



## **4.14 Public Development Bank Initiative to Catalyze Green and Inclusive Food System Investments**

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

The solution is a global platform of national, regional and international public development banks (PDBs), designed to strengthen capacity across this diverse community of financial institutions to invest and catalyse green and inclusive investments in agriculture and across food systems.

The platform has three main components, namely: a forum of PDBs (including the agriculture cluster of PDBs formed at the 2020 Finance in Common Summit), a global multi-donor facility for technical assistance to PDBs and other financial institutions, and a digital platform for knowledge sharing and for impact assessment and mapping of PDBs' own and associated investments.

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

This solution emerged from conversations within the SAFIN network and IFAD. It builds on the agriculture cluster of PDBs formed around the 2020 Finance in Common Summit hosted by France, and on relevant research on knowledge and capacity gaps among financial service providers with respect to catalysing investments in sustainable agriculture and agri-SMEs. Inter alia, members of the cluster have identified specific knowledge and capacity gap areas – e.g. around how to access climate finance, how to better support climate adaptation and nature positive investments in agriculture, how to digitize their services and internal processes, and other areas – that the solution could prioritize for the content of its digital platform. It also complements current thinking within the Finance Lever about mobilizing commitments for investment into food system transformation among the Multilateral Development Banks (MDBs), which are part of the PDB community.

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

The initiative responds to a three-fold problem, namely:

- Various types of impediments limiting PDBs' ability to deploy finance into sustainable agriculture, agri-SME and smallholder finance, and other green and inclusive food system investment areas, which in turn impacts negatively on the volume and amount of finance available for these critical investments;
- limited capacity among many PDBs (particularly national and local) to access public green and climate finance or to mobilize "green" investment capital from the market, e.g. through the design of appropriate instruments (such as green bonds) or programmes;
- lack of alignment around shared metrics and/or shared reporting and learning from the impact of finance for agriculture and food system investments, whether in environmental terms (e.g. on biodiversity) or in terms of inclusion (e.g. smallholder farmers, youth, women), resilience (e.g. climate adaptation) or nutrition.

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

Public Development Banks – national, regional, and international, including the Multi-lateral Development Banks (MDBs) – have unique roles to play with respect to financing food system transformation, given their counter-cyclical responsibilities and the public good components of their mandates. While very diverse in form, mandate, and capabilities, PDBs generally share these important characteristics. Second-tier institutions and regional and MDBs also have pivotal roles in facilitating access to finance, de-risking capital, and knowledge among other financial service providers. As such, addressing the capacity to



provide and catalyse finance for food system investments across this group of actors as well as their capacity to monitor and learn from the impact of these investments, can be catalytic and a “game changer” for the whole financial ecosystem, globally and also at the country level. Leveraging the different types of capabilities that MDBs often have compared to national PDBs, especially those of smaller size, would help achieve this objective of capacity building in a sustainable manner. The HLPE Report on Multi-stakeholder partnerships to finance and improve food systems (2018) provides valuable guidance on partnerships to catalyze finance in agriculture and food systems.

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

- **Impact potential at scale.** The platform will be global, allowing for a critical mass of commitments and financial mobilization capacity to be targeted, as well as for cross-country and cross-regional learning and standardization of impact assessment metrics and approaches. The aggregate financial assets of the global PDB community are very large (over \$11.2 trillion according to data shared at the Finance in Common Summit in 2020). Altogether, Agri-PDBs account for almost two-thirds of the formal financing for agriculture.<sup>1</sup>
  - **Sustainability.** The global community of PDBs have expressed commitment to aligning to the Paris Agreement and the Sustainable Development Goals at the Finance in Common Summit in 2020, and the MDB community has expressed such commitment in different forums since the launch of the 2030 Agenda. This commitment provides the foundation for the sustainability of this initiative and ensures that it will continue to be relevant in the coming years, as the Paris Agreement and 2030 Agenda remain in place and pending their full realization. In concrete terms, sustainability of the three components of the platform will depend on different factors. For the forum component, continuity of commitment among PDBs and availability of new experiences to share and learn from will be key, as will the existence of one or more champions and facilitators of the forum. For the facility, demand for capacity building support and adequate financial and technical resources will be essential. Finally, enabling regulatory measures allowing PDBs to align around metrics and approaches for impact assessment and effective digital platform design will be key to the sustainability of the third component.
  - **Actionability.** The platform can build on existing forums (notably the Finance in Common process, IDFC, and MDB forums), making the first component particularly easy to realize. The capacity building facility and shared reporting models can be modelled around existing experiences and structures (e.g. regional agricultural and rural credit associations or RACAs, the African Digital Financial Inclusion facility, and others), which have proven to be viable.

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

The theory of change behind this solution is that by: a) strengthening the capacity and tools that PDBs have to **deploy finance** in investments conducive to food system transformation, and b) strengthening their capacity and tools to **mobilize finance** from other sources for such investments, there is a high probability of c) a larger share of PDB assets going into these investments, d) other financial institutions (e.g. commercial banks or MFIs) aligning around similar investment models for sustainable food system impact, and ultimately, e) more private capital being invested for food system transformation.

<sup>1</sup> [https://isfadvisor.org/wp-content/uploads/2016/04/inflection\\_point\\_april\\_2016.pdf](https://isfadvisor.org/wp-content/uploads/2016/04/inflection_point_april_2016.pdf)



The assumptions of the solution are the following:

- PDBs play a pivotal role in the context of financial ecosystems around food and agriculture and are thus a key entry point for game-changing action;
- There is scope to strengthen the alignment of PDB portfolios and investment approaches to the 2030 Agenda and Paris Agreement, including in relation to food and agriculture;
- PDBs like other financial institutions often face high transaction costs and risks when engaging in food and agriculture, and especially so with small-scale clients or clients with limited physical assets or credit history (agri-SMEs, smallholder farmers, small women entrepreneurs or youth);
- PDBs often lack instruments to appraise investment opportunities in alignment with environmental, social, and nutrition-related metrics relevant to food system transformation, and hence experience difficulties in accessing climate finance resources;
- PDBs often lack appropriate financial products to serve clients in food and agriculture, including financial products that can help them transition to more sustainable models (e.g. climate adaptation investments);
- Effective funding of the SDGs will require a high degree of awareness of the challenges of transitions at stake, both at the level of managers and of staff of PDBs;
- Digital instruments appear indispensable for reducing transaction costs and risks and help align and report against common standards of impact;
- There are economies of scale possible in addressing capacity gaps in the PDB community from a global standpoint and gains to be made in better connecting the different types of expertise and capabilities of MDBs to those of national and local PDBs.

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

In the lead-up to the Finance in Common Summit, IFAD, in partnership with AFD, convened a cluster of agricultural and rural development banks to discuss how to leverage the particular role of PDBs to foster a shift to more sustainable and resilient food systems. A joint outcome document (or ‘joint declaration’) was produced that highlights actions and priority focus issues for PDBs to accelerate progress on the SDGs and Paris Agreement through investments in sustainable, inclusive food systems. The document notes the need for continued dialogue and sharing of information and good practice.

Focus areas have recently been confirmed through a recent survey conducted by IFAD among the PDB group, as noted: (1) advancing last mile financial inclusion; (2) developing a climate-resilient portfolio and/or accessing climate finance; (3) PDB financial risk management tools; (4) digitalizing product offerings and product delivery; and (5) improving PDB governance. The results of the survey and the earlier declaration show the will of these institutions to progress together on these fronts, which this initiative would concretely contribute to, with PDBs as key contributors as well as beneficiaries.

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

The world is going through a difficult period, due to the COVID-19 pandemic which is weakening food supply chains, especially in developing countries, where farmers remain among the poorest. At the same time, the risks generated by climate change, and by the loss of biodiversity, are growing every day. A major effort in the field of agricultural development must therefore be agreed upon and supported by the international community. In the agricultural development ecosystem, finance is recognized as a major



element, and more as a catalyst for many economic, social and environmental objectives. There is therefore little doubt that the mobilization of Agri-PDBs and a strengthening of their capacity, individually and as a system, would not receive the political support of heads of state and government, as well as benefitting from possible support from the Finance in Common Summit and/or the current G20 Presidency, which is likely to host the second edition of this Summit.