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Investing in rural people

President's Report on a Proposed Grant under the Global/Regional Window to Stichting Agriterra for the Management of the Technical Assistance Facility of the AgriBusiness Capital Fund (ABC Fund)

Note to Executive Board representatives

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For: Approval

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed grant as contained in paragraph 19.

President's report on a proposed grant under the global/regional window to Stichting Agriterra for the Management of the Technical Assistance Facility of the AgriBusiness Capital Fund (ABC Fund)

I. Background and compliance with IFAD Policy for Grant Financing

1. Globally, smallholder farmers and rural agriculture businesses face challenges in attracting the necessary capital to improve their productivity, livelihoods and supply chain participation, particularly from financial institutions and the private sector. An equally compelling challenge is the growing number of unemployed rural youth and the urgency to offer them alternative solutions to migration. The latter is highly dependent on the capacity of rural small and medium-sized enterprises (SMEs) to grow sustainably and create jobs.
2. In December 2017, the Executive Board approved the strategy for the establishment of the private sector financing initiative the Smallholder and SME Investment Finance (SIF) Fund and its associated Technical Assistance Facility (TAF) with the objective of driving inclusive smallholder and rural SME finance and creating employment opportunities for youth and women along specific agriculture value chains. The SIF was subsequently renamed the AgriBusiness Capital Fund (ABC Fund) and is being set up as an "impact fund" to be managed by Bamboo Capital Partners and Injaro Agricultural Capital Holdings Ltd.
3. The ABC Fund's capital structure includes three tranches (A, B and C), each offering a different risk return profile aimed at attracting various investor classes. An initial capital endowment of US\$60 million in grant funding will be contributed by various donors (the European Commission [EC], Luxembourg, and the Alliance for a Green Revolution in Africa [AGRA]) as first-loss equity (C-class). This is expected to leverage around three times the endowment amount in additional funding (mainly in the form of A and B class shares), or about US\$180 million. The ABC Fund design includes a TAF aimed at building the capacity of the rural SMEs, farmers' organizations (FOs) and financial service providers targeted for investment by the ABC Fund, thus contributing to safeguarding the ABC Fund's impact agenda and improving overall portfolio performance and development.
4. Together, the ABC Fund and the TAF will offer an integrated investment package that includes blended financing and technical assistance (TA) services targeting remote areas where most traditional investors have not ventured due to the associated higher risks and higher costs of this market segment. These unique features will set the Fund apart from any other investment structures active in the agriculture sector.
5. The ABC Fund is based on three pillars:
 - Pillar 1. Existing IFAD and AGRA project portfolios, which will be leveraged for ABC Fund pipeline development opportunities by identifying critical gaps in the financing required to expand productivity throughout a given supply chain and by reducing the transaction cost of servicing the segment of FOs and rural SMEs that are not adequately being reached by existing financing.

Pillar 2. The ABC Fund will target FOs 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. To do so, the ABC Fund will offer a mix of direct financing instruments (mainly debt; some equity) and indirect financing through financial intermediaries.

Pillar 3. The TAF will provide pre- and post-investment assistance to existing and potential investees. Specifically, advisory services financed by the TAF will allow FOs and SMEs to access new opportunities for business development and the incubation of prospective creditworthy clients.

6. Experience from other funds working in a market segment similar to that of the ABC Fund (e.g. the African Agriculture Fund, Yield Uganda Investment Fund) points to the essential role of TA services to accompany financial investments in rural SMEs and FOs. Technical assistance services are key to reducing the risk of the financial investments and to strengthening their sustainability and development impact by: (i) preparing SMEs and FOs to receive and make good use of or maximize the impact of the financial investments; (ii) assisting the SMEs and FOs during the investment period in ironing out basic strategic, financial or technical obstacles that may hinder SME/FO performance; and (iii) supporting the ABC Fund in monitoring the performance of the SMEs and producer/processing cooperatives, and measuring the fund's development impact. Note that IFAD has accumulated relevant experience in TA delivery under set-up, notably by successfully overseeing the delivery of the TA for the African Agriculture Fund.
7. IFAD support to the TAF thoroughly complies with IFAD's Policy for Grant Financing. In particular, alignment with IFAD priorities at the country level will be guaranteed through a close collaboration between the ABC Fund, TAF team and IFAD regional and country offices. Furthermore, by leveraging IFAD's project portfolio for the identification of potential investment prospects for the ABC Fund, the TAF will address value chains already targeted by IFAD, while providing private sector investment and TA support to rural SMEs and FOs that are currently not well served through IFAD's traditional instruments of loans and grants to governments.
8. The ABC Fund and its TAF are a strategic priority for IFAD and a key corporate deliverable for the Eleventh Replenishment of IFAD's Resources. Failure to establish and fund the TAF will seriously jeopardize the ABC Fund's success and IFAD's commitment to its Member States. Furthermore, initial funding of the TAF from IFAD is necessary to attract additional funding and cofinancing from other donors and private investors.

II. The proposed programme

9. The goal of the TAF is to contribute to driving inclusive smallholder and rural SME finance and creating employment opportunities for youth and women along selected agriculture value chains. Its specific objectives within the three-pillar framework are to improve the growth and development performance of ABC Fund investees by providing suitable and timely TA services, and to support the implementation of the monitoring and evaluation (M&E) framework for environmental, social and governance (ESG) data and impact data.
10. Although investments and TA will be provided to FOs, rural SMEs and financial intermediaries, the ultimate target group will be composed of smallholder farmers and young rural men and women active in the targeted value chains.
11. The ABC Fund will initially operate mainly in five to eight countries, with a focus on sub-Saharan Africa. The country focus will reflect IFAD and AGRA's project portfolio activity and priorities, particularly during the ABC Fund's initial years when these portfolios will be used by the ABC Fund Manager for origination. Correspondingly,

the TAF's activities will primarily¹ focus on the same countries. The ABC Fund's country focus is expected to gradually expand over time following certain guidelines, notably extending to some countries in Asia as the funding increases.

12. The TAF management programme will have the following two main components:
 - (i) Component 1: Delivery of core TA services. The TAF will primarily provide pre-and post-investment technical support to the ABC Fund's potential investees and portfolio companies. The specific services delivered by the TAF will be designed by the ABC Fund Manager and the TAF Manager on the basis of the needs of specific investees, with the objective of offering them an integrated package of support. A potentially wide range of TA services will thus be available to ABC Fund investees, addressing needs that are specific and generally short-run in nature.
 - (ii) Component 2: M&E and knowledge management. The TAF Manager will support the design of the ABC Fund's framework for monitoring investees, and will contribute to monitoring and reporting on the development results of the ABC Fund and TAF interventions. This will include collecting data on and comparing individual ABC Fund investments with regard to ESG and impact data pre- and post-investment, with a specific focus on rural youth and women. It will also entail performing extensive evaluations of selected investments to enhance portfolio reporting.

III. Expected outcomes/outputs

13. The programme is expected to have the following outcomes/outputs:
 - (i) Effective and timely TA services delivered to rural SMEs, FOs and financial intermediaries, with positive impacts on the livelihoods of rural men, women and youth;
 - (ii) Better performing rural SMEs, FOs and financial intermediaries with positive direct and indirect impacts on smallholder farmers, including rural men, women and youth, thereby offering alternative solutions to migration; and
 - (iii) An M&E framework that continuously measures the performance and impact of both the ABC Fund investments and the TAF interventions, and provides cross-cutting/aggregate-level reporting.

IV. Implementation arrangements

14. Management of the TAF will be the responsibility of Stichting Agriterra (Agriterra), which was selected competitively among five applicants. Agriterra is an internationally recognized non-profit foundation and agri-agency that provides advisory services to FOs and cooperatives in developing economies. Agriterra will form a consortium together with:
 - AgriCord, a global alliance of agri-agencies and agri-consultants, mandated by FOs;
 - Rabo Partnerships, a fully owned subsidiary of Rabobank, with experience in strengthening financial institutions and cooperatives; and
 - Advance Consulting, a business advisory company with a focus on raising impact finance and providing TA services to SMEs.
15. The consortium (i.e. the TAF Manager) has extensive experience in providing specialized TA to the full range of TAF beneficiaries. Together the four organizations have the institutional and technical capacity and the extensive network required to

¹ Investments by the ABC Fund outside the priority countries remain eligible even in the initial phase of the Fund implementation.

effectively manage the TAF and provide the needed specialized TA services to accompany and de-risk the ABC Fund investments.

16. The TAF services are expected to create a strong link between the supply of financing from financial institutions and the demand from agri-SMEs and FOs. Reporting directly to the ABC Fund Manager, the TAF Manager will help select and strengthen financial institutions that are willing and able to provide financing to the missing middle in the agricultural sector. At the same time, the TAF Manager will use a targeted bottom-up approach to select and strengthen agri-SMEs and cooperatives along agricultural value chains. By clustering TAF beneficiaries along specific value chains, the consortium expects that these value chains will be sustainably strengthened, resulting in improved livelihoods for smallholder farmers; job creation, especially for rural young men and women; and increased food security.
17. The M&E and reporting approach envisioned by the consortium will be closely linked to the programme's knowledge management activities. Together, they are expected to contribute to educating the ABC Fund and TAF by proactively gathering knowledge in the form of lessons learned and best practices, and to improve the efficiency of project management through data-driven adjustment of TAF activities and service delivery packages.

V. Indicative programme costs and financing

18. The TAF will be initially funded for a three-year period with a total grant of approximately US\$5.2 million, including US\$3.5 million from IFAD and EUR 1.5 million from the EC. Subsequent tranches of funding will be contingent on an evaluation of the performance of TAF delivery after the second year of implementation.

Table 1

Costs by component and financier
(Thousands of United States dollars)

<i>Components</i>	<i>IFAD</i>	<i>EC</i>	<i>Total</i>
1. TAF management	515	376	891
2. TA design	74	36	110
3. Delivery of core TA services	2 502	1 215	3 717
4. M&E and knowledge management	150	73	223
Subtotal	3 241	1 700	4 941
Overheads (8% of direct costs)	259		259
Total	3 500	1 700	5 200

Table 2

Costs by expenditure category and financier
(Thousands of United States dollars)

<i>Expenditure category</i>	<i>IFAD</i>	<i>EC</i>	<i>Total</i>
1. Salaries and allowances	489	236	725
2. Operating costs	75	163	238
3. Consultancies – TA service delivery	2 502	1 215	3 717
4. Consultancies – M&E and knowledge management activities	77	38	115
5. Travel and allowances (including hotels)	50	24	74
6. Equipment and materials	20	10	30
7. Workshops	28	14	42
8. Overheads	259	-	259
Total	3 500	1 700	5 200

VI. Recommendation

19. I recommend that the Executive Board approve the proposed grant in terms of the following resolution:

RESOLVED: that IFAD, in order to finance, in part, the Management of the Technical Assistance Facility of the AgriBusiness Capital Fund (ABC Fund), shall provide a grant of three million five hundred thousand United States dollars (US\$3,500,000) to Stichting Agriterre for a period of three years upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

Gilbert F. Hougbo
President

Results-based logical framework

	Objectives hierarchy	Objectively verifiable indicators	Means of verification	Assumptions
Goal	Contribute to driving inclusive smallholder and rural SME finance, as well as youth and women employment along specific agriculture value chains.	<u>Examples of high-level indicators</u> <ul style="list-style-type: none"> - # of FIs supported - # of FOs supported - # of SMEs supported - Disbursed amount to FIs - Disbursed amount to FOs - Disbursed amount to SMEs - # of jobs created (disaggregated by gender and age category) - # of smallholder farmers supported - Increase in average income smallholder farmers - Membership growth of FOs - Absence of forced, compulsory or child labour - Worker occupational health and safety improvement 	The means of verification for each indicator will follow from the definition of the M&E framework and indicators in the inception phase, which will be realized in close collaboration between the ABC Fund Manager and TAF Manager.	The clarification of underlying assumptions will follow from the definition of the M&E framework and indicators in the inception phase, which will be realized in close collaboration between the ABC Fund Manager and TAF Manager.
Objectives	<ol style="list-style-type: none"> 1. Improve the growth and development performance of ABC Fund investees by providing suitable and timely TA services. 2. Support implementation of the monitoring and evaluation (M&E) framework of ESG and impact data, and carry out higher level reporting requirements on general outcomes/impact. 	<u>Examples of indicators at outcome level</u> <i>Examples to track improved business performance of SMEs and FOs:</i> <ul style="list-style-type: none"> - % change in turnover - % change in profit - # of staff (specified per contract type, disaggregated by gender and age category) - % of women in management or board - Membership growth of FOs <i>Examples to track improved business performance of FIs:</i> <ul style="list-style-type: none"> - % change in turnover - % change in profit - # of staff (specified per contract type, disaggregated by gender and age category) - % of women in management or board 		
Outcomes/Outputs	<p>Long-term Outcomes</p> <ul style="list-style-type: none"> • Increased financial inclusion • Increased responsible lending and investments and reduced risks • Growth pathways for agri-SMEs and cooperatives with a choice of appropriate capital and capacity building • Pathways out of poverty for smallholder farmers and employees linked to inclusive agri-SMEs and cooperatives <p>Short-term Outcomes</p> <ul style="list-style-type: none"> • Increased access of cooperatives, producer organisations and agri-SMEs to finance and markets • FIs are willing and able to serve the missing middle in the agricultural sector with sustainable finance products • Agri-SMEs and cooperatives have built up track record as a recipient of responsible financing • Increased business performance of agri-SMEs and cooperatives • Decrease in loans losses of the investees default provided loans through the ABC Fund. • Best practices in providing and integrated service package for agri-finance are 	<i>Examples of indicators at output level:</i> <ul style="list-style-type: none"> - # and type of trainings offered (specified per type of beneficiary) - # of managers and # of staff members that received TA (disaggregated by gender and age categories, specified per FO/cooperative, 		

	Objectives hierarchy	Objectively verifiable indicators	Means of verification	Assumptions
	<p>captured and disseminated.</p> <p>Outputs</p> <ul style="list-style-type: none"> • Technical assistance designed to accompany ABC Fund investments • Effective and timely pre- and post- investment TA services delivered to cooperatives, agri-SMEs, and to FIs. • Close partnership established with the Fund manager to ensure flexible and effective delivery of TA services as part of the integrated service package • A growing portfolio of investees under the ABC fund receiving TA during the project period • Monitoring and evaluation framework is established that continuously measures performance and impact of both the ABC Fund investments and the TAF interventions, and provides aggregate and cross cutting level reporting 	<p>SME or FI)</p> <ul style="list-style-type: none"> - # of managers and # of staff that express awareness of how to deal with their specific bottlenecks as a result of the TA provided (specified per FPO, SME or FI) 		
<p>Key activities by component</p>	<p>Inception phase</p> <ul style="list-style-type: none"> - Kick-off meeting TAF consortium, ABC Fund Managers and IFAD - Hiring and managing core staff - Establishing local presence in Ghana - Development of TAF Operations Manual - Portfolio scoping together with ABC Fund - Designing M&E and knowledge management system (including indicator formulation, formats & manual development, baseline setting) <p>Strategic and operational management activities (excluding M&E)</p> <ul style="list-style-type: none"> - Biannual Steering Committee meetings (formal reporting to TAF SC and IFAD; high-level decision making on overall strategy) - Monthly Operational Committee meetings (consultation, decision making and progress updates on specific TA trajectories) - IC meetings with TAF Manager participation (frequency?) <p>M&E and Knowledge Management</p> <ul style="list-style-type: none"> - Quarterly operational monitoring & reporting - Annual evaluation & reporting - Setting up an online resource/knowledge portal - Biannual quick-scan for success stories and lessons learned - Publication of lessons learned / white papers - Annual learning events in collaboration with ABC Fund and IFAD <p>TA Service provision</p> <ul style="list-style-type: none"> - Establishing and consolidating partnerships with other organizations - TA Service delivery to ABC Fund investees (SMEs, farmer organizations/cooperatives, financial intermediaries) - Contracting external service providers when needed 	<ul style="list-style-type: none"> - M&E framework approved - TAF operational manual approved - Minutes of biannual meetings - Minutes of monthly meetings - Quarterly operational reports - Annual evaluation & operational reports - Success stories disseminated - Best practices disseminated 		