PROJECT SUMMARY

THE SMALL FARMERS CLIMATE ADAPTATION FUND "SMAF"
(RG-Q0081, RG-Q0082, RG-T3968, RG-T3969)

PROJECT TO BE SUPPORTED BY THE "LOW EMISSIONS AND CLIMATE RESILIENT AGRICULTURE RISK SHARING FACILITY", CO-FUNDED BY THE GREEN CLIMATE FUND (GCF) AND IMPLEMENTED BY IDB LAB (RG-O1656)

Agricultural credit as a percentage of total credit in Latin America and the Caribbean (LAC) is limited, representing an average of only 6.1% out of total LAC countries' Gross Domestic Product (GDP). Agricultural lending directed toward climate considerations and which finances the adoption of climate adaptation measures is even more restricted. This lack of capital exacerbates the smallholder farmers' pressure on forests and natural capital due to unsustainable agricultural practices, increases agricultural GHG emissions from LAC, and limits smallholder farmers' adaptive capacities to face climate change and obtain a sustainable income.

Channeling adaptation finance via microfinance institutions (MFIs) emerges as a transformational opportunity for strengthening smallholder farmers' adaptive capacities. MFIs, being the closest and most accessible financial intermediaries to smallholder farmers, play a key role in supporting the adoption of adaptation measures by small farmers when providing finance and technical assistance.

But MFIs also face financing challenges. Most financing available to MFIs is from commercial sources and international development financing institutions. These sources are often short-term and do not take into account climate considerations, and even less, farmers risk profiles, cash-flows and needs.

A comprehensive analysis of this reality by Add-Value Management Services S.A, an investment management firm, supported by CIAT and CGIAR, led to the establishment of the first fund in LAC for climate adaptation and agriculture via a microfinance investment vehicle (MIV), the Small Farmers Adaptation Fund "SMAF". The proposed 10-year fund will lend to MFIs in eight countries: Mexico, Guatemala, El Salvador, Honduras, Costa Rica, Nicaragua, Ecuador and Peru. The SMAF will invest in eligible MFIs via medium-term senior loans of between US$0.5 and US$3 million each, with terms ranging between 2 and 4 years. The target is to reach an estimated 20,000 small farmers, through loans provided to 14 to 16 MFIs. The funding provided by Green Climate Fund (GCF) and IDB Lab will be used exclusively in Mexico and Guatemala, and funding provided by other investors will be used in the other target countries.

The Fund will provide MFIs with financial support and technical assistance so they can build packages of services for their smallholder farmer clients which incorporate the following inputs: i) technology in the form of adaptation measures aimed at reducing their vulnerabilities, and increasing their resilience, to climate change, ii) assistance in selecting and implementing appropriate adaptation measures that help deal with their vulnerability conditions, and iii) short-term and medium-term financing in a financial bundle containing the adaptation measures, working capital, and other farm needs such as tools and equipment.

IDB Lab would be one of the first anchor equity investors, with a proposed commitment to the Fund of US$4 million, which will help the Fund attract other private and development institution investors, to bring the total fund size to the target of US$30 million. The Technical

Cooperation component, with a proposed commitment of US$400,000 from IDB Lab, was designed to build MFI capacity to deploy adaptation finance at the farmer level, as well as accompany and strengthen farmers' adaptive capacities to climate change via the adoption of climate smart adaptation practices.

The expected impact of the Fund's investments will be measured by: (i) Number of males and females that receive loans for climate adaptation and implement at least one adaptation measure; (ii) Number of males and females trained in the adoption of diversified, climate resilient productive practices/technologies; (iii) Area subject to sustainable/conservation agriculture (ha); and (iv) average total increase in yields of smallholder farmers implementing adaptation measures. Where applicable, these indicators will be gender disaggregated.

Thus, the SMAF is expected to become a key financial and technical platform to promote sustainable and inclusive recovery in the benefiting vulnerable smallholder farmers of LAC.

This is the fourth project to be financed by the Risk-sharing Facility for Micro, Small, and Medium Sized Enterprises in the Agriculture and Forestry Sector of Mexico and Guatemala, cofinanced by the Green Climate Fund and implemented by IDB Lab (RG-O1656). Like the first projects, this is a blended finance model designed to promote financing for climate-smart productive activities—an area that has traditionally been overlooked by commercial banks and investors, which view such projects as risky and requiring lengthy repayment terms.

Resolution DE-30/18, approved by the IDB Board of Executive Directors on 10 July 2018, authorizes the Donors Committee of IDB Lab to approve reimbursable operations financed with Green Climate Fund resources under the Line of Activity Project for a Risk-Sharing Facility for Micro, Small and Medium-Sized Enterprises of the Agriculture and Forestry Sector of Mexico and Guatemala with the Green Climate Fund (document GN-2925). This includes loans, guarantees, equity investments, and other financial instruments as permitted by the Green Climate Fund, when such resources of the Fund are administered by the Bank are used to finance, in whole or in part, IDB Lab operations.

Non-reimbursable technical cooperation grants funded with Green Climate Fund resources under the Line of Activity Project for a Risk-Sharing Facility for Micro, Small and Medium-sized Enterprises in the Agriculture and Forestry Sector of Mexico and Guatemala with the Green Climate Fund (document GN-2925) would be approved either by the President or Bank Management within the limits of approved delegated authority, as specified in the document "Proposal to Modify the Procedures for Approval of Non-reimbursable Operations" (document GN-2752-4) of 4 August 2014, approved by Resolution DE-103-14. The Bank's Board of Executive Directors would approve any non-reimbursable financing operation for projects that exceed the US$3 million limit of that delegation of authority.