

Document: EB 2016/119/R.31
Agenda: 16
Date: 16 November 2016
Distribution: Public
Original: English

E



Investing in rural people

Proposed framework for new financing facilities: Enhancing IFAD's catalytic role in mobilizing resources for rural transformation

Note to Executive Board representatives

Focal points:

Technical questions:

Luis Jiménez-McInnis
Director
Partnership and Resource Mobilization Office
Tel.: +39 06 5459 2705
e-mail: l.jimenez-mcinnis@ifad.org

Nicole Carta
Team Leader
Private Sector and Foundations Unit
Tel.: +1 212 963 0546
e-mail: n.carta@ifad.org

Dispatch of documentation:

William Skinner
Chief
Governing Bodies Office
Tel.: +39 06 5459 2974
e-mail: gb_office@ifad.org

Executive Board – 119th Session
Rome, 14-15 December 2016

For: Review

Proposed framework for new financing facilities: Enhancing IFAD's catalytic role in mobilizing resources for rural transformation

I. Introduction

1. At this critical juncture, as development partners set out to realize the commitments they have taken on under the Sustainable Development Goals (SDGs), IFAD is building upon its collaboration with actors who share the commitment to transform agriculture, rural areas and food systems. To achieve this goal, it is positioning itself as a convener of dialogue and a catalyst of action for increased investment in climate adaptation, gender equality, nutrition, inclusive value chains and access to finance in rural communities. The resulting new opportunities will enable IFAD to leverage more innovative approaches from new partners and cofinancing from new sources, and to explore blending mechanisms at the project level.
2. Pursuant to Governing Council resolutions 166/XXXV and 186/XXXVIII, which mandated IFAD to explore the scope for increasing financing through innovative mechanisms and from new sources, IFAD launched the Additional Resource Mobilization (ARM) Initiative. In recent years IFAD has introduced several new resource mobilization mechanisms, including unrestricted complementary contributions for four key thematics under the Tenth Replenishment of IFAD's Resources (IFAD10) cycle, a loan of up to EUR 400 million with KfW Development Bank, and subsequently a Sovereign Borrowing Framework. A feasibility study of market borrowing will also be carried out in the near future in line with these exploration efforts.
3. In early 2016, also under the ARM Initiative, Management set the priority of exploring more meaningful opportunities to identify and pursue funding from new development partners beyond Member States, and in particular philanthropic foundations. In response, the Partnership and Resource Mobilization Office (PRM) has undertaken assessment studies of viable opportunities and supported an internal working group on the creation of several new initiatives designed to appeal to foundation partners. Throughout this exercise, PRM has taken careful note of the experience IFAD has gained with such trust funds as the Adaptation for Smallholder Agriculture Programme (ASAP) trust fund, Spanish Food Security Cofinancing Facility Trust Fund, Heavily Indebted Poor Countries Debt Initiative trust fund and Fund for Gaza and the West Bank; in addition to multi-donor supplementary fund arrangements such as the Financing Facility for Remittances, the Platform for Agricultural Risk Management and the Support for Farmers' Organizations in Africa Programme.
4. The purpose of this paper is to inform the Executive Board of Management's undertaking in this regard. It provides an overview of the landscape or context for mobilizing resources from foundations and other non-governmental development actors, highlights key areas for attracting and mobilizing new funding for IFAD and its supported programmes and projects, and puts forward a proposed framework to guide IFAD in its resource mobilization approach moving forward. The appendix presents new financing facilities that will provide both needed resources and attractive partnership opportunities for foundations and other development actors.

II. Stocktaking and partner landscape

5. Most other international financial institutions and United Nations specialized agencies have extensive relationships with donors beyond their Member States. The World Bank, which has created a high-level advisory group of foundation presidents, brought in US\$1 billion in contributions to its trust funds over the period 2008-2013 from over 80 foundations. In addition to financing, the World Bank has

fostered partnerships on learning and knowledge, data sharing and joint projects. In 2015, the United Nations Children’s Fund received nearly 30 per cent of its total funding from the private sector and non-governmental organizations (NGOs). Last year the Inter-American Development Bank, in partnership with Nature Conservancy and Dow Chemical Company, launched AgroLAC 2025, a multi-donor funding platform that brings together a broad range of public- and private-sector donors to support sustainable agricultural practices and market systems in the Latin America and the Caribbean region. While these organizations have sophisticated structures and staff in place to enable this level of mobilization, they provide important models and lessons from which IFAD is learning.

6. With respect to philanthropic foundations, in early 2016 PRM conducted a landscape exercise to identify global foundations that present the best partnership opportunities, based on strategic and geographic priority alignment. The study reviewed 265 global foundations and resulted in recommendations to pursue partnerships with roughly 20 foundations. PRM has begun outreach in earnest with these foundations to explore areas of mutual interest and opportunity. Early support is galvanizing around several key initiatives, as highlighted below.

III. Key areas of focus for attracting and mobilizing foundations and other development partners

7. While philanthropy has traditionally remained at arm’s length from mainstream global policy and multilateral arenas, the SDGs are succeeding in bringing more of these key partners to the table, helping to ensure a coordinated approach towards achievement of the 2030 Agenda for Sustainable Development. This has been helped in part by the SDG Philanthropy Platform, a partnership between the United Nations Development Programme, the Foundation Center and Rockefeller Philanthropy Advisors, which aims to encourage philanthropists, the United Nations, governments, the private sector and NGOs to collaborate more closely; shift the philanthropic sector mindset towards a more inclusive approach; advocate the importance of understanding data to achieve the SDGs; and promote accountability in the philanthropic sector.
8. Building upon this trend, IFAD has identified a number of internationally focused foundations based in North America, Europe, the Middle East, Asia and, increasingly, developing economies, working across the core areas of IFAD’s mandate. The greatest priority alignment is around climate resilience and environment, women’s economic empowerment, food security and nutrition, poverty reduction, smallholder agricultural development and fragile contexts. Foundations, which are traditionally known for identifying and seed funding innovative approaches to tackling society’s greatest challenges, are also seeking partners to help take successful approaches and technologies to scale. Within this lens, IFAD has identified a number of key entry points that may speak to the priorities of this unique partner group, while also serving to support the objectives outlined in the IFAD Strategic Framework 2016–2025.
9. First, with respect to supporting national-led development processes, IFAD is launching a global programme to partner with one or more lead foundations that are committed to helping build the next generation of national leadership. IFAD will collaborate with foundation partners that are sponsoring global tertiary education scholarship programmes by providing graduates with professional work experience opportunities in an IFAD Country Office. The Professional Pathways Programme will bolster the impact of scholarship programmes by adding a professional experience element, thus providing an opportunity for growth and personal development for the next generation of leaders in developing countries.
10. Second, increasing IFAD’s capacity to identify innovations that respond to the constraints faced by rural people and to test and incorporate them within IFAD-financed projects is identified as critical to the bigger, better, smarter

approach outlined in the Strategic Framework. Thus, in partnership with a core group of lead foundations, IFAD will create a new collaboration model designed to amplify successful innovations and approaches incubated by foundations via the IFAD portfolio. Through the Accelerator Fund, IFAD will use the size and scope of its global programme of work as a pathway for accelerating and scaling the use of innovative approaches and technologies for rural development.

11. Furthermore, IFAD will leverage its established facilities and instruments as a way of collaborating more closely with foundations. IFAD already has a number of pooled supplementary funding arrangements and trust funds in place that may appeal to interested foundation partners targeting these priorities. Among these are ASAP, the Financing Facility for Remittances, and the Facility for Refugees, Migrants, Forced Displacement and Rural Stability, providing an effective collaboration vehicle for foundations on climate adaptation, remittances and the global diaspora, and improving development outcomes in fragile contexts.
12. Finally, IFAD is developing a Smallholder and Small and Medium-Enterprise Investment Finance fund to capitalize on its unique portfolio of smallholder organizations and leverage private-sector investments. The fund, or SIF, would finance agrifood SMEs directly through debt and equity investments. It would target the segment of rural SMEs that are currently under-served by existing banks and investment funds. A technical assistance facility is also envisaged to provide business advisory services, capacity-building, intermediation support and partnership brokerage to farmers' organisations and rural SMEs, so as to facilitate access to the SIF.
13. At present, IFAD is launching the Professional Pathways Programme and the Accelerator Fund under the ARM Initiative as entry points to partner more closely with foundations through supplementary funds. In addition, the SIF is currently under development. Additional information on these initiatives are presented in the appendix below.

IV. Procedures for resource mobilization from non-Member States and other development partners

14. The Executive Board is the competent organ to decide on acceptance to administer supplementary funds, and on the related conditions and restrictions. The Board resolved to delegate a part of that authority to the President, that is, to receive and administer grants from any source for the financing of ongoing IFAD projects, and from Member States for the financing of studies and short-term technical assistance activities related to IFAD operations, and on similar conditions as specified in EB 1986/28/R.47 and EB 1987/30/R.28.
15. As the Professional Pathways Programme, Accelerator Fund and SIF will not, in general, directly finance ongoing IFAD-supported projects, any and all proposed grant contributions from foundation partners or other non-Member State sources that materialize as a result of the above initiatives would be presented to the Executive Board for authorization. Based on resource mobilization efforts to date, management aims to return to the Executive Board seeking authorization for contributions from foundation donors and the reserves of supplementary fund fees for one or more of these initiatives in early 2017.
16. An update on progress made in developing these new financing facilities will be included in the overview on supplementary funds received, committed and used that is submitted annually to the Executive Board at its September session. Based on emerging experiences in the establishment of these facilities, the extent to which current procedures for acceptance of supplementary funds facilitate IFAD's catalytic role in resource mobilization will be reviewed, and any options to enhance these procedures will be presented to the Board for consideration.

Professional Pathways Programme

There are several key philanthropic-led efforts providing university scholarships to young people from economically disadvantaged communities in developing countries who have demonstrated academic talent and a potential to lead. Often however, graduates return to their home countries with excellent academic qualifications and perhaps internship knowledge, but little or no professional work experience, making the transition to a fulltime professional career challenging.

IFAD, through its decentralization strategy, has established 40 country offices to date, and seeks to bring that number to 45 offices. In addition to programme management and supervision, staff in these offices are strongly engaged in country level policy dialogue and partnership brokering, creating a dynamic professional environment with interaction among a diverse constituency. With additional human resource capacity, IFAD could achieve even greater results at country level.

IFAD is therefore creating the Professional Pathways programme, by which it will provide constructive and challenging three-year professional work experiences in its country offices to high-potential recent graduates of global scholarship programmes. By partnering with foundations that are dedicated to increasing access to education and employment to young professionals from developing countries, IFAD will help to ensure that young talent is getting the full spectrum of training, exposure and support needed to become the next generation of leadership.

Operating through a competitive process, applicants will have been pre-screened as a result of the scholarship programme selection process. Technical skills would be matched with IFAD's human resource needs in its country offices. Selected candidates will start at IFAD headquarters for six months to fully integrate into the organization, before spending two to three additional years in IFAD country offices – first in a country office outside of their own nationality to foster learning, followed by an additional 18 months to two years in their own country. Exposure to the diversity of operational, programmatic, technical, legal, financial and relational issues afforded by IFAD's daily operating environment will help Pathway participants to ultimately transition into a variety of professions across the public, non-profit and for-profit sectors. Participants will also benefit from training and career development support offered by the IFAD human resource department.

Outreach is underway with a select number of foundations to collaborate on the Professional Pathways Programme. The Programme will add a valuable last mile element to a foundation partner's scholarship investment, ensuring that high-potential leaders are provided with the full spectrum of support to help secure a productive professional career.

Accelerator Fund

The scale and global reach of IFAD's operations combined with its mandate and network of partners provides a unique pathway to accelerate innovations for smallholder agricultural productivity and sustainable rural livelihoods. At the same time, a number of leading philanthropic foundations are identifying and piloting innovative technologies and approaches to rural development, however may lack the substantive resources or geographic reach needed to truly take successful models to scale. Innovation challenges, social entrepreneurship awards and idea labs are gaining traction but generally within select countries or a region. The greater risk appetite held traditionally by philanthropy is indeed what enables these innovations, and can be a powerful asset to mesh with the rural development programmes financed by IFAD.

To leverage this potential win-win, IFAD is seeking a core group of foundation partners to create a new collaboration model designed to accelerate successful approaches and

technologies incubated by philanthropy via the IFAD global portfolio. IFAD will bring its financing, local relationships and global programme of work – in addition to country-based staff, project delivery and M&E frameworks – as a pathway to scale the successful models and innovations fostered by foundations. Foundations will bring their proven success models and targeted funding to support the uptake of innovations and new business models where close alignment with national priorities are identified.

The Accelerator Fund will have the objective of scouting, supporting and scaling innovations for smallholder agricultural productivity and sustainable rural livelihoods. Funding may include support for mainstreaming selected innovations within IFAD-financed projects or specialized technical assistance and policy engagement activities.

In line with shared strategic priorities, the Accelerator Fund would focus on the themes of resilience, food security and nutrition, poverty reduction, women's economic empowerment and smallholder agricultural development.

Proposals for support will be identified by calls to IFAD country programme managers and from Accelerator foundation partners who may propose specific innovations based on successful pilot interventions or social enterprise models ready for scale. In all cases, the Accelerator will provide support for national priorities as identified in the COSOP process.

Key to the scaling-up approach of the Accelerator Fund is a strong link with IFAD's existing country programmes. The specific implementation arrangements for each proposal financed by the Accelerator would be decided based on the nature of the proposal itself. In some cases, the most suitable arrangement may be to fully embed the implementation responsibilities within the project management units of established IFAD-financed investment projects. In other cases, implementation may be done by partners working with IFAD-financed projects or grantees working with the foundation partners (for example NGOs, financial institutions, farmers' organisations or private sector entities).

The Executive Board will be kept well informed as development of the Accelerator Fund further advances in early 2017.

Smallholder and SME Investment Finance (SIF)

It is evident that the rural credit gap remains significant for smallholder agriculture and that financial institutions or SMEs are not fully able to reach out and serve the middle/lower part of the smallholder pyramid. Micro-financiers tend to focus on the lower strata for short term needs while social investors, commercial banks and funds for alternative investments associated with particular risk still tend to concentrate on larger sized loans (above US\$500,000). However, the average loan size needed by producer associations/farmers organizations and rural SMEs is around US\$80,000 for term finance of equipment and working capital.

IFAD's main financial instrument - sovereign lending for public sector financing - has limitations in its capacity to unlock access to financial services for farmers organizations and rural SMEs in the agri-food sector. According to a study conducted by Dalberg in 2011 for IFAD, there are strong arguments for why a direct private sector finance facility would increase IFAD's impact on its target beneficiaries and more effectively leverage additional investments for smallholder agriculture. To service this client segment more effectively, IFAD aims at establishing the SIF to help bridge the persistent gap between demand and supply of financial services.

The SIF aims at providing mostly debt finance in the range of US\$30,000 - US\$300,000 directly to smallholder inclusive rural and agri-food SMEs and to the larger and more

structured rural producer organizations for working capital to manage their operations, term loans, farms renewal, plantations, irrigation, certification, new technologies, equipment for processing, transformation or for climate adaptation. The SIF would eventually also seek equity and quasi-equity investments, possibly coupled with guarantee and underwriting mechanisms, including through other partners. Depending on resources available the SIF could eventually also take equity stakes in existing impact investment funds – e.g. agriculture SME funds, microfinance institutions, climate insurance funds or others – to enhance financial deepening and increase rural outreach of inclusive financial services for the benefit of smallholder agriculture in IFAD member countries.

The SIF will offer an investment opportunity for donors, DFIs, private sector foundations and investors that have expressed early interest in the concept and are seeking to reach IFAD's target groups to improve production and productivity significantly. The SIF will leverage IFAD's portfolio of public sector-funded programmes, its de-risking mechanisms through IFAD's regular portfolio from replenishment fund, financial instruments, public-private producer partnership mechanism, and mobile information platform, blending opportunities with other partners, its smallholder organizations client base, and its field presence and retailing capacity, garnered over 40 years of work in rural development financing. The IFAD portfolio and de-risking mechanism is the main "pillar" of the Framework for Smallholder Agricultural Finance (SAFIN).

IFAD's portfolio of projects would offer an organized market of producers with better capacity and lower risks and transaction costs that would facilitate direct investments and rural SME financing through the SIF, the second "pillar" of the Framework. While SIF investments and the IFAD portfolio will complement and leverage each other, SIF operations would be assessed and financed separately from IFAD's normal programme and there will be no transmission of financial risks from SIF to IFAD operations. Institutional and legal arrangements are still being designed but they will effectively separate the assets and liability of the SIF from those of IFAD and ensure that no IFAD core resources will be used to discharge liabilities or meet losses, if any, arising from the operation of the SIF.

The SIF will need to be capitalized as it is not envisaged to use IFAD core replenishment resources for this purpose. Conscient of the relatively higher risk environment, and the fact that internal capacity will need to be built to service the SIF, it is proposed to start conservatively so as to prove the concept and grow progressively as SAFIN demonstrates to be a valid response to SME financing needs.

To facilitate and accompany SIF business initiatives, IFAD will set up and manage a Technical Assistance Facility (TAF) to provide advisory services to farmers organizations and rural SMEs, allowing them to access new opportunities for partnerships and business development. The expected needs of technical assistance include institutional strengthening and capacity building for the preparation of business deals, brokerage services for business partnerships between private sector and farmers organizations, product development, etc. Intermediation and match-making has often proved to be a major constraints in the capacity of smallholder organization and private businesses to develop joint business plans of the quality required for adequate decision making. While the majority of IFAD supported projects already include capacity building components for farmers organizations, some governments are reluctant to borrow for technical assistance related to private sector activities or SMEs operations and to outsource such services to private professional service providers. Therefore, the TAF will be seeking to raise grant funds and to partner with other institutions including FAO, consultancy firms and specialized technical agencies to provide support for SAFIN operations and private sector development, particularly those funded by the SIF.

In summary, SIF is one of the three pillars of the SAFIN Framework as shown in the figure below:

