

SUMMARY REPORT

Thematic Dialogue on Public-Private Partnerships for Optimising Sustainable Financing in the Agriculture Sector

Event title:	Thematic Dialogue on Public-Private Partnerships for Optimizing Sustainable Financing in the Agriculture Sector
Date:	April 30 th , 2024, 9.30 am to 1.30 pm
Venue:	The Courtyard by Marriott, Colombo
Participants:	57 (Please see Annex II for full list of participants)
Organisers:	Sustainable Development Council of Sri Lanka and SLYCAN Trust

1. Introduction

Agribusinesses, entrepreneurs, communities, and other stakeholders in Sri Lanka's agriculture sector are faced with a complex landscape of risks as well as a need to shift towards more sustainable, climate-friendly, and resilient approaches. The ramifications of climate change exacerbate existing issues, including through rising temperatures and extreme weather events that disrupt agricultural activities, damage farmland, and reduce crop yields and livestock productivity.

Building resilience in the face of these challenges requires significant investment in climate-smart agricultural practices and value chains to improve productivity, manage risks, and minimise negative environmental or socioeconomic impacts. However, public finances are constrained by budgetary limitations and rising government borrowing costs, coupled with high interest rates. Furthermore, the agricultural sector often struggles to access traditional financing due to the perception of low profitability and high risks associated with farming.

Innovative financial instruments and partnerships between the public and private sector, for example, through blended finance, knowledge-sharing, and joint development of facilities, mechanisms, and instruments, could make an important contribution to manage existing risks and achieve sustainable economic growth. To further explore this important thematic nexus, the Sustainable Development Council of Sri Lanka and SLYCAN Trust hosted a thematic dialogue April 30th, 2024, at the Courtyard by Marriot, Colombo.

The event brought together key stakeholders to work towards the following objectives:

- Engaging key actors from the finance, insurance, and agri-food sectors to brainstorm priorities and potential modalities for blended finance instruments.
- Exploring the concept of blended finance and its connections to resources at micro, meso, and macro levels.
- Building on the existing ecosystem for risk management and finance to identify opportunities for enhancing access to resources, developing relevant mechanisms, and identifying policy directions.
- Strengthening public-private cooperation towards green growth and long-term resilience-building.
- Promote collaborative discussions among stakeholders with the goal of working towards establishing a blended finance facility for agricultural development.

2. Structure of the event

The workshop was structured around an opening segment with a keynote address from Mr. Ruwan Wijewardena, Senior Advisor to the President on Climate Change, followed by two interactive sessions with an expert presentation, a series of lightning keynotes, and discussions in both the plenary and breakout groups. Overall, the following speakers contributed to the event:

- Mr. Ruwan Wijewardena, Senior Advisor to the President on Climate Change
- Ms. Chamindry Saparamadu, Director General, Sustainable Development Council
- Mr. Dennis Mombauer, Director: Research & Knowledge Management, SLYCAN Trust
- Mr. Happy Khambule, Senior Technical Expert, SLYCAN Trust
- Mr. K. P. Rangana Fernando, Director, Department of Development Finance
- Mr. Buwanekabahu Perera, CEO/SG, Ceylon Chamber of Commerce
- Mr. Nalin Karunathilaka, Head of Sustainability, DFCC Bank
- Mr. Romani De Silva, Managing Director, Alliance Finance Co. Ltd

3. Key insights on sustainable financing in the agriculture sector

The recently concluded 2023/24 Maha season yielded positive harvests across major crops, signifying a recovery in the agriculture sector. According to the Central Bank of Sri Lanka's Fiscal Management Report 2024, the sector grew by 2.2% in the first half of 2023, with credit to agriculture increasing by 0.9% year-on-year. To maintain this upward trajectory, there is a need to redesign agricultural policies with a focus on food security, employment generation, and innovative financing models that go beyond traditional financing approaches. In this context, blended finance emerges as a promising trajectory to attract new investment, share risks, and stimulate innovation, thereby closing market gaps and mobilizing resources.

The following section explores key insights related to challenges experienced in the agriculture sector the potential of blended finance and other financing instruments towards a more resilient and equitable agricultural sector in Sri Lanka.

3.1. Blended finance for agriculture

Traditional agricultural financing faces numerous project- and location-specific risks, including high transaction costs, commodity price fluctuations, interest rate volatility, prolonged payback periods, climate change effects, and other uncertainties. Blended finance has emerged as a viable solution in this context by leveraging the strengths of both public and private sectors. It combines concessional finance, philanthropic funds, and commercial capital to mobilize private investment for development projects. By strategically deploying concessionary capital (often from development or philanthropic sources), blended finance creates a bridge to additional private sector investment, facilitating collaborative efforts towards sustainable development.

Blended finance structures aim to mobilize commercial investment in areas, project stages, or business models with substantial societal impacts that might otherwise struggle to secure funding. The versatility of blended finance lies in its ability to reduce risk through credit enhancements, risk sharing mechanisms, technical assistance, and capacity-building. This strategic approach enables the agriculture sector to attract private capital, strengthen value chains, and establish a supportive environment for long-term sustainability.

3.2. Developing bankable projects for the agriculture sector

Blended finance involves the strategic use of public, philanthropic, and development funds to mobilise private capital. This approach is designed to leverage existing resources and unlock the potential for significant private sector investment. To attract both public and private financiers, projects must demonstrate strong potential for financial returns while also offering positive social and environmental impacts. Blended finance can break down investment barriers by addressing high risks and low returns relative to comparable investments. To advance blended finance, a steady pipeline of projects appealing to both public and private investors is crucial. The following are key characteristics of bankable projects identified during the dialogue:

3.2.1. Assessing projects for feasibility and scalability

Understanding market dynamics, including the size, structure, and needs of market participants, can support the development of financing instruments tailored to the Sri Lankan agriculture sector. Evaluating existing instruments and identifying gaps can reveal opportunities for projects with potential for scale and feasibility. Some important criteria include:

- Financial return pathways: Assessing the financial viability of projects involves examining market demand, production capacity, expansion potential and resource efficiency.
- Alignment with Sustainable Development Goals (SDGs): Projects should align with SDGs, providing social and environmental impacts that align with the mandates of financiers.
- Risk management: Using concessional capital, insurance, or guarantees to improve the risk-return profiles of projects.
- Policy environment: An established policy framework that encourages private sector investment in blended finance facilities.
- Improved transparency: Enhanced transparency through financial and impact reporting, with publicly available information on development impact.
- Patterns of Land ownership: scalability is impacted by patterns of land ownership where small holder farming, for example one acre plots of land being the most common. This creates challenges to technology adoption and mechanization. In the absence of political incentive towards land consolidation an alternative strategy may be found in consolidation of landowners into cooperatives or collectives, which can facilitate larger-scale investments towards improved technology.

3.2.2. Incentivising sustainability and resilience-building

Incentivising the adoption of sustainable and resilient practices within agri-food projects enhances their bankability and long-term viability. Key incentives for supporting scalable innovation and resilience include:

- Innovative funding mechanisms: Exploring new funding mechanisms such as tokenized investments could improve private sector engagement and lead to greater security and transparency.
- Tailored insurance products: Creating insurance products tailored to the risks faced by agri-food projects, such as climate-related risks or market volatility, can increase investor confidence and project resilience; parametric, hybrid, or bundled insurance solutions could further enhance the accuracy and effectiveness of such solutions.
- Enhanced market access: Enhancing market access and market information for the agri-food sector could strengthen value chain integration and encourage sustainable investment.

- Partnerships and collaboration: Fostering partnerships among the agri-food sector could help research institutions, businesses, NGOs, CSOs, and CBOs to promote knowledge-sharing, technology transfer, and collective action.

Despite the potential, sustainable financing in the agricultural sector faces several challenges, particularly in developing and emerging markets such as Sri Lanka:

- Quality of data for decision-making: Limited access to dynamic data as well as credible impact measurements can hinder project evaluation and reduce the attractiveness of investment.
- Lack of comparable investments: The novelty of some proposals can make it difficult to assess feasibility due to a lack of precedents, especially regarding blended finance facilities and innovative financial instruments.
- Lack of a private sector mobilization strategy: To maximize catalytic funding, a clear strategy for private sector mobilization as well as substantial stakeholder-engagement and buy-in are needed.
- Unpredictable policy environment: An unstable or unpredictable policy environment can deter private sector investment and affect long-term planning; however, coherent and consistent policies, along with local institutional investors' understanding of the local investment landscape, can mitigate this risk.
- Investment term: Longer project durations require extended timelines to realise financial returns and social impact, which can complicate risk assessments as well as the willingness of private sector entities to invest.
- International currency fluctuations: Investments in local currency can be considered a risk by international investors due to the potential for exchange rate fluctuations or currency devaluation.

Addressing these challenges requires coordinated efforts among different stakeholders to create a stable enabling environment for sustainable financing in the agriculture sector.

4. Summary of key inputs

The following section compiles inputs received from the participants of the workshop on enhancing sustainability, resilience, and investment opportunities in the agriculture sector, as well as on sustainable financing and the available resources, capacities, and opportunities for scaling up PPPs and creating a blended finance facility in Sri Lanka.

4.1. Recommendations for the agriculture sector

The agriculture sector in Sri Lanka plays a crucial role for the country's GDP and underpins economic stability. To further strengthen this sector, it is essential to incorporate innovative and sustainable approaches. By focusing on agribusiness and climate-smart agriculture, the sector can become more resilient and responsive to climate change, driving demand for capital investment. The following recommendations emerged from the dialogue to promote sustainability and resilience in the sector.

- Regulatory reforms: Implement streamlined regulations and incentive schemes that promote sustainable and resilient practices to support agribusiness development (such as financial and non-financial support and guarantee schemes) with an emphasis on benefiting smallholder farmers and marginalized communities.

- Multi-stakeholder collaboration: Foster collaboration among public sector, private sector, and civil society to maximize impact in the agribusiness sector; public-private partnerships and multi-stakeholder platforms can harness collective expertise and resources to drive innovation and collective value chain development.
- Support for micro, small, and medium-sized enterprises (MSMEs): Support MSMEs in the agri-food sector to establish robust business models that survive beyond the initial stages; explore opportunities for value chain integration and identify untapped market opportunities for value addition or byproducts to promote long-term success.
- Scientific cultivation approaches: Utilize advanced tools such as satellite imagery, remote sensing, blockchain, and AI or machine learning for crop monitoring, supply chain traceability, and data analysis to improve cultivation methods.
- Farmer cooperatives and producer associations: Strengthen the agricultural sector by encouraging and supporting farmer cooperatives to pool resources, share knowledge, utilise common facilities, attract investment, and improve supply chain management; identify active cooperatives and associations to promote sustainability and resilience-building based on existing structures.
- Improve data accessibility: Enhance data access in the agri-food sector, including climate and weather data, forecasts, and agrometeorological projections for different climate scenarios; spatial data, land use data, and soil data; and market information to facilitate informed decision-making and improved productivity and sustainability across the agricultural value chain.
- Marketing platforms: Create platforms for producers and value chain actors to promote and sell their products with embedded systems for traceability, quality assurance, and relevant standards or certifications for sustainability and climate-friendliness.
- Alternatives to monocropping: Encourage sustainable smallholder agricultural practices like agroforestry and home garden models, which can foster biodiversity and diversify income streams, reducing risks associated with monocropping and pests.

4.2. Recommendations for sustainable finance and blended finance facilities

The 2024 Financing for Sustainable Development Report highlights that the annual funding needed to achieve the SGDs by 2030 is nearly USD 4.2 trillion, far exceeding the current funding of around USD 1.4 trillion. To bridge this USD 2.8 trillion gap, innovative funding approaches such as blended finance are crucial.

Sustainable financing in the agriculture sector could help to build a robust business ecosystem with a stable policy framework, green economic growth, and commitment to achieving the SDGs. The following recommendations aim to scale up sustainable financing in the sector:

- Pipeline of bankable projects: Ensure a pipeline of bankable projects in the agriculture sector to mobilise, scale, or replace public and private capital (including impact investment funds and philanthropies) while achieving measurable climate, social, and environmental impacts aligned with national goals and commitments.
- Project preparation support: Promote collaboration among stakeholders in the agriculture sector to increase the number of bankable projects and overcome legal, tax, regulatory, and socio-cultural barriers to create investor-friendly environments.
- Harness co-benefits of blended finance: Include technical assistance and capacity-building in a blended finance facility to strengthen project design, implementation, and management.
- Innovative financial products: Develop localised investment structures and asset classes to create simplified pathways for sustainable investment in the agriculture sector.

- Leveraging publicly funded projects: Create investment opportunities with acceptable risk-return profiles for the private sector by de-risking investments or improving risk-return profiles to align with market expectations.
- Enhanced transparency: Establish mechanisms to demonstrate financial and development impacts of concessional funding from donors, development banks and development finance institutions, thereby improving transparency, accountability, and credibility.
- Risk diversification and de-risking for sustainable finance: Minimise risks through data-driven approaches, such as pricing for emerging risks (e.g., climate-related crop failure or production losses) and promotion of insurance solutions bundled with risk reduction/resilience-building measures.
- Managing exchange rate risks: Develop proactive risk management strategies to address exchange rate fluctuations, which can impact repayment capacity and investor returns.
- Gender-responsive investments: Incorporate gender considerations and representation in sustainable finance and create opportunities for women in the agriculture sector.
- Policy support: Develop an enabling policy framework that encourages private sector investment, building on existing policies such as the Sri Lankan Green Finance Taxonomy, which promotes sustainable development and investment in environmentally friendly projects.
- Improved financial literacy: Address existing knowledge and capacity gaps regarding available financial products and risk management strategies to foster a better understanding of sustainable financing options.

These recommendations aim to contribute to guiding the agriculture sector and sustainable finance efforts in Sri Lanka towards achieving greater sustainability, resilience, and economic growth.

4.3. Way forward and next steps

The workshop highlighted the importance of collaborative efforts in addressing climate change and other challenges facing Sri Lanka's agriculture sector while emphasising on the potential role of blended finance in driving inclusive, sustainable, and resilient growth while safeguarding stakeholder interests.

Moving forward, continuous stakeholder engagement and dialogues to co-create solutions to critical gaps in data, information, and knowledge will be vital. This approach will enable alignment of stakeholder interests from diverse sectors and institutions around blended finance as a critical tool to address risks and sustainable investments in the agri-food sector. Concurrently, priority attention must be directed towards addressing policy inconsistencies and barriers to agricultural modernization.

Annex I: Agenda

Date: April 30th, 2024
Time: 9.00 am to 1.30 pm (followed by lunch)
Venue: The Courtyard by Marriott, Colombo

Time	Agenda Item
9.00 am – 9.30 am	Arrival of participants and registration
9.30 am – 9.45 am	Opening session <u>Welcome and opening remarks</u> <ul style="list-style-type: none"> ▪ Ms. Chamindry Saparamadu, Director General, Sustainable Development Council ▪ Mr. Dennis Mombauer, Director: Research & Knowledge Management, SLYCAN Trust <u>Keynote address</u> Mr. Ruwan Wijewardena, Senior Advisor to the President on Climate Change
9.45 am – 11.00 am	Session 1: Developing a pipeline of bankable projects for sustainable investments in the agri-food sector <u>Introduction</u> Mr. Dennis Mombauer, Director, SLYCAN Trust
11.00 am – 11.30 am	Tea/ Coffee Break
11.30 am – 12.10 pm	Session 2: Identifying Micro, Meso, and Macro Level resources that could be linked to a Blended Finance Facility <u>Introduction to blended finance</u> Happy Khambule, Senior Technical Expert, SLYCAN Trust (virtual) <u>Lightning keynotes from key stakeholders</u> <ul style="list-style-type: none"> ▪ Mr. Buwanekabahu Perera, CEO/SG, Ceylon Chamber of Commerce ▪ Mr. Nalin Karunathilaka, Head of Sustainability, DFCC Bank ▪ Mr. K.P.R. Fernando, Director, Department of Development Finance ▪ Mr. Romani De Silva, Managing Director, Alliance Finance Co. Ltd
12.10 pm – 1.15 pm	Breakout group discussion and reporting back <u>Guiding questions:</u> <ul style="list-style-type: none"> ▪ Stock take of existing resources, initiatives and projects ▪ Entry points and way forward towards a blended finance facility
1.15 pm – 1.30 pm	Closing session Session wrap-up – SLYCAN Trust Concluding remarks and way forward – Sustainable Development Council
1.30 pm onwards	Lunch

Annex II: List of participants

1. Mr. Ruwan Wijewardena, Senior Advisor to the President on Climate Change, Presidential Secretariat
2. Mr. Mahinda Gunaratna, Additional Secretary, Prime Minister's Office
3. Ms. Gimha Dahanayake, Additional Secretary, Ministry of Trade & Commerce
4. Mr. L. K. S. T. Kumara, Deputy Director, Department of Agriculture
5. Mr. Chandrasoma Peiris, Chairman, National Institute of Post-Harvest Management
6. Mr. Rohitha Wickramaratna, Director, National Planning Department
7. Mr. K. P. Rangana Fernando, Director, Department of Development Finance
8. Ms. R. K. Perera, Deputy Director of Macroeconomic Surveillance Department, CBSL
9. Ms. Chamindry Saparamadu, Director General, Sustainable Development Council
10. Ms. Nadeeka Amarasinghe, Assistant Director, SDCSL
11. Mr. Hasith Sandaruwan, Sustainable Development Officer, SDCSL
12. Mr. Janaka Edirisinghe, Chief Manager Development Finance & Business Revival/Rehabilitation, Union Bank
13. Mr. Dhanushka Priyadarshana, Manager - Development Banking, NTB
14. Ms. Tamani Dias, Head - Local and International Corporates, Standard Chartered Bank
15. Ms. Chamari Perera, Senior Manager, People's Bank
16. Ms. Sandamali Gamage - Deputy Manager, People's Bank
17. Ms. Shamalka Dharmapriya - Sustainability Officer, People's Leasing & Finance
18. Ms. Ishadhi Jayasinghe, Sustainability Officer, People's Leasing & Finance
19. Mr. Chamikara Vidanage, Manager - Corporate Reporting and Sustainability, LB Finance
20. Mr. Kathiravel Sivagar, Assistant General Manager – Credit, Citizen Development Business Finance
21. Ms. Sandamali Amarakoon, Assistant Manager – Agri Credit, Citizen Development Business Finance
22. Mr. Romani De Silva, Managing Director, Alliance Finance
23. Mr. Melanga de Silva, Head of Enterprise Risk management, Assetline Finance
24. Mr. Janaka Herath, Assistant General Manager (Operations), National Savings Bank
25. Ms. Kaushalya Fernando, Senior Manager (Corporate Finance), National Savings Bank
26. Mr. D. S. Priyankara, Senior Manager - Credit & SME, Regional Development Bank
27. Mr. Dushmantha Jayasinghe, Head of Agri and Microfinance, Cargills Bank Ltd.
28. Mr. Devapriya Dharmaratne, Manager Credit, HDFC Bank of Sri Lanka
29. Mr. Nalin Karunathilaka, Head of Sustainability, DFCC Bank
30. Mr. Bandara Rekogama, Managing Director, RekoBiz PVT Ltd
31. Mr. Sandrine Gomez, Sustainable Manager, Seylan bank PLC
32. Mr. Sujith Fernando, GM/CEO, Sri Lanka Savings Bank
33. Mr. Tharaka Perera, Fairfirst Insurance
34. Ms. Kokila Wijesuriya, Head of Governance & Sustainability, Allianz Insurance Lanka Limited
35. Mr. Tetsuya Yamada, Chief Representative, JICA
36. Mr. Tsuyoshi Mizuno, Representative, JICA
37. Ms. Emaali Gunasekara, Senior Consultant, Connect to Care
38. Mr. Sanath Ranawana, Principal Water Sector Specialist, ADB
39. Ms. Dulani Sirisena, SDG Integration Specialist, UNDP
40. Mr. Dennis Mombauer, Director: Research & Knowledge Management, SLYCAN Trust

41. Mr. Kavindu Ediriweera, Country Director for Sri Lanka , SLYCAN Trust
42. Ms. Dulanga Witharanage, Country Director for EthicalX, SLYCAN Trust
43. Ms. Thamali Liyana Arachchi, Manager Programmes, SLYCAN Trust
44. Mr. Shifaz Ameer, Programme & Communications Coordinator, SLYCAN Trust
45. Mr. Mayantha Madurasinghe, Junior Manager Finance, SLYCAN Trust
46. Ms. Thilini Gunathilake, Researcher & Junior Manager Youth Programmes, SLYCAN Trust
47. Ms. Aisha Wahab, Communications Consultant, SLYCAN Trust
48. Ms. Nanthanie Serasinghe, Junior Manager Communications, SLYCAN Trust
49. Mr. W. H. S. C. Fernando, Chairman, Spices and Allied Products Traders' Association (SAPTA)
50. Mr. Shardha Sosa, Treasurer, Lanka Fruit & Vegetable Producers, Processors and Exporters Association
51. Mr. Buwanekabahu Perera, CEO/SG, The Ceylon Chamber of Commerce
52. Ms. Imesha Dissanayake, The Ceylon Chamber of Commerce
53. Dr. Anojan Selvanathan, Assistant Secretary General, The Ceylon Chamber of Commerce
54. Mr. Sanjaya Ariyawansa, Senior Economist, The Ceylon Chamber of Commerce
55. Mr. Errol Abeyratne, Programme Manager Green Finance, Biodiversity Sri Lanka
56. Mr. Rathika de Silva, Executive Director, UN Global Compact Network Sri Lanka
57. Mr. Ruwin Mapa, Sri Lanka Agripreneurs' Forum