IFAD PODCAST EPISODE 72

Strengthening food systems through development finance

Chris Isaac

Chief Investment Officer, AgDevCo

Interviewed by GDPRD's Michelle Tang

Michelle Tang/GDPRD: What are the issues that keep you up at night?

Chris Isaac/AgDevCo: Just last week I was in Dar es Salaam and I was quite literally kept awake at night by the torrential rains on a tin roof outside my hotel room. The flooding in East Africa has been serious. Lives have been lost, so the more we can do as impact investors as the development community to support increasing incomes and resilience for small farmers, the better they can deal with those [climate] shocks that, unfortunately, are only going to intensify as we go forward.

Michelle: These are issues that should keep us all up at night.

Chris, you're here today to help us understand a bit more about the concept of blended finance. Could you give us a brief explanation of what it is and also a sense of where things stand right now?

Chris: Well, in one sense, blended finance is nothing new. You can go back hundreds of years and you will see the public sector supporting investment activity, be it into infrastructure or other strategic parts of the economy.

But in international development, it is quite recent and only in the last few years has it really gained currency.

And one of the reasons why there's more focus on blended finance today is the realization that we are a long way short of raising sufficient capital to meet the SDGs.

The UN now estimates that US$5.4 trillion per year is needed to meet the SDGs by 2030. If we look at the aid budget, it's only around $200 billion.

Michelle: So basically, there is a huge funding gap to achieve the UN Sustainable Development Goals, but at the same time the amount of wealth globally is reaching new heights. How do you think blended finance can help to bridge this paradox?

Chris: Indeed, I think global financial assets are at around $500 trillion. Now if only a fraction of that capital could come into the least developed countries, it would make an enormous difference.

But the reality still is today that private capital considers the risks too high and the financial returns too low to move at scale into the least developed countries.

I would add that there are too few large investments. Blended finance can either directly tackle the issue of the misalignment of risk and return by providing a first loss tier of capital that protects an investor against losses, or some grant funding that can increase the return.

Or it can move ahead of private capital to de-risk investment opportunities or to create viable businesses that themselves can then attract larger volumes of private capital in the future.

Michelle: In your view, how can we realize this investment potential before it's too late?

Chris: So firstly, there is enormous potential. There has been a lot of innovation in recent years, new investment fund structures, new bond issuances, bringing together public and development finance capital from the development finance institutions, the DFIs and indeed private capital.

However, if you look at the volumes, the reality today is they're still far short of the ambition of turning billions, billions of aid into trillions, trillions of investment.

According to the OECD of the circa 200 billion of ODA of aid in 2022, only 1% was directed towards programs to attract private sector investment.

But if we really have the ambition of moving from billions to trillions, we're going to have to allocate more aid to bringing in private investment at scale.

Michelle: Do you think we are at a major turning point?

Chris: We will see growing support for blended finance as more players become comfortable with the approach.

There are understandable concerns that you might over-subsidize private investors, taking money away from a scarce aid budget and boosting the returns of private investors.

However, if you can show that you are tackling deep market failures, that you are bringing in responsible private investment that is delivering impact at scale, we think that's very good value for money in terms of use of aid.

Michelle: What is the one message that you would like our listeners to walk away with and why?

Chris: If we're concerned about addressing extreme poverty, we need to recognize that poverty is increasingly a problem that is about rural areas and in sub-Saharan Africa in particular.

Agriculture is one of most effective ways of providing livelihoods, lifting people out of poverty.

So we need to find ways of allocating more resources to agriculture.

And agriculture is essentially at all levels of private sector activity.

At the end of the day, farming is about taking risk.

So the key message is that we need to get more investment capital into agriculture.

We have to recognize that in many countries, agriculture can't provide fully commercial rate of return. That's true in my country. In the UK, I grew up on a hill Farm in South Wales where still today farmers receive subsidies every year.

In the US, farmers benefit from significant subsidy in terms of federal crop insurance.

So let's not expect African farmers to deliver commercial rates of return.

Let's find smart, efficient ways of bringing together aid and philanthropic capital and private capital to build businesses at all sizes, that connect farmers to markets and address this problem of extreme poverty in in rural areas.

Michelle: We always ask our interviewees to share a bit about their own career paths to where they are today. What inspired you to become involved in the international development world?

Chris: My grandfather was a development economist. He wrote a book in the early 70s “Small is beautiful”. His name was E. F. Schumacher, so he's always been an influence in my life and in our family.

I started down the path of working in finance with one of the accountancy firms. But then, there was a certain accounting scandal called Enron, which resulted in the demise of the firm I worked for, and I found myself studying economics at the LSE [London School of Economics].

After that, I went out to Africa for the first time. I saw a way of combining training in finance and consulting and audit with a long-standing interest in development of policy.