



# Blended Finance for Agricultural Finance

---

## Introduction

**This technical brief is intended to serve as a practical guide for including agricultural finance in development programs; specifically, within the agricultural sub-sector of innovative climate-smart businesses, production and business models, and technologies.** The primary audience for this brief is development practitioners leading proposal design and implementation efforts in agriculture. This document aims to provide targeted design considerations and guidelines for how to frame the discussion – including practical advice around potential market opportunities and the respective stakeholders, financing needs and challenges to accessing finance, and relevant innovative financing mechanisms to unlock capital. Any given opportunity and its recommended design, however, will depend significantly on a range of project/enterprise-specific characteristics, including geography, value chain, stakeholders, and size.

**Designing programming to support the adoption of innovative climate-smart production and business models and technologies in the agriculture sector will become increasingly important, particularly in light of the growing demand for food production and the additional constraints it is expected to put on the environment.** Driven by a rapidly rising demand for food fueled by population and income growth, agricultural production and agri-businesses are facing strong growth opportunities worldwide. Climate change, natural resource conservation, and the state of the food and land use sectors (i.e., agricultural and forestry) are closely linked to this growth in demand. For example, agriculture is severely vulnerable to climate impacts (i.e., sensitivity of crops and livestock to changes in temperature and rainfall, availability of water for irrigation, impact of extreme weather events on yields, etc.), but agriculture itself is also a main contributor of greenhouse gas (GHG) emissions and the conversion of natural ecosystems, thus decreasing natural carbon sinks. Increasingly, agricultural initiatives are considering and recognizing this nexus between climate, environment, and agriculture. Innovative climate-smart businesses, business models, and technologies are increasingly prescribed as the pathway to improving good agricultural practices and yields, increasing primary producer incomes, reducing food waste along the value chain, and reducing incentives for encroachment into natural forest areas.

**Total annual investment required for these innovative production and business models and technologies in the agriculture sector amounts to \$150-\$160 billion globally.** The Food and Land Use Coalition estimates this amount of annual additional investment required until 2030 in 10 critical transitions in the food and land use sector, including productive and regenerative agriculture, protecting and restoring nature, reducing food loss and waste, and harnessing the digital revolution.<sup>1</sup>

While significant gaps remain, increasing momentum has driven significant funding toward agriculture. The U.S. Agency for International Development (USAID) has been at the forefront of blended financing in agriculture and has supported the highest number of transactions to date among donors.<sup>2</sup> The agency has deployed grants, including technical assistance (TA) grants and grants for design funding, as well as guarantees through its former Development Credit Authority. Examples include the IDH Farmfit Fund, a credit guarantee of up to \$250 million; the Tropical Landscape Bond, a guarantee on class A note holders amounting to \$33.25 million; and the Clarmondial Food Securities Fund, a \$37.5 million credit guarantee. Because of this surge in new initiatives, blended finance practitioners should actively consider coordination and partnerships to complement existing offerings.

## Context

**Agricultural production and agri-business contribute significantly to low-to-middle-income market economies in Latin America, Southeast Asia, and sub-Saharan Africa. However, the sector remains chronically underfunded by both governments and the private sector.** Typical financing comes from a variety of sources, such as local government budgets, commercial banks, official development assistance (ODA), international development finance flows, foreign direct investment (FDI), philanthropy, and regional and national Development Finance Institutions

---

<sup>1</sup> Source: Growing Better: Ten Critical Transitions to Transform Food and Land Use (Food and Land Use Coalition)

<sup>2</sup> Source: The State of Blended Finance 2020 (Convergence)

(DFIs). Most low-to-middle-income country (LMIC) government revenues fall short of the threshold required to fully support the agriculture sector. Furthermore, the overall supply of external resources to developing countries has declined in recent years<sup>3</sup>, with reductions in ODA, FDI, and international project finance investments.

**Additionally, most existing funding goes to large agri-businesses, primarily based on economic, cost, and real and perceived risk justifications. Financing remains especially limited for innovative businesses, business models, and technologies at the nexus of climate solutions and agriculture.** Small and mid-size enterprises (SMEs) – which include earlier-stage innovative production and business models and technologies – are particularly under served, as the loan sizes and borrower profiles are too small, risky, and costly for traditional financial institutions. Consequently, few agricultural SMEs have access to finance, and those that do are often faced with less-than-ideal terms, incurring higher interest rates, or a stricter repayment schedule.

**Given that traditional finance flows remain inadequate, there is a strong case for long-term, concessional capital to be deployed in the sector if this financing gap is to be bridged to drive long-term impact.** Only an estimated 15% of blended finance deals target the agricultural sector<sup>4</sup>. On a similar note, despite the strong linkages between agriculture and climate change (currently, agriculture, forestry and other land use sectors account for about 23% of global emissions<sup>5</sup>), the total amount of climate finance allocated to agriculture, forestry, and land-use remains relatively small (\$21 billion) compared to total amount of climate finance mobilized globally (\$579 billion)<sup>6</sup>.

**Consequently, there is a clear gap in the market in terms of high-risk financing for innovative production and business models and technologies in the agriculture sector. Financing solutions that go beyond current offerings are also required (e.g., smaller ticket sizes, flexible terms, concessional mechanisms, first-loss coverage, etc.).** Given the current trends, it is especially the smaller, higher-risk innovative production and business models and technologies that are being shut out from accessing finance. Yet, these projects, from a climate-change perspective, could play an important role in improving farmer livelihoods, food security, and climate solutions. From this perspective, there is a need to support these enterprises post-pilot and/or seed funding/accelerator stage in order to test validity of concept and potential for scaling up in new markets. Taking the early-stage businesses to maturation, until they are eligible to attract commercial lending, is an essential path to enable these businesses to succeed.

Donors and implementing partners have a critical role in addressing these market needs and supporting innovative businesses through TA and structures that “crowd in” private capital. Funded with \$30 million from Cargill and managed by Chemonics, the Land Innovation Fund (LIF) is a grant facility that seeks to accelerate the development and implementation of innovative and economically viable options for farmers in South America as alternatives to bringing forests

---

3 Source: Landscape Report: Blended Finance for Agriculture (SAFIN)

4 Source: The State of Blended Finance 2020 (Convergence)

5 Source: Climate Change and Land (United Nations' Intergovernmental Panel on Climate Change)

6 Source: Global Landscape of Climate Finance 2019 (Climate Policy Initiative)

and other native vegetation in target biomes under agricultural production. To expand its impact, Chemonics and Cargill will leverage part of the grant facility for parallel financing, co-financing, and other blended financing arrangements. In addition to the LIF, Chemonics is exploring opportunities to incorporate blended finance approaches in its current agriculture portfolio.

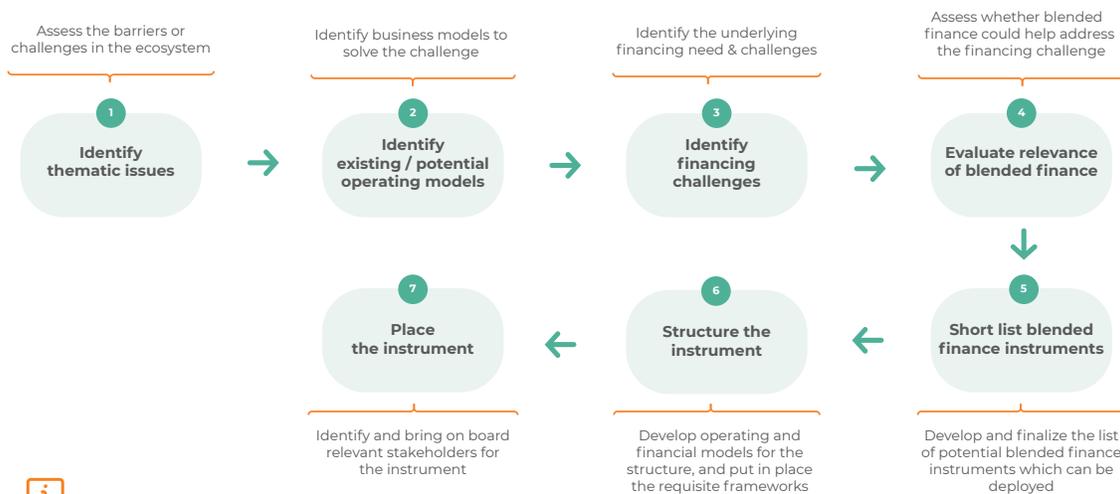
## Methodology

This brief highlights three core segments in which blended finance can support earlier-stage innovative production and business models and technologies, illustrating a problem-to-solution approach for step-by-step identification of appropriate instruments:

1. **Strengthening existing supply chain business models:** climate-smart investment for brick-and-mortar supply chain infrastructure (e.g., cold chain infrastructure, logistics, processing equipment) and related working capital.
2. **New production and business models:** innovation pilots and projects through value chain actors (i.e., input suppliers, producer companies, intermediary traders/processors, and corporate off-takers) that boost sustainability of value chains. Although many of these interventions will require working directly with smallholder farmers, financing should be channeled through larger aggregators (i.e., through value chain actors and/or through local financial institutions) as transaction costs for directly financing farmers can be cost-prohibitive.
3. **Digital technologies and platform services:** start-up entities focused on the provision of innovative digital services and technologies.

### Step-by-step approach to blended finance

Developed by KOIS



Do note that this brief covers only steps 2 to 5 of the framework within its focused scope. More detailed illustrations of such a step-by-step approach can be found in [this](#) Blended finance roadmap report by USAID.

Table 1: Target market opportunities

	IMPACT	FINANCING NEED	CHALLENGES TO ACCESS FINANCING NEEDED
<b>Strengthening existing supply chain business models</b>			
<p><b>Strengthening existing business models:</b> brick-and-mortar supply chain infrastructure/ working capital (i.e., in intermediary traders/ processors, value chain logistics/distribution)</p>	<ul style="list-style-type: none"> <li>Improving productivity and reducing food waste along existing value chains can reduce need for unsustainable crop intensification with diminishing returns and encroachment on periphery natural ecosystems (e.g. forests); additional energy efficiency in cold chain/ warehouse infrastructure can reduce carbon emissions</li> </ul>	<ul style="list-style-type: none"> <li>Infrastructure for machinery; storage facilities/ cold chain to improve productivity and reduce food waste</li> </ul>	<ul style="list-style-type: none"> <li>Given underlying exposure to agriculture sector risk, market rates can remain high/tenors too short for the longer-term financing need of infrastructure, especially for smaller/earlier-stage value chain intermediaries in looser/less formal value chains that cover the majority of smallholder farmers</li> </ul>
<b>New production and business models</b>			
<p><b>New climate-smart/ environmentally oriented business and production models</b> for value chain actors (i.e., input suppliers, farmer producer companies, intermediary traders/ processors, corporate off-takers)</p> <p><b>New businesses and business models,</b> including conservation and carbon credit/ payment for ecosystem services</p>	<ul style="list-style-type: none"> <li>Improving climate-smart/ environmentally oriented agricultural practices across value chains through new science-based production models</li> <li>Incorporating new carbon credit/ecosystem services models into existing primary production business models; alternatively, conservation can be a standalone intervention incorporated into an ecosystem management business model</li> </ul>	<ul style="list-style-type: none"> <li>TA/capacity-building to support training on new agricultural practices and production models</li> </ul>	<ul style="list-style-type: none"> <li>Significant TA grant funding needed, but limited donor financing</li> <li>Many existing donor mandates are time-limited (3-5 years); often market linkages are not sufficient and farmers/value chain producers revert back to traditional unsustainable practices given short-term economics</li> </ul>
		<ul style="list-style-type: none"> <li>Short-term working capital for value chain financing of farmers</li> <li>Longer-term financing for replanting/new production models (i.e., agroforestry, regenerative agriculture, etc.) and equipment</li> </ul>	<ul style="list-style-type: none"> <li>Market rates are often too high given opportunity cost of lending to agriculture sector and the high risks involved</li> <li>Tenors tend to be short-term and with insufficient grace and payback periods to match the longer-term production cycles, particularly for new climate-smart interventions</li> <li>Repayment/default terms fail to consider the cyclical exogenous risks in the sector (i.e., poor weather)</li> <li>Strict securities/collateral criteria lock out significant majority of farmers; and even for those with collateral, transaction costs on documentation are high</li> </ul>

	IMPACT	FINANCING NEED	CHALLENGES TO ACCESS FINANCING NEEDED
<b>New digital technologies and platform services</b>			
<p><b>New digital technologies and platform services</b></p> <ul style="list-style-type: none"> <li>• Digital financial services</li> <li>• Crop and livestock insurance</li> <li>• Data services for SMEs/corporates, including tracking/traceability</li> <li>• Data services for farmers, including advisory services/weather information/training</li> </ul>	<ul style="list-style-type: none"> <li>• Developing and scaling new digital technologies and services to reduce distribution channel customer acquisition and transaction costs; creating platforms for aggregated advisory services, market access, and access to finance for improved climate-smart agricultural practices and productivity</li> <li>• Cost-effective primary data collection</li> </ul>	<ul style="list-style-type: none"> <li>• Entrepreneur capacity-building</li> </ul>	<ul style="list-style-type: none"> <li>• Incubator/accelerator and venture building programs play an important role in supporting venture entrepreneurs. There are nascent start-up ecosystems developing in LMICs – though more support is still needed to support local entrepreneurs vs. expatriates</li> </ul>
		<ul style="list-style-type: none"> <li>• Operations scale-up financing (e.g., prototype validation, marketing, customer acquisition, capital expenditures, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of entrepreneurial capacity to fundraise and pitch venture ideas (particularly with local entrepreneurs)</li> <li>• Challenges around equity valuation given nascent ecosystem and lack of comparable benchmarks and successful models reduce deal flow</li> </ul>

Table 2: Relevant innovative financing instruments<sup>8</sup>

TARGET MARKET OPPORTUNITIES	FINANCING NEED	MATURITY/ SOPHISTICATION OF ENTERPRISE AND/ OR MARKET	RELEVANT INSTRUMENT	RISK PROFILE
<b>Strengthening existing supply chain business models:</b> supply chain infrastructure /working capital (i.e., in intermediary traders/processors, value chain logistics/ distribution)	<ul style="list-style-type: none"> <li>Infrastructure for machinery; storage facilities/cold chain to reduce food waste</li> </ul>	<ul style="list-style-type: none"> <li>Low maturity and sophistication</li> </ul>	<ul style="list-style-type: none"> <li>Straight debt with flexible/concessional/ first-loss terms</li> <li>Mezzanine finance/ convertible securities; equity</li> <li>Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>Similar to below, though risk of strengthening infrastructure of existing business models can be better understood than for new production/ business models</li> </ul>
		<ul style="list-style-type: none"> <li>High maturity and sophistication</li> </ul>	<ul style="list-style-type: none"> <li>Straight debt with flexible/concessional/ first-loss terms</li> <li>Mezzanine finance/ convertible securities; equity</li> <li>Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>Non-risk capital</li> </ul>
<b>New climate-smart/ environmentally oriented production models</b> for value chain actors (i.e., input suppliers, farmer producer companies, intermediary traders/ processors, corporate off-takers)  <b>New business models,</b> including conservation and carbon credit/ payment for ecosystem services	<ul style="list-style-type: none"> <li>TA/capacity-building</li> <li>Working capital (typically short-term financing)</li> <li>Farmer longer-term replanting (i.e., agroforestry), soil and water conservation techniques, and equipment (longer-term financing)</li> </ul>	<ul style="list-style-type: none"> <li>Earlier-stage, though may be relevant throughout all financing lifecycle stages</li> </ul>	<ul style="list-style-type: none"> <li>Grants</li> <li>Recoverable grants</li> </ul>	<ul style="list-style-type: none"> <li>Non-risk capital</li> </ul>
		<ul style="list-style-type: none"> <li>Low maturity and sophistication</li> </ul>	<ul style="list-style-type: none"> <li>Straight debt with flexible/concessional/ first-loss terms</li> <li>Guarantees</li> <li>Recoverable grants</li> </ul>	<ul style="list-style-type: none"> <li>Higher risk (looser value chains; non-export/high value commodity markets; less mature initiatives/ enterprises and/or in frontier markets)</li> </ul>
		<ul style="list-style-type: none"> <li>High maturity and sophistication</li> </ul>	<ul style="list-style-type: none"> <li>Straight debt with flexible/concessional/ first-loss terms</li> <li>Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>Lower risk (tight corporate/ intermediary value chains; high value commodity/export crops; more mature initiatives/enterprises in more developed geographies)</li> </ul>

<sup>8</sup> Traditional commercial debt and equity financing instruments can often fail to offer terms sufficiently adapted to cover agriculture sector financing needs. Specifically, we highlight a range of instruments (including quasi-grants, debt, mezzanine finance, and risk-sharing mechanisms) that can be tailored to meet the need for flexibility, concessionality, and first-loss capital provisions. It is important to note, however, that as customization and non-standardization/innovation of financial instrument are increased to address the unique needs of an enterprise, the greater the complexity (for both investor and investee) and the higher the transaction costs. Please refer to Annex 1 and Annex 2 for further details.

<sup>9</sup> Deploying equity instruments may be attractive as it can provide investees with much-needed patient capital. Such equity instruments, however, can be particularly difficult for investors to appraise an enterprise's fair valuation at initial investment, given the uncertainty inherent in the business model and market. Mezzanine/convertible securities share similar characteristics with equity instruments, but provide for regular liquidity events for investors.

TARGET MARKET OPPORTUNITIES	FINANCING NEED	MATURITY/ SOPHISTICATION OF ENTERPRISE AND/ OR MARKET	RELEVANT INSTRUMENT	RISK PROFILE
<p><b>New digital technologies and platform services</b></p> <ul style="list-style-type: none"> <li>• Digital financial services</li> <li>• Crop insurance</li> <li>• Data services for SMEs/corporates, including tracking/traceability</li> <li>• Data services for farmers, including advisory services/weather information/training</li> </ul>	<ul style="list-style-type: none"> <li>• Entrepreneur capacity-building</li> </ul>	<ul style="list-style-type: none"> <li>• Venture pitch/post-pitch</li> </ul>	<ul style="list-style-type: none"> <li>• Grants</li> <li>• Recoverable grants</li> </ul>	<ul style="list-style-type: none"> <li>• Non-risk capital</li> </ul>
	<ul style="list-style-type: none"> <li>• Operations scale-up financing (e.g., prototype validation, marketing, customer acquisition, capital expenditures, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>• Seed capital/pre-Series A</li> </ul>	<ul style="list-style-type: none"> <li>• Mezzanine finance/convertible securities; equity</li> <li>• Guarantees</li> </ul>	<ul style="list-style-type: none"> <li>• Highest risk with higher potential upside</li> </ul>

## Case Studies



### CASE STUDY 1: USAID GREEN INVEST ASIA

**Context:** USAID Green Invest Asia aims to mobilize \$400 million of private finance into sustainable commodity production in Southeast Asia by 2022. The commercial agriculture and forestry sectors produce more than 40% of GHG in Southeast Asia. While businesses are finding ways to increase the environmental sustainability of their operations, logistical barriers facing both businesses and investors contribute to a \$220 billion sector funding shortfall in the region until 2030. By providing TA to businesses and investors, USAID Green Invest Asia seeks to overcome these barriers and facilitate investment into sustainable agriculture and forestry sectors.

**Structure:** The project has three main elements:

- Supporting mid-sized agriculture and forestry businesses to improve the environmental sustainability of their operations and manage environmental risks: USAID provides these companies with TA to improve commodity production and business practices, access to financing with preferential terms, and transaction support.
- Reducing barriers for investors: To encourage climate-smart financing, USAID Green Invest Asia builds the capacity of financial institutions to assess the risks associated with different

types of land use. The project links investors and financial institutions with sustainable, low-emission agricultural and forestry companies, and de-risks lending by improving client's environmental risk management. USAID Green Invest Asia's support to financial institutions includes technical support, transaction support, as well as TA in land use ESG management.

- Strengthening business networks for sustainable financing: USAID Green Invest Asia engages a full range of stakeholders in the financial, forestry, and agricultural sectors. By working through existing networks, the project aims to promote knowledge sharing and foster cooperation among stakeholders to address systemic issues that hinder access to sustainable land use financing business opportunities.

**Results and impact:** As an example, USAID Green Invest Asia has facilitated a financing agreement between Phnom Penh Commercial Bank and IBIS Rice Conservation Co Ltd. to increase wildlife-friendly organic rice sales. USAID Green Invest Asia provided IBIS Rice with TA to secure financing from PPCBank through capital matchmaking and investment preparedness services.

**EARLY SUCCESSES:**

- The project has facilitated more than \$30 million of investments in sustainable teak and rubber in Indonesia and Cambodia.
- Collaboration with a global cocoa processor, Barry Callebaut, to develop the first global sustainable coconut charter to strengthen industry collaboration on sustainable coconut and coconut oil production. These efforts will help mitigate the environmental impact of coconut and coconut oil production and help coconut farmers improve their farm productivity and self reliance.
- Development of a methodology for the Rabobank Foundation to measure its portfolio-level carbon footprint.

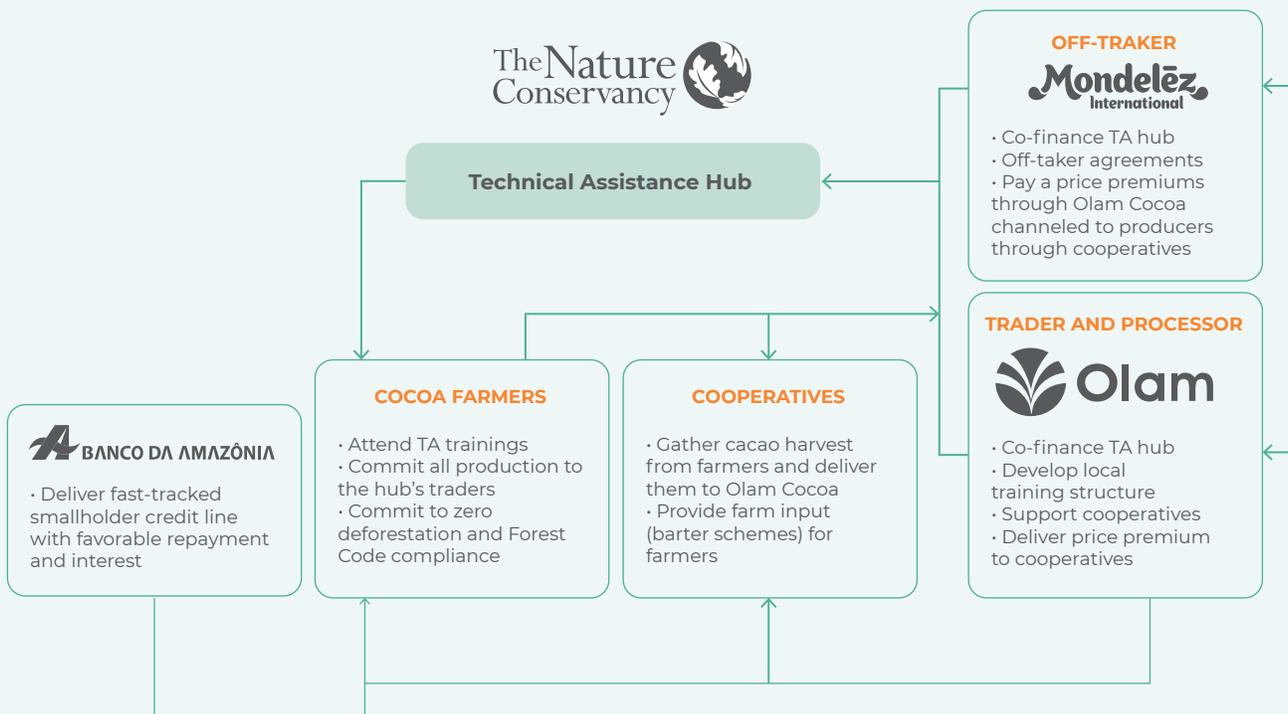


**CASE STUDY 2: COCOA AGROFORESTRY RESTORATION**

**Context:** The Pará Cocoa Agroforestry Restoration project aims to support smallholder farmers to restore Brazil's forests and its cocoa industry. The project uses an innovative model launched by The Nature Conservancy (TNC) to address a cattle-ranch driven deforestation in Pará, Brazil. By shifting to cocoa agroforestry systems on degraded pastureland, the model halts deforestation, actively restores degraded lands, and gives smallholders better livelihoods opportunities. The model has been piloted in the region of Pará and has mobilised GBP£3.5m of private investment to date.

Led by TNC, the Cocoa Agroforestry Restoration model is a multi-partner initiative including corporates Mondelēz International and Olam Cocoa, local cooperatives, and a TA firm, Coordenada Rural. TNC, that has been pioneering cocoa agroforestry systems with farmers since 2013, initiated the multi-partner model in 2018 to create stronger linkages between actors and overcome two critical barriers to the agroforestry model: i) upfront investment cost for smallholders to transition to cocoa production and ii) affordable, large scale TA to build smallholders' skills. Together, the partners have unlocked rural credit for smallholder farmers through a partnership with Banco da Amazona, and built institutional arrangements backed by private capital to cover TA costs.

**Structure:** The project provides training and support services, and access to rural credit services for smallholder farmers. For smallholders, receiving TA reduces operational risks of switching to cocoa and increases access to rural credit. With Olam Cocoa and Mondelēz International providing off-take agreements at price premiums, smallholders are also expected to achieve livelihood returns. For Olam and Mondelēz, access to local produce reduces dependency on cocoa imports and contributes to their transition to sustainable production. For banks, the partnership reduces the risk related to providing credit to smallholder farmers. For TNC, the multi-partner model enables sharing of risk and returns across the value chain which facilitate its roll-out.



The organization Partnership for Forests has supported the pilot stage of the project to finance restoration training resources, create a clear governance structure between partners, and lead discussion with the partner bank to unlock a credit line for agroforestry systems.

**Results and impact:**

Early successes (pilot program)

- 252 smallholders engaged;
- 436 hectares of new agroforestry systems; and
- 13 smallholder credit applications have been submitted and approved of a value of GBP £100,000.



**CASE STUDY 2: PULA ADVISORS**

**Context:** Agriculture insurance is recognized as a highly catalytic tool, helping farmers build resilience to drought and climate change. Yet, many agricultural insurance providers, especially in Africa, have struggled to reach sustainability and have experienced very low uptake among farmers. Indeed, the value of agricultural insurance premiums in Africa represent less than 1% of the world’s total when the continent has 17% of the world’s arable land. This can partly be explained by the traditional agricultural insurance model that works directly with farms. In Africa, where smallholding or small-scale farms are the norm, claims typically require assessment visits across vast rural areas, resulting in high premiums that are unaffordable for smallholder farmers. Thus, while an increasing number of venture capital funds are deploying capital into the agri-fintech space, few have the risk appetite to invest in agricultural insurance.

Index-based insurance, using technology and data, has emerged as a potential solution to this challenge. Pula Advisors, one of the leading crop insurance providers in Africa, leverages machine learning, crop-cut experiments and data on weather patterns, and farmer losses to build insurance products that cater to various risk. By working with governments, seed/fertilizer companies, loan providers, and other agriculture value chain partners, Pula bundles insurances with farm input products or loan credit to increase the uptake. For example, partner banks that provide loans to farmers make it compulsory for them to have insurance. With the loan, the bank can pay the insurance on behalf of the farmers at the start of the season and at the end of harvest, the farmer repays the loan with interest. Similarly, agricultural input companies pay a premium to differentiate their product from their competitors’ products, and the insurance is underwritten by third-party insurers.

**Results and impact:** In 2017, Pula Advisors received support from Mercy Corps Agrifin program to increase the uptake of insurance products among smallholder farmers in Zambia, Malawi, Kenya, and Nigeria. Mercy Corps Ventures also invested in Pula Advisors through a convertible debt. Thanks to this support, Pula Advisors was able to build a track record and complete a first seed funding round in 2018. In January 2021, Pula closed a Series A investment of \$6 million. Pula now insures over 700,000 farmers in the four African countries it serves with clients ranging from governments of Kenya and Zambia, social enterprise One Acre Fund, and the agri-business Flour Mills.

## Conclusion

The agriculture sector remains underfunded from both the public and private sector. This is especially true for innovative businesses, business models, and technologies at the nexus of climate solutions and agriculture — due to small ticket sizes, early stage/risky borrower profiles, and cost to aggregate and assess investments. These areas present a sizeable opportunity and sweet spot for blended finance. While USAID has been at the forefront of addressing this gap, there has been relatively limited application so far, with the sector comprising only 15% of all recent blended finance transactions.

Many needs can be addressed through standardized debt instruments and mezzanine finance tools that are readily understood and easy to administer. The actual terms of lending/investing - longer grace periods, longer tenors, lower interest rates, higher risk appetite, less punitive default covenants — are more important to address existing key market gaps. Additionally, recoverable grant capital and risk-sharing guarantees may be required for earlier-stage/less mature investees. Instruments should provide integrated offerings, especially TA at both pre- and post-investment stage to strengthen business/financial management and improve systems and processes to mitigate against typical credit and investment risks.

Development practitioners should actively consider coordination and partnerships to complement existing offerings. While this can be very contextual and market-specific (commodity/geography), many actors in the agriculture/climate ecosystem such as incubators/accelerators, venture builders, and corporates have significant footprints and portfolios reaching regional or continent-wide scale. These can present high-value partnerships for origination and pipeline building or co-financing/de-risking opportunities.

Annex 1: Relevance of innovative financing instruments

FINANCIAL INSTRUMENT	DESCRIPTION	KEY FINANCING CHALLENGES ADDRESSED	BENEFITS AND CHALLENGES
<b>Quasi-grant</b>			
<b>Recoverable grants</b>	<ul style="list-style-type: none"> <li>• A financial tool that mimics features of a zero-interest loan and a grant. There is no automatic repayment obligation and no interest accrued on the disbursed amount</li> <li>• The principal amount is paid back only if the project reaches certain pre-defined milestones, such as a level of minimum commercial viability. If the milestones are not reached, the recoverable grant is converted into a simple grant</li> </ul>	<ul style="list-style-type: none"> <li>• Long-term patient/risk capital</li> <li>• Access to financing for businesses without collateral</li> </ul>	<p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>• Incentivizes experimentation and innovation</li> <li>• Simplicity of transaction and low transaction cost</li> <li>• Enables recycling of grants</li> </ul> <p><b>Challenges:</b></p> <ul style="list-style-type: none"> <li>• Capital preservation as a maximum, with losses on proportion of principal highly likely</li> <li>• Grants can fail to encourage financial rigor in companies compared to debt and equity investments</li> </ul>
<b>Debt</b>			
<b>Straight debt</b> with flexible/concessional terms	<ul style="list-style-type: none"> <li>• Traditional debt instrument with periodic amortization of principal (unless bullet) and interest repayment, adapted with more favorable terms</li> </ul>	<ul style="list-style-type: none"> <li>• Longer tenors (except for working capital), concessional interest rates can provide patient capital needed by many enterprises</li> <li>• Unsecured debt/first-loss provisions can increase access to financing for enterprises without collateral</li> </ul>	<p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>• Standardized instruments can reduce transaction costs; highest investee appetite</li> </ul> <p><b>Challenges:</b></p> <ul style="list-style-type: none"> <li>• Additional concessional, appetite for loss/first-loss provisions may be required to manage default risk</li> </ul>
<b>Quasi-debt/equity</b>			
<b>Mezzanine finance/convertible securities</b>	<ul style="list-style-type: none"> <li>• Subordinated debt instrument, with equity conversion in a Series A (typically in event of default, though this can also be structured as a call option)</li> </ul>	<ul style="list-style-type: none"> <li>• Long-term patient capital for entrepreneurs</li> <li>• No amortization of loan principal; ability to defer interest payments</li> <li>• Founders can repay principal and interest payments in full (to maintain owner equity share) or convert to equity in Series A</li> </ul>	<p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>• Typically, higher yields/returns (though interest rates offered can be made to be concessional)</li> <li>• Periodic interest payments (if not deferred) provide regular liquidity events</li> <li>• Equity valuation on principal (and any deferred interest payments) can be delayed until Series A financing round</li> </ul> <p><b>Challenges:</b></p> <ul style="list-style-type: none"> <li>• Subordinated to senior debt</li> <li>• Eventual equity exits at significant multiples remain rare; high failure rates</li> <li>• Potential for poor time value of money, depending on timeline for equity exit</li> </ul>

FINANCIAL INSTRUMENT	DESCRIPTION	KEY FINANCING CHALLENGES ADDRESSED	BENEFITS AND CHALLENGES
<b>Risk-sharing mechanisms</b>			
<b>Guarantees</b>	<ul style="list-style-type: none"> <li>Partial or full credit guarantees on value of financing instrument in the event of non-payment or loss of value. Resources are only disbursed in the case of losses and can remain funded or unfunded on guarantor balance sheets until default event</li> </ul>	<ul style="list-style-type: none"> <li>Risk-reduction mechanism to attract more risk-averse investment capital</li> </ul>	<p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>Guarantees can be an effective tool to mobilize additional private capital (and it has not been deployed at scale in agriculture)</li> <li>Unfunded guarantees can optimize the use of resources, as disbursements only occur in the event of default</li> </ul> <p><b>Challenges:</b></p> <ul style="list-style-type: none"> <li>Guarantees can be costly to the beneficiary given the high risk inherent in agriculture sector opportunities they target; unless these costs are subsidized</li> <li>Managing unfunded liabilities on balance sheet can require costly due diligence to reduce high risk of disbursements; conversely, funded guarantee liabilities will require earmarked reserves that cannot be deployed for other uses</li> </ul>

Annex 2: Structural features to address financing challenges, by type of innovative finance instrument

	RECOVERABLE GRANTS	STRAIGHT DEBT WITH FLEXIBLE / CONCESSIONAL TERMS	MEZZANINE FINANCE	GUARANTEES
<b>Long-term maturity/ tenors</b>	Yes. No explicit repayment obligations	Yes. Longer tenors can be adapted to provide patient capital; in principle, need for at minimum 7-10 year tenors, if not up to 12-15 years	Yes. Longer tenors can be adapted to provide patient capital until equity conversion	Yes. Risk-sharing mechanism to cover full life of financing instrument
<b>Concessional rates</b>	Yes. No interest on principal amount is required	Yes. Concessional rates can be adapted	Yes/No. Mezzanine financing typically requires higher yields to compensate for higher risk, though some concessionality can be adapted	Yes. Cost of guarantees can be subsidized

	RECOVERABLE GRANTS	STRAIGHT DEBT WITH FLEXIBLE/ CONCESSIONAL TERMS	MEZZANINE FINANCE	GUARANTEES
<b>Grace/ honeymoon periods</b>	Yes. No explicit repayment obligations	Yes. Long grace periods can be adapted to provide patient capital; longer-term capital needs may benefit from up to 3-5 year grace periods for first cashflows; though typical concessional grace periods between 1-2 years	Yes. Long grace periods can be adapted, in addition to standard deferred interest terms for mezzanine finance	n/a
<b>Flexible repayment terms</b>	Yes. Repayment only required if the enterprise reaches pre-set milestones. If those milestones are not reached, the instrument converts into a simple grant	No. Typically fixed period repayments once grace period ends	Yes. No periodic principal repayments. Deferred interest repayments can be capitalized and paid out through future preferred equity conversion	n/a
<b>Favorable default remedies and collateral/ security requirements</b>	Yes. Unsecured	Yes. Unsecured debt can be provided/ higher loss provisions	Yes. Typically, unsecured. Defaulted payments are subordinated to senior debt and convert to preferred equity in a Series A financing round	n/a
<b>First-loss provisions for co-financiers</b>	Yes. First-loss grant capital	Yes. Can be subordinated to act as first-loss capital tranche	Yes. Subordinated position, only senior to common equity	Yes. Guarantees provide partial or full credit on value of financing instrument in the event of default
<b>Currency</b>	<p><b>Typically, in hard currency (US\$)</b>                      For debt instruments with borrowers outside of export-oriented commodity value chains, local currency financing would significantly reduce debt burden (but is not readily available) and can hedging instruments can be costly for international investors</p>			
<b>Streamlined administrative requirements (i.e., due diligence, M&amp;E/impact reporting requirements)</b>	Yes. Standardized product with flexible terms	Yes. Standardized product with flexible terms, unless high impact reporting requirements; loan diligence costs can be high	Yes/No. Standardized product, though equity participation will have similar requirements to a straight equity instrument (unless following another lead investor in Series A)	Yes/No. Depends on specific requirements for release of guarantee capital to avoid moral hazard

<b>Instrument complexity for investee</b>	Low. Similar to traditional grant instruments	Low. Standardized debt instrument	Medium. Standardized instrument, though less sophisticated actors may have less familiarity with quasi-debt / equity	Medium. Depends on criteria for unlocking guarantee capital in event of non-payment
<b>Board representation</b>	No	No	Yes/No. Investor can demand Board seat or other direct involvement in governance	n/a

Annex 3: Examples of funds and facilities targeting land-use sectors

NAME	YEAR OF LAUNCH	DESCRIPTION	SIZE (US\$M)	INSTRUMENTS
<b>Partnership for Forests (P4F)</b>	2017	P4F aims to identify and incubate regenerative business models, specifically public-private-people partnerships, that incentivize forest protection and sustainable land use. It catalyzes investments in which the private sector, public sector, and communities can achieve shared value from sustainable forests and sustainable land use.	18	<ul style="list-style-type: none"> <li>Grants</li> <li>TA</li> </ul>
<b>Agri3 Fund by Rabo Bank (See Annex 4)</b>	2019	The AGRI3 Fund develops business models that include acceleration of sustainable management of forests and the implementation of innovative agricultural solutions. Contributions will help provide additional de-risking financial instruments and grants for TA for food value chain actors, and, particularly, farmers.	80	<ul style="list-style-type: none"> <li>Debt</li> <li>Guarantees</li> <li>TA (though separate facility)</li> </ul>
<b>&amp;Green Fund</b>	2017	&Green invests in commercial projects in agricultural production value chains in order to protect and restore tropical forests and peatlands and make agriculture more sustainable and inclusive.	120 (target 400)	<ul style="list-style-type: none"> <li>Debt</li> <li>Guarantees</li> </ul>
<b>IDH Farmfit Fund</b>	2018	The IDH Farmfit Fund's innovative financing model makes investments in smallholder farmers. It de-risks investments and helps drive sustainable impact by lowering risks and costs. In addition, the IDH Farmfit Fund draws on the integrated approach of IDH Farmfit Business Support and IDH Farmfit Intelligence.	120	<ul style="list-style-type: none"> <li>First-loss/ second-loss risk-sharing guarantee (by USAID, up to \$250 million)</li> <li>Quasi-equity</li> <li>Equity</li> </ul>

NAME	YEAR OF LAUNCH	DESCRIPTION	SIZE (US\$M)	INSTRUMENTS
<b>The Agri-Business Capital Fund (ABC Fund)</b>	2019	The ABC Fund targets smallholder farmer cooperatives and rural agri-businesses SMEs that are commercially viable with the aim to help reduce rural poverty, feed the planet and build food systems resilient to climate change.	22	<ul style="list-style-type: none"> <li>• Debt</li> <li>• Equity</li> <li>• TA</li> </ul>
<b>Restoration Seed Capital Facility</b>	Not yet launched	The Restoration Seed Capital Facility supports early-stage development of forest restoration projects in developing countries, contributing to climate adaptation and mitigation, biodiversity, and sustainable livelihoods. The Facility is financed by the governments of Germany and Luxembourg.	N/a	The Facility supports funds and investment advisors to I) fundraise (grant limited to \$750,000) II) build project pipeline III) co-finances the development costs of getting seeded projects to full financial close (grant \$500,000-2.5 million)

Annex 4: AGR13 Fund case study



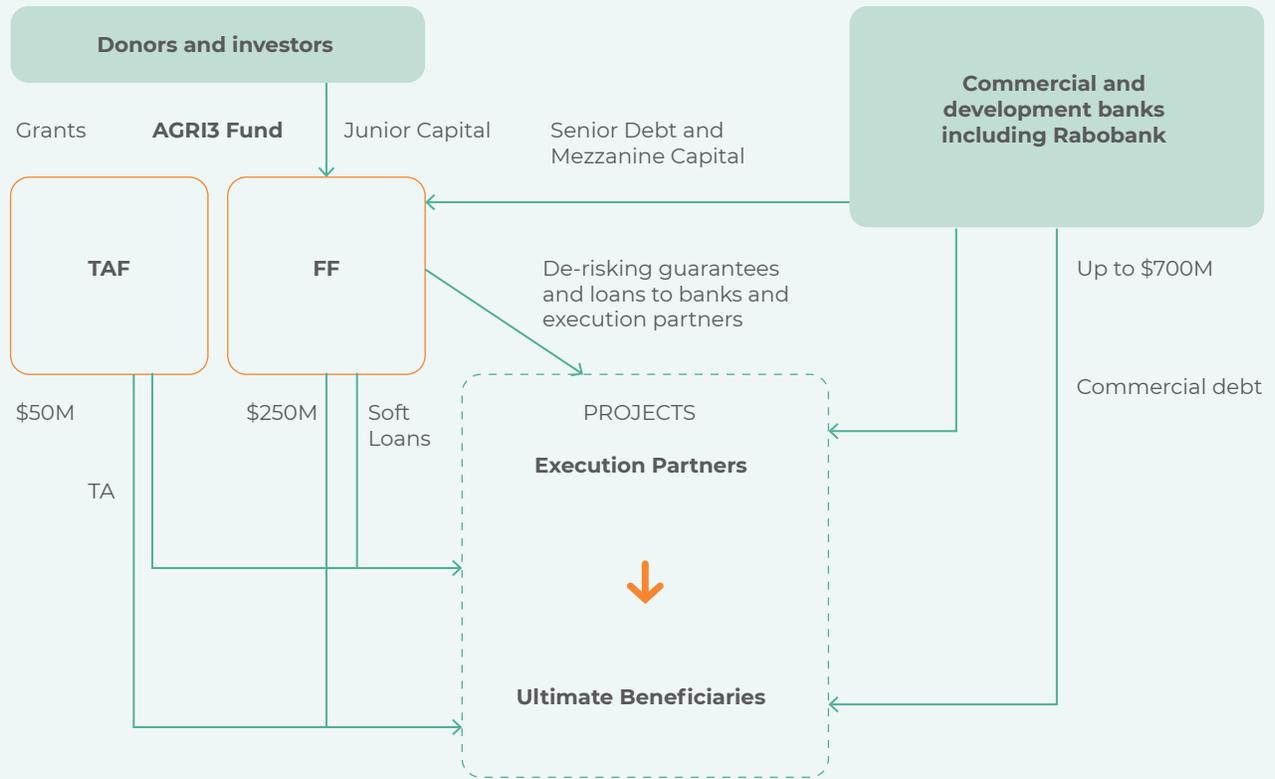
**CASE STUDY: AGR13 FUND**

**Context:**

AGR13 Fund, officially launched in April 2020, aims to unlock \$1 billion for forest protection and sustainable agriculture, as well as bridge the gap between the needs of farmers and the limitations of the banks. Specifically, the fund aims to provide smallholder farmers access to financing and skills to transition to sustainable and climate smart agriculture, by blending public and private sources to enable projects that would have otherwise not materialized due to risk profile. The AGR13 Fund was born as a partnership between UN Environment Programme, Rabobank, IDH The Sustainable Trade Initiative, and FMO. Early investors include the Dutch Government (\$40 million), Rabobank (\$40 million), and GEF (\$13 million).

**Fund Structure:**

The TAF, managed by IDH The Sustainable Trade Initiative, will provide additional TA support for pipeline development, monitoring and evaluation, and capacity-building to accelerate the development of investable opportunities. The Fund will initially focus on Brazil, Indonesia, and India with ambition to work across Southeast Asia, Sub-Saharan Africa, and Latin America.



**Results and Impact:**

The Fund closed its first two transactions in December 2020. The first represents a \$5 million transaction providing financing for forest replanting, forest protection, and renovation of degraded pastureland in Brazil. The innovative structure includes de-risking over a longer repayment period (10 years) and offers a replicable model for financing sustainable investments in non-cash generating activities like forest protection. The second transaction represents a \$10 million de-risking instrument to Rabobank, allowing Rabobank to provide a loan to Chongqing Agricultural Chain Corporation Ltd., a large farm inputs company in China. For the Rabobank transaction, the TAF offered both pre-and post-investment support.

## BIBLIOGRAPHY

- Food and Land Use Coalition 2019, *Growing Better: Ten Critical Transitions to Transform Food and Land Use*, accessed 14 January 2021, <<https://www.foodandlandusecoalition.org/wp-content/uploads/2019/09/FOLU-GrowingBetter-GlobalReport.pdf>>
- Convergence 29 Oct 2020, *The State of Blended Finance 2020*, accessed 14 January 2021, <<https://www.convergence.finance/resource/1qEM02yBQxLftPVs4bWmMX/view>>
- SAFIN 2019, *Landscape Report: Blended Finance for Agriculture*, accessed 7 January 2021, <[https://assets.ctfassets.net/4cgqlwde6qy0/6G2t1GLRak5ZtVKpsPIY6a/17211670b3233a47da6c9b4dbdf9f3ae/Landscape\\_Report\\_-\\_Blended\\_Finance\\_for\\_Agriculture.pdf](https://assets.ctfassets.net/4cgqlwde6qy0/6G2t1GLRak5ZtVKpsPIY6a/17211670b3233a47da6c9b4dbdf9f3ae/Landscape_Report_-_Blended_Finance_for_Agriculture.pdf)>
- Convergence 29 Oct 2020, *The State of Blended Finance 2020*, accessed 14 January 2021, <<https://www.convergence.finance/resource/1qEM02yBQxLftPVs4bWmMX/view>>
- United Nations' Intergovernmental Panel on Climate Change (IPCC) 2020, *Climate Change and Land*, accessed 14 January 2021, <[https://www.ipcc.ch/site/assets/uploads/sites/4/2020/02/SPM\\_Updated-Jan20.pdf](https://www.ipcc.ch/site/assets/uploads/sites/4/2020/02/SPM_Updated-Jan20.pdf)>
- Climate Policy Initiative 2019, *Global Landscape of Climate Finance 2019*, accessed 13 January 2021, <<https://www.climatepolicyinitiative.org/wp-content/uploads/2019/11/2019-Global-Landscape-of-Climate-Finance.pdf>>