Statement by

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Mobilizing blended finance for sustainable agricultural development

With less than 12 years left in which to meet the Sustainable Development Goals (SDGs), it is essential that all development partners examine whether we are going about achieving them in the best way, and leveraging all opportunities to scale up and coordinate our actions. That includes creative approaches to mobilizing finance for sustainable development, and using development finance to do so more effectively.

The first two SDGs call for the global community to end poverty and hunger. Investment in inclusive and sustainable rural transformation is key to both the goals, and so is investment in inclusive and sustainable food systems. Eighty per cent of the world’s poorest people and most of the chronically undernourished live in rural areas, and mainly depend on agriculture for their livelihoods. The development of more productive and resilient agricultural productions systems, well integrated into rapidly expanding rural and urban markets, is key to generating opportunities for rural women and men that would allow them to transform their livelihoods, while at the same time fuelling inclusive and resilient growth in their societies.

Yet a recent survey from the Organisation for Economic Cooperation and Development (OECD) shows that official development finance mobilized just US$2.5 billion of private resources towards the agricultural sector during the four years from 2012 to 2015.

Farming doesn’t just provide food. In Africa, it accounts for 60% of employment. Numerous studies have shown that GDP growth generated by agriculture is significantly more effective in reducing poverty than growth generated by any other sector. And inclusive investment along the length of the food value chain holds out the promise of more jobs, higher income and greater food security and nutrition.

Lack of finance is one of the biggest obstacles to greater productivity. Credit and insurance markets are too often either weak, or missing. High transaction costs along agricultural value chains due to poor infrastructure, the impact of weather and climate change, a non-enabling policy environment, volatile commodity prices and high degrees of intermediation in agricultural markets multiply the difficulties. The result is a lack of investment in small-scale food production and processing businesses in developing countries.

Public finance from governments and international institutions is simply too little to meet the vast need. Official aid flows from the Development Assistance Committee to the agricultural sector, at US$3.9 billion in 2016, have changed little over the past decade.
Public institutions, including international development finance providers and partners, along with countries, are devoting increasing attention to how to mobilize, de-risk, and leverage private finance, and private investment, in the agricultural sector.

At IFAD, we are aware that more demand for our services requires a more sophisticated approach to financing. During our recently completed 11th replenishment of resources, Member States set a target of US$1.2 billion, enabling a US$3.5 billion programme of loans and grants, a 10% increase. By increasing our target cofinancing ratio to 1:1.4, we expect to achieve a US$1 billion increase in our programme of work over the next three years, to US$8.4 billion.

But we need new partnerships; more knowledge about needs, opportunities and effective approaches; and alignment on principles between public and private actors. But progress is still too slow, and too small-scale.

Blended finance is not a cure-all. But it can be used to develop markets in finance and insurance where private actors can begin to see small food producers and processors as an opportunity, not a liability. In particular, blended finance can support investment in programmes and business ventures aimed at creating profitable private sector providers of finance and technical assistance to agriculture and agribusinesses by reducing risk.

OECD DAC has now identified five principles that can help to maximize the development impact. Blended finance, it says, must be designed to promote development; mobilize commercial finance; meet local objectives; be delivered via effective partnerships and achieve proven value. These principles are broadly in harmony with those emerging from the business community and international financial institutions.

It is clear that there is no single, simple solution, so IFAD is planning a number of initiatives to address the funding gap. One is the Agri-Business Capital Fund (ABC) -- an impact investment fund for smallholder farmers and rural small- and medium-sized enterprises. This will enable partners to direct financing toward priority target groups, including rural youth. Youth employment is a particular challenge, especially in Africa, where 10 to 12 million young people enter the job market every year, but there are not enough jobs to meet demand, young people are two to three times more likely to be unemployed than older adults. They are also more likely to be poor. Faced with lack of jobs, they often migrate to urban areas or abroad, where they face an uncertain future. The ABC will have a particular focus on youth, and will include a Technical Assistance Facility to help them build skills and succeed as entrepreneurs.

IFAD is also hosting the Smallholder and Agri-SME Finance and Development Network (SAFIN), a forum for more than 30 actors from the public, private and philanthropic sectors, ranging from finance houses to farmers’ organizations. The partners all recognize that agri-SMEs are vital investors in inclusive and sustainable rural economies and food systems. SAFIN will give partners a chance to explore together possible opportunities and ways of addressing them through coordinated action at country level. By sharing knowledge and ideas, partners can identify ways to use development finance more effectively to leverage additional private finance and investment.

In a world threatened by increased conflict, climate change, instability and fragility, and where hunger and poverty still blight hundreds of millions of lives, the SDGs are not just a set of goals but a road map to a future we want. The commitment has been taken; the finance must follow, in order to scale up support for inclusive and sustainable solutions.