



## 4.12 Global Matching Investment Fund for Small-Scale Producers' Organizations

### 1. What, in brief, is the solution?

A Global Trust Fund is established, with a total capital of e.g. USD 3 Billion, to provide demand-driven matching grants for initial capital/quick of investments by cooperatives, SMEs and other smallholders business-oriented groups who are seeking for investment to growth or expand productivity and quality.

### 2. What was/were the source(s) from which this solution emerged?

This solution is grounded on the CFS policy recommendations for Investing in smallholder agriculture for food security (CFS 40, 2013), which stated that:

‘To realize the full potential of smallholder agriculture, there is a need to reduce or eliminate the constraints that limit its investment capacity. The first objective is to support investments by smallholders themselves, but their capacity to do so depends on other related investments in collective action, private initiatives and in public goods.’

It is also grounded on the CFS Principles for Responsible Investment in Agriculture and Food Systems (RAI) and builds on the CFS Policy Recommendation on How to increase food security and smallholder sensitive investments in agriculture. It also refers to the CFS-HLPE Report on Investing in smallholder agriculture (2013). The HLPE Report on Multi-stakeholder partnerships to finance and improve food systems (2018) provides valuable guidance.

It also builds on the CSM’s Vision for ‘Responsible’ Agricultural Investment’

‘States must mobilize public investments and public policies in support of small-scale food producers and workers. Small-scale food producers, workers and their organizations must be meaningfully involved in the formulation, implementation, monitoring and review of these investments and policies’.

The solution also emerged from the various successful experiences in recent years, supporting small farmers’ to gain economies of scale and get access to long-term capital investments my matching grants, such as the EU’s ENPARD program in the Republic of Georgia, that has been providing funding for investments in agricultural value chains. The project envisages the provided matching grants to cooperatives, small and SMEs and, rural entrepreneurs or municipalities, and the investment is divided between the matching contribution (paid by the beneficiary), and the matching grant. There are also several other successful experiences supported by other donors (WB, IFAD, USAID, IFC) and governments in Ethiopia, Rwanda, Peru, and many other countries

### 3. What problem is it trying to address within food systems?

Small-scale producers and rural coops SMEs have always faced real difficulties in accessing the funding they need to grow their businesses. With COVID-19, their situation could become even more precarious without necessary support.

- Most investments in smallholder agriculture are realized by **smallholders themselves**. This occurs through different modalities but mostly through labour investments to enlarge and improve the resource base, and to a lesser extent through personal savings and remittances from family members that are used for the acquisition of new, additional resources. However,



these investments are limited since domestic needs receive priority when food, health or education expenditures are at risk.

- **Public investments** in and for agriculture have fallen considerably since the 1980s. It is now widely recognized that agriculture has been neglected at both the national and international levels. Many agricultural banks (mostly linked to, and supported by, the state) have disappeared.
- Meanwhile, larger **enterprises** mostly oriented at agro-exports have been favoured, while the smallholder sector, mainly (although far from exclusively) producing for the domestic market, has been neglected.

Prior to the COVID-19 crisis, the demand of \$240 billion far exceeded the available supply of about \$70 billion, leaving a funding gap of roughly \$170 billion. About 70 per cent of the demand of approximately 270 million small producers in Latin America, sub-Saharan Africa, and South and South-East Asia was unmet.

#### 4. Why is addressing that problem important for achieving the goal of your working group?

Smallholders constitute the majority of farm families in the world and their contributions to household, national and global food security are monumental. Smallholder agriculture is the foundation of food security in many countries and an important part of the socio/economic/ecological landscape in all countries. With urbanization, integration and globalization of markets, the sector is undergoing great transformations that are often against the interests of smallholders, and that are neither inevitable nor a matter of chance, but of social choice. Investment for agriculture and especially for smallholders is acknowledged to be an absolute necessity, especially as the majority of the hungry people in the world are, paradoxically, small farmers. Investing in rural SMEs, coops and agri-businesses is essential to spur productivity, improve incomes and livelihoods and importantly create jobs, in particular for the youth.

#### 5. How can this solution address that problem (theory of change)?

A Global Fund will be established, with contributions from governments, multilateral banks, foundations and other potential donors. The Fund, to be managed by IFAD or another experienced International Organization, will define financial envelopes for different countries in the Global South, and will provide matching grants for capital investments by agriculture cooperatives, SMES and other business oriented small-scale farmers' groups.

A [matching grant](#) is a one-off, non-reimbursable transfer to project beneficiaries. It is based on a specific project rationale for particular purposes and on condition that the recipient makes a specified contribution for the same project.

The investments will be focused on underserved segments of agribusiness value chains focusing on farmer organizations, financial intermediaries and agribusiness SMEs. It particularly targets commercially viable ventures that can help create employment, in particular for youth and women, and improve rural livelihoods. The fund also prioritizes climate-smart projects that promote sustainable production.

The Fund will mainly focus on

- **Agricultural supply farmers' cooperatives and SMES and other groups**, in order to aggregate purchases, storage, and distribution of farm inputs for their members. By taking advantage of volume discounts and utilizing other economies of scale, supply groups bring down the cost of



the inputs the members purchase from the group compared with direct purchases from commercial suppliers.

- **Agro-food processing/marketing groups:** A farm does not always have the means of transportation necessary for delivering its products to the market, or else the small volume of its production may put it in an unfavourable negotiating position with intermediaries and wholesalers. The farmers' group can act as an integrator, collecting the output from members, sometimes undertaking manufacturing and processing, and delivering it in large aggregated quantities downstream through the marketing channels.

The investments will follow, amongst others, the following criteria:

- They shall ensure the economic sustainability and business-oriented functioning of the group, including preparation of business' plans, training and capacity building on business management and administrative investments
- They must contribute to and be consistent with the progressive realization of the right to adequate and nutritious food for all.
- They shall ensure protection of eco-systems and environments.
- They must ensure decent jobs, respect workers' rights and adhere to core labour standards and obligations as defined the International Labour Organization (ILO).
- They have to ensure decent incomes, livelihoods and equitable development opportunities for local communities, especially for rural youth, women, and indigenous peoples.
- They must respect and uphold the rights of small-scale food producers, indigenous peoples and local communities to access, use and have control over land, water and other natural resources. All investments must respect the rights of indigenous peoples to their territories and ancestral domains, cultural heritage and landscapes, and traditional knowledge and practices.
- All investments must respect women's rights and prioritize women empowerment.

These Matching grants are introduced in response to market failures and distortions, but their main risk may have distortive effects of their own. Distortive effects may arise from: Promoting non-viable or non-feasible enterprises or business activities; substituting savings with external grants; crowding out financial institutions and/or private investment. Possible distortive effects should be identified during the design of the Fund

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

- Impact potential at scale. The initiative will be global, implemented in at least e.g. 20 countries. It can be estimated that capital investment of USD 3 Billion would allow 150,000 one-time investments of an average of 10,000 USD per investment, benefiting 300,000 farmers' groups (coops, SMEs, informal business -oriented farmers' groups, etc) and some 6,000,000 small-scale producers and their families (average 20 members' per group). With a 1:1 ration for the co-investment, a further USD 3 Billion would be mobilize.
- Sustainability. The idea is for thew matching grants to be a one-time kick-off investment for the farmers' group capitalization/expansion. it would be approved on the basis of business plan (that the fund management would support producing, via an external third party). The business plan should confirm the viability of the business. The investments will need to be environmentally sustainable and promote agroecological practices and climate-smart investments, as well as diet diversification, resilience and women empowerment.



- **Actionability.** There are various similar schemes already in place, implemented by IFAD and other donors- although none of this scale. A light management structure would be created for managing the fund globally. At country level the fund would be managed by designated national authorities under third party supervisory and control mechanisms.

### **7. Existing evidence supporting the argument that this solution will work, or at least achieve the initial outcomes**

Matching grants to support capital investments by small scale farmers have increasingly been used in the context of international development by multilateral and bilateral institutions, including IFAD and the WB. Although initially confined to public goods investments, they are being used more and more to finance productive assets and investments by communities' coops and other groups.

Evidence world-wide suggests that a considerable share of the farmers' groups that participated in such grant programs have used the received grants mainly in improving production technology and incorporating innovative methods of production, processing, and marketing.

### **8. What is the current and/or likely political support for this idea?**

Many countries are realizing that matching grants can compensate for the absence of suitable term and investment finance and to stimulate investment and business activity where the intended beneficiaries operate under severe constraints (e.g. insufficient equity) or where the innovations have higher risks or unpredictable profits.

In this regard, various countries have set matching grant schemes, e.g. in Rwanda, the Rural Investment Facility is a grant program under the Rwandan Ministry of Agriculture and Animal Resources to provide incentives for financial institutions and entrepreneurs to finance productive investments in agriculture. Working capital and operating costs do not qualify. Individuals, farmer associations, cooperatives and corporate bodies borrowing from a licensed financial institution are eligible for support.

### **9. Are there certain contexts for which this solution is particularly well suited, or, not well-suited.**

The solution is best suited for countries where access to financial capital for investments by small-scale farmers is severely constrained – which includes most of the countries Global South.