Getting to work: financing a new agenda for rural transformation

IFAD
Investing in rural people

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This paper offers IFAD's perspective on some of the key issues on the current debate on financing for development. Its key message is that investment in inclusive and sustainable rural transformation is critical to the achievement of many of the proposed Sustainable Development Goals and a new global agreement on climate change.

INTRODUCTION

The Third International Conference on Financing for Development (FfD3), to be held in Addis Ababa in July 2015, aims to reach a new global agreement to mobilize and harmonize different kinds of public and private financing to realize the ambition of the emerging post-2015 development agenda, particularly the Sustainable Development Goals (SDGs), and a new global agreement on climate change.

The economic transformation of rural areas in a way that is both inclusive and sustainable – the IFAD strategic vision – is central to the realization of the SDGs. It is essential for the ambitious goals of eradicating poverty, ending hunger and malnutrition, and promoting sustainable agriculture – the proposed SDGs 1 and 2. Inclusive and sustainable rural transformation is also important for many other elements of the emerging SDG agenda such as inclusive growth, gender equality, health, education, addressing inequality, resilience and decent employment. Conversely, as the world becomes progressively more urban, sustainable cities will depend on greater amounts of food, clean water and environmental services that only thriving rural economies can provide.

The transformation of rural areas therefore lies at an important nexus in the world's ability to meet the ambition of the SDGs. Rural people play an essential role in helping us to secure our most essential global public goods, including food, clean air and fresh water. Overcoming the inequalities that all too often marginalize rural people will help all countries to meet the SDGs and secure a more sustainable future.

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Inclusive and sustainable rural transformation will require strong commitment and action at the national level, supported by continuing engagement from the international community. It will also require the mobilization and effective use of substantial financial resources, encompassing both public expenditure and responsible private investment. In this context, the Addis Ababa conference provides an important opportunity to establish a financing framework that is capable of delivering the resources needed to make rural transformation a reality.

THE CASE FOR MORE INVESTMENT IN THE RURAL SECTOR

While the number has declined by more than 200 million since 1990 1992, globally 795 million people remain chronically undernourished. And while rates of extreme poverty have been halved between 1990 and 2010, still a billion people live on less than US$1.25 a day. Of these, at least 70 per cent live in rural areas, and most are directly or indirectly dependent on agriculture. It is for this reason that, without an economic and social transformation of the rural areas that is both inclusive and sustainable, poverty eradication, food security and adequate nutrition for all cannot be achieved. This requires the development of food systems that drive economic growth, deliver healthier diets and minimize loss and waste; and that are based on agriculture that is productive and efficient, sustainable relative to the natural resource base, resilient to the effects of climate change, and that creates employment across the larger rural economy and offers an alternative to migration from the rural areas. The 500 million smallholder farms across the developing world, many of which are headed by women, will need to play a major role in the pursuit of this agenda.

Looking ahead however, the outlook for agriculture and food systems is at best uncertain. Food availability needs to increase by 60-70 per cent by 2050, and against a backdrop of

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increasing scarcity of land and water, demographic growth and climate change, it will be a major challenge to sustainably increase productivity and food availability for all. There is an enormous need to boost the financial resources dedicated to food security, nutrition and sustainable agriculture, within an enabling and coherent policy framework, and backed up by good governance, principled partnerships and accountability. There is also a need to ensure that investments that link farmers and larger businesses explicitly take into account the needs and rights of smallholder farmers, so that sustainable benefits are realized by all parties.

The investment gap in agriculture, food security and nutrition is difficult to quantify, though there is agreement that it is huge. For instance, the Intergovernmental Committee of Experts on Sustainable Development Financing quotes a figure of around US$50 billion required annually to eliminate hunger by 2025; while the United Nations System Task Team Working Group on Financing for Sustainable Development assessed the additional investment needed for sustainable development related to land and agriculture at between US$50 billion and US$300 billion annually. These figures are daunting, but the costs to the global economy of continued hunger and poverty are far higher. According to the Food and Agriculture Organization of the United Nations (FAO), for example, the social and economic cost of malnutrition amounts to US$3.5 trillion per year. At the same time, investments in agriculture and food and nutrition security are among the most cost-effective development interventions, with multiple social, economic and environmental benefits.

The new financing for development (FfD) framework to support the SDGs must respond to the increasingly complex new landscape for development finance. Today, the contribution of domestic public resources is recognized as paramount. Countries at diverse levels of economic development have different capacities for domestic resource mobilization. However, for all

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countries there is a range of issues related to ensuring adequate levels of investment in the agricultural and food sector, the quality of investment and its effective targeting, and to building the capacity of the public sector to deliver prioritized services. The flow of "traditional" official development assistance (ODA), by contrast, is likely to decrease in relative terms and, even if non-traditional donors increase their spending, significant gaps will remain. There is growing if uneven agreement among donors and partner countries as to the importance of the quality of ODA, and around shared principles for aid and development effectiveness; though of concern is the fact that there is still insufficient international convergence on many issues around climate change and climate finance, trade, international finance and coordination for disaster risk reduction and conflict mitigation.

There is a growing recognition that the FfD framework needs to leverage investments by private actors and communities. Investment in agriculture and food systems comes not only from agribusiness but also, and primarily, from smallholder farmers themselves. While smallholders are generally the most important on-farm investors in agriculture, accounting for around 80 per cent of all on-farm investments, they are often financially excluded and limited in their capacity to invest more. Creating the capacity and incentives for private investment in agriculture, rural development and food systems, both by farmers themselves and a range of investors in agricultural value chains, is critical. It requires the financing of targeted and catalytic public goods and services, and it must be backed by an enabling policy and regulatory framework.

The new framework must offer a narrative that is relevant for very different country contexts, and that speaks first to the growing importance of domestic resource mobilization and the conditions required to expand it. It must deal also with issues concerning ODA: the increasing diversity of sources, its evolving role in supporting domestic resource mobilization, the development effectiveness agenda and the need to better integrate different kinds of financing flows. In addition, there is the issue of the critical role to be played by private investors at all levels, and how to leverage such resources. Finally, the new framework must seek agreement on how to finance contentious parts of the sustainable development challenge; and how to make sure that commitments made at national, regional and global levels to increase investment in food security, nutrition and sustainable agriculture are actually followed up.

WHAT IFAD CAN OFFER IN THE CONTEXT OF A NEW FfD FRAMEWORK

IFAD is a specialized agency of the United Nations and an international financial institution with a specific mandate to invest in rural people with the goal of poverty eradication and increasing the food security and nutrition of people in the process. IFAD's experience of almost four decades of investing in rural people and in smallholder agriculture as a viable "business proposition", and its systematic approach to achieving impact at scale that combines the use of financial products, policy engagement, knowledge and partnerships, set it apart from other international development finance organizations.

In February 2015, the IFAD Governing Council agreed on a financing framework for 2016-2018 (IFAD10) to support a three-year programme of loans and grants of US$3.0 billion. Through its new Borrowing Framework, approved by the IFAD Executive Board in April 2015, IFAD is also authorized to mobilize additional financing through sovereign borrowing. Supporting national, regional and global efforts to achieve the SDGs will be central to all that IFAD does. Its specific role will be to mobilize and influence financing flows for investment in the rural sector, and to apply those funds to support inclusive and sustainable rural transformation. By doing so, it will draw on its substantial experience and knowledge to help eradicate rural poverty. More broadly, however, IFAD investments will also support the healthy maintenance of global public goods, such as food, water and clean air, while also helping to support the achievement of objectives in areas such as food loss and waste, energy and migration.

IFAD will build upon the projects it supports to achieve systemic development solutions and it will work in partnership with others – governments, private-sector actors, organizations of rural people, international development organizations, as well as the other international financial institutions and the other Rome-based agencies – to bring to bear greater levels of resources in support of rural transformation, scale up successful approaches and inform national policies for achieving sustainable development. Particular areas in which IFAD will contribute explicitly to the FfD agenda will include the following:

- **Supporting governments to increase the quantity and quality of their investments in the rural sector**. Discussions around the Addis Ababa outcome have thus far recognized that investments in rural development and sustainable agriculture are essential to eliminate hunger, achieve food security and nutrition, and create decent job opportunities for rural women and young people in particular. It commits governments to encouraging responsible private investments in agriculture, putting in place policies to ensure the sustainability and growth of agriculture, and substantially increasing public investment in areas such as rural infrastructure, agricultural research and sustainable food production, with a particular focus on small-scale producers and on promoting gender equality. IFAD has a key role to play in supporting governments to meet the challenge of alleviating rural poverty. IFAD assists governments to expand their levels of investment in rural areas, enhance the focus and quality of their investments to target poor and isolated rural people, and bring evidence to bear on national processes for policymaking. IFAD also works with other international financial institutions to enhance the total volume of international public investments in the rural sector to support national objectives.

- **Catalysing private-sector investment**. By definition, IFAD-supported projects seek to provide the incentives and support necessary to enable rural people to invest in their agricultural production systems and enterprises. Beyond this, however, IFAD has a particular focus on promoting and facilitating investment by private-sector value chain actors – ranging from local microenterprises to global agribusiness companies – with whom rural people engage in commercial relations on equitable terms. One of the main approaches used is to build public-private-producer partnerships (4Ps) that use investments in public goods and a supportive policy framework to catalyse responsible private investment that expands the economic opportunities open to smallholder producers and other poor rural people.

Public-private-producers partnerships (4Ps)

Many private companies are reluctant to forge business relationships with smallholder farmers because of what they see as the high risks and transaction costs of doing so. 4Ps along agricultural value chains can be a powerful tool to attract private-sector investments to the smallholder sector and to market segments that would not be attractive to them without public support or concessional donor financing. The 4P model uses public or donor resources to provide incentives to the private sector to reach out to small-scale farmers as suppliers of primary products. It finances both the public investments underpinning the partnership and the brokerage of the partnership; either in synergy with IFAD-funded projects or as stand-alone interventions.

The IFAD 4Ps schemes cost from US$3.5 million to US$10.0 million, according to the size of country and complexity of the value chains, and the brokerage funds about 10 per cent of that amount. Matching funds are also needed from private companies and farmers' organizations.

- **Rural financial inclusion**. IFAD seeks to expand the access of rural people to a variety of financial services, including savings, credit, remittances and insurance to enable them to invest in productive activities, smooth consumption patterns and protect themselves against risk. IFAD promotes a wide range of financial institutions, models and delivery channels, ranging from informal savings groups and credit cooperatives, to microfinance institutions and commercial banks. It supports demand-driven and innovative approaches, and it encourages – in collaboration with private-sector partners – sustainable, market-based approaches that strengthen rural financial markets, avoid distortions in the financial sector and leverage IFAD's resources, while at the same time broadening the poverty outreach of those institutions.

Financing Facility for Remittances (FFR)

In a context of global remittance flows to developing countries exceeding US$400 billion, of which 40 per cent goes to rural areas, FFR supports innovative, cost-effective and accessible international and domestic remittance services for the rural poor.

FFR also assists governments and development institutions to address issues such as the high cost of sending remittances to rural areas; the poor competition in the rural marketplace; the lack of financial intermediation and financial products linked to remittances; the lack of a secure investment mechanism for migrant investors abroad; and the need for capacity-building at institutional and household levels.

As a multi-donor fund, FFR has mobilized US$38 million and has co-funded nearly 50 projects in 45 countries, building a network of 200 partners from the public, private and civil society sectors.

- **Risks, resilience and farm-level investment**. A risky environment undermines the willingness and ability of smallholder farmers to invest in their production systems. Assisting rural people to strengthen their resilience not only means that they are less vulnerable to shocks, it can also enable them to invest more. Hence it is central to IFAD's approach. Climate change is making the agroecological environment, within which smallholder farmers produce, more difficult and more risky. The response of IFAD, initially under the Adaptation for Smallholder Agriculture Programme (ASAP) and to be mainstreamed over the next few years, is based on the use of vulnerability analyses that take into account climate-related and other threats; the addition of more climate risk-related activities to projects; and the scaling up of sustainable agriculture techniques. Other examples of IFAD's approaches to strengthening resilience include support for weather index-based insurance, and its facilitation of smallholder farmers' access to warehouse receipt finance and other forms of commodity-based finance. As the manager of the Platform for Agricultural Risk Management (PARM), IFAD is strengthening its conceptual understanding of agricultural risk and developing the tools to respond more effectively to the diverse set of challenges rural people face.

The Platform for Agricultural Risk Management (PARM)

Launched in 2013 as an initiative developed under the G20, PARM is a multi-donor initiative worth US$7.7 million. Its initial focus is on nine countries in sub-Saharan Africa, working in strategic partnership with the New Partnership for Africa's Development (NEPAD) and its Comprehensive Africa Agriculture Development Programme (CAADP) implementation.

As a knowledge broker and coordinator, PARM aims to facilitate the identification, assessment and quantification of agricultural risks in partner countries. It works with service providers to develop strategies for addressing those risks and to facilitate the incorporation of such strategies into public policies, agricultural investment programmes and private-sector practices.

CRITICAL ELEMENTS TO BE CONSIDERED IN A NEW FfD FRAMEWORK

IFAD specializes in mobilizing and investing funds in the rural sector, with a people-centred approach. Today it stands ready to play a major role in supporting its Member States to achieve inclusive and sustainable rural transformation, drawing on increasingly diversified sources of funding, leveraging tools and partnerships. Its new Sovereign Borrowing Framework, and its use of instruments such as the 4Ps approach, remittance-based financial inclusion, financing for smallholder climate adaptation and risk management, are all key elements of this approach.

As the discussions around a new FfD framework intensify, IFAD believes there are five critical elements to be considered by its Member States:

- Poverty eradication cannot be achieved without inclusive and sustainable rural transformation. Three quarters of the world's poor and hungry people live in rural areas. Implementing the SDGs and a new climate agreement will require new policy attention and investments for the rural sector, rural communities and the needs of rural people, with an explicitly inclusive approach. Therefore, **the rural sector must feature explicitly and centrally in the new FfD framework**.
- **Governments must direct a larger share of domestic public resources towards financing public goods in the rural sector**: rural infrastructure, services, markets, agricultural research and development, effective governance institutions, climate mitigation and adaptation. A commitment by countries to boost public spending in these areas should feature both in the FfD outcome document and in national FfD strategies.

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- **Maintaining and increasing levels of international public finance (ODA, climate and non-concessional finance, South-South and Triangular Cooperation) will be critical**, given the key role it can play to support developing country governments to invest in rural public goods and reach poor rural people. The FfD3 and the United Nations Climate Change Conference in Paris in December 2015 will need to deliver ambitious ODA and climate finance commitments.
- **Domestic and international public financing, and enabling policies must be used to foster and catalyse responsible private investment in the rural sector**, from smallholder farmers, rural enterprises and agribusiness alike. Innovative commercial partnerships between the public sector, private investors and smallholder farmers can offer part of a solution.
- **Boosting local investment capacity is a precondition for rural transformation and inclusive growth**. Rural financial inclusion is critical to empower smallholder farmers, rural entrepreneurs and rural remittance recipients to contribute to sustainable development through their investments. The new FfD framework should encourage countries to create the enabling policies and institutional conditions to expand access to financing.

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