financial services, and education. Food and agriculture offers strong opportunities for investment, especially in East Africa³⁸, with increasing disposable income across the middle class, as well as traditional food supplies frequently under threat from draughts or floods. Different types of impact investment products include equity and venture capital, quasi-equity, guarantees, convertibles, and debt – including concessional loans.



Graph: GIZ, *Nudging the investment ecosystem by incentivizing impact*, 2018, pg 13; (SIINC stands for Social Impact Investments.)

Impact investment funds are generally quite open to considering new investment opportunities from companies. In general, there is still a tendency for fund managers to report a gap in quality investment proposals to fund, when compared to the capital they have available to invest. When an agribusiness company applies for an investment with a fund, typical steps will be taken by fund manager to vet the opportunity, going from pre-screening the deal to doing due diligence on the company, meeting the management and structuring the deal. Final investment could take the form of (quasi-)equity, (convertible) debt or any form of mezzanine finance.

In general, impact investors are very keen (as are their institutional investors) to report on the impact generated by their investments. A common framework to measure this is IRIS³⁹, managed by Global

³⁸ GIIN, "Landscape of Impact Investing in East Africa", 2015, pg. 17.

³⁹ <https://iris.thegiin.org/guide/getting-started-guide>

Impact Investment Network (GIIN). These metrics are used to measure social, environmental, and financial success, evaluate deals, and grow the sector's credibility. While this tool is designed for fund managers to determine the impact of their investees, it is advisable for businesses raising impact investments to consult IRIS in preparation for pre-screening and due-diligence.

FUNDS THAT INVEST IN FOOD & AGRICULTURE

According to the GIIN (Global Impact Investing Network), in 2017, more than 200 impact investors made nearly 8,000 investments, totalling \$228.1 billion.

There are many funds that invest in agribusinesses, and the ticket sizes are hugely diverse. While some of the funds can invest up to \$1 billion, average ticket sizes for funds that target agriculture are between \$50-\$100 million, but many funds also go much lower. There are several funds focusing on agriculture that could fund ticket sizes lower than \$1 million, reaching as low as US\$100,000. For illustrative purposes, a few examples of these funds are listed below.

FUND ⁴⁰	DESCRIPTION
ACRE	A platform to connect SMEs to impact investors and business experts providing technical assistance. ACRE focuses on enterprises that require between \$150,000 and \$1.5 million in loan or equity finance, including in food and agriculture.
Acorn Private Equity	A private equity fund manager and investment advisor focused on SMEs in Sub-Saharan Africa, including in the food and agricultural sectors.
Acumen	Long-term debt or equity investments ranging from \$250,000 to \$3 million in early-stage companies with payback or exit in seven to ten years, including in the food and agricultural sectors.
Africa Agriculture Trade and Investment Fund (AATIF)	Investments for the agricultural sector in small, medium and large-scale farms as well as agricultural businesses along the entire value chain. Investment size usually ranges between \$5 to \$15 million. Investment instruments include debt and mezzanine financing, with a maturity of up to 12 years for debt investments.
Annona Sustainable Investments	Invests with growth-capital in sustainable operating food-producing companies in Africa and Latin America.
Incofin	An evergreen debt fund focused on fair and sustainable agriculture. An equity and debt fund focused on enhancing financial inclusion of

⁴⁰ Based on iBAN <https://www.inclusivebusiness.net/intermediary/search> and <https://www.forbes.com/sites/jaycoengilbert/2017/10/09/putting-the-impact-in-impact-investing-28-funds-building-a-credible-transparent-marketplace/#7b4b6ee03e5f>

	smallholder farmers and rural agricultural micro, small, and medium enterprises (MSMEs) in emerging economies.
Root Capital	Financing the agricultural sector through debt investments in Africa, Latin America and Southeast Asia.
Village Capital	Invests across Africa, Latin America, South Asia and the U.S. in peer-selected companies with a social or environmental mission, including in agriculture.

2.8.1 CASE STUDY: AHL VENTURE PARTNERS

[AHL Ventures Partners](#), an impact-focused venture capital firm with a large portfolio in agribusiness in Africa, brought together a consortium that includes investments by Global Partnerships/Eleos Social Venture Fund, Beyond Capital, and Rafiki Ventures. AHL Ventures Partners earlier also was one of the first investors in Twiga Foods, another innovative Kenyan agribusiness company, active in the production and local trade of bananas.

3 APPENDIX: SOME BLENDED FINANCING FACILITIES WITH A FOCUS ON AGRI-BUSINESS

Blended Financing Facilities with a Focus on Agriculture / Agribusiness	Size of the Fund (USD)	Description
African Agricultural Capital Fund	\$ 25 million Average ticket size around \$0,5 million	Risk capital to support smallholder farmers and leverage additional financial and human capital in the sector.
African Agriculture and Trade Investment Fund (AATIF)	\$142 million Ticket size \$5 million and up	Loans, guarantees and potentially also equity for experienced private - sector enterprises and farmers in Africa.
Beira Agricultural Growth Corridor (BAGC) Catalytic Fund*	\$ 23 million Average ticket size \$ 1,3 million	Responsible private investment in commercially viable, early - stage agribusinesses, with direct benefits for many smallholder farmers in Mozambique.
Fund for Agricultural Finance in Nigeria (FAFIN)*	\$100 million Average ticket size \$3-5 million	Tailored capital and technical - assistance solutions for commercially viable SMEs and intermediaries across Nigeria's agricultural sector. It uses quasi - equity, equity and debt instruments to structure investments.
Grassroots Business Fund (GBF)*	\$ 61 million Average ticket size \$2 million	Combining investment capital with philanthropic or technical support funding, the GBF delivers a distinctive blend of investment capital and business advisory services. The GBF is a spin - off of IFC's Grassroots Business Initiative.
Moringa Fund (Moringa SICAR)	\$ 89.2 million Ticket size \$4-10 million	Investments in profitable larger- scale agroforestry projects with high environmental and social impacts. It invests in Latin America and Sub-Saharan Africa via equity and quasi - equity investments of € 4 -10 million.
<p>OECD and WEF, Insights from Blended Finance Investment Vehicles & Facilities, 2016 http://www3.weforum.org/docs/WEF_Blended_Finance_Insights_Investments_Vehicles_Facilities_report_2016.pdf</p>		