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Update on the Agribusiness Capital Fund

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Abbreviations and acronyms

ABC	Agribusiness Capital
AGRA	Alliance for a Green Revolution in Africa
BMGF	Bill & Melinda Gates Foundation
COM	Communications Division
ECG	Environment, Climate, Gender and Social Inclusion Division
ERG	External Relations and Governance Department
FOD	Financial Operations Department
LEG	Office of the General Counsel
M&E	monitoring and evaluation
OPV	Office of the President and Vice-President
PMD	Programme Management Department
PMI	Sustainable Production, Markets and Institutions Division
PRM	Partnership and Resource Mobilization Office
RFP	request for proposals
SIF	Smallholder and Small and Medium-Sized Enterprise Investment Finance Fund
SKD	Strategy and Knowledge Department
SME	small and medium-sized enterprise
TAF	Technical Assistance Facility
ToRs	terms of reference

Update on the Agribusiness Capital Fund

I. Executive summary

1. In December 2017, the Executive Board approved the strategy for the establishment of the private sector financing initiative the “Smallholder and Small and Medium-Sized Enterprise Investment Finance Fund” (SIF). The SIF was subsequently renamed the Agribusiness Capital (ABC) Fund. The ABC Fund will be launched as an “impact fund”, with the initial aim of raising US\$60 million in grant funding to be structured as first-loss equity. The ABC Fund is expected to attract senior and mezzanine debt of US\$180 million, leveraging indicatively three times the amount of the initial grant funding. The ABC Fund will retain a capacity for further growth as any additional contributions to its equity tranche are also expected to be leveraged. The status of implementation is summarized below.
2. The mission of the ABC Fund is to address the large gap that remains between supply and demand for investment in smallholder agriculture and rural finance. It is estimated that the financing needs of the roughly 270 million smallholder farmers in sub-Saharan Africa, South and South-East Asia, and Latin America exceed US\$200 billion. In coordination with the ABC Fund manager, IFAD will provide the ABC Fund with investment opportunities that leverage IFAD’s presence on the ground, sector expertise, and experience in building multi-stakeholder partnerships. The IFAD portfolio is increasingly focused on promoting rural youth employment and this will be further pursued through the ABC Fund.
3. The ABC Fund is groundbreaking in terms of the sector within which it works, its size and its structure.
 - (a) Sector: Smallholders and youth in remote areas. The ABC Fund has a unique aim: it offers a blend of financing to smallholder farmers in the most remote regions of the rural developing world. It will focus on young agroentrepreneurs who are often underserved financially.
 - (b) Size: Small-scale “missing middle” financing. The ABC Fund will provide small investments (from US\$80,000 to US\$1 million) to small and medium-sized enterprises (SMEs) and young rural agroentrepreneurs to fill the missing middle financing gap.
 - (c) Structure: One-stop-shop impact investing. The ABC Fund will offer not only direct debt financing to farmers but also technical assistance, financial intermediation and potential equity investments. This innovative approach will offer a one-stop shop of products to rural agroentrepreneurs.
4. With its sector, size and structure, the ABC Fund is seen as breaking new ground in impact investing and blended finance solutions, by offering smaller loans and an innovative mix of products to young agroentrepreneurs. It targets remote areas where most other investors have not ventured due to the associated higher risks and higher costs.
5. The ABC Fund will be based on three pillars:
 - (a) Pillar 1. IFAD’s current portfolio of projects (US\$17 billion, including cofinancing) will be leveraged as a key source of pipeline development opportunities. This will entail identifying critical gaps in the financing required to expand productivity in a given supply chain, and reducing the transaction cost of servicing producers’ organizations and rural SMEs that are not being reached by existing financing. The project pipeline of other partners such as the Alliance for a Green Revolution in Africa (AGRA) would also be a potential source. The ABC Fund will target farmers’ organizations and SMEs that require investments in the range of US\$25,000 to US\$1 million but have

limited or no access to private sector capital. The ABC Fund will offer a mix of direct debt financing and financial intermediation. Some equity investments will be made later in the process, subject to investees' track record.

- (b) Pillar 2. The first-loss equity will be used to de-risk portfolio investments and leverage additional non-concessional or commercial funds amounting to about three times the size of the initial funding.
- (c) Pillar 3. The Technical Assistance Facility (TAF) will provide pre- and post-investment assistance to existing and potential investees. Specifically, advisory services financed with the TAF will allow farmers' organizations and SMEs to access new opportunities for business development and incubation of prospective creditworthy clients.

II. Status

6. The anchor equity investors (shareholders) in the first-loss layer of the ABC Fund are: the European Union (through its African, Caribbean and Pacific envelope) with an expected EUR 45 million, of which EUR 40 million will be first-loss equity and EUR 5 million will be allocated to the TAF; the Government of Luxembourg with an expected investment of EUR 5 million, of which the first tranche of EUR 2.5 million has been deposited into an IFAD account, and the remaining EUR 2.5 million will be invested directly into the ABC Fund at inception; and AGRA with an expected investment of US\$5 million.
7. IFAD has committed to financing the TAF with three successive grants totalling approximately US\$10 million over 10 years. The first grant, amounting to US\$3.5 million, is under preparation. IFAD will finance the operating costs of the ABC Fund up to US\$0.5 million per year for the first two years. In addition to participating as a cofinancier of the TAF, IFAD's main contribution will be to support the ABC Fund manager in the creation of the ABC pipeline of potential investees leveraging IFAD's portfolio of projects, knowledge and presence in the geographical areas where ABC will be active.
8. The TAF will provide pre- and post-investment technical support to the ABC Fund investees, and will conduct the monitoring and evaluation (M&E), and impact assessment activities. A draft design and terms of reference (ToRs) of the TAF to hire a manager have been prepared. The TAF manager will report to the ABC Fund manager, but will be financed through separate grant resources. The first tranche of TAF resources include an IFAD grant of US\$3.5 million, as mentioned above (already approved by the Operational Strategy and Policy Guidance Committee), an expected EUR 5 million from the Economic Commission, and an amount of between US\$2 million and US\$3 million from the Bill & Melinda Gates Foundation (BMGF) who have informally expressed interest in providing funding of US\$7.5 million in subsequent years. Comments and feedback have been received from the anchor investors and from the BMGF on the TAF ToRs, which are pending additional input from the ABC Fund manager once selected. Once the procurement process for the ABC Fund manager is closed, IFAD will launch the TAF request for proposals (RFP) process.
9. After negotiations with the anchor investors, it was agreed that IFAD would retain a seat on the board of the ABC Fund. Management is working with the Office of the General Counsel and with an external law firm to obtain advice about IFAD's potential waiver of immunities in coordination with the articles under which the ABC Fund was established. IFAD Management is also investigating the possibility of investing in ABC equity to further demonstrate IFAD's commitment to this important multi-stakeholder venture and better align its interests with those of the other investors.
10. The procurement process led by IFAD for the ABC Fund manager is ongoing and negotiations with the preferred bidder are under way. Elements being negotiated

prior to contract signature include team composition, the co-location of staff, the ABC Fund manager's roles and responsibilities in the governance structure, and management and performance fees. The contract with the ABC Fund manager will initially be signed by IFAD, and will then be transferred to the ABC Fund once it has been established.

III. Next steps

11. A cross-departmental task force has been established within IFAD.

Table 1

Key areas of responsibility of the ABC Fund task force

<i>Department / division</i>	<i>Responsibilities</i>
FOD (with OPV support)	<ul style="list-style-type: none"> • Coordination of all structuring/implementation efforts • Focal point in the relationship with anchor investors and ABC Fund manager • Responsible for all matters related to the financial structure
PMD / PMI	<ul style="list-style-type: none"> • TAF RFP and operations • Project policies • Pipeline and operations • Negotiation of project operations
LEG	<ul style="list-style-type: none"> • ABC Fund domiciliation and board composition • Contract negotiations (ABC Fund manager and TAF manager) • Legal/regulatory fund documentation
PRM / ERG	<ul style="list-style-type: none"> • Fund-raising in coordination with ABC Fund manager: Equity and debt fund investors TAF financiers
SKD	<ul style="list-style-type: none"> • Environment, social and governance policies and M&E (with ECG support) • Develop key performance indicators and tool to assess impact on youth employment
COM	<ul style="list-style-type: none"> • Develop communication strategy, including reputation management • Implement communication plan strategy in coordination with ABC Fund manager • Develop webpage dedicated to the ABC Fund on ifad.org

12. The task force will carry out specific preparatory tasks and ensure that certain requirements are met prior to the ABC Fund's launch, including:
- Finalize the hiring of the ABC Fund manager through the ongoing procurement process and conclude negotiations with the most advantageous bidder.
 - Work closely with the ABC Fund manager to define the process, criteria and tools to establish a transparent and efficient mechanism for sourcing projects from IFAD's and AGRA's portfolios and pipelines. While significant preparatory work has already been undertaken to analyse potential projects in IFAD's portfolio and pipeline, the next phase will require a more comprehensive scoping and identification of projects, and a call for interest from IFAD country programme teams, as well as from AGRA.
 - Finalize the TAF ToRs with the support of the ABC Fund manager and launch the TAF RFP process, and finalize preparation of IFAD's grant to fund the facility.
 - Finalize the ABC Fund's domiciliation and board composition, European Union and ABC Fund manager contract negotiations, and prepare legal and regulatory ABC Fund documentation.
 - Coordinate the launch of the ABC Fund and the fund-raising strategy with the selected ABC Fund manager for both the ABC Fund's capital and the TAF.
 - Review and customize the environmental, social and governance and M&E policies/frameworks according to the size of investments.

- (g) Develop a methodology and a tool that will allow the ABC Fund to forecast the impact on youth employment when investing in different typologies of investees.
- (h) Implement a communication strategy and develop a webpage dedicated to the ABC Fund on ifad.org and corporate websites of the partners.
- (i) Develop IT systems and platforms to be used to facilitate project pipeline management and communication between the ABC Fund manager and project/country teams.

IV. Conclusion

13. The ABC Fund is seen by partners and by the impact investment community as a unique opportunity to advance the frontier of impact financing and blended finance solutions towards smaller rural and agricultural businesses with whom many funds have not worked due to the inherently high risks and transaction costs associated with such SMEs. The ABC Fund's success will be made possible by strong integration with the IFAD/AGRA portfolios (as pipeline sources) and the TAF, combined with a solid first-loss de-risking strategy. Therefore, the ABC Fund will succeed only if it is well rooted in field-level operations and leverages resources on the basis of IFAD's and other donors' extensive client knowledge.
14. Open and constructive communication with anchor investors is ongoing to ensure that all parties' concerns are addressed throughout the negotiation process with the preferred bidder.
15. The next steps to meet the launch date of 1 January 2019 are the finalization of the ABC Fund manager procurement, contracting with the European Union, the swift selection of the TAF manager, and development of the project pipeline.