

6.4 Accelerator Facility to support the transition to sustainable agriculture

IDH

1.1 What, in brief, is the solution?

The proposed Accelerator Facility (Accelerator) aims to provide early-stage capital and technical assistance to develop commercially viable business models in sustainable land management. It builds on IDH's existing suite of funds that are struggling to identify larger ticket, investible projects that deliver scalable transformation in the food systems. The Accelerator would be the first-mover financier of seed capital, providing the critical backbone for launching earlier stage businesses, and growing them in a uniquely aligned and coordinated manner across IDH's and other sector funds -- from seed stage to investable and scalable commercial projects.

1.2 What problem is it trying to address within food systems?

Transition to a sustainable and regenerative agriculture-based food system is a long-term investment that requires innovative partnerships. To enable investors to spur this transformation, early-stage projects often require smaller tickets of patient capital, proof of concept models and tailored technical support. Meanwhile, commercial investors perceive this transition to be high risk due to: a) long lead times in financing projects (9 years, on average), b) lack of scale with most projects falling below €5mm in capital sought by investors, c) lack of appropriate investment vehicles offering acceptable risk mitigation, d) costly pipeline sourcing and due diligence. On the demand side, companies and project developers do not have sufficient resources and know-how, lacking the track record to deliver high-impact projects to the criteria of investment funds.

1.3 How can this solution address that problem?

Our theory of change is that catalytic capital and well-aligned grants for targeted technical assistance create a vibrant pipeline of commercially saleable businesses and crowd-in private sector investment, transitioning smallholder farmers to a sustainable, inclusive and climate resilient production system that enables them to reach a living income.

While the number of blended finance instruments is on the rise, a recent IDH commissioned research on regenerative agriculture highlighted that a different grant-capital-return mix is needed to enable capital flow at the project incubation phase, namely: 1) grants for capacity building, introduction of information technology, and support farmer organisation, registration and land tenure, 2) repayable grants and result based finance, and 3) equity or highly concessional seed capital. Our assumption is this integrated package allows the entrepreneurs to test the market and refine their business models. Once a viable proof of concept is demonstrated through the Accelerator, the exiting impact funds can step with larger ticket sizes to further transition the emerging business to investment readiness and provide follow-on finance.

1.4 Why does this solution align to the definition and criteria for a 'game changing solution' developed by the Summit?

Pioneering: The Accelerator Facility is a first of its kind early-stage instrument that builds a new asset class in sustainable land management and regenerative agriculture. It proposes to serve as a model to identify, nurture, finance and launch a pipeline of bankable deals while crowding-in private capital from the sector at large.

Actionable & Sustainable: The concept builds on IDH existing TA facility partnerships with sustainable land use and smallholder investment funds, existing processes and boots on the ground, which go

to lower the cost of implementing such a pioneering facility. The deliberate inclusion of repayable grants and equity into the funding mix further allows a certain cost recovery for the facility. A referral fee can be charged to the capital providers for facilitating their investment. Finally, potential incorporation of carbon payments can bring an additional revenue stream to self-finance and expand the facility.

Enabling a systems change: A transition to climate change resilient, equitable, low carbon food production system that provides the smallholder farming household with a living income. Particular attention will be given to ensure strong approaches towards smallholder and gender inclusion, local and regional food security, land rights and environmental and social safeguards.

1.5 What is the existing evidence supporting the argument that this solution will work, or at least that it will achieve the initial outcomes described above?

Empirical evidence: IDH's lessons learned and track record in delivering technical assistance for investment readiness and finance.

1.6 What is the current and/or likely political support for this idea?

The Accelerator will work closely with national government and other strategic partners that can accompany with grants and results-based payments (including carbon finance) in the scale-up phase. It will also leverage the existing partnerships of IDH with Mirova Natural Capital, &Green Fund, and the AGR13 Fund.

1.7 Are there certain contexts for which this solution is particularly well suited, or, conversely, contexts for which it is not well-suited at all?

The Accelerator targets a select number of geographies where IDH Landscape and Commodity programs have a strong experience and evidence base, including facilitating smallholder tree crop producers to become more climate-resilient and spurring the transition from monoculture to agro-forestry that caters to local, regional and global food markets.

1.8 Who are the key stakeholders to be further involved in the process of developing and refining the solution idea?

Our key stakeholders include commodity trading companies and corporates with carbon offsetting and sustainable food production targets; impact investment funds investing in sustainable land management and regenerative agriculture, national governments that support smallholder tree crop transition to agroforestry, and funders for the accelerator.