

National Blended Financing Facility

Initial Investment Thesis: Agricultural Transformation in Sri Lanka through Resilient, Green and Inclusive Agripreneurship



Objective

Establish a country-level **Blended Financing Facility (BFF)** to address market failures in high-impact sectors, such as the agricultural and food sectors.

Currently, essential investments are impeded by economic and political risk perception, and this constrains the potential of the sector.

A **Special Purpose Vehicle (SPV)** that pools resource commitments from different partner organisations, such as **financial support and technical assistance** would be the initial development.

- This mobilise capital for business development investments in Sri Lanka's agricultural sector.
- Over time, as the markets mature, the facility could **evolve into a decentralized financial platform.**

The BFF will specifically focus on building resilience and inclusivity in the **agri-food sector** due to their positive economic, social and environmental spillover effects. A successful model could then be extended to other high-impact sectors, such as the **energy sector**, in the long run.



Context

Sri Lanka's agricultural sector is vital to the domestic economy; it employs **25% of the labour force and occupies almost 50% of total land**. However, the sector only contributes to **8% of GDP**.

The sector is dominated by smallholder farmers who **face income sustainability challenges** due to limited access to technology and modernisation processes, low sector-level productivity, climate shocks and limited access to finance for scaling up production.

Businesses, entrepreneurs and communities in the agricultural sector face a complex landscape of risk that inhibits their ability to shift towards more economically, socially and environmentally sustainable practices.

The data below shows the composition of Sri Lanka's agricultural sector, as per the World Bank's Agricultural Modernisation Report.

Metric	Non-Plantation Sector*	Plantation Sector	Total
Share of Total Agricultural Land	80%	20%	100%
Total Hectares of Agricultural Land	1,840,000	460,000	2,300,000

*The non-plantation sector comprises of rice, maize, fruits, vegetables and other crops primarily grown on small holder farms.

- There are **1.65 million small holder farms averaging less than 2 hectares in size, which contribute to 80% of total annual food production**.

The data is clear: Sri Lanka's agricultural sector and food production is dominated by small-scale farming.

Climate Vulnerabilities

Climate Change	Vulnerability	Details
<p>Precipitation Volatility</p>	<p>Climate change is altering the timing, duration and frequency of precipitation which disrupts water security for irrigation, harvesting and livelihoods.</p>	<p>Extended droughts and floods in 2016 and 2017 disrupted two rice cultivation cycles and affected over 2 million people according to government estimates, curtailing economic growth and causing food inflation.</p> <p>A severe drought in 2023 also significantly disrupted paddy production; over 60,000 acres were damaged due to lack of rainfall, affected over 50,000 farmers' livelihoods.</p>
<p>Temperature Increases</p>	<p>Rising temperatures disrupt crop cultivation and distribution; crops that previously thrived in certain regions may no longer be viable due to the changing climate.</p>	<p>Farmers will be required to adjust farming practices and adapt to a new climate; however, many smallholder farmers lack the resources, infrastructure and technical capacity to immediately alter production.</p> <p>In rural communities where young people and women are often required to provide unpaid labour in agricultural households, the effects of climate change can force these groups to work longer hours in agriculture to maintain livelihoods. As a result, young people and women may forego educational opportunities to provide unpaid agricultural labour.</p>
<p>Land and Asset Depreciation</p>	<p>Decreasing land quality due to inconsistent rainfall patterns and the overuse of chemical fertilisers reduces land productivity.</p> <p>Asset depreciation due to climate shocks can reduce farmer productivity and increase post-harvest losses.</p>	<p>The overuse of chemical fertilisers to artificially increase short-term productivity has damaged land and led to health challenges in rural communities. This 'productivity-vulnerability paradox' has exacerbated vulnerabilities due to an overemphasis on short-term productivity.</p> <p>Low quality land and infrastructure reduces yields, which is compounded by poor storage infrastructure and climate shocks, which leads to greater post-harvest losses. This threatens food security, farmer incomes and long-term productivity.</p>

The Role of Blended Financing

The Government faces **funding constraints in the agricultural sector** which creates challenges for small businesses and smallholder farmers to improve their production. Meanwhile, **increased risk and unclear returns disincentivizes private sector participation** in the sector.

Current funding therefore targets larger agri-businesses due to their higher perceived returns, which **exacerbates sectoral inequality** and places increased pressure on smallholder farmers. **Increasing access to finance for small businesses** to innovate and improve their operations is the primary solution to such challenges.

Long-term concessional finance that **drives structural and individual farmer-level improvements** in the sector has long-term positive impacts on the sustainability of the agricultural sector. **Overcoming the perceived risks associated with the agricultural sector is essential** to attract private investors who can complement development finance.

Given current economic challenges, a **BFF is required to increase the effectiveness of development finance** by creating an environment that attracts private investment as a **multiplier effect**.

The Facility would also enable **technical assistance and capacity building to reach underserved smallholder farmers** who face challenges navigating complex policy and regulatory frameworks.



Successful Blended Financing Case Studies



INTERNATIONAL MONETARY FUND

Bangladesh and its Partners are Launching the Bangladesh Climate and Development Platform to Leverage Adaptation and Mitigation Investments



Agricultural Blended Financing Case Studies

Facility	Location	Framework	Priority Areas	Impact
Sustainable India Finance Facility	India	Not-for-profit partnership established with catalytic support from UNEP and World Agroforestry Centre (ICRAF)	<ul style="list-style-type: none"> Natural farming Women's empowerment Rural livelihoods 	<ul style="list-style-type: none"> Increased yields and incomes for natural farmers Reduction in government subsidy costs (electricity and fertilisers)
Tropical Landscapes Financing Facility	Indonesia	Established by ADM Capital Foundation, in partnership with UNEP, BNP Paribas and ICRAF	<ul style="list-style-type: none"> Carbon emissions reductions Renewable energy Rural livelihoods 	<ul style="list-style-type: none"> Reduction in deforestation Increased employment in previously underserved rural communities
Financing Ghanaian Agricultural Project	Ghana	USAID project implemented by Palladium Group	<ul style="list-style-type: none"> Access to finance Market development Rural livelihoods Women's empowerment 	<ul style="list-style-type: none"> Increased yields and incomes Improved access to finance for SMEs Growth of women-led agribusinesses
Ireme Invest	Rwanda	Special Purpose Vehicle capitalized by the Rwanda Green Fund and Development Bank of Rwanda	<ul style="list-style-type: none"> Climate change adaptation Access to finance Business expansion Clean energy access 	Launched in 2023.
One Acre Fund	East Africa	Established as a social enterprise with funding primarily through philanthropical grants	<ul style="list-style-type: none"> Food security Asset accumulation Community empowerment 	<ul style="list-style-type: none"> Access to quality farm products for farmers Training provided on effective agricultural practices and market participation

Proposed Target Areas

Target Area	Benefits
Climate-Positive Agriculture	<ul style="list-style-type: none"> By promoting more sustainable agricultural practices with natural and sustainable inputs, such as a reduced reliance on chemical fertilisers and access to renewable energy sources, farmers can maintain land quality, improve yields and reduce input costs. Transitioning away from chemical fertilisers improves health outcomes, environmental outcomes, and economic outcomes at the micro and macroeconomic level. Access to low-cost, locally-generated renewable energy provides stable and affordable access to electricity for irrigation, market-access technologies, and agricultural household electricity.
Value Chain Participation & Market Development	<ul style="list-style-type: none"> Investments in infrastructure, technology and market development create better market access for smallholder farmers who currently rely on ‘middlemen’ to compete outside their community. These ‘supply-side’ improvements complement access to finance for smallholder business development. Technical assistance, coordination, and access to high quality farming inputs will enable smallholder farmers to overcome many of the structural barriers that prevent them from pursuing full-time agricultural business beyond subsistence. Promoting innovation and technology adoption (through improved access) for business and market development for smallholder farmers.
Inclusivity & Resilience	<ul style="list-style-type: none"> By providing opportunities for marginalized groups, the smallholder business landscape becomes more diverse and creates fairer opportunities across communities. By encouraging farmers from all demographics to develop and diversify their businesses in line with community goals, this builds resilience in the face of economic, political and climate shocks. Creating an accessible and inclusive policy environment with transparent legislative and regulatory frameworks for smallholder farmers to engage with business infrastructure and markets.