THE INITIATIVE FOR SMALLHOLDER FINANCE

BRIEFING 15

THE FUND MANAGER PERSPECTIVE: MOVING THE NEEDLE ON INCLUSIVE AGRIBUSINESS INVESTMENT

May 2017

EXECUTIVE SUMMARY

Agribusiness in emerging markets has seen an increase in private equity and other forms of investment in the last 25 years, but agribusiness still forms a small fraction of the emerging market private equity industry. Investors have been slow to embrace the agriculture market because of high risks and uncertain returns, and relatively few funds focus on small rural enterprises and smallholder farmers.

However, in the transition of rural economies, the growth of an inclusive agricultural market is both necessary and can still be good business. In this context, we have seen the emergence of impact-driven agribusiness funds that combine public and private capital to align financing for inclusive agricultural market growth.

In our latest research from the Initiative for Smallholder Finance, we assessed an inventory of 80 impact-oriented agribusiness funds with approximately USD 19 billion in capital available to execute unique strategies in agriculture and related sectors (e.g., forestry and conservation). We found a range of strategies to reach smallholder farmers, cultivate an investment pipeline, align technical assistance, and match sources of capital to return expectations. With an inclusive agricultural market in mind, we recognize the inherent convergence:

- **Donors can think more strategically and holistically about how they interact with agribusiness funds as a smart subsidy option for leveraging private capital in pursuit of market development and impact.** This starts by orienting around an impact thesis that can be addressed in conjunction with an investment fund, such as: i) extending the frontier to reach under-served clients, ii) incubating new mid-market technologies and business models, or iii) amplifying impact around a specific theme, such as landscape rehabilitation.
- **NGOs and technical assistance providers can move from service provider to incubator by looking across their current portfolios to package pipeline or insight that can spark new investment.** From the perspective of an investor, NGOs and technical assistance providers have two valuable assets: i) they are a source of prospective investment pipeline through their rural footprint and relationships to agro-enterprises, and ii) they de-risk investments through their programmatic activity within the value chain.
- **Fund managers can make long-term bets around trends and impact goals that will drive market development and pay off over time.** Notable investment trends in the agriculture and rural development sector include: i) more inclusive market development that incorporates smallholder farmers into supply chains, ii) emphasis on preventing deforestation, climate change, and preserving the natural environment, and iii) innovation in rural service delivery models, fintech, distributed agro-processing, postharvest loss reduction, and digital information services.

ABOUT THIS BRIEFING

This briefing originated from a desire to better understand the flows of investment capital into the smallholder and rural finance space, and how it complements donor and development finance-led funding. The content builds on our industry report, Inflection Point, which identified three key areas for growth: customer centricity, progressive partnerships, and smart subsidy. The note identifies five archetypes of funds and explores successful examples of each, identifying best practices and highlighting strategies to increase alignment of capital and technical assistance, including the roles that donors and technical assistance providers can play in enabling additional financing to smallholders and rural agribusinesses.

BACKGROUND AND CONTEXT

A diverse landscape of agricultural funds have emerged with unique strategies; however, the frontier of smallholder finance remains very difficult to serve.

After a rise in overseas development assistance (ODA) in response to the 2007 / 2008 food crises, ODA for agriculture has been relatively flat since 2011 (see figure 1 below).[1]

Meanwhile, capital invested in emerging markets agribusiness through private equity has increased, but remains a modest share of the emerging market private equity industry (<2%).[2] Investors remain wary of the unpredictability of agricultural markets and inherent risks that affect returns. Relative to other sectors, agricultural investments are seen to have much broader risk exposure across farmer segments and value chains.[3] As such many investors in these markets tend to focus on larger investment classes in sectors such as infrastructure, extractive industries, and major manufacturing.

However, in the transition of developing economies, the growth of an inclusive agricultural market is both necessary and can still be good business.

1 OECD.stat: Official Development Assistance (ODA), 2016

2 Credit Suisse, CDC, EMPEA, IFC, and WWF, "Private Equity and Emerging Markets Agribusiness: Building Value Through Sustainability," 2015

3 Initiative for Smallholder Finance and Rural and Agricultural Finance Learning Lab, "Inflection Point: Unlocking Growth in the Era of Farmer Finance," 2016.

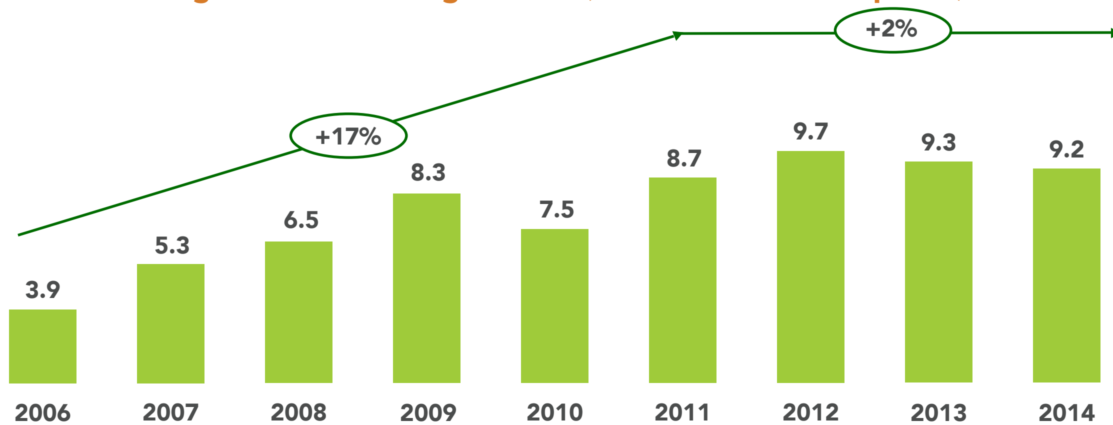
Furthermore, there is wide recognition that meeting the UN's 2030 Sustainable Development Goals (SDGs) will require a smart blend of public and private sources of capital. The Business and Sustainable Development Commission estimates that business opportunities for the SDGs in food and agriculture have the potential to reach USD 2.3 trillion annually by 2030, generating up to a sevenfold return on investment.[4]

In this context, we have seen the emergence of a diverse landscape of impact-driven agricultural funds, combining public and private capital totaling approximately USD 19 billion to execute unique strategies in the agricultural sector. From an inventory of 80 impact-oriented agribusiness and related sector funds (see methodology below), we found a range of strategies to reach smallholders, cultivate a pipeline, align technical assistance, and match sources of capital to return expectations. In some cases, these funds blend public support and private capacity. While every fund is different, their general characteristics typically align to one of five archetypes described below, although some funds may align to multiple archetypes:

- Wholesale multi-sector or agriculture funds
- Niche impact funds
- Local or small regional funds
- Early stage venture funds
- Frontier plus agriculture funds

4 AlphaBeta, "Valuing the SDG Prize in Food and Agriculture: Unlocking Business Opportunities to Accelerate Sustainable and Inclusive Growth," 2016.

Figure 1: ODA for agriculture (USD billion, current prices)



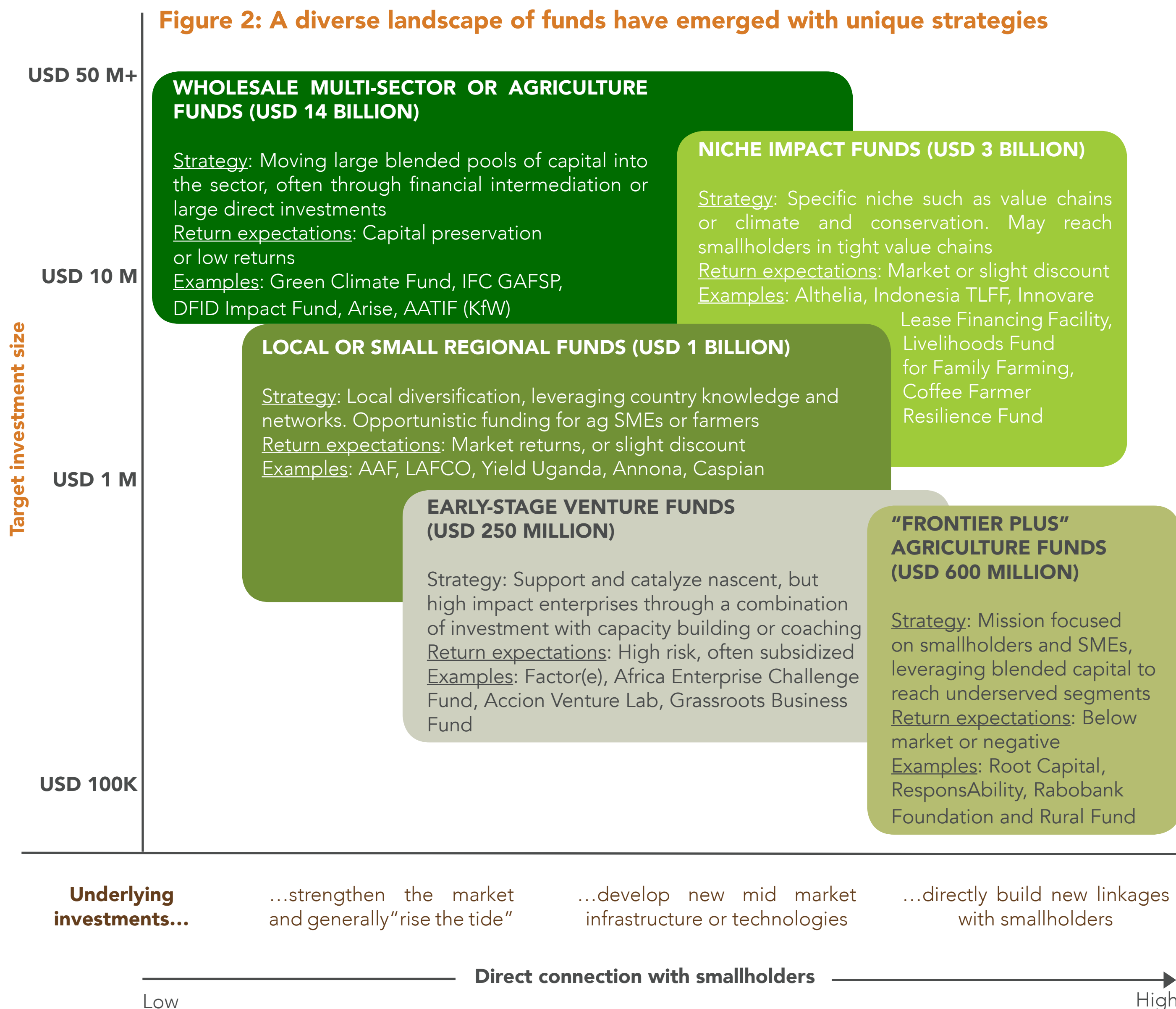
Source: OECD.stat: Official Development Assistance (ODA), downloaded in 2016

FIVE FUND ARCHETYPES

Figure 2 below shows how each of the five archetypes relate to one another in terms of target investment size and how they seek to achieve impact for smallholder farmers and rural agribusinesses. At one end of the spectrum, larger wholesale funds or regional funds make investments in large agribusinesses and medium agro-enterprises – such as commercial farms or processing facilities – that effectively "rise the tide" by growing the overall agricultural sector. This can have an indirect impact on small producers and the rural poor without financing them directly. At the other end of the spectrum are funds that seek to push the frontier by reaching smallholder farmers directly. Along that spectrum are a number of funds making investments in midmarket infrastructure or technologies that may provide services to smallholders, such as agro-dealer networks, seed companies, warehousing, or transportation.

Wholesale multi-sector or agriculture funds are large pools of capital that seek to aggregate funding around a specific theme, typically with a broad geographical remit. Though this archetype has relatively few funds, it is the largest in total available capital

Figure 2: A diverse landscape of funds have emerged with unique strategies



CASE STUDY I: WHOLESALE AGRICULTURE FUND

Africa Agriculture and Trade Investment Fund

The AATIF is a USD 146 million fund that works across sub-Saharan Africa, investing in agriculture and food production. It was founded in 2011 in response to the 2008 food crisis, as a public-private vehicle to fund Germany's commitment to local agricultural production across Africa. The fund is committed to providing investment across the agricultural value chain, from increasing crop yield to improving storage and processing capacity.

AATIF reaches smallholders through financial intermediation and project-based funding. It loaned USD 10 million to Chase Bank (Kenya) Ltd, a privately owned SME bank, for the roll-out of its agribusiness strategy: investments along the entire value chain from input providers to farmers and off-takers, and a special focus on contract farmers. Another project is a USD 20 million loan to Weinco, an intermediary in Ghana that provides loans for fertilizer and agro-chemicals to smallholder farmers growing cocoa, cotton, and maize. The loan was used to expand smallholder capacity, including investment in capital expenditures and farmer training.

The fund has a public-private partnership structure, targeting investments from donor agencies, governments, international financial institutions, and private investments. It leverages private capital by selling senior shares to private investors while covering risk through a first-loss layer capitalized by BMZ and a mezzanine layer capitalized by KFW and Deutche Bank.

Source: AATIF website

due to the large size of each fund. We estimate the total capital available among this group of funds at approximately USD 14 billion, and the target investment size typically falls between USD 5 to 50 million or more.

Examples of wholesale multi-sector or agriculture funds include the African Agriculture Trade Investment Fund (AATIF), the Green Climate Fund, DFID Impact Fund, ARISE, and the IFC's Global Agriculture and Food Security Program (GAFSP). Note that a number of these are facilities, programs, or windows of multi-laterals or development finance institutions rather than stand-alone investment funds.

Typically, these funds have concessional return expectations, with some or all of the underlying investors willing to take on higher risk or lower returns to leverage additional private capital for their cause or address the impact thesis of the fund. The principal investors are typically a mix of development finance institutions and multilaterals, and may include some private investors.

A number of these funds are multi-sector in focus, and even when they have a stated inclusive agriculture focus, it is impossible for them to directly reach smallholder farmers or small rural enterprises due to their high minimum investment size. When they do reach small farmers and small rural enterprises, it is indirectly through intermediaries or project-based funding that engages smallholder farmers in some manner. Financial intermediation is a commonly used approach for these funds, in which investors target local financial institutions that serve smallholder farmers and rural enterprises through on-lending or risk sharing (see box case study on AATIF).

Niche impact funds are defined by a specific and well-thought out thesis around the impact they are trying to achieve and their use of an investment strategy and partnership structure to achieve it. This may revolve around, for example, developing a specific value chain (e.g., a West African cocoa fund), product class (e.g., equipment financing), or impact thesis (e.g., preventing deforestation). These funds are fairly heterogeneous in nature, but we estimate they have roughly USD 3 billion in available capital with target investment size typically falling between USD 1 to 20 million.

Examples of niche impact funds include Althelia, an impact investment manager working for agroforestry and sustainable land use, and Innovare's Lease Financing Facility, which aims to make equipment financing more readily available to African agribusinesses.

Most of these funds have a ready-made pipeline of investees – defined by the particular value chain, product, or market segment in which they invest – with some having partners who can feed the investment pipeline. In many cases, there is some

de-risking of the investment pipeline due to the complementary activity of other actors alongside the investor. For example, a supply chain focused fund can identify pipeline by looking at the agro-enterprises and farmers from which major companies are sourcing, while also benefiting from off-take agreements and supply chain strengthening activities of the companies working in that supply chain.

Though the investors in these funds are typically seeking market returns, they may involve some concessional or first-loss investors because their involvement helps to further a particular impact thesis or strategic goal. The Livelihoods Fund for Family Farming, for example, combines investment from Danone, Mars, and other companies along with donor grants and investments to provide upfront financing to a project developer or NGO that carries out supply chain strengthening and ecological preservation projects that include smallholder farmers. The result is a win for all parties, generating cost-effective results and impact.

Local or small regional funds are defined by their local or regional focus, with locally embedded fund managers, which gives them an ability to source local investment opportunities efficiently. Many of them have a diversified sector focus in order to spread risk, but there are some dedicated agriculture funds. We estimate they have approximately USD 1 billion in capital available. The target investment size typically falls between USD 500,000 to 5 million.

Examples include the African Agriculture Fund (AAF), Lending for African Farming (LAFCo), Yield Uganda, Annona in Latin America, and Caspian in India.

For the most part, these funds provide capital to growth stage enterprises and they raise capital at market-based returns, which makes them relatively risk-averse. However, in some cases they may blend concessional or first loss capital from donors or development finance institutions seeking to promote investment in higher-risk geographies or commodities. They

CASE STUDY II: REGIONAL FUND

The African Agriculture Fund and Technical Assistance Facility

The African Agriculture Fund is a private equity fund managed by Phatisa investing in food-chain businesses across Africa, with the goal of increasing food production for local and regional consumption. It focuses on three sectors: primary (farms and plantations), secondary (processing and animal feeds), and services/infrastructures (storage, chemicals, fertilizers, packaging and other inputs).

AAF develops its pipeline through pan-African networks, enhancing its developmental impact through its Technical Assistance Facility (TAF). The TAF is implemented by TechnoServe and works alongside the AAF fund managers and portfolio companies to deliver business and development impact. The objective of TAF's projects is either to strengthen companies' core operations by delivering consulting expertise so they are better able to grow, and hence contribute to food security, or to facilitate the implementation of new business models that extend their reach to poor consumers, producers or employees through 'inclusive business' initiatives. The latter include outgrower schemes and distribution models, which enhance the capacity of smallholders and micro-entrepreneurs to engage with portfolio companies through training and access to finance.

TAF's most significant interventions have been with three of the AAF's larger portfolio companies: egg producer Goldenlay in Zambia; fertiliser retailer and agri-trader Meridian in Malawi; and palm oil processor Goldtree in Sierra Leone. TAF support has enabled Goldenlay to develop an entirely new and more efficient approach to distribution of their eggs using depots and bicycle peddlers, a model which benefits small-scale local egg retailers and their low-income consumers. An innovative mobile soil-testing kit in Malawi, introduced through TAF support, will allow Meridian to develop and retail fertiliser suited to the local soils, improving the yields of potentially tens of thousands of smallholder farmers. For Goldtree, a wide range of TAF support, from infrastructure planning, farmer training and the introduction of pole-harvesting of palm fruit, is enabling 3,500 smallholders to improve productivity and gain better access to market.[5]

Source: TechnoServe

5 A five-year review of AAF TAF, including nine case studies, is available on the TechnoServe website: http://www.technoserve.org/files/downloads/Technical-Assistance-Facility-report.pdf

typically have in-country investment officers with strong local networks through which they identify investment opportunities. Reaching smallholder farmers is not necessarily a core focus, though they may invest in agro-enterprises that engage farmers and thus have an indirect smallholder farmer benefit through general strengthening of the agricultural sector.

Most of these funds offer some light in-house technical assistance for investees in the form of financial and operational advisory services. More intensive capacity building is typically too expensive for their operating model, but in some cases they may pair up with a separate grant-based fund to offer a more holistic suite of services that strengthen impact. The African Agriculture Fund, for example, has an associated grant-based facility with independent technical assistance fund managers who direct grants toward programs that strengthen portfolio companies in the investment fund (see box case study on AAF).

Early-stage venture funds support early stage but high impact enterprises that bring new and scalable technologies or business models to market. These funds typically use a combination of high-risk equity, grants, and debt along with capacity building or coaching for entrepreneurs. We estimate they have a total of approximately USD 250 million in capital available. The target investment size typically falls between USD 500,000 to 2 million.

Examples include Factor[e], the Africa Enterprise Challenge Fund, Accion Venture Lab, and the Grassroots Business Fund.

These funds are usually among the first institutional investors to support any given investee, which makes them high risk and means they seek high return potential or scalable impact from rapid growth. Some funds are underpinned by donor support and concessional capital that seeks to catalyze new ideas. For example, the Africa Enterprise Challenge Fund offers both regular grants and repayable grants to catalyze young enterprises. Some of these funds may diversify revenue streams by offering incubation, acceleration, or other fee-based services for start-ups.

Smallholders themselves may not be the focus of these funds, but services for smallholder farmers may be an important part of the incubated enterprise by bringing new models or technologies to market that make smallholders more productive (see box case study on Factor[e]). Most of these funds cultivate their investment pipeline through global relationships and networks.

"Frontier plus" agriculture funds are focused on reaching underserved segments of smallholder farmers and rural enterprises with capital that can connect them to markets. The Omidyar Network classifies the "frontier plus" as investments that support unproven business models that are also asset intensive, serving only lower-income customers, and/or operating in a country with an underdeveloped capital market.[6] The frontier plus funds deploy approximately USD 600 million per year and the target investment size typically falls between USD 50,000 and 2 million. Examples include Root Capital, ResponsAbility, Oikocredit, the Rabo Rural Fund, and all the members of the Council on Smallholder Agricultural Finance (CSAF).

"Frontier plus" investments in agriculture are difficult due to the high cost to serve and high risks (e.g., weather, price, production risks) of smaller agro-enterprises and producer organizations. Smaller loans (under USD 200,000) are particularly difficult because operations and due diligence costs are relatively fixed and thus become a large relative portion of small loans. The funds that push this frontier typically use low-cost capital coupled with lean operations and may include internal cross-subsidy from larger loans and/or external subsidies from philanthropic funders. Impact must be carefully evaluated for small loans in order to justify subsidies.[7]

These funds cultivate their pipeline through local loan officers and exporter relationships. For technical assistance to investee companies, they often piggyback on donor supported technical assistance or value chain strengthening programs.

In a previous briefing note, we published a more extensive analysis of the strategies employed by these funds (see Initiative for Smallholder Finance, "Investor and Funder Guide to the Agricultural Social Lending Sector," June 2014).

MOVING THE NEEDLE

As evidenced by the diverse landscape of funds described above, there is no shortage of investors working to invest in rural economic growth and inclusive agriculture. Nor is there a shortage of global liquidity interested in funding the agriculture sector. And yet, the gap in financing for smallholders and rural enterprises persists, as we and others have described at length in other publications.[8]

6 Omidyar Network, "Frontier Capital," 2015

7 See Michael McCreless' article in the Winter 2017 Stanford Social Innovation Review, "Toward the Efficient Impact Frontier" for an excellent analysis of financial returns vs. impact.

8 *Inflection Point*, 2016.

CASE STUDY III: EARLY STAGE VENTURE FUND

Factor[e]

Factor[e] Ventures is an impact venture development firm with a mission to improve lives in the developing world. It invests in early stage enterprises in energy access, agriculture, waste and resource management, and sustainable mobility and works with entrepreneurs as partners in business model, technology, and operational development.

The firm reaches smallholders not by working with them directly, but by incubating fledgling businesses which then serve smallholders through innovative, scalable enterprise. One of its investees is !InspiraFarms, which developed and provides off-grid cold storage agro-processing facilities that link small-scale producers to high value markets in East and Southern Africa and Central America. Another is Village Industrial Power, which has built a combined heat and power biomass steam generator to convert agricultural waste biomass to productive power – electrical, mechanical, and thermal – to drive agricultural businesses in remote environments. Apollo Agriculture, also in Factor[e]'s portfolio, uses agronomic machine learning, high resolution satellite imagery, and mobile communication and money to develop credit scores and deliver input finance to smallholder farmers.

Factor[e] takes a thesis driven approach to its work. They will spend as much as a year understanding the landscape and gaps in a particular sector. In the process, they identify the needs and opportunities for scalable ventures with a focus on those that provide an enabling layer that serves an entire sector. They develop their investment pipeline on the basis of their investment theses and by scouring the market: directly through field research and market research, and through outreach to pipeline partners and professional networks. Though Factor[e] invests globally, offices in Nairobi, Kenya and Pune, India give them a deeper presence in these key regional markets.

Since its portfolio companies are typically very early stage, Factor[e] has adopted a high touch model with its team of experts in order to guide, coach and mentor its portfolio companies. In many cases, members of Factor[e] effectively join the management team of the company with which they are working: not only do they sit on the Board for governance purposes, but they also provide a deeper level of engagement, assisting on core strategic and operational decisions and digging into technology development alongside a young company's leadership. The firm also connects emerging businesses with their global network of university resources and service providers.

Factor[e]'s projects are high risk, high return compared to other funds. The firm is not organized like a traditional fund: it doesn't run on a raise-deploy-manage cycle with rigid return timelines and targets. Instead, it operates on more of a holding company structure, drawing on funding from progressive foundations and government development institutions, among others. Since its funding partners are not purely commercial, it is fundamentally organized to be patient and to take risks on execution-oriented models and technology innovations that others are not willing – or do not have the expertise – to take. Its goal is to create a portfolio of ventures that are primed for growth capital and scaled impact.

Source: Interview with Seth Silverman at Factor[e]

In our experience working with investors across all five archetypes, successfully moving capital into the most underserved markets comes down to three things: i) cultivating pipeline, ii) aligning technical assistance, and iii) aligning risk/return expectations.

INVESTMENT PIPELINE

Regarding investment pipeline, there is an opportunity to be smarter about how investible agribusinesses and producer organizations link up with investors.

Challenge: Investible agribusiness opportunities can be hard to find. For an investment officer, it is easier to stay in urban areas or focus on downstream processing and export companies that have reliable and consistent cash flows, rather than trekking into rural regions to engage farmer organizations or find smaller enterprises on the upstream production side. Getting out of the well worn investor networks is both expensive and time consuming, but if done intelligently, there is an opportunity to differentiate from more mainstream investors.

Path forward: The key to finding investment pipeline while making efficient use of investment officer time is to develop aggregation and referral networks that can provide leads and ideally pre-screen interesting investments. Donors have been supporting investment facilitation and matchmaking programs for some time, to connect viable enterprises with local and international investors. More recently, savvy NGOs have onboarded their own investment teams or created their own fund vehicles that connect enterprises from their field work to investors. Mercy Corps' Social Venture Fund, for example, provides early stage financing for enterprises that are identified through Mercy Corp's programmatic activity. This type of approach is underutilized by both NGOs and investors. Most do it the traditional way, through word of mouth and professional networks.

TECHNICAL ASSISTANCE

Regarding technical assistance, there is an opportunity to improve how grant-based funding is aligned to investment funds.

Challenges: Investment funds in all sectors typically provide advisory services for their portfolio companies in the form of guidance around governance, reporting, and high-level strategic or operational support. However, the cost of such post-investment technical assistance may not be a justifiable return on investment for smaller deals. Moreover, technical assistance needs for rural enterprises and farmer organizations often extend beyond the basic level of support provided by investors. Organizing farmers in producer groups, improving agronomic skills, and strengthening financial and business management skills of agro-enterprises is expensive and time consuming, but can multiply impact or pave the way for future growth.

Furthermore, prospective investees may need pre-investment capacity building in order to navigate the due diligence process or meet investor requirements. But a fund manager is unlikely to provide such support because they would prefer to focus their support on deals that are likely to be completed in the near term.[9]

Path forward: In a survey of agriculture investors by the Initiative for Smallholder Finance, 90% of interviewees indicated that the single biggest "smart subsidy" need was funding for technical assistance to improve investee capacity.[10] And yet, only 30% of funds in our database have designated stand-alone technical assistance facilities or partners. But the trend is increasing, with many newer impact investment funds in the agriculture space structuring their fundraising to include both investment capital and grant capital for dedicated technical assistance. There is an opportunity to extend the reach and impact of agriculture investment funds by carefully aligning technical assistance funding that: i) strengthens pre-investment pipeline for investment funds, ii) multiplies the development impact of post-investment enterprises by extending to more smallholder farmers or disadvantaged communities, and iii) unlocks long-term growth opportunities for investee companies by connecting them to new market opportunities.

RISK AND RETURN

Regarding alignment of risk and return expectations, there is an opportunity to better align objectives and incentives in pursuit of smarter use of subsidies.

Challenges: Agriculture is a risky sector, with thin margins. 60% of the funds in our database operate with below market return expectations by tapping into concessional funders to "blend capital." Blending capital refers to the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets.[11] Across the five archetypes described above, the early-stage venture funds and the "frontier plus" agricultural funds are particularly prone to having below market return expectations (90% and 100% respectively). These expectations and results are justified by their strong mission orientation in pursuit of innovation and reaching underserved segments.

Path forward: As we have described in a previous publication, subsidy will retain a firm and important place in agricultural finance, in both developing and developed countries where concessional agricultural lending and subsidized insurance is widespread.[12] However, there is a need for donors to more carefully interrogate the use of subsidy and blended capital in agricultural finance in order to make sure it is smartly deployed. More transparency around subsidy needs and use will be important in determining appropriate deployment.

9 TechnoServe, "Reflections on the effectiveness of TA Facilities linked with investment funds," 2016

10 Survey of agricultural lenders by the Initiative for Smallholder Finance, 2016

11 "Blended Finance Vol. 1: A Primer for Development Finance and Philanthropic Funders," The World Economic Forum, Sep. 2015.

12 *Inflection Point*, 2016

Sophisticated fund managers can tap into ancillary sources of blended capital to de-risk portfolios.[13] For example, there are opportunities to align complementary concessional sources of funding around a central impact thesis, particularly in the area of climate adaptation where large capital commitments have been made globally. The relationship between capital and fund managers matters. When capital providers with different risk, return, and impact profiles work together to structure a fund, fund managers must become sophisticated stewards of the fund's impact agendas for them to thrive.

A CALL TO ACTION

Investments in agribusinesses will continue to drive agricultural market development across Africa, Asia, and Latin America. Going forward, we believe there are more sophisticated ways for donors, NGOs, technical assistance providers, and fund managers to co-develop new funds, or leverage existing funds to expand impact. To do so, we recommend the following:

Donors can think more strategically and holistically about how they interact with funds as a smart subsidy option for leveraging private capital in pursuit of market development and impact. This starts by orienting around an impact thesis that can be addressed in conjunction with an investment fund, such as: i) extending the frontier to reach underserved clients, ii) incubating new mid-market technologies and business models, or iii) amplifying impact around a specific theme, such as landscape rehabilitation. Building off a core thesis, donors should then assess gaps and market failures through a landscaping study to anchor public and private actors (e.g., NGOs and agro-enterprises) in a common fact-base for co-designing investment facilities that address market constraints. In addition to supporting the upfront design cost involved in creating or expanding the mandate of an investment fund, donors may also provide grant funds for aligned technical assistance facilities that strengthen pre-investment or post-investment pipeline, or use concessional capital or risk guarantees to incentivize funds to enter a new or riskier product class, customer segment, or market niche.

NGOs and technical assistance providers can move from service provider to incubator by looking across their current portfolios to package pipeline or insight that can spark new investment.

From the perspective of an investor, NGOs and technical assistance providers have two valuable assets. First, they can be a source of pipeline by identifying and pre-screening rural agro-enterprises that would be difficult to identify without a strong rural investment officer network. Second, they de-risk investments through their programmatic activity within the value chain (e.g., agro-enterprises involved in an NGO program often have access to business strengthening services, capacity building, or broader value chain coordination). NGOs and technical assistance providers can leverage these strengths by collaborating with investors, and thereby bringing additional private capital into rural development programs.

Fund managers can make long-term bets around trends and impact goals that will drive market development and pay off over time. Notable investment trends in the agriculture and rural development sector include: i) more inclusive market development is bringing public and private capabilities together to incorporate smallholder farmers into regional and global supply chains, ii) an emphasis on preventing deforestation, climate change, and preserving the natural environment is bringing large amounts of concessional capital into the rural development sphere, and iii) innovation in rural service delivery models, fintech, distributed agro-processing, postharvest loss reduction, and digital information services is creating scalable market opportunities. Capitalizing on these trends will require fund managers to develop deeper sector expertise and team up with NGOs, technical assistance providers, and donors to identify investment opportunities. In many cases, smart investors will be able to access concessional capital, grants, or aligned programmatic activity that can de-risk investments.

13 Initiative for Smallholder Finance, "The climate conundrum: Financing smallholder productivity and resilience in the age of climate change," October 2016

METHODOLOGY

The foundation of this briefing note is a database compiled by the Initiative for Smallholder Finance of "impact-oriented agribusiness funds." We define these as funds with a mission orientation, deploying public and/or private capital as debt or equity on market-based or concessional returns. This includes impact investment funds, as well as facilities, programs, or windows of multi-laterals or development finance institutions (e.g., the Global Agriculture and Food Security Program at the IFC). All of the funds have an impact thesis though they have varying definitions and expectations of how they manage or trade-off financial returns vis a vis impact goals. We focused in particular on funds that have a direct or indirect relevance to smallholder farmers, but did not exclude larger agribusiness focused funds. We included funds and available capital that covers adjacent sectors in addition to agriculture, such as forestry or climate adaptation. Our starting point for the database included the agribusiness funds listed on the Convergence platform, which we enhanced through desk research, interviews, and personal sector knowledge from our engagement with investors.

FOR ADDITIONAL RESEARCH

This briefing note has identified the archetypes of funds that are deploying capital in the smallholder and rural finance space; it has laid out common approaches among the archetypes and specific strategies used by each fund, according to its impact thesis. This look at agriculture funds raises further questions that are worth interrogating over time. For example: What is the broader landscape of capital provision to smallholders and rural enterprises? How do banks, philanthropic organizations, and government monies shape that space? When and how should subsidy for rural finance be deployed in the development of inclusive agricultural markets, and what are the right roles for donors, private sector funders, and the government over time?

AUTHORS

Dan Zook, Martin Slawek, and Duda Cardoso from the ISF conducted the underlying research and developed the perspectives in this briefing note. Woden Teachout, Malia Bachesta, and Matt Shakhovskoy provided advisory and editorial support.

ABOUT THE INITIATIVE FOR SMALLHOLDER FINANCE

The Initiative for Smallholder Finance (ISF) is a multidonor and investor platform for the development of financial services for the smallholder farmer market. It was launched in May 2013 with the intention of making marked progress toward closing the gap between the over USD 200 billion in smallholder financing need and the current USD 50 billion supply in Latin America, sub-Saharan Africa, and South and Southeast Asia. The ISF's primary role is to act as a "design catalyst." The emphasis is on mobilizing additional financing for smallholders and seeding replication of innovative models in new markets.

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Citi Foundation

APPENDIX: LIST OF FUNDS

WHOLESALE MULTI-SECTOR OR AGRICULTURE FUNDS

- Aavishkaar Goodwell II
- ACTIAM FMO SME Finance Fund I (SMEFF)
- AfricInvest Fund III
- Agriculture Financing Initiative (AgriFI)
- AgRIF
- Arise
- Boost Africa
- Calvert Foundation
- Capria Fund
- DFID Impact Fund
- Global Agriculture and Food Security Program (GAFSP)
- Green Climate Fund (GCF)
- I&P Développement 2 (IPDEV 2)
- ICCO Guarantee Fund
- Land Degradation Neutrality Fund (LDN)
- Rural Impulse Fund II
- Triodos Sustainable Finance Foundation

NICHE IMPACT FUNDS

- AFCA Coffee Development Fund
- Althelia Climate Fund
- Althelia Madagascar Climate and Conservation Fund
- Biocarbon Fund
- Canadian Climate Fund for the Private Sector in the Americas (C2F)
- EcoEnterprises Fund I (FONDO ECOEMPRESAS, S.A)
- Food Securities Fund
- Global Environmental Fund (GEF)
- Global Farmer Fund
- Impact Finance Fund
- Innovare
- Livelihoods Carbon Fund
- Livelihoods Fund for Family Farming
- Moringa SICAR, SCA (the Moringa Fund)
- Norway Deforestation Fund
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- Smallholder Farmers Fertilizer Revolving Fund of Malawi (SFFRFM)
- Smallholder Finance Facility (SFF)
- Terra Bella Global Fund
- Triodos Fair Share Fund
- Tropical Landscape Bond

LOCAL OR SMALL REGIONAL FUNDS

- Africa Guarantee Fund (AGF)
- African Agricultural Capital Ltd
- African Seed Investment Fund (ASIF)
- Annona Sustainable Investment Fund
- Aureous Africa Fund LLC
- Beira Agricultural Growth Corridor (BAGC) Catalytic Fund
- Caspian Impact Investments (CII)
- EcoEnterprises Partners II
- Fopepro
- French African Fund
- Fund for Agricultural Finance in Nigeria (FAFIN)
- I&P Afrique et Entrepreneurs (IPAE)
- I&P Developpement 1 (IPDEV1)
- India Agribusiness Fund I & II
- Injaro Agricultural Capital Holdings Ltd.
- LAFCO (Lending for African Farming)
- Omnivore Partners
- SilverStreet Private Equity Strategies SICAR - Silverlands Fund
- Uganda Legume Seeds Fund
- Vital Capital II
- Voxtra East Africa Agribusiness Fund
- Yield Uganda Investment Fund

EARLY-STAGE VENTURE FUNDS

- Accion Frontier Inclusion Fund
- Accion Venture Lab
- Acumen
- Aspada Investments (Soros)
- Ceniarth
- Factor(e)
- Global Partnerships/Eleos Social Venture Fund (SVF)
- Grassroots Business Fund (GBF)
- Jasmine Social Investments
- Kampani
- Mercy Corps' Social Venture Fund
- Savannah Fund

"FRONTIER PLUS" FUNDS

- Alterfin
- Global Partnerships
- Incofin cvso
- Oikocredit
- Rabo Rural Fund
- Responsibility
- Root Capital
- Shared Interest
- Triodos