Australian Aid

INVESTING IN WOMEN
SMART ECONOMICS
AN INITIATIVE OF THE AUSTRALIAN GOVERNMENT

ADDRESSING AGRICULTURE MARKET DYSFUNCTIONS THROUGH BLENDED FINANCE WITH A GENDER LENS

BY PRACHI MAHESHWARI AND JAMES SOUKAMNEUTH

ABOUT INVESTING IN WOMEN

INVESTING IN WOMEN, an initiative of the Australian Government, catalyses inclusive economic growth through women's economic empowerment in South East Asia.

Established in 2016, Investing in Women tackles one of the most critical social and economic issues of our time: gender inequality.

Women's economic empowerment is not only a fundamental aspect of promoting gender equality, but it is vital to enhancing business competitiveness, fueling inclusive economic growth and building equitable societies.

Investing in Women uses innovative approaches to improve women's economic participation as employees and as entrepreneurs and to influence the enabling environment to promote women's economic empowerment in the Philippines, Indonesia, Vietnam and Myanmar through:

- **Workplace Gender Equality (WGE**) – We support Business Coalitions who work with influential businesses on shifting workplace cultures, practices and policy barriers to achieve WGE;
- **Impact Investment for Women's SMEs** – We partner with Impact Investors and ecosystem builders to expand market opportunities for women, with a view to incentivising and catalysing access to capital for small and medium enterprises (SMEs) – led by and responsive to the needs of women; and
- **Influencing Gender Norms** – We work with partners to positively shift attitudes and practices to support women in the world of work.

In collaboration with corporations and business leaders, impact investors, entrepreneurs and advocates, we are working with those who are driving change for women's economic equality in our region.

THE AUTHORS

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PURPOSE: BUILDING THE CASE FOR 'CAPITAL PLUS' APPROACH

Geared towards mobilising more private capital for gender outcomes, Investing in Women (IW) – an initiative of the Australian Government, catalyses investments into women's small and medium enterprises (women's SMEs) in South East Asia. Since 2016, the program has developed blended finance structures with 11 investing partners, who have made a total of 62 investments into women's SMEs by the end of 2021.

Set to achieve its women's economic empowerment goals, the program has also made tremendous contributions to the agriculture sector. Catalysing private sector investments in women-led agribusinesses (half of the program investees), the program has: 1) Unlocked private sector capital for innovative equity and debt products for agribusinesses; 2) Spurred dynamic business models improving agriculture sector's productivity and efficiencies; and 3) Improved women's agency through ownership and control over agricultural assets.

1. Integrate blended finance interventions into traditional agriculture development approaches (and vice-versa)
2. Use concessional finance to address market deficiencies to crowd in and not crowd out private sector
3. Structure incentives in blended finance investments for additionality
4. Adopt intentional gender mandates to achieve inclusive economic growth

Program Design Stage (1–2) | **Program Implementation Stage** (3–4)

Key Lessons for Donors to Address Agriculture Market Dysfunctions through Blended Finance with a Gender Lens

This paper summarises the learnings from the program to build the case for using a 'Capital Plus' model of blended finance to spur growth in agribusinesses that improve competitiveness and resilience of the sector in developing countries. It covers several practical examples of how development practitioners can structure blended finance models, in partnership with investors, to address supply-side constraints of capital, while also providing technical assistance for specific outcomes. Highlighting business models across the agriculture value-chain, the paper establishes how intentional gender lens mandates in development programming can fuel the potential of women as leaders of innovative agribusinesses.

The common approaches to address the underlying causes of agriculture market dysfunctions typically focus on creating women's economic outcomes in rural communities.[1] On the other hand, impact investing approaches with an intentional gender lens tend to create strong women's economic outcomes at the business ownership and leadership level.[2] This paper concludes with key lessons on how to complement the agriculture development approaches with blended finance interventions using a gender lens to achieve holistic women's economic empowerment outcomes at the sector level.

CONTEXT: THE ROLE OF ENTREPRENEURSHIP AND ACCESS TO FINANCE

The role of entrepreneurship in the agriculture sector to unlock the growth potential of developing countries is undisputable. Building dynamic agribusinesses can jump-start economic transformation through a vibrant input supply sector and downstream processing businesses—contributing to GDP growth, job creation and food security. Integral to this economic vitality, women play a central role in the agriculture sector, accounting for some 43% of its workforce.[3] Prioritising women's entrepreneurship in the agriculture sector can create a multiplier effect to achieve economic and social outcomes contributing to sustainable development of rural economies.

SMEs form the majority of businesses in the agriculture sector in developing countries. The food and agriculture-related UN agencies estimate that of the total USD 140 billion per annum required for ending poverty and hunger, USD 50 billion are needed from the private sector for on-farm and agro-processing investments.[4]

[1] Approaches such as market extension services, natural resource management, subsidised credit and land tenure reform implemented with the focus on gender mainstreaming.

[2] Impact investing approaches can create women's economic benefits through new economic opportunities and products/services – but these outcomes could be transitory without deeper focus on tackling adverse gender norms and women's agency in supply chain and community level.

[3] FAO, Women in Agriculture: Closing the gender gap for development, 2011

[4] FAO, IFAD and WFP, Achieving Zero Hunger: The critical role of investments in social protection and agriculture, 2015

Limited access to finance for SMEs, in general, and particularly for agribusinesses, constrains agricultural growth, the realisation of comparative advantages and productivity improvements in developing countries. This financing gap extends from production and processing to logistics and distribution all along the agriculture value chains. In addition to the persistent access to finance issues for agribusinesses, prevalent gender norms can further hinder capital access of women-led agribusinesses.

Impact investments can finance improvements in agricultural productivity such as improved technology and practices; access to new markets; infrastructure and logistics; and research and development. Such investments typically require patient capital for growth and come with high upfront agri-production risk, which may not align with the return profile of typical bank financing or venture capital in search of asset-light and tech-enabled businesses.

APPROACH: BLENDED FINANCE TO UNLOCK PRIVATE SECTOR CAPITAL

Catalysing impact funds in Indonesia, the Philippines and Vietnam markets, Investing in Women has structured various blended finance models, including feasibility grants, first-loss, side-car syndicates and revolving facilities to de-risk investments for women's SMEs. Five of the 11 investing partners—Root Capital, InBESTCap Ventures (InBEST), BIDUK Indonesia, C4D Partners and the Foundation for a Sustainability Society Inc.—have significant agriculture sector portfolios, while others allocate some capital in the sector.

Ibu Rahman - Chairwoman, Ketiara Cooperative, Indonesia

Making significant contributions to Sustainable Development Goals 1 – No Poverty, 2 – No Hunger and 5 – Gender Equality, these blended finance interventions have attracted private capital (well over 7x leverage from Investing in Women investments) in the agriculture sector. Each of the investing partners has a distinct investment thesis, financial product, legal structure and impact age requiring unique blended finance structures to mitigate financial risk and attract private sector capital for their portfolio companies.

- **TRADE FINANCING FOR AGRICULTURAL EXPORTERS:** In 2017, Investing in Women provided a feasibility study grant to Root Capital to select commodities, lending products and target countries for their investment expansion in South East Asia. As a result of this study, Root Capital launched a revolving facility to provide trade financing for the coffee cooperatives in Indonesia. Providing critical working capital for the coffee growers, this facility enables the cooperatives to pay farmers in the interim between harvesting coffee and selling the offtake on the global markets. Investing in Women capitalises a loan loss reserve layer in the Root Capital revolving facility, thus de-risking investors to crowd in private capital for women-led agribusinesses in the country. Besides their revolving facility for coffee, Root Capital recently completed its feasibility study for the coconut sugar value-chain in Indonesia and plans to expand its lending operations through the loan loss facility funded by Investing in Women.

- **DEBT FINANCING FOR MODERATE GROWTH BUSINESSES:** Investing in Women serves as a core investor into the C4D Asia Fund. Through a performance-based and impact-linked structure, the program created incentives to increase the proportion of women's SMEs (by value) invested by the fund (from 25% to over 40%). Beyond direct investments in women's SMEs, the fund also integrates a gender lens in its overall investment thesis through diversity and inclusion strategies, as well as organisational change management. The fund also includes a first loss structure, provided by Cordaid – an international non-profit (with a focus on fragile states), thereby providing de-risking features and preferred returns for Investing in Women and other investors.

- **CUSTOMISED DEBT AND EQUITY FINANCING PRODUCTS WITH FORWARD-BACKWARD FACILITY:** Seeding a local fund manager to increase investing activity and promote economic resilience at the peak of COVID-19 crisis in 2020, the program invested in InBEST with additional capital support from the Macquarie Group Foundation. Based in the Philippines, InBEST provides customised SME loans and equity investments aligned to the financing needs of their investees. Recently, the investing partner also launched a Backward-Forward Facility focusing to meet the capital needs of the SMEs (including suppliers, producers, resellers and distributors) in the value chain of its investee companies. The

Investing in Women partnership with InBEST addresses specific needs of this first-time fund manager through seed capital, operational grant for organisational development (including fundraising) and technical assistance for its portfolio companies.

- **WOMEN'S SME ACCELERATION PROGRAM FOR AGRICULTURE AND FOOD SECURITY:** Investing in Women partnered with Patamar Capital and Kinara Indonesia to strengthen the investment readiness of women entrepreneurs in Indonesia. In 2017, the accelerator program's cohort came together under the theme of ***Agriculture and Food Security*** (Sustainable Production and Consumption), supporting businesses working in the upstream agricultural sectors, food/raw material production, and retail food and beverage. The Kinara team chose food security as a theme, given the country's daunting agricultural challenges and the untapped market potential of agribusinesses. Food producers struggle to make a living wage, with traders and middlemen accounting for most of the profits along the agribusiness supply chains. The agricultural and food security sectors were thus viewed as ripe for market disruptions if strong entrepreneurs can identify and address market inefficiencies to drive growth and innovation. At the time, the program ranked as one of the few women-focused accelerator programs in the world and the only one using the Village Capital Model. This peer-selection model fundamentally shifts the power dynamics between the investors and entrepreneurs and enables investors to identify and invest in the disruptive early-stage entrepreneurs.[5]

Cely Domingo - Chief Partnerships Officer, Livegreen, Philippines

[5] Village Capital's Peer Selection Model, 2013

OUTCOMES ACHIEVED: DYNAMIC AGRICULTURE BUSINESS MODELS IMPROVING SECTOR'S EFFICIENCIES

Investing in Women's initial capital allocation of USD 5.7 million has led to private sector investments of USD 39 million in the women-led agribusinesses, with an expectation to scale to USD 60 million by 2027. These investing partners have fueled several new business models in the region by providing patient capital in the form of venture debt and equity investments.

The portfolio funds of Investing in Women have so far invested in 31 women-led companies across agriculture value chains—in upstream business models including bio-fertiliser producers, farmer producer cooperatives and other agricultural-input suppliers as well as downstream businesses models, including post-harvest processing, farm-to-table and exports.

- **IMPROVING PRODUCTIVITY AND AGRI-INPUTS MODELS:** These investing partners have supported businesses that produce and/or trade agriculture inputs and provide yield-enhancing services to the farmers. For example, one investee, Kapatagan, a multi-purpose cooperative, produces and sells its own bio-organic fertilisers and trades in agricultural inputs, seedling production and organic livestock in a typhoon-prone rural province in the Philippines. Recently, an investing partner invested in Sustansiya, a value-added service provider to poultry processors in the Philippines. Through its specialised services such as skilled labour, waste collection and performance management, this business helps poultry processors to improve their production quality and efficiency. Sustansiya also produces organic fertiliser from poultry waste—a complimentary product that allows the company to further scale its services in waste collection for poultry farms.

Kopepi Ketiara Cooperative, Indonesia

- **INCREASING POST-HARVEST VALUE:** Prolonging the shelf life and improving the market value of agriculture produce, these businesses process, package and sell agri-products in domestic and export markets. For instance, Green Enterprises Indonesia sustainably sources coconuts from smallholder farmer groups and turns the crop into high-quality organic cold-pressed virgin coconut oil for international markets. Another interesting example includes Fortuna Cools, based in the Philippines. This company creates a range of sustainable coolers for business-to-business (B2B) cold storage out of upcycled coconut fibre, sustainably sourced from local communities. Overall, program investments have supported sustainable farming practices on 6,135 hectares of land in ecologically vulnerable regions in South East Asia. Over 12,500 smallholder farmers shifted to organic farmings free of chemicals and pesticides.

- **TECH-ENABLED FARM-TO-TABLE MODELS:** Improving farmer's income through direct market access, these businesses remove middlemen from the agriculture distribution chain. Further, many businesses in the portfolio funds of Investing in Women also provide value-add services such as: 1) Trainings and workshops to improve farmers' productivity; 2) Access to financing platforms for working capital loans; 3) Logistics and warehousing; and 4) Market intelligence to promote demand-driven, high-value crop selection. Sayurbox, a category leader in grocery service and B2B agricultural provider in Indonesia, buys fresh produce from over 1,500 farmer groups and offers the goods to end customers. The company also bulk sells to supermarkets and beverage manufacturers. Similar models have been observed in the Philippines, where an investee, Livegreen, engages in the processing, distribution and retail of organic farm produce. In Vietnam, another investee, Organica, sources and retails organic and natural food products through its outlets.

KEY LESSONS AND FUTURE OPPORTUNITIES

Blended finance structures when complemented with traditional agriculture development approaches can address systemic challenges in agricultural sector. The formal financial sector may view a country's agricultural sector as inherently risky, which blended finance can help mitigate, as evidenced by the 'Capital Plus' model pioneered by Investing in Women to catalyse investments in underserved markets. But this approach recognises that capital is a necessary but insufficient condition to tackle underlying agriculture sector dysfunctions. Integral to this model, targeted agriculture support services in partnership with private sector actors is crucial to improve sector level outcomes.

Green Enterprises, Indonesia

Concessional finance needs to address market deficiencies—crowding in instead of crowding out private sector. Across the capital continuum from grants to commercial capital, all types of investments are needed to strengthen agricultural market systems, depending on the market maturity and risk return profile of the investors. As such, there are strong roles to play for grant providers, development finance institutions, and commercial capital, in ways both complementary and additive. Many existing agriculture financing instruments—even though subsidised through ODA [6] capital—seek to replicate venture capital and private equity (PE/VC) models that are often suitable for tech enabled business and could be served by existing private sector. Capital intensive agribusinesses that cannot follow the PE/VC growth trajectory need patient debt and equity capital. Grant capital providers, such as Investing in Women, in emerging and low-income countries need to prioritise concessional capital to test targeted instruments to de-risk investments in these stable growth businesses. Development finance and commercial capital can help scale such models further.

Structure incentives in blended finance investments for additionality. [7] In the Investing in Women portfolio of agricultural investments, the blended finance structures contain a number of performance benchmarks, escalated profit sharing (i.e., carried interest) and mandates to incentivise specific outcomes, such as private sector leverage, gender outcomes, fundraising targets, impact management and organisational capacity development (both of investors and investees), to name a

[6] ODA: Official Development Assistance

[7] Additionality: Activities unlikely to happen otherwise for desired development results.

few. Donors—while structuring incentives in blended finance investments—must be mindful of ways to limit market distortions and concessionality to private sector actors. Development finance is a scarce and precious resource that should be optimised to unlock commercial finance directed towards inclusive development outcomes—especially for women and other minorities.

Intentional gender mandates are required to achieve inclusive economic growth. Women play an important role across the agricultural sector, yet private sector investments in women-led agribusinesses are often constrained by perceived risks due to prevalent and adverse gender norms. With specific mandates to invest in women's SMEs, the Investing in Women program has strengthened the business case for gender lens investing. Targeted gender lens technical assistance support to the program's investing partners tackled the entrenched gender biases in the financial markets. Development funders can further promote the holistic women's economic empowerment outcomes by mandating intentional gender outcomes at the fund, firm (agribusiness), supply chain and farm levels. By complementing impact investing interventions with firm and farm level initiatives, gender outcomes can be achieved across agriculture supply chain. Such programming will improve women's agency through ownership and control over agricultural assets, help secure women's land rights, and their decision-making positions.

A Farmer from Livegreen Supply Chain, Philippines

Across developing countries, agricultural market systems remain under-invested. Donors and investors, looking to create strong impact in the agriculture sector, could integrate blended financing approaches with traditional agriculture programming to achieve results at scale.

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