



Smallholder
Finance
Facility

Empowering Smallholder Farmers Through Value Chain Integration

An initiative of IDH, the Sustainable Trade Initiative and FMO,
the Entrepreneurial Development Bank

The Smallholder Finance Facility (SFF) offers support for investments in crucial value chains, co-financing smallholder farmers – together with supply chain actors – in order to improve their productivity and thus livelihoods. The Facility aims to invest up to \$50 million into upstream supply chain projects over the coming 5 years, by providing a combination of technical assistance, conditional grants and debt instruments.

SFF supports the idea that the best way to improve smallholder farmer livelihoods and create meaningful impact is to improve farms productivity and profitability through:

- good agricultural practices (GAP)
- access to quality inputs (fertilizers, pesticides, seeds, etc.)
- the rehabilitation and/or replanting of crops, and
- providing the needed finance to implement these activities.

SFF works through traders and processors – collectively referred to as Supply Chain Managers – that have a strong track record in sourcing commodities in developing markets and linking the product requirements of the industry with the production of smallholder farmers. Such companies can be active in various supply chains such as coffee, cocoa and palm oil, and have experience in directly working with smallholder farmers, often providing training and financing as a support for their sourcing business.

Smallholder Investment

Are you a Supply Chain Manager (SCM) interested in investing in your supply base in order to improve production techniques, increase yields and volumes, and strengthen the physical infrastructure needed for inclusion of smallholders? These kinds of investments present attractive business opportunities, yet they require significant capital and carry large risk. That's where the SFF can step in, to help overcome liquidity constraints and/or an insufficient risk appetite.

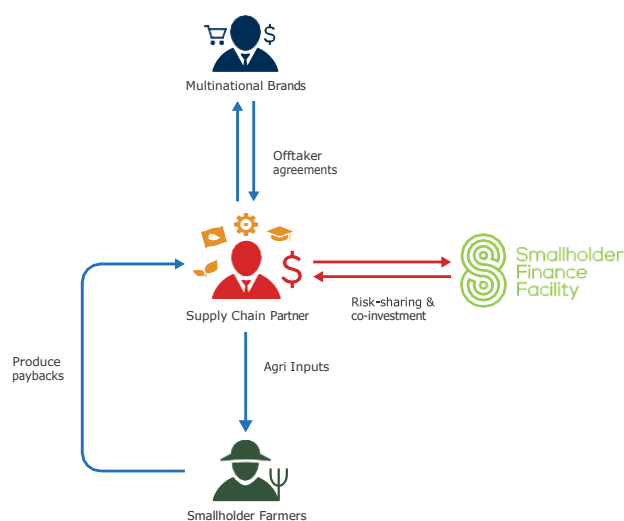
Investing in smallholder farmers creates:

- **business value:** supply security, increased production volumes, higher supply chain efficiency, improved supplier loyalty, efficient crop risk management, etc.
- **socioeconomic and environmental impact:** significant improvements in the livelihoods of smallholder households; sustainable land-use practices; improved management of natural resources, better working conditions, etc.

Solutions

Pre-financing of inputs: Crop inputs such as fertilizer and pesticides are essential to improve production standards and yields but most smallholder farmers lack access to funds to buy these inputs. In some instances SCMs provide inputs, but liquidity constraints and/or risk appetite restrict the SCM from achieving scale. SFF can offer working capital solutions whereby the efforts of the SCM will be leveraged with co-investments from SFF, thereby increasing working capital available for the farmer. Working capital solutions can be on a risk-sharing basis, have a tenor of 3 to 5 years and can be used to finance portfolios of loans to farmers with tenors up to 1 year.

Long-term finance for critical infrastructure: longer term financing is available in order to improve smallholders' access to sourcing, processing and storage capacity in the value chain. Such financing can be offered via the SCM to



smallholder farmers. Financing can be on a risk sharing basis, tenors will be in line with the nature of the investments to a maximum of 10 years. Eligible investments include fixed assets, seedlings and trees.

Grants: technical assistance funding can be provided for the organizing and training of farmers within a financing program. Furthermore, grants can be used for the testing of new interventions which can subsequently be scaled within the financing program. Technical assistance work can be carried out directly by the SCM or by other organizations. Grants are limited to a maximum of 50% of the cost of the technical assistance program, with the SCM providing the balance.

Impact Measurement: SFF provides thorough M&E frameworks for its projects including setting SMART deliverables with partners to measure the impact achieved. Cost-sharing is limited to 50% of the cost of impact monitoring and reporting with the SCM providing the balance.

About IDH and FMO

FMO is the Dutch development bank and has invested in the private sector in developing countries and emerging markets for more than 45 years. It is FMO's mission is to empower entrepreneurs to build a better world. The bank has specialized investment teams for the following sectors: financial institutions, energy and agribusiness. Alongside partners, FMO also supports projects in the infrastructure, manufacturing and services sectors. With an investment portfolio of EUR 8 billion spanning over 85 countries, FMO is one of the larger bilateral private sector development banks globally.

www.fmo.nl

IDH, The Sustainable Trade Initiative, accelerates and up-scales sustainable trade by convening impact oriented coalitions of front running companies, civil society organizations, and governments. With the mission is to ensure sustainable production of commodities, thereby delivering impact on the Millennium Development Goals 1 (poverty reduction), 7 (environment) and 8 (fair and transparent trade). IDH works on sustainable trade and development in 18 commodities, with more than 200 business partners and 23 civil society organizations and multiple local and national government institutions.

www.idhtrade.org

Interested in learning more?

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