

Finance for Food: Investing in Agriculture for a Sustainable Future

EXECUTIVE SUMMARY

Investments in the agrifood sector are key to food security and nutrition, and they are critical for all aspects of sustainable development, including poverty eradication. Driven by population growth and changing dietary preferences, the agrifood sector is projected to grow in the future, creating the need for even greater investments and financing, both public and private. A large part of investments in agrifood value chains today come from small and medium-sized enterprises (SMEs) and smallholder farmers. However, these actors are often underserved by financial institutions, owing to their fragmentation, low productivity and other factors. Many institutions, including multilateral development banks (MDBs), are seeking to invest in smallholder competitiveness, assets, skills and market linkages to attract private finance and strengthen the entire value chain. Much progress remains to be made, which requires a collective effort by the MDBs and other partners, public and private.

The 2030 Agenda approved in September 2015 at the United Nations Sustainable Development Summit calls for increased investments in agriculture, support to entrepreneurship and financial inclusion, all of which require the mobilization of development finance from both public and private sources, as well as coordinated strategies. Implementation of the 2030 Agenda needs to consider these important facts: first, the investments needed are large and financial inclusion of small-scale operators remains an important challenge. Second, SMEs represent the bulk of agrifood operators, employment, income generation and production in many countries. Third, given the importance of the sector, large commercial operators are increasingly investing in supporting value chains, thus contributing to financing smallholders and SMEs directly and indirectly. Finally, public finance remains essential for investment in public goods and services, such as research, education and market information.

Smallholders and SMEs require access to a variety of financial products and services to function properly. In the past, these were mostly provided by the public sector, but with the progressive reduction of public services and finance, commercial finance providers and microfinance institutions have not been able to fill the finance vacuum. Hence there is a need to develop context-specific, diversified institutional ecosystems for agrifood finance, which combine public and commercial finance institutions, and which also build on the potential of self-help groups to ensure both wide outreach and sustainability.

Access to finance varies greatly among and within countries and depends on socio-economic as well as market-related factors. Nevertheless, there are several common factors that limit access to finance for smallholders and agrifood SMEs, including their limited asset base, poor market connectivity and risk perceptions. Gender factors further limit women's access to finance all along agrifood value chains. To address such constraints, an enabling environment needs to be put in place, including policy measures to address land tenure security, good governance, well-functioning markets, and policy frameworks supportive of associations of farmers and SMEs.

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The MDBs have long experience in supporting financing for SMEs and smallholder farmers, with a diversity of approaches. Commonalities include support to financial institutions, market-oriented approaches, sustainability and poverty impact, and policy dialogue. Virtually all the MDBs support governments to invest in infrastructure and services, support policymakers and regulators in developing an enabling policy environment, and provide capacity-building to SMEs and smallholder farmers. They also work directly with financial institutions through capacity-building and support to manage or mitigate risks related to agrifood finance. Increasingly, the MDBs are giving support to well-functioning and inclusive value chains, which can provide sustainable access to finance for smallholders and agrifood SMEs.

Building on their experience, MDBs should scale up their contribution to agrifood finance, with a focus on smallholders and agrifood SMEs. In particular, their joint efforts have strong potential to scale up positive impact in the following areas: (i) boosting investments in public goods that are critical for smallholders and agrifood SMEs to address new market opportunities and new challenges (e.g. climate change); (ii) building the capacity of smallholders and SME operators to meet food quality and safety standards while improving their business practices; (iii) promoting an enabling environment for collective action by SMEs and smallholders; (iv) improving the capacity and rural reach of financial institutions; (v) catalysing private investment in agriculture through financial and non-financial tools; (vi) assisting policymakers and regulators to develop strategies for the agriculture sector; and (vii) developing a joint knowledge agenda around innovative agrifood finance models and tools.

Seizing the momentum of 2030 Agenda and Expo Milano 2015, the following three immediate actions are being recommended for consideration by the MDBs and other potential partners:

- a joint effort to deepen the knowledge base on financial inclusion in the agrifood sector, with a focus both on needs and gaps and on the impact of inclusion on livelihoods, food security, inclusive economic growth and poverty reduction
- a biannual MDB and private-sector forum on smallholder and agrifood SME finance, promoting knowledge and experience-sharing as well as fostering new concrete partnerships
- a smallholder and SME agrifinance “challenge”, or a competition aiming to scout and reward innovative approaches in this area involving the public and private sector



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