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President's report on a proposed regional grant in the Latin America and Caribbean region to the German Sparkassenstiftung for International Cooperation for Innovative Agritech and Fintech Solutions as a Response to the Impact of COVID-19 (Innovatech)

Project No. 2000002829

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 22.

President's report on a proposed regional grant in the Latin America and Caribbean region to the German Sparkassenstiftung for International Cooperation for Innovative Agritech and Fintech Solutions as a Response to the Impact of COVID-19 (Innovatech)

I. Background and compliance with IFAD Policy for Grant Financing

1. This proposal focuses on strengthening access to markets and making available financial services that can help IFAD's target group achieve better and more resilient livelihoods. The grant will focus on strengthening providers of innovative agricultural technologies (agritech) and accessible digital financial technologies (fintech) that cater to the needs of smallholders involved in IFAD-funded projects. It will seek to scale up the availability of and access to such technologies.
2. In recent years, fintech and agritech have grown in importance in Latin America, but their offerings to smallholder farmers remain limited.¹ A considerable challenge remains in improving smallholder farmers' linkages with fintech and agritech, and providing them with the innovative and economically feasible solutions that have already been developed. Such solutions would help smallholders facing unprecedented challenges caused by COVID-19 to build back better and in a more resilient manner.
3. The grantee, German Sparkassenstiftung for International Cooperation (Sparkassenstiftung),² was identified through a competitive selection process with a public call for proposals. The competitive screening evaluation team met on 23 March 2020 to evaluate preselected proposals. The team selected Sparkassenstiftung as it had the right balance of experience, innovation, technical, financial and institutional support and the network to adequately implement this project and contribute to IFAD's mandate.
4. This proposal will use country allocations from the Rural Poor Stimulus Facility (RPSF) to fund activities in the Plurinational State of Bolivia, Guatemala, Haiti and Honduras. Regional allocations from the RPSF will fund two additional countries: El Salvador and Mexico.
5. There are two main sources of funding: US\$999,700 through the regular grants programme, and the rest, US\$2,543,400, through the RPSF in the Latin America and the Caribbean (LAC) region. The RPSF funding was approved on 7 July 2021. RPSF resources are targeted at low-income and lower-middle-income countries affected by the COVID-19 pandemic. The regular grants programme focuses on supporting innovations by promising entities and consolidating the main knowledge management products for future replication.

¹ Companies target mainly medium- or large-scale clients that are more likely to acquire products and services given their size, technical knowledge, and availability of resources (Inter-American Development Bank Lab, 2019). This finding resonates with results from recent studies conducted by Sparkassenstiftung in the region.

² Sparkassenstiftung is an internationally recognized foundation that has extensive experience in mobilizing resources for investment, leveraging resources for inclusive technologies and supporting digital and technological services to include the rural poor, especially fintech and financial services.

6. The current proposal is aligned with IFAD's mandate of investing in rural people and enabling inclusive and sustainable rural transformation, notably through smallholder agriculture-led growth. It also contributes to IFAD's role in the achievement of the Sustainable Development Goals (SDGs) by 2030, particularly to SDGs 1 and 2, but also SDGs 5, 8, 10, 13, and 15.
7. In terms of the commitments for the Eleventh Replenishment of IFAD's Resources, the proposal aims to achieve the development results linked to increased market access and production (2.1.2 and 2.1.3), the outputs of rural people accessing financial services, and rural enterprises accessing business development services (2.3.4 and 2.3.7).³ The proposal supports the new orientation of the grants programme, and opens the way for the recently established Private Sector Financing Programme.
8. The proposal is consistent with the Regular Grants Policy (2021). Specifically, by working with a new partner such as Sparkassenstiftung with extensive knowledge in agritech and fintech, the proposal supports the strategic objective of "leveraging strategic and operational partners' expertise and resources to deepen the impact of IFAD's programme of work." It also supports "improving the availability and uptake of relevant knowledge and innovation for enhanced impact and sustainability" by stimulating the innovative technology sector as a part of a broader strategy for economic recovery from the impacts of COVID-19 and creation of a sustainable enabling environment.

II. The proposed project

9. The goal is to support smallholders in recovering faster and in a more resilient manner from the impacts of COVID-19 by improving the availability and quality of technology-based solutions that allow them to have better access to markets, financial services and non-financial services. The development objective is to strengthen the ecosystem of financial and non-financial services for smallholders provided by agritech and fintech companies in LAC. The specific objectives are that agritech and fintech companies with enhanced business models include within their outreach IFAD's target group; and that tailored financial and non-financial services are effectively deployed to smallholders within the IFAD portfolio.
10. The target group is made up of 9,000 households, of which at least 50 per cent will be women and 50 per cent will be young people. Over 400 producers' organizations will benefit from the grant activities.
11. There will be four components: (i) assessment of the demand for and supply of innovative agritech/fintech services among smallholders in order to define the selection criteria and process to evaluate such investments. This component is funded by the RPSF and will take place in the first year; (ii) mainstreaming agritech/fintech services for economic recovery to facilitate investments and technical activities required by agritech and fintech enterprises to develop alternatives and innovations in production, commercialization and financing. Most activities under this component are funded by the RPSF, but the technical assistance to the agritech/fintech companies will be funded by the regular grants programme; (iii) broadening innovation by leveraging finance for scaling up and supporting sustainability to prepare companies to scale up their services and extend technical solutions to other IFAD projects. This component is financed by the regular grants programme, and will be implemented in the second year; (iv) monitoring and evaluation, and knowledge management. This component supports the development of an adequate management and monitoring system and generation of relevant knowledge products that will provide the basis for similar experiences in the future. Details of funding sources are provided in table 1.

³ Report of the Consultation on the Eleventh Replenishment of IFAD's Resources, pp. 59-60.

III. Expected outcomes/outputs

12. Key Outcomes

- **Component 1:** Clear understanding of state-of-the art agritech/fintech services in terms of both demand and supply, with adequate methodologies in place to develop a targeted investment activity.
- **Component 2:** Producers' organizations from IFAD's portfolio benefit from a digital, cost-effective and innovative set of solutions in the current COVID-19 context.
- **Component 3:** Smallholder farmers have greater access and diversity of technological solutions as the offer consolidates financially.
- **Component 4:** Relevant knowledge products and learning and experience reach practitioners in the region.

Key Outputs:

- **Component 1:**
 - Demand analysis in place for each of the targeted countries.
 - A landscape analysis of the current offer of agritech and fintech services in the selected countries.
- **Component 2:**
 - Expanded agritech and fintech services to IFAD's target group in the selected countries. (Technical assistance to companies under the regular grants programme.)
 - Investment in relevant knowledge products.
- **Component 3:** (under the regular grants programme)
 - Leveraged investment for selected companies who have the potential to scale up solutions.
- **Component 4:** (under the regular grants programme)
 - Knowledge management products.

IV. Implementation arrangements

13. The project has a project management team (PMT) with four full-time consultants. The team will be responsible for planning and implementing all activities during the implementation phase, abiding by IFAD standards and reporting systems. It will function as a link between IFAD Country Offices and selected fintech and agritech companies. The PMT is also IFAD's direct contact for communication and planning. Additionally, a digitalization expert will be hired on an on-demand basis to support the technical evaluation of the project and screening of market trends.
14. The Sparkassenstiftung headquarters is located in Bonn, Germany, and has a department of finance with experienced and qualified staff. Their office in Mexico manages the activities for Latin America. The team will be based in the latter office, working remotely due to the Covid-19 pandemic. This could change if the situation in LAC improves. The Sparkassenstiftung office in Peru will also support the field operations. Financial management of the project will be undertaken in cooperation with Sparkassenstiftung's department of finance.
15. **Flow of funds.** An account denominated in United States dollars will be opened to receive IFAD funds. Operational procedures for the flow of funds to Sparkassenstiftung's Mexico office and fintech/agritech companies have still to be

defined. IFAD will disburse funds to Sparkassenstiftung according to the mechanism defined in the IFAD's standard provisions for grant financing.⁴

16. **Accounting systems.** Accounting will be undertaken through an enterprise resource planning system (provided by Hamburger software)⁵ which includes an accounting module. Sparkassenstiftung will maintain separate accounts and records for RPSF and regular grant funding.
17. **Cofinancing** provided by Sparkassenstiftung consists of an in-kind contribution in the form of time dedicated by experts employed by Sparkassenstiftung, existing office facilities and the use of tools and methodologies developed by the foundation.
18. **Financial reporting.** Sparkassenstiftung will submit semi-annual financial reports, in the form of certified SOEs within 45 days from the end of the reporting period. A final SOE shall be submitted to IFAD by the grant closing date, with a project-specific audit opinion. Dedicated staff will verify compliance with donor regulations.
19. **External audit.** Institutional audited financial statements will be submitted to IFAD nine months after the end of the financial year. A separate audit opinion on the certified SOEs will be submitted to IFAD on an annual basis, six months after the end of the fiscal year.
20. **Anticorruption.** Sparkassenstiftung is aligned with the Revised IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations. Staff are trained on corruption prevention, and anticorruption clauses are included in all project agreements.

V. Indicative project costs and financing

21. The total cost is estimated at US\$4,220,000. The total grant amount requested from IFAD is US\$3,543,100: US\$2,543,400 from the RPSF and US\$999,700 from IFAD regular grant funding. The average cost per user is US\$295. Overhead costs constitute 5 per cent of total IFAD funding. Project management costs, including overheads, account for 18 per cent of IFAD funding.

Table 1

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

<i>Components</i>	<i>IFAD regular grant funding</i>	<i>IFAD RPSF</i>	<i>Sparkassenstiftung</i>	<i>Fintech/agritech</i>	<i>Total</i>
Component 1	-	126	70	-	196
Component 2	559	2 062	93	451	3 165
Component 3	111	-	24	-	135
Component 4	53	-	3	-	56
Project management (including overheads)	277	356	36	-	669
Total	1 000	2 543	226	451	4 220

⁴ Initial disbursement of 90 per cent of the approved annual workplan budget; subsequent disbursement once 75 per cent of the previous advance has been justified; and final payment due based on audited statements of expenditure (SOEs) and after receipt by IFAD of a satisfactory final completion report.

⁵ German manufacturer of business software.

Table 2
Costs by expenditure category and financier
 (Thousands of United States dollars)

<i>Expenditure category</i>	<i>IFAD regular grant funding</i>	<i>IFAD RPSF</i>	<i>Sparkassenstiftung</i>	<i>Fintech/ agritech</i>	<i>Total</i>
1. Salaries and allowances	240	308	93	-	641
2. Operating costs	15	32	36	-	83
3. Consultancies	193	134	-	-	327
4. Travel and allowances (including hotels)	44	25	-	-	68
5. Workshops, training, equipment and materials	59	3	-	-	62
6. Goods, services and inputs	33	42	97	-	172
7. Subgrants	376	1 880	-	451	2 707
8. Overheads	40	120	-	-	160
Total	1 000	2 543	226	451	4 220

VI. Recommendation

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

RESOLVED: that the Fund, in order to finance, in part, Innovative Agritech and Fintech Solutions as a Response to the Impact of COVID-19 (Innovatech), shall provide a grant of nine hundred ninety-nine thousand and seven hundred United States dollars (US\$999,700) to the German Sparkassenstiftung for International Cooperation for a two-year period 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	To support smallholders to recover faster and in a more resilient manner from the impacts of COVID by improving availability and quality of technology-based solutions that allow them to have better access to markets, financial services and non-financial services.	<p>Producer organisations and farmers are benefitting from a strengthened financial and nonfinancial services ecosystem, improving their value of production, asset ownership and household income (Tier 1 development results)</p> <p>Number of households 9000</p> <p>Number (%) of households 100</p>	Case studies and surveys to be circulated at mid-term and at the end of the project.	<p>The political, social (health), environmental and economic conditions remain stable. The Fintech/AgriTech companies, and/or their implementing partners are able to achieve commercial sustainability to deliver their services during the 3 year timeframe.</p> <p>On-time provision of services, regardless technical capacities and/or financial resources of FinTech/AgriTech companies.</p>
Objectives of the Project	<p>1. Development Objective</p> <p>To strengthen the ecosystem of financial and non-financial services for small holders provided by AgriTech/FinTech companies (start-ups and MSME) in LAC.</p>	<p>Support selected companies (start-ups and MSME) in the customization and mainstreaming the provision of their services to smallholders within IFAD portfolio.</p> <p>Total companies 12</p> <p>Total resources flowing to the ecosystem Financed and leveraged 2500000</p>	<ul style="list-style-type: none"> • Consultancy reports. • Evaluation reports (intermediates and final). 	<ul style="list-style-type: none"> • There are experts available in the market to carry out the planned consultancy. • There is interest from FinTech/AgriTech companies to expand their services to IFAD target groups.
	<p>2. Agritech and Fintech companies with enhanced business models include within their outreach IFAD 's target group;</p>	<p>Number of companies selected after due diligence process 12</p> <p>Number of companies selected for leveraging resources 5</p> <p>Total amount leveraged (in US dollars) 250000</p>	<ul style="list-style-type: none"> • Evaluation reports. • Proceedings of investment events. Investment roadshow report 	
	<p>3. An effective deployment of tailored financial and non- financial services for smallholders within IFAD portfolio is in place throughout strategic partnerships with selected AgriTech and FinTech companies.</p>	<p>Number of households accessing the services of AgriTech and Fintech as a product of the projects activities</p> <p>Number of households 7200</p> <p>Number (%) of households 80</p> <p>(Number) Percentage of households reporting that their use of rural</p>	<ul style="list-style-type: none"> • Surveys at the beginning and end of the project. • Evaluation reports (intermediate and final reports). 	

		<p>financial services was maintained or improved</p> <p>Number of households 5400</p> <p>Number (%) of households 60</p> <p>c) Number of persons connected to e-platforms for information, sending and receiving money, and other digital services where relevant</p> <p>Number of households 7200 Number (%) of households 80</p>		
Outputs and Outcomes	<p>C1. Outcome</p> <p>Clear understanding of the state of the art on both the demand and offering side, with adequate methodologies in place for developing a proper targeted investment activity</p> <p>Output 1 Demand analysis in place for each of the targeted countries</p> <p>Output 2 There is a landscape analysis for the current offer of AgriTech and FinTech services in the selected countries</p>	<p>a) Developed methodologies for implementation of the investment activities</p> <p>Investment Policy 1 Due diligence methodology 1</p> <p>b) Number of companies with identified potential for investment process</p> <p>Identified 30 Preselected 20</p> <p>O1: Number of IFAD projects' involved in the demand analysis 19 O2: Number of completed studies 1</p>	<ul style="list-style-type: none"> List of identified and preselected companies Landscape analysis report 5 most relevant AgriTech and FinTech solutions report 	
	<p>C2 Outcome</p> <p>PO's from IFAD's portfolio benefit from a digital, cost efficient and innovative set of solutions accessible in the current COVID-19 context"</p> <p>Output 1: AgriTech and Fintech expand their services to IFAD's target group in the selected countries"</p> <p>Output 2: Investment relevant knowledge products</p>	<p>a) Number of households accessing the services of AgriTech and Fintech as a product of the projects activities</p> <p>Number of households 7200 Number (%) of households 80</p> <p>b) ((Number) Estimated number of rural producers benefitting from new loans or improved terms for existing loans through supported rural financial service providers</p> <p>Number of households 5400 Number (%) of households 60</p> <p>c) Number of persons connected to e-platforms for information, sending and receiving money, and other digital services where relevant</p> <p>Number of households 7200 Number (%) of households 80</p> <p>O1: Number of companies selected after due diligence process 12</p>	<ul style="list-style-type: none"> Evaluation reports and surveys Due diligence and gap analysis report Report from workshop 	<ul style="list-style-type: none"> There is interest from FinTech/AgriTech companies to expand their services to IFAD target groups. There are experts available to carry out the expected consultancies

		O2: Training materials for kick-off of investment process. Toolkit 1		
	<p>C3 Outcome Small scale farmers have greater access and diversity of technological solutions in the current COVID 19 situation as the offer consolidates financially</p> <p>Note: this component will be financed through the regular grant programme</p>	<p>a)Number of POS further benefitting from expansion of services of selected scaled companies Number of households 1800 Number (%) of households 20</p> <p>O1: Number of companies selected for leveraging resources 5</p> <p>O2: Number of investment promotion activities Investment readiness coaching programme 1 Investment events 2</p>	<ul style="list-style-type: none"> Evaluation reports and surveys Investment roadshow report Report on the first investment process 	<ul style="list-style-type: none"> The demand side has the necessary skills to benefit from FinTech or AgriTech solutions.
	<p>C4 Outcome Development of project's relevant knowledge products and learning and exchange spaces reach practitioners on the region</p> <p>Note: The knowledge products in this component will be financed through the regular grant programme</p> <p>Output Knowledge management products</p>	<p>a)Number of practitioners, experts and relevant members of organisations benefitting from knowledge products and CoP 200</p> <p>O1: Number of Development project's relevant knowledge products completed 2</p>	<ul style="list-style-type: none"> CoP and KM platform Roadmap document Case studies 	<ul style="list-style-type: none"> IT infrastructure in all project countries is adequate for online reporting and data management.
Key Activities by Component	<p>Component 1</p> <ol style="list-style-type: none"> Landscape analysis and screening methodology, and development of the selection criteria Due diligence process Establishment of Strategic Partnerships 	<ul style="list-style-type: none"> Demand analysis. Document on selection criteria. Document on landscape analysis. List of 12 companies eligible for due-diligence evaluation. 	<ul style="list-style-type: none"> Consultancy reports. Proceedings and aide memoires. Evaluation reports (intermediates and final). 	<ul style="list-style-type: none"> There are experts available in the market to carry out the planned consultancy. The personnel of implementing partners is stable.
	<p>Component 2</p> <ol style="list-style-type: none"> Call for proposal and pre-selection of companies Due Diligence Evaluation Kick-off boot camp and TA Implementation/ deployment 	<ul style="list-style-type: none"> Proposals of 12 companies. Due diligence methodology. Report on due diligence results and gap analysis. 12 companies receive financing. Development of new products or services. 	<ul style="list-style-type: none"> Consultancy reports. Proceedings and aide memoires. Evaluation reports. (Intermediate and final reports). Boot camp documentation. Agreements of cooperation with companies signed. 	<ul style="list-style-type: none"> There are experts available in the market to carry out the planned consultancy. The personnel of implementing partners is stable.
	<p>Component 3*</p> <ol style="list-style-type: none"> Define scale up path Investment Readiness Coaching Investment Event <p>*: To be financed by the regular grant programme</p>	<ul style="list-style-type: none"> List of IFAD projects and identification of at least 5 companies to scale up. Report from workshop/demo day & webinars. At least 5 companies receive third-party funding. 	<ul style="list-style-type: none"> Evaluation reports. (Intermediate and final reports). Aide memories of workshops & webinars. List of participants of events. 	<ul style="list-style-type: none"> There are experts available in the market to carry out the planned consultancy. The personnel of implementing partners is stable.

	<p>Component 4</p> <ol style="list-style-type: none"> 1. Road Map* 2. Case Study* 3. Establishment of Community of Practices and lessons learned 4. Curate information* <p>*: To be financed by the regular grant programme</p>	<ul style="list-style-type: none"> • Roadmap document. • KM platform (online) published. • CoP (facilitated exchange; synthesis). • Shared evidences (studies, reports). 	<ul style="list-style-type: none"> • KM reports and studies. • Proceedings and aide memoires. • URL of KM platform. 	<ul style="list-style-type: none"> • The personnel of implementing partners is stable.
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