SAFIN

# Mobilizing private capital towards Agri-SMEs: Experiences from Asia and the Pacific

## Workshop Report

In collaboration with:

APRACA

OECD

# Workshop Proceedings

***The use of blended finance to mobilize private capital towards agri-smes: learning from experiences in asia and the pacific***

**Bangkok, Thailand**
**14-15 October 2019**

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## Acknowledgements

The Asia-Pacific Rural and Agricultural Credit Association (APRACA) acknowledges the initiatives of the Smallholder and Agri-SME Finance and Investment Network (SAFIN) and the Organization for Economic Co-operation and Development (OECD) and their support in organizing this regional learning event on the *'Use of blended finance to mobilize private capital towards agri-SMEs'* to enhance financing scope to agri-SMEs and its value chains through new financial instruments and adjustments. The initiatives to test the blended financing structure in agri-SMEs by development financial institutions in the Asia-Pacific region are not enough to cater to the diverse requirements in this sector. It was also observed that the startups and high-impact projects in agriculture are not receiving proper attention due to the absence of proper financial instruments to support their endeavours. This learning event showcased some extremely interesting initiatives in the Asia-Pacific region and other parts of the globe with all the characters required for replication and scaling up by both the development and commercial financial institutions.

We sincerely believe that the dissemination and exchange of field-level knowledge are extremely important to the global community engaged in supporting smallholders along with the APRACA member institutions in various countries of the region. APRACA sincerely acknowledges the contributions made by the representatives of the organizations like CONVERGENCE, IDB, ADM Capital, ADFIAP, BAAC, FAO, IFC, Rabo Bank, OECD, Land Bank and others for enhancing the body of knowledge in the blended finance space.

This learning event has also brought to light some new concepts to enhance financing opportunities in agriculture and its related space to support the entrepreneurial skill sets and innovations in this sector. We are confident that the APRACA member institutions in tandem with their august partners will be in a position to implement some interesting business models which are appropriate to their thematic areas of interventions and business lines.

APRACA SECRETARIAT
Bangkok, Thailand

## Acronyms

| | |
|---|---|
| AATIF | Africa Agriculture and Trade Investment Fund |
| ADB | Asian Development Bank |
| ADM | Asia Debt Management |
| AGFP | Agricultural Guarantee Fund Pool |
| APRACA | Asia-Pacific Rural and Agricultural Credit Association |
| BAAC | Bank for Agriculture and Agricultural Cooperatives |
| BDS | Business Development services |
| BF | Blended Finance |
| DAC | Development Assistance Committee |
| DFIs | Development Financial Institutions |
| ESCG | Environmental, Social and Corporate Governance |
| FAO | Food and Agriculture Organization of the United Nations |
| FDI | Foreign Direct Investment |
| FPOs | Farmer Producer Organizations |
| GAFSP | The Global Agriculture and Food Security Program |
| GDP | Gross Domestic Product |
| GHG | Green House Gas |
| ICRAF | The International Centre for Research in Agroforestry |
| IDB | Inter-American Development Bank |
| IFAD | International Fund for Agricultural Development |
| IFC | International Finance Corporation |
| LDCs | Least Developed Countries |
| LTV | Loan to Value (Ratio) |
| MDB | Multilateral Development Bank |
| MFIs | Microfinance Institutions |
| OECD | Organization for Economic Co-operation and Development |
| SAFIN | Smallholder and Agri-SME Finance and Investment Network |
| SDGs | Sustainable Development Goals |
| SMAEs | Small and Medium Agricultural Enterprises |
| SMEs | Small and Medium Enterprises |
| SSP | *Sikat Saka* Program |
| TLFF | Tropical Landscape Finance Facility |
| USAID | United States Agency for International Development |
| USD | United States Dollar |
| WRF | Warehouse Risk Finance |

## Executive Summary

This learning event on the *'Use of blended finance to mobilize private capital towards agri-SMEs'* (**Annex 1** for the Program Details) was organized by SAFIN, OECD and APRACA in order to share experiences among key institutions in the Asia and the Pacific. This learning event was held in Bangkok, Thailand during 14-15 October 2019. There were 25 participants[1] from Cambodia, China, India, Indonesia, Nepal, Philippines, Singapore, Thailand, Afghanistan, France and Italy. There were two presenters who used Skype to present their experiences and case studies from Africa and Latin America. Four presentations were scheduled on the first day and five (5) presentations on the second day. The presentations were followed by discussions and question and answer sessions (**Annex 2** for details). During both days, the participants were divided into two groups for group works and presentations on the questions based on the discussions of the day.

First presentation was made by Mr. Lasse Moller from OECD who shared his experiences about '*Blended Finance in Agriculture: Financing for Sustainable Development*'. According to him, mobilizing additional resources is essential to achieve the SDGs and the Paris Agreement. At the same time, it is imperative that investments are making an impact necessary to achieve the SDG agenda 2030. Blended finance (BF) emerged as one of additional tools in this direction. This needs to be used strategically in the development finance space for mobilizing additional funding towards sustainable development in developing countries. He also observed that this instrument has the potential to change the risk-return profile of an investment. According to Moller, coordinated action is needed to implement this important instrument. Therefore, a committee was formed in 2017 with 20 financial institutions who approved five principles during the high-level meeting convened by OECD. OECD is currently acting as a platform to prepare the compendium for blended finance activities and help coordinate and steer development actors and will provide best practice examples and support the development of policy.

Ms. Lade D. Araba from CONVERGENCE connected over Skype and presented a paper on *'An Overview of Blended Finance: Experiences of CONVERGENCE in Africa'*. According to the experiences of CONVERGENCE, there are three characteristics of blended finance: (a) leverage, (b) impact and (c) return. It can be deployed across a project life cycle with five illustrative stages: (a) preparation, (b) formulation, (c) construction, (d) management and (e) exit. Most prevalent blended finance archetypes are concessional debt or equity, guarantees, design/preparation funding grant, result-based financing, technical assistance grants and grant for project cost support. According to the data available for 2018, both aggregate deal count and aggregate value are higher from 2005, with a highly visible annual growth. The cumulative capital invested as at the end of 2018 was USD1,400 billion covering 3,600 financial commitments and attracting 1,100 unique investors.

During his presentations on *'The Tropical Landscapes Finance Facility (TLFF)',* Mr. Iain Handerson of ADM Capital clarified the meaning and objectives of the project. The TLFF project was launched to leverage private finance for public good and combined the

[1] Excluding five officials from APRACA Secretariat. Annex 3 for the List of Participants

commercial projects with environmental and/ or social impact in Indonesia. It is indeed innovative financial platform with a focus on scale and replicability that has the potential to offer long-tenor loans and the possibility of refinancing from the capital markets. In essence, TLFF consists of: (a) Tropical Landscapes Loan Facility and (b) Tropical Landscapes Grant Fund. The United Nations Environment Programme, ICRAF, ADM Capital, ADM Capital Foundation and BNP Paribas joined together to implement the TLFF. In this line, the upcoming projects are to finance a sustainable coconut sugar processing facility and projects to capture methane from the Indonesian palm oil plantations. He concluded that such investments are suitable only for institutional investors and financially sophisticated individuals who have taken appropriate professional advice and who have the financial ability to bear the risk involved.

Mr. Rishabh Sood from Rabo Foundation shared the '*Blended Finance experiences'* of the foundation in India. The product developed by the foundation is named as *"Credit Guarantee Product for the Smallholder Farmers"*. The main features of this product are to enable lending to Farmer Producer Organizations (FPOs) and Agri-SMEs with financial guarantee for offering working capital and term facilities, which are unconditional and irrevocable. This product was designed in a simple format and without any onerous terms and conditions for wider acceptance. This product is for all recognized financial institutions (banks, non-bank financial institutions, etc.) interested in lending to small-holder farmers, FPOs and SMEs working for the benefit of small-holders who are eligible to receive the guarantee. The endeavour is to improve the credit terms for the borrower by reducing credit risk for the lender. Apart from the Credit Guarantee, Rabo Foundation also designed the *Commodity Finance Guarantee Product*. The feature of this game-changing product in commodity finance market is its coverage of the Warehouse Risk Finance challenges. There are two stages of this BF product: Stage I: Price Risk Guarantee which restricts losses if the commodity price falls below benchmark and Stage II: Pari-Passu Loss Guarantee which is available in case of adverse price movement and up to 50 per cent loss-sharing on ultimate loan loss of the lender is covered. The third product under the credit guarantee developed by Rabo Foundation is '*Sustainable Landscape Guarantee'* which was promoted as a strategy to allow agriculture to flourish without compromising the forest ecosystem and biodiversity. In this product, the First loss guarantor will be Rabo Foundation and the Second loss guarantor is USAID. Mr. Sood also explained in a nutshell about the *AGRI3 Fund* established by Rabo Foundation in collaboration with the Rabo Bank and other interested agencies to support sustainable agriculture and improved rural livelihoods. The main feature of these products is that the loans comes with technical assistance, with 12-year repayment period, and with flexible collateral security.

A joint study being conducted by SAFIN and Inter-American Development Bank (IDB) on blended finance was presented by Mr. Yuri Soares from IDB through Skype on *'Blended Finance: Early Findings and Research Agenda'*. Mr Yuri explained the needs and nature of funding which are required along the different stages of value chains (inputs, production, transportation, storage, handling, processing and marketing distribution). The financial services and supporters for value chain actors were also briefly explained. While illustrating the tools and approaches, he clarified that the actors in financial services and support agencies play important roles in developing healthy value chains. The insurance and guarantee providers are also emerging as the important financial services for export-oriented agricultural commodities and with industry associations on the other hand evolving as the critical supporters in the ecosystem. The main risks in agricultural finance as usual are macro-economic (currency risk, interest rate risk and political risk) and business risks (business model, agronomics, natural hazard and commodity pricing). The concessional finance being practiced in some countries and by some development financial institutions are playing important roles in identifying new structures, financial and technological de-risking, social impact, markets and ecosystem development. The state of global blended finance documented by CONVERGENCE shows that the share of BF to agriculture sector is 10 percent whereas energy and financial services sector received 24 and 29 percent respectively. It was also observed that out of the all sources available for BF, the investment by the International Finance Corporation (IFC) is higher in agriculture sector which is 6 percent during 2012-2016. Mr. Yuri also flagged some important challenges in extending the BF to agricultural sector. He ended by explaining two case studies from *AgDevCo* and *Inocas* involving their objectives, purpose and outcomes which are being undertaken by SAFIN.

Ms. Filipina Barbiran Monje shared the '*Experience on Blended Finance of LandBank of the Philippines'.* As defined by the Bank, the objectives of blended finance are to facilitate agri-business investments to support national programme priorities, to increase the Landbank's lending portfolio to "non-traditional" borrowers, to support financial inclusivity, to mitigate risks in lending and to achieve reasonable rate of return from its lending operation. In this direction, the Government of the Philippines initiated the *Sikat Saka*[2] programme and various other legislated programmes to support small farmers in the country. To enhance access to financial services by the agri-SMEs, small farmers and fishers, two important laws were passed which changed the landscape of agriculture and agri-related sectors: (a) Establishment of Agricultural Guarantee Fund Pool (AGFP) and (b) The Agri-Agra Reform Act of 2009. The AGFP was established as an independent department under the LandBank to support the inclusive growth policy of the national government. Its missions are to mitigate the risks involved in agricultural lending and to encourage partner financial institutions and other lending entities to lend unsecured agricultural food commodity production loans to small farmers and fishers.

'*The BF experiences of CARD-SME Bank from the Philippines'* was shared by Ms. Maria Teresita Lacerna from the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP). In the case of CARD-SME Bank, the Blended Finance mechanism was used to mobilize private capital to invest in agriculture and agriculture-related SMEs, to improve the risk-return profile of an investment to a level acceptable to the private sector and to improve the business acumen of farmers. The IFC in partnership with the CARD-SME Bank provided advisory to open agri-finance markets and promote financial inclusion in their areas of operation. CARD-SME Bank blended finance strengthened institutional capacity and confidence of loan officers in recommending loan approvals, improved knowledge of

[2] It is a special credit program jointly established by the LANDBANK and the Department of Agriculture (DA) that provides direct credit window for small rice and corn farmers.

borrowers on suitable crops and product cycles to expand production and generate increased income, custom-fit repayment as a risk management strategy proved effective in avoiding default and increased clients and loan disbursements to farmers and related SMEs. Blended finance helped to expand agri-financing portfolio of the bank, promoted greater financial inclusion and increased productivity and income of participating farmers.

Mr. Chab Kongmon from Thailand's Bank for Agriculture and Agricultural Cooperatives (BAAC) explained '*The Use of Blended Finance to Mobilize Private Capital towards Agri-SMEs: BAAC Experience*'. He described the '*3S strategy'* of BAAC which is being implemented by segmenting its customers into three categories.: (a) S1: smallholder farmers who are being provided with financial literacy by BAAC to avail of financial facilities and various state-run welfare schemes including production reformation of low-income earner project and informal debt-solving project; (b) S2: all types of farmers and individuals who receive the benefits of the BAAC projects and (c) S3: entrepreneurs and institutions who are generally involved in blended finance through small and medium agricultural enterprise (SAME) project, transformation loan project and producing or supplying customized fertilizers through farmer institutions. Apart from the above, for debt management, BAAC provides 3% discount on loan interest rate, expands repayment for three more years (loan restructuring) and manages formal and informal debt in order to increase occupation efficiency. BAAC provides support to develop agribusinesses to be lead agents, improve productivity and efficiency in large-scale farming and designs changes suitable to production area or market-driven product through an appropriate agricultural information system. BAAC also supports its customers in distributing their products through local markets, modern trade, e-commerce and community- based agro-tourism.

A detailed case study on *'Blended Finance to Grow Mountain Hazelnuts: Experiences in Bhutan',* was shared by Mr. Philipp Farenholtz from the International Finance Corporation (IFC, World Bank Group). This project was established in 2010, eventually involving 15,000 outgrowing smallholder farmers with an ambitious plan of 10 million plants. It was a risky project due to the many unknowns at the early stage of its implementation. It was also considered as a high-impact developmental project because the income from this project by the outgrowers may affect up to 15% of Bhutan's population. It is a USD12 million blended finance equity investment from IFC and ADB with concessional funding from the Global Agriculture and Food Security Program (GAFSP)[3]. It is expected to generate attractive returns for the funders and investors. The farmers in this project had to face many problems at the initial years of growing hazelnut plants such as hazelnut not being an indigenous plant and the presence risk of early mortality. This project has already planted 7.1 million healthy plants and 12000 farm families are already registered with the project. All proceeds of IFC, ADB and GAFSP Equity are pooled and then distributed according to the agreement of the three organizations. IFC owns the account and is the implementing entity for GAFSP. ADB processes its own investment due diligence. There are three lessons learned from this project: (a) that a complex project will most likely face unexpected challenges beyond those considered at the outset; (b) that fully

[3] The project was also funded by the GAFSP's private sector window.

understanding the challenges and detecting issues across a complex supply chain with thousands of out growers scattered throughout wide and impenetrable terrain require appropriate systems and processes; and (c) that management needs to be strong, experienced and capable to quickly respond with adequate measures to unexpected issues and make such risky project a success.

Blended finance instruments, aiming to strengthen sustainable economic development are being increasingly used by the private/public investment funds, bilateral and multilateral development financial institutions to structure the capital of the enterprises (including the startups) which are being blended with the technical assistance (grant, subsidy or loan) and support them to cope with the unforeseen business risks. However, the definition of blended finance is not quite clear to national level development agencies and commercial financial institutions delivering agricultural credits to smallholder farmers and related value-chain actors. The current definition seems also not suited to the very purpose of the development organizations/agencies who are engaged in supporting small farmers/SMEs to access to improved inputs, technical services and improved markets.

Building capacity of central banks by organizing sensitization sessions with top and middle management cadres is a 'must-do' action to bring the blended finance as the mainstream financial instruments to support the growth in agriculture and resilience under the climate change scenarios. The appropriateness and feasibility of the leverage instruments under blended finance used by the public actors assessed on a case-by-case basis the dissemination of the results are likewise extremely important.


## Background

## Overview:

In order to help achieve the 2030 Sustainable Development Goals, it is important to bridge the investment in agriculture and food systems by building capacity of every actor in the agri-value chain. Blended finance has received growing interest from governments, international financial institution and development partners to mobilize private capital in agriculture. In 2018-2019, the Smallholder and Agri-SME Finance and Investment Network (SAFIN) and the Organization for Economic Co-operation and Development (OECD) joined forces to better understand the actual and potential role of blended finance in agriculture and with respect to rural finance as well as collected a number of case studies. The need to build bridges for mutual learning between international and national development and commercial finance providers in the sector has thus emerged as an important focus. Therefore, SAFIN, OECD and the Asia-Pacific Rural and Agricultural Credit Association (APRACA) co-organized this Learning Event on '*the Use Of Blended Finance to Mobilize Private Capital Towards Agri-SMEs: Learning from Experiences in Asia and the Pacific*' to promote a shared understanding of key issues around blended finance in the sector among a key group of institutions from Asia and the Pacific, to bring out the perspectives of these institutions with regard to blending finance and to learn from a number of experiences where blended approaches or instruments have been deployed. The event was expected to feed into the elaboration of a future knowledge and capacity building agenda for financial institutions to be designed by the co-organizers and/or with other partners in the coming year.

***The challenge: Mobilizing additional private finance for agriculture is essential to achieve the Sustainable Development Goals (SDGs):*** Many researches show that the agricultural sector is the largest source of employment and is often a major factor for achieving economic growth and poverty reduction, both directly within the sector itself and indirectly, through carry-on effects in other sectors of the economy. The investment capacity of smallholder farms, and small and medium enterprises SMEs) is almost everywhere constrained by multiple factors related to access and control of financial resources. In this context, access to finance is often both a critical challenge and a potentially key entry point to address many other obstacles to investment. To meet the magnitude of financing required in agriculture to support the investment capacity of smallholder farms and agri-SMEs, many institutions are devoting increasing attention on how to mobilize, de-risk, and leverage commercial finance and more broadly commercial investment in the sector. However, more progress is needed both in pace and in scale as well as in the quality of interventions and approaches taken to mobilize private finance towards smallholders and agri-SMEs.

***The potential contribution of "blended finance":*** Blended finance refers to the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries. Blended finance can be an effective tool in directly mobilizing commercial financing and investments in agriculture and along the agricultural value chain. The concept of blended finance is to deploy development finance strategically to unlock commercial capital that would otherwise not be invested in sectors and geographic areas of high relevance for sustainable development. One step in this direction is the setting up of the OECD blended finance principles, stated below:

1) Anchor blended finance use to a development rationale;
2) Design blended finance to increase the mobilization of commercial finance;
3) Tailor blended finance to local context;
4) Focus on effective partnering of blended finance; and
5) Monitor blended finance for transparency and results.

These principles seek to encompass a shifting development landscape with a growing number of stakeholders involved in financing for sustainable development.

***Blended finance in Agriculture:*** Blended finance is one tool which may be used to unlock commercial investment. However, blended finance in agriculture is distinct from how it is utilized in other sectors. A variety of risks associated with investments in the agriculture sector are holding back financial investments such as currency risk, interest rate risk, political risk, business model, agronomics, natural hazard, and commodity price. Blended finance can play a role in reducing risk or in increasing the profitability of engaging with a specific market segment (notably agri-SMEs and/or smallholders) for financial institutions such as commercial banks, microfinance institutions and others.

***Mobilization of private finance in agriculture – current trends:*** The OECD Private Finance Mobilized Survey from 2012 - 2017 shows that banking and financial service is the biggest sector; the second is energy and the third is industry (29%, 26% and 18% respectively). The biggest amounts mobilized by private sector in agriculture are syndicated loans (1,494 million USD) and the guarantees (1,490 million USD), showing almost the same figure. Others are credit lines, direct investment in companies, special purpose vehicles (SPVs), simple co-financing, and shares in CIVs.

***Next Steps:*** To meet the magnitude of financing required in the agricultural sector, public institutions and international development finance providers/partners are devoting increasing attention to how to mobilize, de- risk, and leverage private finance and more broadly private investment in the sector. As part of this push, the learning agenda and events will be used to explore the role of various stakeholders involved in blended finance. Local actors therefore must be a key aspect of the global dialogue on how to utilize the benefits of blended finance to provide the financing needs of smallholder farmers and agri-SMEs.

**Welcome remarks, Expectations and Objectives of the Learning Event: *Dr. Prasun Kumar Das, Secretary General, APRACA, Mr. Lasse Moller, Senior Economist / Private Sector Development Advisor, OECD and Dr. Azeta Cungu, Rural Finance Officer, Social Policies and Rural Institutions Division*,** FAO

On behalf of OECD, SAFIN and APRACA, Dr. Prasun K. Das warmly welcomed Mr. Lasse Moller and Ms. Azeta Cungu to the stage and welcomed all the participants to the fitting welcome ceremony. In the introduction portion, Mr. Moller informed that a similar event had occurred in Nairobi a couple of weeks before the workshop, which provided him an excellent opportunity for deeper engagement and first-hand view in the field. He discussed with the participants his forthcoming presentation and briefly explained about the perspective of the OECD. Ms. Cungu likewise introduced herself and was glad to be a part of the dynamic workshop as she looked forward to the discussions and the learning experience.

Dr. Das briefly presented SAFIN as a network of 46 institutions including OECD, FAO, IFC, World Bank and APRACA. It was established in 2017. Now, SAFIN is one of the major players in bringing together the global agencies who work for agriculture and agri-SME financing for smallholders. The objective was specifically focused on the UN-set Sustainable Development Goals of the United Nations and as well as on regionally set goals. He explained OECD became a co-organizer of this program because it had been working with SAFIN-for the last two years on some case studies commissioned by IDB and OECD. This learning event was basically organized by OECD, SAFIN and APRACA to provide learning experiences from many experts who have come all the way from various selected private sectors as well as from OECD, IFC and FAO. The participants would be able to learn and also share on the mechanics and approaches to Blended Finance.

IFC was directly involved in Blended Finance in this region; Moreover, there were many institutions who are financing blended products such as Rabo Bank and financial institutions from several countries. Participants and other experts likewise briefly introduced themselves.


**Blended Finance in Agriculture: Financing for Sustainable Development**

***By Mr. Lasse Moller, Senior Economist / Private Sector Development Advisor, OECD***

**The Challenge**

With many years working in the field, Mr. Lasse Moller shared his experience from rural financing and his reminiscing that blended finance was not called as such in the past. He informed that he and his colleagues tried to catalyze private investments in skills development or in energy efficiency measures and so on. There are a lot of stakeholders to catalyze private investments and to increase the share of the development finance. He said that the picture is actually not very positive if one looks at the global outlook on financing for development in 2019 and see see that the government revenue is still the main source of financing for development, still below 15% of GDP in developing countries and is not increasing. External resources flowing to developing countries have declined significantly during 2016 and 2017. Annual investment gap to deliver the SDGs in developing countries is estimated at USD 2.5 trillion. Public development finance will not be sufficient to fill investment gap. Mobilizing additional resources is essential to achieve the SDGs and the Paris agreement. He stressed the need to make sure that investments are making an impact and that it is necessary to achieve the SDGs and deliver the Paris agreement.

**Innovative financing**

New sources and mechanisms of financing, both public and private, are needed. Blended finance therefore is seen as one additional tool in the toolbox. The interest in blended finance has increased but knowledge and experience in the approach are still minimal. Questions on how to optimize utilization in the finance tools and instruments in various situations still arise.

**Definition**

Blended finance is the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries. Blended finance can help bridge the investment gap for the SDGs, but it requires a common framework. It is used to mobilize and catalyze commercial finance whether it is public and private, and it can be concessional or non-concessional.

**Blended finance characteristics**

Blended finance changes the risk-return profile of an investment. It is distinguished by purpose rather than source and its mobilization is in addition to what would have been available. We would try to avoid crowding out the private sector in any deal where the blended finance approach is used. Development finance catalyses the additional investment. Concessionality is not a pre-requisite for blending. For sustainability, the aim is to crowd-in commercial capital and ultimately allow the market to work on its own. Blended finance does not replace private sector development (although it is closely related).

**Coordinated action is needed**

Blended finance has recently assumed centre stage on the international agenda of the UN and G20/G7 processes. Both policy makers and the private sector are expecting one voice on blended finance. Differences of the variety of actors, action agenda and program are not transparent to external stakeholders. A comprehensive and coordinated action agenda can more effectively influence the actors that need to change. Ultimately, a joint agenda will enable organizations that are applying blended finance to better demonstrate success to their stakeholders.

**OECD Blended Finance Principles (2017)**

The principles below had been approved in 2017 by a high-level DAC meeting:

Principle 1: Anchor blended finance use to a development rationale.
Principle 2: Design blended finance to increase the mobilization of commercial finance.
Principle 3: Tailor blended finance to local context.
Principle 4: Focus on effective partnering for blended finance.
Principle 5: Monitor blended finance for transparency and results.

OECD promotes the above principles and makes sure that they are being adhered to and followed by all stakeholders in the field in order to make sure that they are moving towards a common understanding in the community.

**Guidance Notes**

The OECD aims to supplement the Blended Finance Principles and provide practical guidance notes on their policy-level implementation. It seeks to develop a compendium for blended finance activities, and help coordinate and steer development actors. It provides best practice examples and supports the development of policy. It further deepens the analysis of blended finance practices, with a practical orientation on the developmental and financial aspects, including performance. The guidance notes also facilitates accountability for blended finance, by providing a tool to assess compliance with the Principles.

**Selected OECD work on Blended Financ**e

OECD has been working on Blended Finance through many projects and has published a number of reports such as:

- Making Blended Finance Work for the SDGs (2018);
- Survey of private finance mobilization (yearly since 2012);
- Survey of funds and facilities (2019);
- Blended Finance in LDCs (2019);
- Deep dive: Making blended finance work for water and sanitation (2019); and
- Deep dive: Blended finance in agriculture (2019-2020) (IFAD+IDB)

**Overview of Blended Finance: Experiences of CONVERGENCE**

***Skyped by Ms. Lade D. Araba; Managing Director for Africa, CONVERGENCE***

**Key Characteristics of Blended Finance Transaction**

Convergence believes three signature markings or key characteristics important to a blended finance transaction:

- **Leverage -** Private sector would not have been mobilized without blended finance intervention.
- **Impact -** Underlying activity contributes to the SDGs in a developing country; however not all parties need to have development intent.
- **Return -** Transaction expected to achieve a positive financial return; returns range from concessional to market rate and depend on the type of private sector investor in the deal.

Blended finance can be deployed across a project life cycle. It can be used to support full project lifecycle until a project reaches commercial viability and can be tailored to each stage to minimize concessionality. There are five illustrative stages of blended finance.

- **Preparation**. It is a stage of grant or technical assistance to conduct project preparation;
- **Formation.** Early state equity investments with significant first loss capital to pay for legal and other startup costs;
- **Construction.** Potentially blended commercial debt/equity investment from a facility with a concessional;
- **Management.** Commercial debt and equity with a concessional guarantee to reduce the financing cost for the operator; and
- **Exit.** Exit to a purely commercial buyer of the asset.

**Blended Finance compared to other forms of funding**

For typical forms of funding, there are many factors and procedures to consider for each type (aid/philanthropy, impact and social investors, commercial investment) such as returns, impact targets, risk appetite, liquidity required, vehicles and key actors. Blended finance combines all of these disparate approaches into one structure, where each actor takes on a risk-return profile that is acceptable to them while concurrently achieving their objectives.

**Typical Blended Finance Mechanics and Structures**

Private equity or debt funds with concessional public of philanthropic funding attracting institutional investment. Bond or note issuances, often for infrastructure projects, with guarantee or insurance from public or philanthropic funders. Grant funding from public or philanthropic funders to build capacity of investments to achieve expected financial and social return and to design or structure projects to attract institutional investment.

**Most Prevalent Blended Finance Archetypes**

- **Concessional debt or equity.** Public or philanthropic investors concessional within capital structure and bear non-market risk-return. Subordinate, junior less-commercial terms compared to private sector and MDB/DFI co-investors. Capital structure consisting of senior debt, flexible debt, equity and junior equity.

- **Guarantees.** Risk reduction tools protecting investors against loss capital and help to narrow gap between real and perceived risk. They can cover all risks or their sub-sets. The capital structure is that there must be guarantee along with the senior debt or equity.
- **Design/ preparation funding grant.** Grant funding supporting costs and activities that lead to bankability and investability of the projects. Typically provided by those with a higher risk tolerance. There must be funding grants to cover the senior debt or equity.
- **Result-based financing.** Tie payment to achievement of pre-agreed measurable outputs and outcomes**.** Donors pay for outputs, not inputs.
- **Technical assistance grants.** Funding to supplement the capacity of investees. Its aim is to maximize quality of project implementation.
- **Grant for project cost support.** Used to reduce total investment required or to support economics/financing of projects. Deployed upfront (capital grant) or as ongoing payments (smart subsidies).

**Blended Finance Trend Overall Market**

The data in 2018 show that both aggregate deal count and aggregate value is higher yearly from 2005. Its cumulative capital is $1,400 billion. There are 3,600 financial commitments and 1,100 unique investors. The highest region and country income level is in SSA (42%). It is mostly for energy, financial services and agriculture (28% and 25% and 14%, respectively). USAID is the top among development agencies and multilateral funds; IFC is top among the MDBs & DFIs. For SSA agriculture blended-finance trend, there are 29 deals with $2 billion volume and 126 investors. The average investment size is $10 million.

**The Tropical Landscapes Finance Facility**

***By Iain Handerson***

***Managing Director, ADM Capital***

**ADM Capital Group Overview**

ADM Capital is an investment manager with specialist experience investing in private markets, supporting entrepreneurs and tomorrow's leading companies in the absence of traditional finance. With a 20- year track record, ADM Capital has developed proprietary sourcing networks, extensive structuring capabilities and is regarded as a reliable and trusted source of capital. ADM Capital currently pursues two main investment strategies: i) private lending to mid-market corporates across the Asia-Pacific region, and ii) private equity in the food and agriculture sector primarily across North America, Europe, Australia and New Zealand. Each strategy is managed by a distinct, specialist investment team in Hong Kong and London, respectively. The ADM Capital Foundation was established in 2006 to support solutions to environmental challenges in Asia. ADM Capital believes that the social and environmental aspects of businesses ultimately influence returns. As such, we fully expect that our investments, whilst producing superior returns, should be based on sound ESG principles.

**Regional Investment Experience**

ADM Capital Foundation has invested >US$30 million with 70 partners in more than 10 Asian countries since 2006. Focus areas include air, water, landscapes, marine and wildlife. This foundation was the first PRI signatory in Asia (excluding Japan). ADM Groups are involved in many regional and global climate/sustainable finance networks. ADM Capital Group is a founding partner of the Tropical Landscapes Finance Facility (TLFF) and helped arrange the award winning US$95 million Indonesian sustainable rubber corporate bond in 2018. The amount of USD3,618 million invested represents 146 transactions, 114 exits in 15 countries and in 37 industries.

**Proprietary ESG Tools**

The ADM ESG Metrics is a multiple-choice rating system based on the scoring of "**exposure**" of risks and opportunities vs. a company's "**management**" of these risks and opportunities. The ADM ESG Metrics aims to identify:

- What are the most significant ESG risks and opportunities facing a company/project and its industry?
- How exposed is the company/project to those key risks and/or opportunities?
- How well is the company/project managing key risks and opportunities?

Key issues are identified and weighted across industries based on SASB's Materiality Map. Then ESG Scores are presented.

**Tropical Landscape Financial Facility**

History behind TLFF

- Physical Context-
- Financial Context- Sustainable land use in SE Asia lacks investment. This is apparent from multiple perspectives including looking through climate finance, impact investing and SDG investing lenses.
- Sustainable land-use produces between 24%-37% of anthropogenic GHG emissions yet receives less than 3% of global climate flows. The Paris Agreement and delivery of the SDGs will be extremely challenging unless investment is rapidly scaled up.
- Private debt received the largest allocation from impact investors in 2018 (GINN, 2019). However, SE Asia and the sustainable land-use sector received only a tiny percentage of funds by geography and by sector.
- Most blended climate finance transactions do not align with SDG 15 (Life on Land) which is associated with sustainable land-use investments.

Introduction to TLFF

- TLFF Mission: To leverage private finance for public good for commercial projects with environmental and/or social impact in Indonesia.
- The Tropical Landscapes Finance Facility ("TLFF") is an innovative financial platform with a focus on scale and replicability that will offer long-tenor loans and the possibility of refinancing from the capital markets. TLFF consists of: Tropical Landscapes Loan Facility and Tropical Landscapes Grant Fund.

**The TLFF Partnership**

The United Nations Environment, ICRAF, ADM Capital, ADM Capital Foundation and BNP Paribas work together in the TLFF. TLFF is the first private-public partnership focused on addressing environmental and social challenges at scale in Indonesia. It provides product offering, deal mechanics, sector focus, geographic focus and key investment criteria.

**Transaction Highlights**

Royal Lestari Utama ("RLU") and its subsidiaries disbursed loans of about USD95 million from TLFF for natural rubber in Indonesia. The tenor is 5 – 15 years; its interest rates are Class A (4.136%), Class B1a (9%), Class B1b (8.375%), Class B1c (8.875%), Class B2 (2%). For Principal Repayment, the Notes will be repaid according to the individual Repayment Schedule for each Class until fully repaid at Maturity. For interest payment, interest will be paid quarterly for all classes (30/360). USAID will provide a guarantee in respect of 50% of the USD 70 million Guaranteed Loan Portion of the USD Secured Loan, amounting to 36.84% effectively of the USD 95 million principal, subject to a maximum ceiling of USD 33.25 million. Secured by way of first ranking security over all of the Issuer's property and assets (including its rights to the USD Loan Facility and Facility Guarantee, and first fixed charge over all funds held from time to time by the account bank in the name of Issuer) Class A will be secured against the USAID Guarantee. Pledge over share capital in RLU, LAJ, MKC and WW; fiduciary security over vehicles, machinery, equipment and inventory in LAJ, MKC and WW; and charge over accounts.

**Next Projects of TLFF**

- Potential opportunity to finance a sustainable coconut sugar processing facility in Gorontalo and restore ~ 3,000 of degraded land. The project is in collaboration with large consumer goods MNC and the local government.
- There are 650+ potential methane capture projects on Indonesian palm oil plantations. This is a multi-billion dollar opportunity that could reduce CO2 and methane emissions by 60-80% compared to incumbent production processes.

Note: This presentation (is for use in the workshop only and) does not constitute an offer to subscribe for ADM capital funds or other investment opportunities.

**Making a Difference in India: Rabo Foundation**

***By Mr. Rishabh Sood***

***Rabo Bank, India***

**Introduction**

Rabo Foundation was established in 1974 by the local Rabo Bank. It was funded by Rabo Bank Group to pay for employees and clients. Its mission is to support disadvantaged people to become self-reliant. Using Rabo Bank expertise and network, Rabo Foundation helped more than 250 farmer producer organizations (FPOs) with 3 million members. The amount of Euro 35 million is used for loan portfolio.

Mandate and products- support small farmers to increase their income through:

- Increase production: pre-harvest loan and training farmers
- Improve price and trade finance
- Increase efficiency by lower costs in training co-operatives and economy of scale: long-term investment loan (MFIs + FPOs)

Rabo Foundation provides added value through provision of financing, advancing knowledge, creation of networks and advancing frontiers of innovations.

**About India**

India is a vast, diverse and complex country. There are 1.35 billion people which is the 2nd highest population country in the world. There are several diverse agro-climate zones and more than 50% of population depend on agriculture, which contributes 17% of the country's GDP. India is the largest milk producer and among top three for many globally trade agricultural commodities. There are 160 million farming families. About 85% of the arable land consists of small holdings and 55% of the arable land is monsoon dependent. India holds less than 4% of global fresh water resources, of which around 80% goes into agriculture. The biggest challenges in India are: fragmented landholdings because of insufficient scale, unsustainable production methods especially depleting ground water and chemical usage, below average penetration of market technologies and poor post-harvest infrastructure.

Aggregation is the solution for FPOs. They usually lack or have limited access to finance due ~~of~~ to lack of capital equity, insufficient collateral, poor credit history, weak market access, poor financial system and control, weak management, governance and human resource capability.

**Blending Money: Case of Guarantee**

Foreign Currency (FC) loans cannot be routed to FPOs for debt requirements. Local currency loans are best-suited products for customized financing solutions to FPOs / SMEs and local financial institutions, which require knowledge, credit enhancementand risk mitigation products to help take exposures in this space. The features of a credit guarantee product are as follows:

- A development product: To enable lending to FPOs and Agri-SMEs
- An INR denominated pari-passu guarantee for offering working capital and term facilities
- Unconditional and irrevocable; designed in a simple format; without any onerous terms and conditions for wide acceptance
- All recognized financial institutions (banks, non-bank financial institutions) interested in lending to small-holder farmers, FPOs and SMEs working for the benefit of small-holders are eligible for the Guarantee
- Endeavor is to improve the credit terms for the borrower by reducing credit risk for the lender. RF does not intervene in the commercial negotiations between the lender and the borrower.

There is also Commodity Finance Guarantee Product. The Features are Game-changer product; it is first such initiative globally. This product has two stages:

Stage I: Price Risk Guarantee. The Restrict loss if the commodity price falls below benchmark price and there is higher LTV; it is higher realization for the FPO at the time of storage.

Stage II: Pari- Passu Loss Guarantee. In case of adverse price movement, 50 percent loss sharing on ultimate loan loss of the lender.

For Warehouse Risk Finance (WRF) Challenges, less than 1% of Commodity Finance is routed to FPOs / Small- holder Farmers and there is inadequate quality storage capacity. Good warehousing space are typically concentrated in secondary & tertiary market centers. There must be asymmetry of information on commodity prices and market outlook. When the risk of price fall, it can erode the capital of weak FPOs.

### Group Exercise on blended finance and "green" agriculture projects

Two (2) working groups with 11 members in each group were formed. Each working group was asked to address and the following common questions:

**Questions:**

- *Is there significant private financing going into "green" agriculture or agro-forestry projects in your country? If not, what are the main factors holding it back, in your experience?*
- *In your experience, what are the top two to three investment risks around "green" agriculture/ agro-forestry that would benefit from blended finance solutions and why? Please give specific examples.*
- *What would you indicate as the most relevant blended finance solutions or "archetypes" to address these risks? Do you have specific examples from your countries or institutions?*

### Results of Group 1 Discussion

*Q 1. Is there significant private financing going into "green" agriculture or agro-forestry projects in your country? If not, what are the main factors holding it back, in your experience?*

- There is no uniform definition of "green" agriculture and agro-forestry. Data on both sectors are limited.
- Private commercial banks often hesitate to lend to agriculture in general, despite governmental requirements for these banks to allocate a certain portion of their loanable funds to the agricultural and agro-forestry sector.
- Specific state-owned banks such as agricultural and rural development banks are mandated to provide financing to the agricultural sector.
- Specific "green" initiatives emerging across all sectors, including agriculture.
- There are inhibiting factors such as risks in lending (in detail in the next question).

*Q 2. In your experience, what are the top two to three investment risks around "green" agriculture/ agro-forestry that would benefit from blended finance solutions and why? Please give specific examples.*

- Typical agricultural lending risks include production risks (weather and pests), pricing risks, lack of investable or bankable assets and high transaction costs.
- Financial institutions and FPOs lack familiarity in new green technologies, cannot show proof of concept and therefore have no adequate capacity to implement.
- Bio/organic production contain inherent market and price risks.
- There is a potential tradeoff between economic benefits of a project and sustainability (e.g. higher prices cannot offset lower yields).
- Long gestation periods in some agricultural production, e.g. tree farms, plantation crops, inhibit financing.
- A conducive regulatory environment is often important for the success of a project but is difficult to implement and assess.

*Q 3. What would you indicate as the most relevant blended finance solutions or "archetypes" to address these risks? Do you have specific examples from your countries or institutions?*

- There is need for technical assistance to implement new startup concepts and technologies.
- Grant funding and subordinated funding are necessary for startup investments in greenfield projects.
- Front-ended funding can support projects with long gestation periods and with particularly high project implementation and completion risks.
- Concessional/conditional pricing would also be beneficial to projects exposed to fluctuating cash flows (prices, volumes) or restrictive/inhibitive regulations.

### Results of Group 2 Discussions

*Q 1. Is there significant private financing going into "green" agriculture or agro-forestry projects in your country? If not, what are the main factors holding it back, in your experience?*

**Philippines:** Regulations require that 25% of lending by banks should be allocated to the agricultural sector -15% agriculture and 10% agroforestry. Local banks however are more inclined to pay the fine rather than lend to the agriculture sector as required. Some 99% of agriculture production in the Philippines is in the hands of smallholders and small-scale farmers, thus creating moral hazard. There are talks to include other actors within the agricultural value chain and thus would involve more sizable credit partners. However, most banks wouldn't invest in smallholders due to their high risk profile. Smallholders in general have poor business sense. They don't have enough acceptable collateral. Crops can now be used as collateral but this allows only for short-term lending.

Informal personal lending practice is preferable in many cases since lending is simple (no documentations) and relationships are hard to break. Banks can only lend for working capital requirements while informal lenders are much more flexible and are lending for emergencies and other needs. There is likewise no flexibility for defaulting on bank loans while informal personal lending allows for freezing of interest payments, etc. depending on the circumstances. Coconut and banana growing in the Philippines, which are much accepted commodities in the world enjoy commercially viable private sector investments.

**India:** A new national forest policy was mentioned in the discussion as an upcoming opportunity for private sector investments. Some parts of forestry can have private sector involvement such as teak wood and rubber production. Social agroforestry is less evident however. Rather through a national law, forests are managed at state level in India, with each state having its own laws which may be seen as one of the reasons for lower private sector investments. Per central bank policy, 12% of private sector lending should be geared to finance the agriculture sector. The definition however is very broad and includes machinery, large vehicles, and other rural infrastructure such as mini-grids.

Technical support is provided to small farmers in order to meet quality requirements of the off- takers. (e,g., tea growers in and around Darjeeling). Financial institutions can provide support since there are creditworthy off-takers.

**Indonesia:** In the country, 20% of credit is to be provided by financial institutions for SME's in agriculture (green/sustainable or not). On the other hand, online savings and lending companies (fintechs) are emerging as leading lending platforms, in view of their ability to reach remote rural areas. The fintech sector has already gained respectable experience and the trust of population, by being able to offer cheaper loans through mobile phones better than formal bank branches, which require expensive infrastructure. An example is the 18% interest provided to citronella oil project developed by iGrow.

The interest rate for fintech lending is governed by OJK. Palm oil for example is now financed by the fintech companies to a large extent. Fintech at times provide also technical assistance. Investors are sometimes co-owners. This follows a trend in China where Ant Financials, an Alibaba affiliate and the highest valued fintech in the world, is lending to rural China. Dana is their local operation in Indonesia. The main lending portfolio of the Agriculture Bank of China (ABC), one of the largest banks in the world, is now not focused on agriculture. Rural commercial banks in China provide finance to the agricultural sector but limited to localities. Alibaba therefore created Ant Financials to provide loans and establish avenues for marketing farmers' products.

The main factors holding back private sector investments relate to:

- High risks in lending for poor smallholders, depending on non-stable crop yields for repayments
- Farmers often don't and can't meet lenders' compliance requests
- Farmers often may not be the owners of the land and thus cannot provide adequate collateral
- Disasters and increased risks of losses
- Informal lending practices exist and are more popular in many instances than formal financial institutions.

*Q 2. In your experience, what are the top two to three investment risks around "green" agriculture/ agro-forestry that would benefit from blended finance solutions and why? Please give specific examples:*

Top risks for green agriculture/agroforestry that would benefit from blended finance include:

- Uncertainty on returns of investments and default risks
- Lack of collateral availability and adequacy
- No premium for green products – for example, palm oil production in a sustainable way should get a premium price to cover the extra costs for both investors and farmers.
- There are no off-takers and underdeveloped markets. Commodities don't have a reliable market to sell to.
- Tenor of investments is usually longer than availability of funds – this is in particular the case for agroforestry.
- Currency risks prevent international funds from flowing into local economies thus limiting the financing for local financial institutions and DFIs only.
- Climate risks such as floods and droughts need to be addressed through blended finance instruments. Capacity needs should be built especially dealing with climate issues, what is green and how to green.

Other issues:

- Banks are not willing to provide the required longer tenors or tenor extension.
- Number of institutions involved in investments needs to be limited. There are different agenda for different stakeholders.
- International guarantees and concessional finance for the financing of green are required.

*Q 3. What would you indicate as the most relevant blended finance solutions or "archetypes" to address these risks? Do you have specific examples from your countries or institutions?*

The most relevant blended finance solutions to address the above-stated risks include:

- Longer-tenor finance - debt or equity - depends on transaction type.
- Need technical assistance facilities
- Need for marketing agents – contract farmers, retailers' links, etc.
- Credit guarantees with a local bank or partner to cover lack of collateral or unstable revenues stream
- Creation of a market for certified products providing premium commodity prices
- Incentivize farmers for sustainability and resilience by bringing down prices for the green/sustainable during the transition period. This could be in the form of a subsidy. For example, Key price index could be set. If these are met, then rates would be down. Rabobank for example is providing differentiating rates – interest rate is reduced for top rated companies on ESG.
- Knowledge sharing for scaling up and impact while achieving product differentiation.
- Long-term commitment from buyers (off takers) making these the credit-worthy base for FIs to take risk on.
- Risk-sharing facilities across the value chain: insurers, lenders, buyers, traders, processes etc.,
- Despite its great significance, finance should be seen as one of the variables that is required. Policy dialogue for example is required from inception of a project.

- FX, credit rating of countries can also be mitigated through blended finance and thus can attract much needed international finance and institutional investors.

**Summary of Day 1 activities:**

Blended finance in agriculture is for helping smallholder farmers and agri- SMEs achieve sustainable development. Blended Finance is the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries. To do this, coordination action is needed under the OECD 5 principles. There are three characteristics of Blended Finance: leverage, impact and return. It can be deployed across a project life cycle in many forms or archetypes. TLFF provided private finance for public goods for commercial projects with environmental and/or social impact in Indonesia. It is an innovative financial platform with a focus on scale and replicability that will offer long-tenor loans and the possibility of refinancing from the capital markets. Next projects are to finance a sustainable coconut sugar processing facility and methane capture projects on Indonesian palm oil plantations. Such investments are suitable only for institutional investors and financially sophisticated individuals who have taken appropriate professional advice and who have the financial ability to bear the risk involved. Rabo Foundation created “Credit Guarantee Product” to enable lending in India. It is unconditional and irrevocable; designed in a simple format; without any onerous terms and conditions for wide acceptance. This product is all recognized financial institutions. The endeavor is to improve the credit terms for the borrower by reducing credit risk for the lender. Then the participants worked on discussion about the significant private financing going into “green” agriculture or agro-forestry projects in their own country, the top 2-3 investment risks that would benefit from Blended Finance solutions and the most relevant blended finance solutions to address these risks.


**Joint Work on Blended Finance Early Findings and Research Agenda**

***Skyped by Mr. Yuri Soares Unit Chief, Innovation Lab, Inter-American Development Bank***

Mr. Yuri presented on who needs funding, what is the funding for and what are the main funding included along the different stages of the value chain (inputs, production, transportation, storage, handling, processing and marketing distribution). The financial services and supporters for value chain actors are explained. First, for retailers, insurance providers are the financial services and trade and investment support agencies are their supporters. Guarantee providers are financial services of exporters and wholesalers and industry associations are their supporters. Processers will have banks and MFIs as their financial services and certification agencies as their supporters.

The main risks in agricultural finance are divided into 2 categories: macro-economic risk and business risks. Currency risk, interest rate risk and political risk are in the first category. The second category comprises of business model, agronomic, natural hazard and commodity price. Roles of concessional finance are:

- Identify and enable new structures;
- Seed new structures – "first capital";
- Undertake financial de-risking;
- Undertake technical/technology de-risking;
- Remunerate development/social impact and externalities; and
- Develop markets and ecosystem.

Capital providers are donors and governments (MDBs, DFIs, Governments), private sectors (banks, asset owners, asset managers, NBFCs), and others (foundations, NGOs, operating companies). The instruments are grants, concessional debt, guarantees & insurance, risk-absorbing equity, traditional instruments – debt, equity, and mezzanine. Structures/ intermediary are fund (CIV), bank, MFI, company, SPV, PPP, project syndication/ Securitization and DFI / MDB. Cooperative, company, SME, NGO, individual, government are capital recipients.

The most share of agriculture in total Blended Finance is in financial services (29%), energy (24%) and agriculture (10%). According to the FAO, share of agriculture in government expenditures has mostly been declining year-over-year with lots of reasons. There are 5 DAC principles.

- Anchoring to development rationale;
- Designing to increase mobilization of commercial finance;
- Tailor blended finance to local context;
- Effective partnering; and
- Monitoring for transparency and results.

Many sources of data exist in every level: international sources, regional sources, national sources and industry sources. Major challenges and gaps around data include:

- Definitional challenges (blended finance for agriculture not necessarily labelled under this heading or as BF at all);
- Gaps in agricultural and rural data also affect data on blended finance in the sector;
- Assessing any given transaction or initiative along the principles requires assembling different sources of data (often + generating new data), which can be very costly;
- Multiplicity of actors involved in any given initiative can bring in different ways to measure additionality or impact;
- M&E systems are often weak, with insufficient budgets or staff time (cf. Oxfam study);
- Investors are not incentivized to demand greater data on results, impacts; and
- Limited collaboration across development agencies on their own portfolios.

Opportunities around data are:

- Pay for success models increasingly link financial outcomes to development outcomes;
- Proliferation of lower-cost technologies for generating and deriving insights from data;
- Specific role for A.I. in agriculture; commercial applications are generating huge amounts of data[
- Improved ability to cross-reference data from weather/climate, imaging, sensing, transactions;
- New technologies also hold promise to build in reliability and credibility of data throughout the value chain (e.g., block chain); and
- Data has quickly become an asset.

**LANDBANK' s Experience on Blended Finance**
***By Ms. Filipina Barbiran Monje***
***Senior VP, Northern and Central Luzon Lending Group***
***LANDBANK of the Philippines***

**About LANDBANK**

LandBank is a universal bank, wholly owned by the Philippine government and with social mandates to spur countryside development and serve the needs of SMEs, farmers and fishers. Its major roles are to serve as the financing arm of the agrarian reform program, to provide financing assistance to SMEs, small farmers and fishers and agrarian reform beneficiaries and to be a principal government depository bank.

**Blended Finance at LandBank**

Blended finance refers to the use of available concessional funds from partner entities with the internal credit funds of the Bank to offer a special financing package to target beneficiaries towards achieving developmental objectives. LandBank's Blended Finance Objectives are to facilitate agri-business investments to support national program priorities, to increase the

Bank's lending portfolio to "non-traditional" borrowers, to support financial inclusivity, to mitigate risks in lending, and to achieve reasonable rate of return from its lending operation.

### *Sikat Saka* Program (SSP)

*Sikat Saka* Program is a special credit program jointly established by the LandBank and the Department of Agriculture (DA) that provides direct credit window for small rice and corn farmers. Its objectives are to support the Government's Food Staples Sufficiency Program and to increase the farmers' productivity and income. Counterpart Credit Fund assumes 7.5% of past due amount. Program Fund serves as guarantee for loan default; it covers 7.5% of past due amount. The other program supports are PCIC crop insurance coverage with 100% premium subsidy, AGFP agricultural guarantee that covers 85% of default against all risk, financial literacy training through the DA-Agricultural Training Institute, market support provided by the National Food Authority and irrigation support from the National Irrigation Administration.

### Various Legislated Programs (ACEF, SCF-SIDA, ERCA-RCEF)

Credit programs created as a component of a congressional program intervention where LandBank was provided with funds from the Government and mandated to manage the credit process. The characteristics of the programs are anchored on specific development objectives, the target beneficiaries specified under the law, funds are on-lent by LandBank and offered at highly concessional interest rates, non-assumption of LandBank of credit risk and LandBanak's collection of a management fee. The results and benefits are as follows:

- Enables LandBank to enhance support to national program priorities
- Improves its credit reach and supports the thrust for financial inclusion
- Focused on developmental objectives without sacrificing reasonable financial returns
- Attained effective partnership among involved agencies by providing a platform for convergence of support to common beneficiaries
- In the case of legislated programs, Government funds free up LANDBANK's own fund for on-lending to other borrowers.

### Agricultural Guarantee Fund Pool

This fund pool is spearheaded by the Department of Agriculture to encourage financial institutions and other lending entities to expand their lending to small farmers and fishers (SFFs) borrowers by providing guarantee to cover the unsecured loans extended to SFFs. The pool covers food production covering all risks from losses due to non-payment of loans including those that were caused by natural calamities, such as, typhoons, floods, pests and diseases, market aberrations, except fraud on the part of the Financial Institutions. Banks, cooperatives and farmer organizations other than cooperative are eligible conduits (subject to meeting of certain eligibility criteria). Amount of coverage is up to 85% of the principal loan balance. Guarantee fee is 2% per annum (subject to annual review), 1% per annum for loans extended to agrarian reform beneficiaries and 50% discount on PCIC-insured loans enrolled for guarantee.

**Major Challenges to SMEs, Small Farmers and Fishers**

There are challenges because farmers cannot put up collateral and the high costs for delivery of retail lending. Moreover, unsecured loans are risky because there are many typhoons in the country, farmers have no other sources of income, family emergencies mean no payment of loan and price of produce is low at harvest time. To enhance access of SMEs, small farmers and

fishers to financial services in the Philippines, two laws were passed:

- Administrative Order No. 225-A (Agricultural Guarantee Fund Pool). It is a program designed to encourage unsecured lending to small farmers and fishers. It provides guarantee coverage to unsecured loans extended by formal lending institutions (banks, cooperatives, corporations, MFIs and farmer producers' organizations)
- Republic Act No. 10000 (The Agri-Agra Reform Act of 2009). This act required that at least 25% of banks' loanable funds must be Agri-Agra loans. There are penalties for non-compliance: 45% to Agricultural Guarantee Fund Pool (AGFP), 45% to Philippine Crop Insurance Corporation (PCIC) and 10% Administration Cost to Bangko Sentral ng Pilipinas (BSP). P3.3 Billion ($66 Million) from Agri-Agra penalties were received by AGFP.

**AGFP in LandBank**

It is a Department of Agriculture-led program with LandBank as institutional manager. Its missions are to mitigate the risks involved in agricultural lending and encourages partner financial institutions and other lending entities to lend unsecured agricultural food commodity production loans to small farmers and fishers. AGFP guarantees all risks except fraud on PLI with 20 % risk-weighted by BSP and 2% guarantee fee per annum. There is 85% of principal balance at the time of claim and total Seed Fund of P7.8 Billion ($156 Million) can guarantee up to P23 Billion (USD460 Million).

Small farmers or fishers, who want loans for agri-food production and have no collateral, have to contact PLI. PLI will screen the applications and pay the loan if it is approved. AGFP will establish guarantee line, enroll for coverage and pay in case of loan default and remittance of collections/recoveries. These are the impacts of the guarantee: P55.427 Billion (US$1.1 Billion) unsecured loans were extended to small farmers and fisherfolk; 668,522 small farmers and fisherfolk would have not been able to borrow without the guarantee; access to formal credit increases income and helps lending institutions accept risk for unsecured lending. There are more impacts of the guarantee; such as: collaboration of formal lenders like banks and the Government, financial inclusion and multiplier effect.

**Blended Finance for Agri-SME Financing: The CARD-SME Bank Experience**

***By Ms. MariaTeresita Lacerna, Legal Advisor, Sustainable Finance and Green Development, Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)***

**About ADFIAP**

The Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) is an organization for financing sustainable development. It was founded in 1976 during the 6th ADB conference for DFIs. The Secretariat is in Manila, Philippines. There are 106 member institutions in 39 countries; most of the members are policy-based banks, and universal, commercial and investment banks. This association is intended to promote sustainable development and to integrate this for aspects in the investment decisions on economic, social, environmental and good governance.

**About CARD Bank**

Card Bank is chosen because it is the biggest microfinance institution in the Philippines and it is the only institution which is present in all cities and provinces. Card Bank's focus work areas are to: 1) evaluate the terms and conditions of the arrangements, 2) determine outcomes and achievements, 3) distill lessons learned and/or elements of success and 4) validate the OECD principles. Its resources are data and information from websites, IFC-CARD SME Bank project documents and loan agreements as well as related documents and interviews with the relevant CARD SME Bank officers, clients and partners as well as the relevant IFC project officer.

**Agricultural Industry in the Philippines**

About 41.7% of the total land area is agricultural, ¼ of the total labor force is employed in agriculture, which contributes about 9.3% of GDP. These are the causes of market failure:

- High risk of informal organization, natural hazard, farmers' minimal business sense and repayment capacity. Therefore, there must be complex requirement to ensure repayment.
- Personal financing culture to borrow from rich neighbors which are simpler, faster but more expensive or usurious rates, repayment on more lenient terms, established strong ties and relationships that go beyond business dealings and reliable and dependable in time of urgent needs that may not even be related to agriculture. This culture impacts on farmer income and productivity.

**Blended Finance: CARD Bank Experience**

Blended finance is to:

- Mobilize private capital to invest in agriculture and agriculture-related SMEs
- Improve the risk-return profile of an investment to a level acceptable to the private sector

- Improve the business acumen of farmers

IFC is the partner of Card SME Bank to provide advisory to open the agri-finance market and promote financial inclusion. These are examples of arrangement:
Arrangement 1: Agri-Finance Advisory – Lipa Branch

- Strategy and execution capabilities- teview of internal organization, lending operations, credit delivery process and bank staff capability;
- Market study - Segmentation, suitable agricultural products and services for the area, and market scoping;
- Delivery channels- Developing financial products suitable to the type of agribusiness;
- Credit risk management- Credit scoring tools for each suitable crops and agribusiness; training of bank staff on credit assessment;
- Custom-fit repayment –Aanalyzing production cycles and offering seasonal loan and repayment for seasonal crops, short to medium term loans for long gestation crops and livestock; and
- Crop insurance to address typhoon related risks faced by both farmers and the lender.

Arrangement 2: Concessional Loan Package - 7-year loan package to CARD SME Bank for Php 160 million ($4 million) at competitive market rates.

- Proceeds of the loan were blended with CARD SME Bank fund and packaged for agri lending;
- Fresh infusion of funds enabled CARD SME Bank to offer custom-fit lending terms and packages for farmers;
- Fixed terms from three months to three years and loanable amounts from Php 30,000.00 to Php 5 million (USD581 to USD97,000);
- Availability of revolving credit lines from Php200,000.00 to Php2,000,000.00 (USD3,800.00 to USD38,000.00) with one (1) year validity, renewable annually; and Promissory note term is from 90 days (minimum) and 180 days (maximum), with interest at prevailing rates discounted in advance for 3 months and the principal payable upon maturity.

CARD SME Bank's loan disbursement following the infusion grew by 241% from Php 51.7 million (USD1 million) in 2016 to Php176 million (USD3 million) in 2017.

**Outcomes**
CARD SME Bank blended finance strengthened institutional capacity and confidence of loan officers in recommending loan approvals, improved knowledge of borrowers on suitable crops and product cycles to expand production and generate increased income, custom-fit repayment as a risk management strategy proved effective in avoiding default and increased clients and loan disbursements to farmers and related SMEs

**Development Impact**
Blended finance helps expand agri-financing portfolio, promote greater financial inclusion and increased productivity and farmer income.

**Improved Agricultural Production- A clients' story**
From an initial loan of Php40,000.00 (USD769.00) in 2016 for his vegetable farm, Romeo Bustamante, a CARD SME Bank client had grown his business in a span of three years. For good standing, he became eligible for a higher loan amount of Php300,000 (USD5,800) to expand his agriculture business by leasing additional lands, purchasing more seeds and other farm inputs, improving marketing strategy and faster transport of the produce to consumers. This proves that **financing is key to improving the productivity of the agriculture sector.**

Gina Radovan, started her tomato farm with a loan of Php 150,000.00 (USD 2,800.00) in 2016. She has now a credit facility of Php 3,000,000 (USD 57,000) which she accessed to lease additional lands, and grow and maintain tomatoes and purchase seeds for intercropping bitter gourd with her tomatoes for additional income. She has been invited in various agri-conferences to share her experience with Card SME Bank.

In conclusion, blended finance was used to undertake important studies, which may be costly for any commercial bank to solely undertake. The study analyzed the agriculture sector and associated risks that led to market failures. The funds enabled the procurement of advisory services of technical experts with full grasp of the industry as well as knowledge in global best practices. Both CARD SME Bank and IFC shared in the fees of the technical experts. IFC concessional loan blended with CARD SME Bank funds helped grow the lending portfolio and expand financial services. Catalytic activity but minimal concession should be done to avoid market distortion and competition with the private sector. Blended Finance enabled IFC to share its credentials as a disciplined investor subscribing to high performance standards, which gives comfort to other commercial banks to venture in agri-financing.

According to the principles, IFC and CARD SME Bank work together as follows:

- *Anchor blended finance use to a development rationale*. Both IFC and CARD SME Bank share the same development goal of broadening financial inclusion to improve productivity and farmer income. Support SDG1 (No Poverty), SDG 2 (No Hunger) and SDG 8 (Economic Growth).
- *Design blended finance to increase the mobilization of commercial finance*. The partnership of IFC and CARD SME Bank is a perfect fit. IFC seeks to address high risk challenges of agri-lending while CARD SME Bank seeks to grow its agri-lending portfolio.
- *Tailor blended finance to local context.* Strategies adapted to enhance credit profile: a) custom-fit repayment, b) credit-scoring tool, c) institutional capacity building; d) market segmentation; e) crop suitability; f) crop insurance
- *Focus on effective partnering for blended finance.* The partnership is effective because it achieved its target goals. There was complementarity of efforts and appropriate

delineation of activities. The success of the partnership facilitated new collaboration on areas such as financial innovations and digital financial technology.

- *Monitor blended finance for transparency and results.* Results monitoring, verification and reporting are essential components of the Partnership. However, there are no direct data on improved productivity and farmer income but it can be deduced from the increased loans and credit lines secured by the farmers and SMEs.

**Use of Blended Finance to Mobilize Private Capital towards Agri-SMEs: BAAC Experience**

***By Mr. Chab Kongmon***
***Senior V P, Entrepreneur and Institutional Credit Department***
***Bank for Agriculture and Agricultural Cooperatives (BAAC)***

**BAAC Profile**

The Bank for Agriculture and Agricultural Cooperatives (BAAC) has been established in 1966. Its objectives are to provide financial assistance to farmers, farmer associations and agricultural cooperatives which delve into agriculture and other agriculture-related businesses. BAAC outreach has increased to 7.9 million farm households (98% of total farm households). BAAC has 1,272 branches, 1,992 ATMs, 1,304 PAMs and 200 CDMs. BAAC total asset is US 62.48 billion. Main source of fund comes from deposit USD53.93 billion (86% of total source of fund). Outstanding loan is USD 48.32 billion with 12.97 million loan contracts. The saving accounts are 34.46 million. BAAC employs 20,224 staff.

BAAC provided 4,230,074 clients with outstanding loan of baht 1,425,236.00 million. Total Loan disbursement was baht 678,000 million in FY2018. 3S strategy is implemented by dividing customers into 3 categories.

- **S1** refers to smallholder farmers. There are 1,505,709 farmers in this group. BAAC provides them with Financial Literacy for State Welfare Registrants, Production Reformation of Low-Income Earner Project (XYZ), Career Development for Low-Income Earner Project and Informal Debt-Solving Project.
- **S2** refers to farmers and individuals. 2,675,003 farmers and individuals are in this category. These are some projects to help them: Minimizing Cost of Production Factors through Happy Agri Card Project, Maize Plantation After Rice Harvesting Project, Debt-Expansion Period Project and Interest-Reduction Project.
- **S3** refers to entrepreneurs and institutions. 49,362 entrepreneurs and institutions involve in blended finance through SAME Project, Transformation Loan Project and Producing or Supplying Customized Fertilizers through Farmer Institutions.

**Agricultural Reformation to Increase Competitiveness of Thailand Agricultural Sector**
For debt management, BAAC gives 3% discount on loan interest rate, expands repayment 3 more years (loan restructuring) and manages formal and informal debt in order to increase occupation efficiency.

For agricultural reformation, BAAC develops agribusinesses to become lead agents, improves productivity and efficiency and large-scale farming and design changes suitable to production area or market-driven products.

For marketing linkage, BAAC helps its customers distribute their products through local markets, modern trade, e- commerce and community-based tourism. Loan Schemes include Career Development, Urgent Expenditure, Informal Debt Solution, Large-scale Farming, and Agricultural Practice Reformation of Registered Low- income Earner (XYZ).

To assist the growth of leading Agri-SMEs, BAAC visited 10,235 leading Agri-SMEs in order to revise information and status, review selection criteria of leading agri-SMEs /cooperatives, and find solution throughout value chain. Then BAAC revises capability of debt repayment/ management, increased agri-tech adoption, supported E-Commerce/A Farm Mart/Niche market/data linkage, business development, transform leading agri-SMEs/cooperatives into agri-businessess and find new leading Agri-SMEs.

To support leading Agri-SMEs for helping small-scale farmers, BAAC adopted led-market strategy, implemented Agricultural Reformation, formed groups by Transformation Loan Project and Large-scale Farming Loan Project. BAAC searched/created leading Agri-SMEs, developed career capacities and knowledge of small-scale farmers by agri-Tech, support value chain finance (VCF) and use VCF and SMAE support system.

**Agricultural Value Chain Financing: The story of Kitchakood Organic Farm Co., Ltd.**
Farmers collect veggies from smallholders and at certain price insured. Then they send the product to the Smart farm which manages farms by utilizing high-efficiency technology to process and pack. The packages are delivered to modern trades. They generate revenue of about baht 400,000.00per month. BAAC supports them by providing Low-Loan Interest Rate Project, giving training programs, and developing/producing networks.

**IFC/GAFSP Case study: Mountain Hazelnuts, Bhutan**

***By Mr. Philipp Farenholtz***
***Investment Officer, Agribusiness & Forestry-Asia, Blended Finance***
***International Finance Corporation (World Bank Group)***

**Project Snapshots**

A $12mn blended finance equity investment is from IFC and ADB with concessional funding from the Global Agriculture and Food Security Program (GAFSP). Mountain Hazelnuts, a hazelnut venture in Bhutan, established in 2010, eventually involving 15,000 outgrowing smallholder farmers. This project is very risky because of early-stage, pre-revenue and many unknowns. It is also very developmental because the income impacts for up to 15% of Bhutan's population. It is expected to generate attractive returns for the founders and investors.

**Mountain Hazelnuts: Business Model**

Farmers start with production of tissue culture, then it goes to the growth of saplings. Farmers who are interested can register to join the project. The saplings will be delivered to the registration farmers who will take care of the saplings with continued support by the project. After sending the hazelnut products, the farmers will be paid. The hazelnuts will be processed and exported to China and Europe. The sales result will be shared among 3 actors: profit for company, tax revenue to Revenue Government of Bhutan and 20% to Hazelnuts Trust for the farmers and the environment.

**Rationale for the use of Blended Finance**

Hazelnuts are not indigenous to Bhutan (yields and timing are unknown) and outgrowing farmers are unfamiliar with hazelnuts. The challenges are that 15k farmers registered to plant 10 million trees in 15,000 orchards across impenetrable terrain. The farmers have to face problems of pests, droughts, frost and landslides. Moreover, the marketability price is always fluctuating. Given the high-risk profile inherent in this semi-greenfield project, neither IFC nor ADB would have invested without substantial risk mitigation support from GAFSP. Requirements for the GAFSP instrument are: risk mitigation to IFC and ADB only (no effect on other shareholders), cash-flow friendly since the company would not generate cash for some time, no shareholder dilution and disproportionate disbursement vis-a-vis IFC and ADB. All proceeds of IFC, ADB and GAFSP Equity are pooled and then distributed according to the agreement of the three organizations.

**Roles of different actors and process**

IFC owns the account and is the implementing entity for GAFSP. The processes are as follows:

- IFC is the sole Implementing Entity of the Private Sector Window of GAFSP.
- Separate teams and approval processes for the IFC and GAFSP investments (in-house)
- IE for GAFSP follows IFC's due diligence
- Close cooperation to define suitable structure
- IFC had previously appraised the investment in 2011

- By bringing ADB into the deal, the GAFSP investment amount could be increased to match ADB's
- Supervision of IFC and GAFSP investment

ADB processes its own investment.

**Expected Results**

- Linking farmers to markets.
- Farmers increased and reach desired incomes.
- Job creation and women participation.
- GHG mitigation and forest preservation
- Reduce urban migration

**Lessons learned**

- A complex project like Mountain Hazelnuts will most likely face **unexpected challenges** beyond those considered at the outset.
- Fully understanding the challenges and detecting issues across a complex supply chain with thousands of outgrowers scattered throughout wide and impenetrable terrain require **appropriate systems and processes**.
- The **management needs to be strong**, experienced and capable to quickly respond with adequate measures to unexpected issues and make such risky project a success.

**Status and future prospects**

- Several setbacks which caused delays to reach commercial state -now on track for first commercial harvests in 2020
- Debt raise from impact investors to fund the operations to cash break even
- 7.1 million healthy trees in place (ultimate target: 10mn)
- ~12,000 farmer households engaged (ultimate target: 15,000)
- Full development impact unfolds when project reaches commercial state
- Exit envisaged via trade sale

**About GAFSP**

The Global Agriculture and Food Security Program (GAFSP) works for two windows:

1) *Public Sector Window.* World Bank manages US$1.2 billion fund with supervision by AfDB, ADB, IDB, FAO, IDB, IFAD, WB and WFP. There are nine donors: Australia, Canada, the Bill & Melinda Gates Foundation, UK, US, Germany, Ireland, Korea, and Spain. The objective is to provide grant funding directly to sovereign governments aligned with overall investment strategies.
2) *Private Sector Window.* IFC manages US$393 million fund which comes from 6 donors: Australia, Canada, Japan, Netherlands, UK, and US. The objective is to provide investment and advisory services to eligible private sector companies in agribusiness, in conjunction with IFC's investments. This window was re-launched in 2012.

**The GAFSP Private Sector Window (PrSW)**

PrSW always co-invests with IFC, directly into agribusiness companies or indirectly via financial intermediaries such as banks and MFIs. PrSW offers concessional terms combined with commercial terms from IFC in a blended finance solution covering: short and long term loans, guarantees, first or second loss cover, equity capital, and advisory services. Projects must meet IFC's Principles of Blended Finance; PrSW concessionality can be extended to other DFIs. PrSW is targeted at risky (existing or greenfield) agribusiness value chain projects or financial intermediaries. It focuses on smallholders, with additional emphasis on nutrition, climate smart agriculture and gender.

**Principles of Blended Finance**

IFC uses Blended Finance to create markets and bring about development impact. A disciplined and targeted approach is used to blend concessional donor funds with its own commercial funds by applying the following five principles:

- **Additionality and Rationale for Blended Concessional Finance:** Contribution that is beyond what is available, otherwise absent from the market**.**
- **Crowding-in and Minimum Concessionality:** Contribute to catalyzing market development and mobilization of private sector resources, with concessionality not greater than necessary**.**
- **Commercial Sustainability:** Impact achieved by each operation should aim to be sustainable and contribute towards commercial viability.
- **Reinforcing Markets:** Addresses market failures effectively and efficiently minimizes the risk of market distortion or crowding out private finance.
- **Promoting High Standards:** Promote adherence to high standards, including in areas of corporate governance, environmental impact, integrity, transparency, and disclosure.

## Group exercise on risk management in blended finance in Agri-SME space

Two (2) working groups with 11 members in each group were formed. The following common questions were asked to be addressed by the working groups

<u>Questions to address in the working groups:</u>

1. *What types of risks is blended finance best suited to address?*
2. *What are the most important risks or adverse effects associated with the use of blended finance for development purposes and how can these be overcome or mitigated?*
3. *What are in your opinion the key success factors for blending for direct investments in agribusiness SMEs?*
4. *If you had USD 1 billion available, what type if BF mechanism would you design to promote direct investment into Agri-SMEs? What would you need to take into account in order not to crowd out other BF initiatives?*

## Results of Group 1 Discussion:

*Question 1 What types of risks is blended finance best suited to address?*

- Defaults due to natural hazards and pests, for example: Mechanisms that could be employed:

- Insurance such as crop and weather which terminates the debt transaction as for example, Landbank pays premium for the weather insurance

- Guarantee or other downside protection/subordination mechanisms could be employed which allows for continuation of relationship.

- Equity can be used instead of debt in some cases, not requiring a scheduled payment and therefore allowing for more flexibility when dealing with natural hazards (IFC-Mountain Hazelnuts case). This would be especially relevant for green field operations and starting out a project

- Defaults due to commodities price fluctuations: No instruments such as insurance premiums or forward contracts are available for small holders. Price fluctuations are therefore dealt with through a guarantee such as provided by Landbank. Possible solution is the aggregation of small holders to provide a protection through a forward contract collectively. Price fluctuation risk can be addressed with conditional pricing funding concession such as tuna fishing in Solomon islands linked link with concessional funding.
- Operational risk: Technical assistance is the tool of choice to mitigate operational risks allowing small holders to adapt to new practices. As for operational green field risk, depending on business model, concessional equity may be the better tool to deploy (Mountain Hazelnuts case).

*Question 2. What are the most important risks or adverse effects associated with the use of blended finance for development purposes and who can these be mitigated?*

1. Over-subsidizing: Minimum concessionality is required to prevent the crowding out of other players. For example, in the hazelnut case study, market was scanned by ADB/IFC and no other players were there to invest equity in the venture. A big consideration is how much additional investment is required (offering 7 vs. 4 years finance in the case of Mountain Hazelnut). Mismatch usually exist with financing available and projects' expected revenues - here IFC could come in with longer term funds where others can't. Longer term funds at same rate as shorter ones can actually be considered as concessional / blended element. Long- tenor blended finance instruments may be more appropriate for the project while existing funds while available provide less suitable shorter tenors.
2. Nepal example – FX fluctuations – receiving blended funds in hard currency is risky and can result in default due to currency fluctuations. Providing local currency blended financing is very important in many countries in developing Asia. Providing an adequate local currency pricing is key and sometime not easy to obtain. TCX hedging operations, being the sole hedging provider, often leaves financiers with inadequate spreads and local currency market pricing is not achievable. IFC has a $0.5bln guarantee facility to deal with

the FX issue for local bond structures by IFC. while a DFI such as IFC has proprietary instruments and capabilities, private sector-led blended finance initiatives face a difficult environment to operate in.

3. Providing interest rate concessionally when investment is classified as green. A main issue is to define what is green investment in the agriculture sector and how to measure it. Price differentiation for the green is becoming a private sector driven concessional tool for the larger companies – Olam's sustainability-linked club loan, etc. Can this concessionally be applied to small holders as well?

*Question 3. In your opinion, what are the key success factors for blending for direct investments in agribusiness SMEs:*

1. The availability of projects
2. Availability of concessional funds to use
3. Applying the right concessional tool for the right context as partially discussed above
4. Addressing underlying issues prior to use of funds. Can we remove other constraints before we use a blending finance mechanism? For example, existing cap on microfinance financing didn't allow international funds to meet the local market pricing cap. In this particular case, work with policy makers for increase of cap was the preferred action. (Example of a cascade approach).
5. Wide SDG impact for projects.
6. Technical assistance is key for successful implementation of project financed by blended finance – example of Card Bank Philippines.
7. Blended finance Principlel 4 – a fair allocation of risks between the partners – the investors taking the risks following the concessional element need to share risks properly among them.
8. How do we bring the private sector into blended finance – scalable models, creating new blended finance asset classes for institutional investors, standardization and lower costs. Scale is key; otherwise, it is too small for institutional investors.

*Question 4. If you had USD 1bn available, what type of BF mechanism would you design to promote direct investment into Agri-SMEs?*

The group chose to create a regional agriculture-focused fund. Key fund elements include:

1. Value chain financing such as the example shared by LandBank. Financing is provided across the value chain, to insure successful implementation and a viable commodities market. Linking farmers to enterprises as an example to assure the markets.
2. Funds should use lending as its main tool but also provide guarantees, FX, equity and TA facility.
3. Governance mechanism, secretariat central investment decision in house or by a DFI. Monitoring and evaluation, specific country application.
4. Partnership with local banks for transactions, competition for funds could be obtained by partnering with more than one institution per country.

5. Bringing more investors on board x 5. Leveraging the fund assets to pool in some $5bln of private sector funding, i.e., the fund should be only providing the concessional element of the investment.
6. DFIs and local banks are to partner and more than one entity in a country.
7. Preset eligibility criteria – responsibility is on the DFI.
8. Impact assessment to make sure one delivers on the SDG, ESG and safeguards.
9. Funds should be working with existing schemes so there is full collaboration on the ground.
10. Fund could also invest on green field projects

### Result of Group 2 Discussion:

*Question 1 What types of risks is blended finance best suited to address?*

- The risks related to technical and economic viability, market acceptability and institutional development risks are typical to a new idea being set up to solve an agricultural problem. Blended finance solutions like pre-seed stage investments or feasibility study grants could be used.
- Capital risk (lack of) could be mitigated through mix of debt and equity products
- Price risk, weather risk, operational risk and credit risk could be mitigated through varied credit guarantee and insurance products
- Foreign currency and interest rate risks could be mitigated through currency and interest hedging mechanisms
- The risks that cannot be mitigated through BF solutions are the ones which are macroeconomic and political in nature.

*Question 2. What are the most important risks or adverse effects associated with the use of blended finance for development purposes and who can these be mitigated?*

- Enhanced transaction costs due to involvement various blending over and above basic debt product
  ***Mitigation*** *– More use of technology and credit scoring models to bring down operating costs. Also focus on social capital (instead of blended finance) wherever possible.*
- Blended Finance products tend to distort markets by offering concessional loans or preferable terms in comparison to the market possibilities;
  ***Mitigation*** *–of course, the role of blended finance is to enable transactions which have a clear impact value but mainstream financial institutions don't do it because of non-lucrative risk-return profile. This means making deals possible through set of products. However, as far as possible, BFs should try to price the products as per market trends. Also, it is important from continuity point of view, i.e. the models should work out well even without the absence of BF few years later. Also, the contracts should also be made explicitly clear on tenor of the facility and when does*

*the BF want to exit to avoid any false reliance on perpetual existence of such a product.*

- Availability of blended finance may lead to excessive financing or ignoring basic viability parameters such as financing for producing crops which are niche and do not have identified markets, or financing is geographically isolated area which does not allow markets to reach or lack skills
  ***Mitigation***: *Integrating blended finance with the overall development of an area. Follow a broad territorial approach - Not to work in silos. Also focus on TAs such as imparting skills to achieve necessary goals.*

*Question 3. In your opinion, what are the key success factors for blending for direct investments in agribusiness SMEs:*

In our opinion key success factors for blending would depend on:

- high impact of the proposed activity ( making logic for using a blended product);
- despite the impact value, the underlying business should be viable;
- The proposed solution should be able to well integrate within existing financing policies without much effort. The solution in that sense should be an enabler between yes and no for local FIs to consider a transactio ; and
- The business should have a clear path for moving towards mainstream financing. There should not be a perpetual reliance on blended finance products.

*Question 4. If you had USD 1bn available, what type of BF mechanism would you design to promote direct investment into Agri-SMEs?*

- Shall develop a fund which can do following:
  - Enable high-impact high-risk loan through credit guarantees to local FIs
  - To be able to do direct loans, when in some cases the local FIs are unable to do so
  - The fund may choose to take junior debt/subordinated debt position to leverage more finance, if required
  - Couple the loans and guarantees with TAs, if required
  - As far as disruptive business models capable of solving agricultural issues,a catalytic equity, in the form of pre-seed, seed or stage A could be considered
- What would you need to take into account in order not crowd out other BF initiatives?
  - Try not to distort markets
    - Start discussing exit right for BF right from the beginning, so that it remains clear to the party that BF is not there forever.

**Summary of Day 2 activities:**

On the second day of the learning event, the participants continued to share the use of Blended Finance. Starting with the findings and researches from Inter-American Development Bank, it showed that who needs funding, what is the funding for and what are the main funding included along the different stages of value chain which are inputs, production, transportation, storage, handling, processing and marketing distribution. The financial services and supporters for value chain actors are explained. For LandBank, Sikat Saka Program, various legislated programs and Agricultural Guarantee Fund Pool were established. To enhance access of SMEs, small farmers and fishers to Financial Services in the Philippines, two laws were passed; and LandBank established a department as institutional manager. For Card SME Bank, blended finance is to mobilize private capital to invest in agriculture and agriculture-related SMEs, to improve the risk-return profile of an investment to a level acceptable to the private sector and to improve the business acumen of farmers. IFC is in partnership with Card SME Bank to provide advisory to open the agri-finance market and promote financial inclusion in the Philippines. The participants learned BAAC 3S strategy and the ways Blended Finance are used for debt management, agricultural reformation and marketing linkage. An interesting case of Mountain Hazelnuts in Bhutan showed that a complex project will most likely face unexpected challenges, the challenges required appropriate systems and processes and management needs to be strong, experienced and capable to quickly respond. Then two working groups discussed about types of risks and the blended finance best suited to address. They talked about the most important risks or adverse effects associated with the use of blended finance for development purposes and how these can be overcome or mitigated. Moreover, the groups shared the opinion about the key success factors for blending for direct investments in agri-business SMEs. Lastly, they had to think about if each group had USD1 billion dollar, what blended finance mechanism they would design to promote direct investment into agri-SMEs and what they needed to take into account in order not to crowd out other blended finance initiatives.

[Workshop Presentations]

## Lessons learned and way forward
### Lessons learned:

The following lessons were learned during the event presentations and discussions:

- Definition of blended finance is not quite clear to the national level development and commercial financial institutions delivering agricultural credits to smallholder farmers and related value chain actors. The current definition seems also not to suit to the very purpose of the development organizations/agencies which are engaged in supporting small farmers/SMEs to access to improved inputs, technical services and improved markets.
- Currently the technical assistance/support provided by the government/non-government organizations/agencies are considered as support services or business development services (BDS). Under the ambit of the existing definition of blended finance, these services need to be reclassified and monetized to get the real investment in the project which needs a completely different outlook.
- Blended finance instruments, aiming to strengthen sustainable economic development are being increasingly used by the private/public investment funds, bilateral and multilateral development financial institutions to structure the capital of the enterprises (including the startups) which are being blended with the technical assistance (grant, subsidy or loan) and support them to cope with unforeseen business risks.
- Blended finance in agriculture and agri-SMEs are however, not intended to eliminate risk completely. Rather, Blended Finance improves the risk-return profile in order to incentivize private sector investment without distorting functioning markets. Blended Finance is relevant for those projects that are inherently too risky for more commercial capital to consider, or in situations where a demonstration is required because the perception of risk is not aligned with actual risk.
- Through Blended Finance, public sector and philanthropic investors can use various financial instruments in innovative ways in order to catalyse private capital and direct it to where it will have a broader development impact. This instrument can be used to address many of the barriers blocking private capital from investing in emerging markets or in high development impact projects or sectors.
- There is an urgent need to scrutinize blended finance activities and financial instruments, which are many times being challenged for their lack of transparency and demonstrable impacts.
- In general, the following financial instruments are being used to define the current narratives of blended finance:

- The **grant** capital can be used at multiple stages in the investment process to either demonstrate the business case, reduce business model risk through training/capacity building, or improve the development impact of the investment.

- **Debt** financing can be provided by public sector investors wanting to de-risk private sector investors can also take subordinated debt positions that act as a capital loss risk protection.
- **Bonds** to fund projects focusing on meeting the SDGs can be issued by MDBs and DFIs, such as the IFC Green Bonds Penonome. These are attractive to institutional investors, because the structure and risk-return profile are familiar to them.
- Similarly, public capital can be invested in an **equity** stake in a subordinated position, therefore conferring a capital-loss protection to the private sector co-investors.
- **Guarantees** can be used to protect private sector investors (partially) against capital losses or can be used by the investee to access debt capital by reducing risk to the debt finance provider.
- Other innovative uses of public funds to de-risk include **insurance schemes** to address specific risks that limit private sector entities from engaging in activities that will contribute to the achievement of the SDGs.

### Way Forward:

- It is true that the blended finance market increased during the last few years; however, it is more skewed towards the infrastructure. Both the equity and debt funds are strongly being used for long-term returns globally and offer opportunities for institutional investors that align with their mandate and focus on financial returns. These need to be revisited by bilateral/multilateral development finance institutions and provide some piloting in agriculture and its allied sectors to make them attractive to national level DFIs;
- There is an urgent need for some quantitative information on financial and impact performance of transactions in agri-SME sector investments. Without any returns data, the commercial financial institutions (DFIs and banks) will not come on board at the scale that is required to meet the SDGs. There is also a need for qualitative information on Blended Finance transactions, e.g., blended finance arrangements, subsidies, risk-reduction measures and SDG objectives;
- Building capacity of the Central banks by organizing sensitization sessions with top and middle management cadres is a must to bring blended finance as the mainstream financial instrument to support the growth in agriculture and resilience under the climate change scenarios.
- The appropriateness and feasibility of the leverage instruments under blended finance used by the public actors need to be assessed on a case-by-case basis. Dissemination of the results are extremely important.

## ANNEX 1: DETAILED AGENDA

| **Monday, 14 October 2019** | |
|---|---|
| 8:45 – 9:15 am | Registration |
| 9:15 – 9:30 am | Welcome remarks from the co-organizers |
| 9:30 – 10:00 am | Objectives and expectations (Session facilitator and morning lead: Azeta Cungu, FAO, supported by Prasun Kumar Das, APRACA and Lasse Moller, OECD)<br><br>*This session will lay the groundwork for the event, ensuring clarity about objectives and about the expectations of both the co-organizers and participants.* |
| 10:00 – 10:30 am | Framing the learning event – key elements in the global debate on blended finance (Lasse Moller, OECD)<br><br>*This session will introduce the main issues, challenges and concerns around blended finance from a perspective of good use of development finance. It will present the main definitions of the concept, focusing in particular on the OECD DAC definition, and present key figures about this market. It will further present recent analysis on trends in the use of public development finance through blended funds, facilities, and other structures and approaches, as well as various initiatives to orient policy and practice around shared principles.* |
| 10:30 – 11:10 am | The landscape of blended finance – Main instruments, models, and market trends (Ladé Araba, Managing Director for Africa, Convergence – via remote connection)<br><br>*This session will present the basic archetype of structures and approaches in this market, types of actors involved, and the state of the market, globally and in Asia and the Pacific.* |
| 11:10 – 11:30 am | Coffee break |
| | *Session Continued…* |
| 12:30 – 1:45 pm | Lunch |
| | Afternoon session lead: Azeta Cungu, Rural Finance Officer, FAO |
| 1:45 – 2:00 pm | Introduction to the case study sessions |

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|---|---|
| | *This introduction will lay out the approach taken to identifying case studies and how each case study session is expected to unfold.* |
| 2:00 – 3:30 pm | First case study session – Structuring blended solutions to catalyse private finance into "green" projects in agriculture and forestry<br><br>Featured experiences:<br>- The Tropical landscapes financing facility in Indonesia (Iain Henderson, Managing Director, ADM Capital)<br>- Developing blended finance products for impact-oriented lenders: the experience of Rabobank and USAID in India and AGRI3 Fund (Rishabh Sood, Rabobank India)<br><br>Q&A |
| 3:30 – 3: 45 pm | Coffee break |
| 3:45 – 5:15 pm | Small group work on blended finance and "green" agriculture projects |
| 5:15 – 5:30 pm | Wrap up of Day 1 |
| Evening | Dinner + cultural activity |
| **Tuesday 15 October** | |
| 8:45 – 9:30 am | Welcome coffee |
| 09:30 – 10:00 pm | The landscape of blended finance in agriculture (Yuri Soares, Unit Chief, Innovation Lab, Inter-American Development Bank – via remote connection)<br><br>*This session will present the findings of two reports commissioned by SAFIN, individually or with other partners, in the past two years, concerning the actual and potential uses of blended approaches in agriculture. The presentation will be followed by Q&A and by small group discussions about the experience of participants in relation to blended finance in the sector, particularly from a perspective of promoting access to finance for agri-SMEs.* |
| 10:00 – 10:40 am | Second case study session – Addressing business model risks in agri-SME finance through blending into financial institutions<br><br>Featured experiences:<br>- The Agricultural Guarantee Fund Pool of the Philippines |

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|---|---|
| | (Senior Vice-President Filipina B. Monje, Land Bank on the Philippines)<br>- The Agri-Finance programme of CARD SME Bank (Maria Teresita Lacerna, Legal Advisor, ADFIAP Finance and Investment Centre)<br>Q&A |
| 10:40 – 11:00 am | Coffee break |
| 11:00 – 12:30 pm | *Session Continued….* |
| 12:30 – 1:30 pm | Lunch |
| 1:30 – 1: 45 pm | Afternoon session lead: Prasun K. Das, Secretary General, APRACA<br><br>The experience of Bank for Agriculture and Agricultural Cooperatives (BAAC) Thailand in agri-SME finance and technical assistance |
| 1:45 – 2:30 pm | Third case study session: Investing into agri-business companies with large potential market impact: The experience of IFC and GAFSP in Bhutan (Philipp Farenholtz, Investment Officer, IFC) |
| 2:30 – 3:30 pm | *Small group session on blended solutions for direct investments in agri-business companies* |
| 3:30 – 3:45 pm | Coffee break |
| 4:00 – 4:45 pm | Taking stock of emerging issues and recommended way forward for SAFIN and partners |
| 4:45 – 5:00 pm | Closing remarks (Prasun Kumar Das, Azeta Cungu and Lasse Moller) |

## ANNEX 2: Gallery and Q & A session















## Questions and Answers on the Presentations from *Mr. Lasse Moller,* OECD

Q1: *There are also principles by the working group of DFI about concessional finance; Some overlaps are found; How did Mr. Moller work to establish both of the principles?*

**A:** It's not only the principles that differ somewhat from each other, It's also the definition of blended finance because the DFI would consider Blended Finance as involving concessional finance. Concessional finance consists of a subsidy compared to what the market would otherwise offer, and so it is significantly different when you measure blended finance and measure the mobilization. The road map under the THK is trying to base on the five shared values and the 5 action areas, and it is trying to bridge those two types of approaches to Blended Finance. We are having many donors and other institutions involved in that road map in order to move towards a common agenda. We want to measure mobilization of private finance for development purposes. When we have two different definitions, it will obviously produce two different results; and that we are still discussing and we are still working very closely with the DFI to move towards a common understanding.

Q2: *The guidance notes that Mr. Moller is preparing on the implementation of principles is extremely welcome and the participants look forward to it. But it is wondered whether in this framework he is actually also working on the development of a particular methodology for and how he actually will monitor implementation of compliance with the principles. The participant wonders if he is thinking of developing specific indicators and if yes, what are the challenges?*

**A:** This is exactly what is happening in the working groups, that we are discussing how to develop methodologies to actually measure impact and also what are the criteria. There are so many different institutions out there and they have different mandates and they have different sort of incentives, and different business models. It is challenging that we are trying to cross over a difference between the different definitions of the defendants and the different way of measuring the mobilization. We also have different views on transparency. Some institutions work with private sector stakeholders. There are issues of confidentiality that the pop-up in terms of how much can you actually disclose and how far can transparency actually be taken in terms of getting information out from the Blended Finance deals. It is so sticky and complicated issues but we are moving exactly in the direction you are asking. We want to develop Matrix. We want to be sure that we are at the end of the day using the same language when we talk about Blended Finance and when we measure impact and mobilization. It is not certain that we will get there. This is the discussion that is ongoing and this is the way that we are trying to push the agenda from the OECD side.

## Questions & Answers on Presentations from *Ms. Lade D Araba,* CONVERGENCE

Q1: *In the OECD presentation, which was based on a data and in your presentation, we're looking at different types of institutions and different types of data. Please clarify the database that are used for the figures in your presentation.*

**A:** These data are drawn from local database. There are over 500 transactions and each of these transaction meets our definition on blended finance which are: (a) to leverage with private capital (b) there is profit return and (c) there is an impact. Each transaction under SDG, there are over 500 deals. The target impact matrix and also it is to be able to see who participate in these deals, which regard to relevant the sectors, returns, or any insurance.

*Q2: Including grant making into blended finance structure, how exactly grant leads to concessional or other to leverage finance. As far as I understand, grant generally used for capacity building or institution building.*

**A:** Refer to slide 4, 5 and 8, which shows a project life cycle. In the very beginning, the concessional capital includes grants. Grant cannot come for project preparation, they also come in at the investment stage. So basically, for private investment if you don't have that grant either investment or in the early stage of the project. You don't have project to come in. The grant is required for development project to help the company get started. It's not possible to come in. In a lot of cases you can see grants provided investment catching up with that grant coming in. Secondly, if you look at the second archetype on slide 8, we will have guarantees and insurance which need to be funded by a foundation. Many different ways the grant can be utilized as in slide 9 gap funding in which you can do in order to attract private investment.

***Q3:*** *You mentioned that the 3 criteria on the basis of which you qualify a deal as a blended. One of them is impacted. Ii is wondered whether you are measuring exports or is it based on some theories of change where you expect a particular deal to contribute to a certain point of SDGs.*

**A:** At the stage of collecting means that in some projection of impact matrix that was delivered. The second phase is assessment of the project. It has just begun; hence, it is unable to see whether or not it really impacted. There is an assessment if you look at the graph in slide 11, you will find the majority of these transactions and how they happened in the last 5 years. It means that how we put the grant to the life cycle. You will not be able to with the assessment. It will be next step for us but right now we're with the data to see how we can approach it

**Questions and Answers on presentations from *Iain Handerson* (ADM Capital) and *Rishabh Sood* (Rabo Foundation)**

***Question 1:*** *It seems that you are offering a great solution for credit providers to reduce their financial risk. However, as per my understanding, there are not many financial institutions showing interest in this product, what could be the reasons?*

**Ians' answer:** You're right. At the moment, the product was limited to just NBFC (Non-Banking Finance Company) because we didn't find enough interests among the commercial financial institutions. When we wanted to involve mainstream bank especially the case in India, they don't move till the time of hard collateral is provided which means mortgages and land pledging/ other collateral. The targeted clients for this product are those who do not have such hard assets for that collateral. Therefore, only new generation finance companies are willing to participate. At least we have found two such institutions who were willing to explore the market. In that sense, we consider this to be a successful project. Once the utilization of this amount happens, we would be willing to get the discussion with the mainstream banks. We will be presenting the results of what happens, the sound of financing to them. Hopefully, it will be able to get more interest from the financial institutions.

***Question 2:*** *One of the things that I was curious about is the process of how do you actually get to a point in which you decide what the Blended Finance solution is going to be that is relevant to that particular context, what is the process of getting there, of making that decision. Are there any steps in the process is there any type of analysis that you've done that has informed that decision so it's a question for both of you.*

**Iain's answer:** I think there were a couple of items in your questions on Blended Finance. One is the material mismatch which is noticed in OECD, G20, World Bank's stainable finance reports in the supply of funds. We knew that there was a mismatch issues with purely commercial financing image. Some of these are changing. Point number 2 is on TLFF. We were giving a generous finance and scope of convergence which I think was allowed to get to a point where the partners involved are available for potential transaction. There was trial and error at the institutional level which is an ongoing process and those are various potential sources of public funding that we are negotiating. So, I am looking for the Blended Finance solution as that which the commercial plan couldn't really provide this long-antennae finance.

**Rishabh's answer:** In front of us, lack of capital is clearly visible and we needed to bring in capital to financial transaction as a foundation. The capital required re two kinds (a) short-term capital for SMEs, for companies who are working with these in the space of climate-smart agriculture like agro-forestry and (b) other one which is more transformational in nature, where the tenor of facilities is extremely long (70—80 years). So, the problems are: lack of capital and tenor of loans. Now the ideal situation is that we need to provide liquidity to the sector, which is a missing link.

***Question 3:*** *I have two small questions related to what you were saying because now you have talked about mandated lending by the Government and you have also mentioned that regulations in India is complicated and are actually preventing long-term financing coming into the country. Now this is obviously part of an area we looking at legal and regulatory constraints for unlocking into Finance Solutions and unlocking specifically institutional investors because we all know that it requires deep pockets if we are actually going to be able to make a difference and so are we looking at the pension funds and the insurance companies and so on both public and private in order to see whether they can actually be mobilized into the space of development finance. How do you see this situation and what are the opportunities?*

**Rishabh's answer:** At the moment things, I would say that things are changing fast. The Government is becoming and is getting more receptive to changes. There are still problems, though, on the ground; it's not easy to mobilize development capital into the country, as I mentioned in my presentation. Again, it depends in what form is the capital available: (a) donation money, (b) loans and capitals, etc. Besides, it is also essential to know who is bringing the development capital into the country and note that only a particular kind of institutions/ organizations are entitled to perform this function.

**Iain's answer:** Talking about institutional investors, I think it's an area that doesn't get to spend as much as it may be sure. It is more about retail investors. In Europe, they generally use the private equity types of structures which prevent retail investors from getting involved because of the liquidity that they don't have for the 7-10 years horizon where they get the minimum ticket sizes of a quarter of a million plus. These products are coming up with the vehicles that already exists in the UK investment trusts (REIT trust is a classic example).

***Question 4:*** *This question is for Rishabh. About Guarantee Fund in India. As far as I know when you float a guarantee fund, you must have taken necessary permission from the Central banks (Reserve Bank of India) of the country and what procedure have you adopted? The second question is that in the guarantee funds, you need to have two types of fees, so what kind of fees you're charging? and Question number three: What are the areas you consider to be eligible to get the guarantee coverage.*

**Rishabh's answer:** Guarantee fund is established offshore so nothing comes to India. Only the claims would come to India in case there is a claim so it's an unfunded guarantee: but since the guarantee is being issued by Rabobank itself, it is well accepted that subsidized funds donation money are put aside by Rabobank with Rabo foundation on resources through private donations and so the guarantee fee that is being charged is just 1% of the loan amount. The eligibility to guarantee claim is 90 days after the account becomes overdue and there are no chances of recovery. However, the banks need to continue its efforts to recover the loans even after the guarantee is settled.

**Questions and Answers on presentation of *Yuri Soares*, Inter-American Development Bank**

***Question*** *It's a very interesting presentation as you explained the financing needs and how those financing needs can be met through the financial instrument which has a future. If you consider the context of Asia, because I'm Asian, instruments you have used for in those Blended Finance. So, the context of financing will come either from development banking institutions or from some investment funds. Would you have a long-term vision? What about the concessional finance being offered by the countries like, China, India, Indonesia, etc. What are the potentials of these instruments in blended finance?*

**Yuri:** The ability or the potential to do good with concessional finance today is still relevant and I will add another element that you didn't mention which is becoming increasingly important: concessional finance for promoting the research and development (R&D) space. The R&D space is where large economies such as China, USA and India are increasingly investing as a way to leverage future returns and development in every part of the country. This is also happening in the agriculture sector where a large chunk of budgets is being allocated in R &D as much as because no one wants to be behind the curve and missing the next big thing in ecology and Agriculture. I think that is mentioned which is also fundamental for National policies. I agree with you; I think quantifying the contribution of the concessions and the R & D is useful to understand the real investment.

## ANNEX 3: List of participants

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