



Concept note

The Private Sector Financing Programme as a catalyst, convener and aggregator of private capital for IFAD's investments in climate adaptation and mitigation

Forty-fifth session of IFAD's Governing Council – Virtual side event (webinar)

Tuesday, 15 February 2022, 2.45 p.m. – 4.15 p.m. (Central European Time)

Background

With its unique focus on rural development, climate change adaptation and risk mitigation, and its extensive network of partner financial institutions, IFAD, through its Private Sector Financing Programme (PSFP), is in a unique position to act as a catalyst, convener and aggregator to mobilize climate adaptation and mitigation investments in agriculture through international financial institutions, multilateral development banks, development finance institutions and the private sector.

Extreme climate events are becoming more frequent as a result of climate change, and are negatively affecting rural poor people, particularly smallholder farmers with no structures in place to mitigate climate risk. To date, limited amounts of private capital have been channelled directly to support agriculture adaptation and resilience to climate change.

This lack of financial resources can be addressed by creating frameworks, systems or multilateral facilities to mobilize and crowd in private sector investments for climate mitigation and adaptation at scale. IFAD set up of the PSFP not only to directly finance private sector projects but also to crowd-in and mobilize private sector resources and increase investments in rural development and small-scale agriculture.

PSFP offers financing, loans and guarantees (and in the future also equity) directly to companies and financial intermediaries for onlending, investing or offering adaptation

services to small-scale farmers, rural poor people and micro, small and medium-sized enterprises (MSMEs). IFAD sources investment opportunities from its portfolio of sovereign projects as well as from a vast array of public and private sector partners. These investments have a strong component of promoting environmental sustainability and climate resilience for small-scale farmers and producers.

IFAD has also contributed to establishing, and has invested in, the Agribusiness Capital Fund (ABC Fund), an independent investment fund managed by the Bamboo Capital Partners. The ABC Fund provides loans and equity investments adapted to the needs of rural SMEs, farmers' organizations, agri-entrepreneurs and rural financial institutions. Green investments make up a significant portion of the ABC Fund portfolio. All potential deals undergo a rigorous environmental, social and governance assessment. This ensures that areas such as energy consumption/intensity, hazardous materials usage, agrochemical use, impact on biodiversity are analysed in detail during the loan underwriting and due diligence stages.

IFAD emphasizes the importance of including climate adaptation concerns in the decision-making process for agricultural investments. Private investors are also increasingly including climate risk in their credit assessments. Climate change will increase the need for climate-smart investments in agriculture, and it will be important to find a way to mitigate climate risks in order to attract private capital to the sector.

A possible way forward to mobilizing private capital at scale for investments in agricultural value chains and smallholder climate adaptation and mitigation could be through targeted credit risk mitigation measures in blended finance vehicles, to make them more attractive to investors.

The PSFP represents a unique opportunity to raise capital from both public and private sources, at the international and local level, for innovative market-based financial vehicles for investments in climate-resilient agriculture.

The 2022 Governing Council informal event:

The panel discussion will explore how to mobilize private investment in climate adaptation and mitigation in agriculture through blended financing vehicles and risk mitigation.

The panel will consist of:

- Representative of a Member State
- Representative from the private sector
- Representative from the Green Climate Fund's private sector window

Welcome remarks: Ms Satu Santala, Associate Vice-President, External Relations and Governance Department (ERG)

Moderator: Ms Jyotsna Puri, Associate Voce-President, Strategy and Knowledge Department (SKD)