



GAFSP Missing Middle Pilot Projects Initiative

Guidelines

February 2016

1. The Global Agriculture and Food Security Program (GAFSP) was launched in April 2010 as part of the G20 initiative to support agriculture and food security. The program provides a platform for coordinated donor financing for country-led agriculture and food security strategies. It works with public and private sectors, donors and recipient countries, as well as multilateral institutions and civil society organizations (CSOs). GAFSP has two funding windows: the Public Sector Window (PuSW) and the Private Sector Window (PrSW). The decision-making body of GAFSP is the Steering Committee (SC).
2. GAFSP provides grant financing through the PuSW directly to governments to support implementation of their agriculture and food security investment plans, and ‘blended finance’ options under the PrSW directly to agribusinesses, rural banks and other agencies. Currently, only a few GAFSP PuSW projects include agriculture/rural finance components and/or direct grant financing for producer organizations. These GAFSP projects are located in Honduras, Nicaragua, Rwanda, Sierra Leone and Togo (details are provided in **Annexes 1 and 2**). While the PrSW has not yet provided financing directly to smallholder farmers or producer organizations, it has financed private agribusiness firms or intermediaries (banks), which then on-lend to smallholders and more established producer organizations. Examples of such GAFSP projects include Root Capital, Société Ivoirienne de Banque (SIB) Risk Sharing Facility in Cote d’Ivoire, and CRDB Bank in Tanzania (**Annex-3**).
3. There are about 450 million smallholder farmers (who cultivate less than two hectares) worldwide with a demand for agricultural finance estimated at US\$450 billion, which is largely unmet¹. In order to achieve GAFSP’s goals of improving income and food security of poor people in developing countries, increasing agricultural productivity and income of smallholder farmers, particularly women, is critical. Producer organizations² (POs), agriculture-based civil society organizations³ (ag-CSOs), and smallholder farmers’ organizations are important aggregation points for smallholder

¹ *Catalyzing Smallholder Agriculture Finance*, Dalberg, September 2012.

² Second tier farmer organizations e.g. national and regional farmer organizations.

³ CSOs that are directly connected to traditional/subsistence farmers and smallholder farmers, e.g. rural community based organizations.

farmers in developing countries. These aggregation points have the potential to increase the efficiency and effectiveness of financing provided as well as to better integrate smallholder farmers into more formal value chains. Effective partnerships between POs/ag-CSOs and actors in the agriculture value chain help to identify key markets, share risks and crowd in private finance. Improving access to finance, technical assistance, markets and technology, and providing managerial, leadership and technical training to POs and their smallholder farmers can unlock a virtuous cycle of productivity, improved resilience and reduced risk that in turn leads to positive impacts on rural families, communities and ecosystems.

4. There is growing evidence of positive impacts on smallholder farmers of the nexus of POs/ag-CSOs and actors in the agriculture value chain. One example is that of Root Capital, a non-profit development financier that provides loans and financial training to farmer aggregators, cooperatives, and agricultural small and medium sized enterprises in Africa and Latin America, and one of the cooperatives it services, Gumutindo - a Ugandan coffee cooperative that aggregates, processes, and exports the coffee of 7,000 farmers⁴. Since receiving its first loan from Root Capital, Gumutindo has increased both revenue and total payments to farmers six-fold, tripling the number of farmers reached and doubling the payments per farmer. In addition, Gumutindo provides public goods such as savings and credit programs for members and schools for their children. As it has grown, Gumutindo has been able to access capital from a global commercial bank. Another example is One Acre Fund, an ag-CSO, which provides a complete set of services to smallholder farmers including financing for farm inputs, distribution of seed and fertilizer, training of agricultural techniques and market facilitation to maximize profits from harvest sales. Projections for end-2015 indicated the One Acre Fund would be serving 305,000 farm families in four African countries - Kenya, Rwanda, Burundi and Tanzania - thereby increasing their farm income by 50 percent⁵.
5. The GAFSP SC has identified that entities like POs, smallholder farmer groups, and small and medium enterprises are currently not being sufficiently serviced by the Program. In the financing continuum with grants at one end and lending at near-commercial rates at the other, the “**GAFSP Missing Middle**” refers to those entities like POs/ag-CSOs, which have largely been unable to directly access GAFSP funds to achieve GAFSP goals. The POs/ag-CSOs have smallholder farmer groups as members or are directly connected to smallholder farmers⁶. The Missing Middle Pilot Projects Initiative (MMI) would promote improved access to finance (grants, concessional finance or commercial finance) and complementary services (extension, capacity building, technology or access to markets) to smallholder farmers through entities like POs/ag-CSOs, and would ensure additionality and avoid duplication.

⁴ *A Road Map for Impact*, Root Capital, www.rootcapital.org.

⁵ www.oneacrefund.org.

⁶ Both women and men smallholder farmers.

Eligibility

6. The Missing Middle Pilot Projects Initiative will be open to all GAFSP Supervising Entities (SEs)⁷ for Missing Middle pilot projects in the GAFSP eligible countries - members of the International Development Association (IDA) that are eligible to receive financing from IDA and not IBRD (“IDA-only countries”), and that are not in non-accrual status⁸. The implementation of the pilot projects in the GAFSP eligible countries would be supported by the SEs. As of January 2016 there are 56 GAFSP eligible countries as shown in the following table:

⁷ Asian Development Bank, African Development Bank, FAO, IFAD, Inter-American Development Bank, World Bank and World Food Program.

⁸ Nonaccrual status occurs when the oldest payment arrears are six months overdue to IDA (or more generally the World Bank). Once all arrears to the World Bank are cleared, all loans and credits to, or guaranteed by, the country are generally restored to accrual status.

GAFSP Eligible Countries
(As of January 2016)

Africa <i>(32 countries)</i>		East Asia and the Pacific <i>(11 countries)</i>	Europe and Central Asia <i>(3 countries)</i>	Latin America and Caribbean <i>(4 countries)</i>	Middle East <i>(1 country)</i>	South Asia <i>(5 countries)</i>
Benin Burkina Faso Burundi C.A.R. Chad Comoros DRC Djibouti Cote d'Ivoire Ethiopia Gambia Ghana Guinea Guinea-Bissau Kenya Lesotho	Liberia Madagascar Malawi Mali Mauritania Mozambique Niger Rwanda Sao Tome & Principe Senegal Sierra Leone South Sudan Tanzania Togo Uganda Zambia	Cambodia Kiribati Lao PDR Marshall Islands Micronesia Federated States Myanmar Samoa Solomon Islands Tonga Tuvalu Vanuatu	Kosovo Kyrgyz Republic Tajikistan	Guyana Haiti Honduras Nicaragua	Yemen	Afghanistan Bangladesh Bhutan Maldives Nepal

Objective and Scope of the GAFSP Missing Middle Pilot Projects Initiative

7. The objective of the GAFSP Missing Middle Pilot Projects Initiative (MMI) is to enhance the effectiveness of GAFSP interventions by learning from mechanisms to stimulate investments in smallholder farmers, through channeling entities including POs/ag-CSOs that improve food and nutrition security and rural livelihoods, and use the learning to further strengthen the impact of GAFSP. The pilot projects would involve, consult and empower entities like POs/ag-CSOs that directly reach out to farmers targeted through this Initiative – primarily traditional/subsistence and smallholder farmers (**Annex-4**), and form effective partnerships between POs/ag-CSOs and actors along the agriculture value chain. The entities like POs/ag-CSOs are the key entry points to reach out to the target farmers in the MMI.
8. The pilot project proposal could form part or be a component of any larger project, including non-GAFSP projects under preparation or under implementation with support of the SE in any GAFSP eligible country, with resources ring-fenced to benefit the missing middle targets. The pilot proposal could also be a new intervention. The size of the GAFSP awards would be small (up to about US\$3 million per pilot project), which is equivalent in size to a small component of a current PuSW project. The pilot projects would have a lifespan of up to 3 years.
9. A key aspect of the MMI is to learn from the pilots on the nexus of POs/ag-CSOs, smallholder farmers, and actors in the agriculture value chain, and demonstrate relevant mechanisms to GAFSP-eligible countries for incorporating in regular GAFSP project proposals in the future. The lessons learned would also inform any changes to the country guidelines for future Calls for Proposals. In addition, this learning experience would inform future projects in the GAFSP PrSW, and further connect actors in the agriculture value chain, including off-takers, with POs/ag-CSOs and smallholder farmers.
10. The pilot projects would facilitate the POs/ag-CSOs that are directly connected to smallholder farmer groups and smallholder farmers, to enable them to access finance (grants, innovative concessional financing or commercial loans), markets or other complementary services such as extension, capacity building, and technology. Delivery of extension services to smallholder farmers would be open to the POs/ag-CSOs and other service providers. The pilots would also facilitate partnerships between POs/ag-CSOs and actors along the agriculture value chain. Since the pilot projects would be small in size, it is expected that there would be opportunities for creativity in design and informed risk taking within the GAFSP framework.

Process

11. The Missing Middle pilot projects would originate (pilot ideas) with POs/ag-CSOs and the pilot proposals would be jointly developed by the SEs and the POs/ag-CSOs. The pilot projects would be in line with the policies and procedures of the respective SEs. The pilots would reach and support the targeted smallholder farmers through this initiative. The POs/ag-CSOs would be directly involved in the conceptualization and design of the pilot projects so that the activities under the pilot projects are demand-driven and address the actual needs of smallholder farmers/smallholder farmer groups.

The SEs planning to submit pilot proposals to GAFSP would consult with relevant authorities⁹ in the GAFSP eligible countries, and obtain their written 'no objections' prior to submission of the proposal documents to GAFSP.

12. Upon SC approval of the pilot project proposals and due internal SE processing and agreement with respective governments, the GAFSP funds would be channeled to entities like POs/ag-CSOs. The funds would flow from the GAFSP Trust Fund in the World Bank to the relevant SEs. The SEs would use their own internal policies, guidelines and procedures to implement the pilot projects. Given that the GAFSP PuSW only provides grants, a potential design feature of the pilot projects could be for POs/ag-CSOs to provide grants and/or innovative concessional financing to the smallholder farmer groups. The concessional financing could be loans with interest rates ranging from zero to significantly below market, or other innovative financing mechanisms e.g. three-way matching funds (from GAFSP, smallholder farmers and actors in the value chain) and debt-conversion of smallholder farmers. Given the profile of the targeted smallholder farmer groups in the GAFSP-eligible countries, some activities would require more concessional financing than others. In some countries smallholder farmer groups would initially need grants from the POs/ag-CSOs before graduating to a level where other forms of concessional financing would be appropriate.
13. The POs/ag-CSOs could potentially offer a significant cost and risk savings to local banks or micro-finance institutions (MFIs). The banks and MFIs could pay commissions to POs/ag-CSOs to do the initial due diligence, loan application review, documentation and delivery, provided potential conflicts of interest risks are adequately identified and managed. The aggregation capability and the informational advantages of POs/ag-CSOs are expected to be of particular interest to banks and other actors in the value chain, as it will help indirectly in the credit repayment through better client relationship. Processors, for example, could also potentially offer payments to POs/ag-CSOs for input and extension delivery.
14. A 5-member sub-committee, comprised of SEs, regional and donor representatives with relevant experience, as well as an independent, external individual with relevant experience would be formed by the SC to assess the Missing Middle pilot project proposals submitted by the SEs. The sub-committee is expected to make recommendations to the SC on the pilot project proposals in September 2016, on the basis of which subsequently the SC will make the final decision and award funds to pilot projects.

⁹ Typically these will be the line ministry and the ministry of finance.

Framework of the Missing Middle Pilot Projects

15. The framework of the Missing Middle pilot projects can be described by the following key features:

- a) The primary target group of the pilot projects is traditional/subsistence farmers and smallholder farmers (**Annex-4**), both women and men, who are connected to entities like POs/ag-CSOs that largely have been unable to access GAFSP funds directly. The target smallholder farmers are often in diffuse (loose) local value chains selling very small quantities of agricultural produce on local markets only, and may be severely food-insecure themselves¹⁰. The POs/ag-CSOs would be directly connected to first tier farmer organizations i.e. smallholder farmer groups at the local level.
- b) The pilot projects would form trust-based and mutually beneficial partnerships (backed by business proposals) between POs/ag-CSOs and actors in the agriculture value chain, for example processors, and input and output traders, to identify key markets, share risks and crowd in private resources. These 'partnership deals' between POs/ag-CSOs and actors in the agriculture value chain may need to be brokered by third parties acceptable to relevant stakeholders, and the SEs could possibly contract specialized local service providers to play that role.
- c) The pilot projects would capitalize on business opportunities in the agriculture value chain. The POs/ag-CSOs could work with agriculture value chain partners and local financial institutions on innovative models to lower risks and transaction costs, which would help to improve POs/ag-CSOs' access to formal finance, thereby supporting women and men smallholder farmers. The buyers for relevant outputs in the agriculture value chain could act as agri-business off-takers to the POs/ag-CSOs and the smallholder farmer groups.
- d) The pilot projects would clearly specify which of the key constraints faced by smallholder farmers (namely access to finance, markets, capacity, technology, organization, and governance) would be the focus of the pilot, and the reasons for prioritization, and in that context place them in an overarching theory of change.
- e) The pilot projects would directly involve POs/ag-CSOs and value chain actors at the conceptualization and design stages to ensure that the activities under the pilot projects are demand-driven and address the actual needs of smallholder farmer groups, and to strengthen partnerships between POs/ag-CSOs and value chain actors facilitating sustainability of these linkages.
- f) The pilot projects would give due priority to women's participation and voice in POs/ag-CSOs and smallholder farmer groups by involving them in the decision making process on expenditures and product marketing.
- g) The channeling entities including POs/ag-CSOs would make modest financial (no fixed amount required) and/or in-kind (e.g. staff time) contributions to the pilot projects to ensure buy-in. The pilot projects would look into the possibility of the entities' self-financing via, for example, service fees. The pilot projects would also ensure additionality of funding to the channeling entities and avoid duplication of efforts.

¹⁰ *Reaching out to Smallholders – GAFSP Missing Middle Options Report*, Enclude, October 2014.

- h) The POs/ag-CSOs would receive grant funding and/or technical assistance for their own capacity building including business management/governance training and gender sensitive technical training.
- i) The POs/ag-CSOs would provide:
 - small amounts of funds (grants and/or innovative concessional financing) to the smallholder farmer group members, and
 - gender responsive technology, extension services and/or marketing services
- j) Service providers other than POs/ag-CSOs could also provide gender responsive extension services to first tier smallholder farmer groups.

Success factors

16. The success factors along with the indicators for the pilot projects are described below. These recognize the importance of more direct and improved access to finance for smallholder farmer groups through POs/ag-CSOs, as well as complementary services to them, such as access to input and output markets, technology, and capacity building (managerial, governance and technical). The core success factors are directly linked to the financial sustainability and the added value to smallholder farmers due to the pilot projects. In addition, there are five other success factors that are related to the pilot projects. The pilots would report on the core success factors, and depending on the nature of the pilot, would selectively report on the additional success factors.

CORE SUCCESS FACTORS:

	Success Factors	Indicators
1.	Access to finance provided to smallholder farmers by POs/ag-CSOs (Access to finance is not limited to local banks/MFIs, but open to innovative financing arrangements)	<ul style="list-style-type: none"> • Higher proportion of smallholder farmers who have received funds from POs/ag-CSOs [disaggregated by gender and type of funds i.e. grants, concessional loans/financing, other]
2.	Enhanced managerial, governance and technical capacity of POs/ag-CSOs and smallholder farmers, and capacity enhancement directed at the weakest areas	<p><u>At the POs/ag-CSOs level</u></p> <ul style="list-style-type: none"> • Higher proportion of management team members who have received training [disaggregated by (a) gender and (b) managerial, governance and technical training] • Higher value of contracts established and fulfilled with up/downstream actors in the agriculture value chain • Higher proportion of smallholder farmers whose production was aggregated at the PO/CSO level [disaggregated by gender]

		<p><u>At the smallholder farmer group level</u></p> <ul style="list-style-type: none"> • Higher proportion of smallholder farmers who have received training [disaggregated by (a) gender and (b) managerial and technical training including financial literacy training] • Growth in production volume marketed
3.	GAFSP funds crowd in additional private funds (including financing from equity partners and commercial banks) from within the agriculture value chain by the end of the pilot project	<ul style="list-style-type: none"> • GAFSP Funds: Private Funds = 1: 0.05 to 0.10 <p>(for every dollar of GAFSP funds in the pilot, an additional five to ten cents of private funds are crowded in from within the agriculture value chain)</p>

ADDITIONAL SUCCESS FACTORS:

	Success Factors	Indicators
1.	Food and nutrition security	<p><u>At the smallholder farmer level</u></p> <ul style="list-style-type: none"> • Income growth or suitable proxy e.g. increase in assets of pilot project beneficiaries [disaggregated by gender] • Percentage increase of households or people who are food energy-deficient [disaggregated by gender] • Increases in dietary diversity
2.	Access to markets by smallholder farmer groups	<ul style="list-style-type: none"> • Higher proportion of farm produce sold in the agriculture value chain by smallholder farmer groups
3.	Access to technology and information by smallholder farmer groups	<ul style="list-style-type: none"> • Higher proportion of additional hectares where the adopted technology has been deployed • Higher proportion of smallholder farmers receiving market information e.g. on mobile devices
4.	Access to extension services by smallholder farmer groups and smallholder farmers	<ul style="list-style-type: none"> • Higher proportion of smallholder farmer groups having received extension services provided by POs/ag-CSOs and/or other service providers [disaggregated by gender]
5.	Sustainability	<ul style="list-style-type: none"> • Percentage increase in service fees generated by POs from smallholder farmer groups • Higher proportion of resources of smallholder farmer groups leveraged from actors in the agriculture value chain

Monitoring, Evaluation and Learning

17. Robust results-based management of the MMI will be essential for the Initiative's success. The monitoring, evaluation and learning exercise would assess whether the pilot projects have delivered on planned outputs and outcomes, share actionable knowledge from the pilots, and demonstrate mechanisms to mainstream the nexus of POs/ag-CSOs, smallholder farmers, and agriculture value chain actors in the regular GAFSP projects in the future. The knowledge and lessons learnt would be taken into account, as appropriate, in the Guidelines for future regular Calls for Proposals. The monitoring, evaluation and learning exercise, which would take place at regular periodic intervals, would also assess the Initiative in terms of efficacy and relevance. In addition to the project-led monitoring, learning and evaluation effort, dedicated Coordination Unit (CU) staff time would be assigned to facilitate pilot-wide monitoring, evaluation and cross-learning activities, which are discussed in **Annex-5**.
18. At the individual pilot project level, the SEs supervising the implementation of the pilots would follow their own policies and procedures to prepare the M&E framework and monitor the indicators related to the core success factors and the relevant additional success factors, to evaluate/assess project impacts, and ensure iterative learning and adaptation as the projects are implemented. The SEs would also monitor proportion of funds available against the demand and proportion of funds spent against the availability in the pilots, which would be reflected in the M&E framework. The monitoring and reporting of absorption capacity of the funds provided at the pilot project level would help to mitigate the risk of possible diversion of funds in less productive activities. The SEs would provide regular six-monthly reports to the SC. The budgets for such project-level monitoring, evaluation and reporting would be included within the pilot project proposal.
19. Learning and actively using the knowledge generated from the monitoring and evaluation of the Missing Middle Pilot Projects throughout the implementation period are among the most important elements of the evaluation/lesson learning exercise. The CU would organize virtual meetings with donors, regional representatives, SEs and CSOs in the Steering Committee on the lessons learnt from the Initiative. The lessons from the MMI would be shared with the SC before posting on the website. The GAFSP website would be the main dissemination channel for sharing knowledge and insights from the completed Initiative. In addition, the lessons learnt would help to inform the GAFSP Country Guidelines for regular projects in the future.

Missing Middle Pilot Projects Selection Criteria

20. With limited resources available, not all pilot project proposals submitted by the SEs can be financed. Decisions on pilot project allocations will be based on a relative weighting of 40:35:25 assigned to measures of POs/ag-CSOs readiness, MMI need/match (elements being piloted) and proposal readiness. These measures will include:

POs/ag-CSOs Readiness (40 points max)

21. The POs/ag-CSOs targeted through the pilots are not those with least capacity, nor those that have relatively high capacity and ready access to other sources of finance, but those for which additional support to strengthen capacity (over the life of the pilot project) could help to sustainably access alternative sources of financing. Existing capacities of the POs/ag-CSOs in terms of their internal management, financial management and operations would be assessed from the proposal to determine the types of capacity building needed. The readiness of the POs/ag-CSOs in the pilots would be assessed against: (a) whether the POs/ag-CSOs are already supporting smallholder farmer groups for increasing food and nutrition security and rural livelihoods¹¹; (b) willingness to scale up those activities; (c) demonstrated experience in managing contracts, not limited to loan agreements; (d) willingness to make relatively small financial and/or in-kind contributions (e.g. staff time) to the pilot project; (e) demonstration that the POs/ag-CSOs can or plan to develop partnerships with actors in the agriculture value chain and crowd in finance for smallholder farmers; (f) extent of membership/potential reach to smallholder farmer groups; (g) charging or plans to charge membership fees to its members; and (h) whether the POs/ag-CSOs are legally registered or incorporated in the country. The smallholder farmer groups, which are members of POs/ag-CSOs, however, need not be legally registered or incorporated.

MMI Need/Match (elements being piloted) (35 points max)

22. The pilot project proposal for GAFSP financing will be assessed against: (a) specification of the constraints faced by the target POs/ag-CSOs/smallholder farmers (namely access to finance, markets, capacity, technology and organization), the reasons for prioritization, and in that context the overarching theory of change; (b) the proposed mechanism of providing funds to POs/ag-CSOs and from POs/ag-CSOs to smallholder farmer groups; (c) avoidance of duplication of efforts, which is ensuring the selected POs/ag-CSOs/smallholder farmer groups are not already receiving funds from other donors or are not displacing potential private sector financing; (d) plans for providing managerial, governance and technical capacity to POs/ag-CSOs and smallholder farmer groups; (e) plans for prioritizing women participation and voice in POs/ag-CSOs and smallholder farmer groups; (f) plans for additional funding to the POs/ag-CSOs/smallholder farmer groups from within the agriculture value chain; (g) the likelihood of financial sustainability following pilot project completion as presented in the proposal; and (h) exit strategy regarding the pilot. All the pilot proposals will be assessed against the core success factors. The pilot proposals will also be assessed against the additional success factors (described in the earlier section), depending on the nature of the pilots.

¹¹ The POs/ag-CSOs would be supporting smallholder farmers (crops, livestock and fisheries) in terms of funds, extension services, market access, and/or training so as to have business focus as well as to increase food and nutrition security and improve rural livelihoods.

Proposal Readiness (25 points max)

23. Proposal readiness will be assessed against: (a) specific objectives, targeted results and M&E framework at the project level to assess progress on the pilot objectives; (b) activities to be financed; (c) implementation arrangements; (d) governance structure of the pilot projects with respect to the nexus of POs/ag-CSOs, smallholder farmer groups and actors in the agriculture value chain; (e) identified risks and risk mitigation measures; and (f) extent of involvement of POs/ag-CSOs in the design of the pilot projects (please see **Annex-6** for details).

Outline of Pilot Project Proposals

24. The sections and content guide for the Missing Middle pilot proposal is provided in **Annex-7**. The proposal should not be more than 15 pages long. All sections must be completed for the SC to be able to make an informed decision on the proposals and resource allocations.
25. Available resources for the GAFSP Missing Middle Pilot Projects Initiative is US\$16 million.

Disclosure policy

26. Following the disclosure policy of GAFSP, successful pilot proposal documentation will be publicly disclosed. Any confidential or sensitive text or data that either the SE or the government does not want disclosed publicly should be highlighted as such in the submission for due consideration by the SC.

Language of proposal

27. English is the operational language of GAFSP, thus submissions are expected in English. While the pilot proposals are required to be in English, supporting documents may be submitted in French, Spanish, or Portuguese.

Pilot Proposal Submission

28. The form of the pilot proposal submission is via e-mail to **info@gafspfund.org**. The subject line should state: **GAFSP – Missing Middle Pilot Projects Initiative**. Submission documents must be in Microsoft Word; supporting documents may also be in Microsoft Excel or PDF. **Submissions must be received by: August 8, 2016 4:00 pm, EST**. No exceptions will be made on the deadline or document formats. We encourage SEs to submit a few days earlier in case of any technical problems in the submission process.
29. **Annex-8** provides the document checklist that is required to be included in the pilot proposal submission to the CU.

GAFSP PuSW Projects with component targeting producer organizations¹²

- The **Corredor Seco Food Security Project in Honduras** aims to enhance food and nutritional security of vulnerable households in selected areas of the Corredor Seco. Under the key component of the project, agricultural extension agents and marketing specialists will assist, train and build the capacities of individual producers, producer groups and market intermediaries (traders, transporters) to increase their production, productivity and marketing efficiency. The project will assist approximately 12,000 households in 25 municipalities. The project will support creation and management of rural organizations including producer cooperatives, producer groups, water users associations, savings and loan societies and women’s groups and assisting informal groups to obtain legal status as well as leadership and financial literacy training. In addition, the project will support access to new markets, form marketing alliances with buyers, improve negotiation skills, liaise with institutional buyers and organize transport and other logistics.
- The **Caribbean Coast Food Security Project in Nicaragua** will target indigenous Mestizo communities in fifteen municipalities. Within these communities the project will support formal and informal groups of beneficiaries i.e. cooperatives, producers associations and groups. The key component of the project will enhance the productive and marketing capacities of farmers and rural enterprises and support formal and informal groups of beneficiaries (i.e. cooperatives, producers associations) to achieve improvements and innovations in production, and consolidate market opportunities. The project scope includes strengthening organizational and business capacities of producer groups, communities and small rural producer organizations as well as broad activities fostering smallholder linkages to markets. The project will support agricultural/agro-industrial ventures from organizations of producers seeking to improve processes of value addition at the farm and collective level (selection, cleaning, washing, etc.) and foster market linkages (partnerships/agreements with buyers).

¹² Information obtained from the Project Appraisal Documents.

Enclude Report: GAFSP PuSW Projects with access to finance component¹³

- The **Rwanda Land Husbandry, Water Harvesting, and Hillside Irrigation Project (LWH)** aims to increase the intensity of hillside agriculture in an environmentally sustainable manner. The project responds to demographic pressure on land and deteriorating soil quality. Emphasis is on farming methods that avoid erosion, building irrigation structures, nutrition-awareness, setting up kitchen gardens, among others. The project has a small component of capacity building rural financial systems (credit unions and SACCOs – 2.6% of the budget). LWH also supports the introduction and expansion of index-based weather insurance to project beneficiaries as well as warehouse receipt financing. Overall a relevant programme, but the access to finance component is only very small.
- The **Smallholder Commercialisation Programme (SCP) in Sierra Leone** focuses on the intensification, diversification, and commercialisation of smallholder agriculture through improving value-addition and access to markets. It concerns rice initially as well as some other local food crops. The target group consists of smallholder farmers with less than 2 hectares and experiencing periods of severe hunger. SCP provides them with productive packages including seeds and fertilisers, as well as training, extension services, and enhanced access to storage facilities, to credit and to markets. Support is mainly channelled through grassroots farmer-based organisations. The programme has an access to finance component, creating and supporting community banks and financial service associations. The objective is that by project end 10% of the targeted farmers will have increased their access to financial services. It is an ambitious programme, taking into account the abject poverty of the target group and – related to access to finance – the fact that totally new financial intermediaries are established with considerable risk of failure.
- The **Agriculture Sector Support Project in Togo** has a very wide scope, aiming to increase output in crop production, livestock production and fisheries. Value chains include coffee, cocoa, local staples (e.g. rice, maize, cassava and beans), poultry and fish. The project supports partnerships between producer organisations, private operators and micro-finance institutions, to develop such activities as bulking, conditioning and storage of grains (especially maize and sorghum). This connects producers to service providers (rural finance, processing, agricultural mechanisation, extension) and to markets. Relating to access to finance, the project includes a component to promote warehouse receipt financing for cereals. The project aims to set up about 20 operational warehouse receipt structures (3 realised to date), benefitting 5,000 producers handling 1,500 tons of grain per year for packaging, storage and marketing. The project also foresees credit guarantees in favour of agro-processing SMEs, warehouse operators, and microfinance institutions seeking wholesale loans with a bank.

¹³ Annex-2 has been extracted from *Reaching out to Smallholders – GAFSP Missing Middle Options Report*, Enclude, October 2014.

PrSW projects on-lending to smallholders and established producer organizations¹⁴

- **Root Capital** is a non-profit development financier that provides loans and financial training to farmer aggregators, cooperatives, and agricultural small and medium sized enterprises (SMEs) in Africa and Latin America. Root Capital operates in more than 30 countries, including Kenya, Tanzania, Uganda, Rwanda, Zambia, Liberia, Mali, Burkina Faso, Benin, Cameroon, Ghana, Senegal, Togo and Sierra Leone. The financial package from IFC and GAFSP will address the funding needs of rural businesses that are too large to access credit from microfinance institutions but considered too remote to secure financing from commercial banks.
- **Société Ivoirienne de Banque (SIB) Risk Sharing Facility** in Cote d'Ivoire will allow SIB to target and support under-banked agricultural SMEs like family-owned or cooperative-managed farms. The project provides incentives for SIB to grow its agricultural SMEs portfolio and targeting new customers with little access to finance, such as women-owned businesses and re-activated businesses and agribusinesses.
- **CRDB Bank** (Tanzania) is expected to reach farmers through domestic traders and cooperatives that typically are not served by the largest agro-exporters. With the support from GAFSP, CRDB can extend loans to medium-sized domestic agribusiness traders and cooperatives, which typically have less financing options than global agro-exporters. Domestic agribusiness traders and cooperatives are located in frontier rural regions, being anchors of development of surrounding communities.

¹⁴ GAFSP Annual Report 2014.

Farmer Typology¹⁵

- A. **Traditional/Subsistence Farmers:** These farmers practice mixed agriculture largely for home consumption with minimal surpluses (if any) being traded. Land assets are typically less than one ha, technology and productivity is low, and families need additional revenues (salaried family, remittances, and food aid) to survive. Many subsistence farmers are not aspiring to become semi-commercial farmers because it is not their dominant income generating activity.
- B. **Smallholder Farmers:** This segment is distinguished from the previous in that they have more land assets (up to a few ha, but often less than one ha), and have small but nevertheless meaningful sales of products (e.g. coffee and tea in East Africa, cocoa, cotton and groundnuts in West Africa, rice in Asia, staple crops and livestock everywhere). Technology is low (rain-fed agriculture mostly) and productivity often no more than a quarter of the potential. Product distribution is often inefficient as well as leading to spoilage and sub-optimal prices.
- Smallholders and small agricultural enterprises that are sufficiently productive and market connected to be financed by (local) commercial or development banks, usually through the value chain and/or producer organisations, and this may include the regular IFC operations. These farmers are most often found in export value chains (e.g. tea, sugar, cotton). However, one may also find them in local value chains such as dairy and horticulture with well-defined off-take arrangements, which also help with input supply and quality control.
 - Smallholders and small agricultural enterprises that are lacking productivity and quality, but nevertheless do sell some products in an ad hoc manner (e.g. going to market in person). Such farmers may be in both local and export value chains, but lack strong linkages with off-takers, input providers and other sources of technology. To raise their farm operations they need temporary access to concessional financing (e.g. implicitly subsidised) and technical assistance, such as the GAFSP private sector window through blended finance with IFC. GAFSP blended finance may help them both connect to markets and raise productivity and quality.
 - Smallholders and agricultural enterprises that are far from reaching commercial viability, and which may need substantial grant support or interest rate subsidies. Such farmers are often in diffuse (loose) local value chains selling very small quantities on local markets only, and they may be severely food-insecure themselves. They are close to subsistence farmers and need much support, including technical advisory, and over an extended period of time to raise both quantity and quality, enabling them to sustainably connect to markets.

¹⁵ Farmer typology has been based on *Reaching out to Smallholders – GAFSP Missing Middle Options Report*, Enclude, October 2014, pages 7-10.

Pilot-wide Level Monitoring, Evaluation and Learning

In addition to the project-specific Monitoring and Evaluation through the SEs, the CU would support a process of pilot-wide evaluation and lesson learning across the pilot projects. The lessons learnt at the pilot-wide level would be in four stages:

- **Pilot Proposal Assessment Stage – process lessons:** The sub-committee members would prepare a report on the lessons learnt from the pilot proposals submitted by the SEs, information provided in the Request for Proposal (RFP) Guidelines, scoring of the pilot proposals and additional information needs. These lessons would help to inform the Country Guidelines for regular GAFSP projects in the future.
- **Pre-Launch Stage:** The CU would facilitate a process of peer learning and knowledge exchange among the SEs and implementing partners, throughout the pilot exercise. At the inception stage, it is anticipated that a teleconference amongst those awarded MMI funds would help to share knowledge among the SEs, situate their projects vis à vis others in the pilot, highlight lessons learnt on the preparation process (e.g., identification of and engagement with POs/ag-CSOs, assessment of capacity needs, RFP process, etc.) and identify specific areas and plans for future cross-learning. The CU would prepare a brief report on the lessons learnt by the SEs.
- **Implementation Stage:** The CU would support a pilot-wide review exercise during the implementation period in a cost effective way. This may be through engaging (with CU supervision) an external consultant with relevant experience to interact with the selected SEs, the POs/ag-CSOs and the smallholder farmer groups to get their insights on the alignment of MMI objectives and intermediate outcomes, and assess the mid-term status of the pilot projects. A particular focus of the CU-led exercise will be those lessons arising across the small portfolio and of relevance to inform pilot-wide adjustments or immediate GAFSP programmatic responses to incorporate MMI lessons. It is expected that this pilot-wide intermediate review would take place about one and a half years from the launch of the pilot projects; however, this timing may be adjusted depending on the start of all the pilots. The assessment of the pilot projects would include (a) whether the pilot projects are on track to achieve the objectives of the Initiative; (b) the unintended consequences, positive or negative, of the pilots, if any; (c) the type and level of collaboration among SEs, POs/ag-CSOs, governments and agriculture value chain actors at the design phase and subsequent stages of pilot implementation; (d) level of empowerment of the channeling entities like POs/ag-CSOs; (e) what has been working and what needs improvement – engagement with POs/ag-CSOs in the pilot design, nexus of POs/ag-CSOs/smallholder farmers/actors in the value chain, empowerment of women in POs/ag-CSOs and smallholder farmer groups, and progress towards achieving the success factors; (f) mechanisms of financial flow through POs/ag-CSOs to support smallholder farmers targeted by the MMI; and (g) whether the MMI is helping to more effectively promote productive

partnerships between POs/ag-CSOs and agriculture value chain actors to crowd-in private funding. The consultant would prepare a report on the mid-term evaluation of the Initiative.

- **MMI Pilot Closing Stage:** Each of the pilot projects is expected to have a lifespan of about three years and commence implementation by early 2017. Towards the end of the Missing Middle Initiative, the CU would again facilitate a pilot-wide stock-taking and final completion and learning review through engaging an external consultant, reviewing project-specific reports and outputs, supplemented by primary data gathering in the field. If there is significant delay in completion of a pilot project then the SC would decide on whether to have the final completion and learning review of the completed pilot project(s) only. This exercise would distil the key lessons learnt on the MMI operational modalities, financing channels, the nexus of POs/ag-CSOs, smallholder farmer groups and agriculture value chain actors and related operational opportunities and lessons. Taking into account the previous lessons identified during the implementation period, this exercise would address the following issues: (a) are the success factors realized; (b) what worked well; (c) what did not work well; (d) what are unintended consequences of the pilot projects, if any; (e) whether the expectations of the selected POs/ag-CSOs regarding the MMI objective and scope aligned with the pilots' actual outcomes; (f) cost effectiveness of the MMI; and (g) the key lessons from the Initiative that are replicable and can be mainstreamed in the regular GAFSP projects in the future by incorporating these into the Country Guidelines for future calls for proposals. It is expected that, in addition to drawing upon the consultant's technical inputs in the form of a report, pilot projects would partner in this process of joint learning and review, through a Completion/Lesson Learning workshop convened by the CU. This workshop could be incorporated into the GAFSP's annual Knowledge Forum.

Quality of Participation Guidelines

These guidelines will be used by the SC sub-committee to assess the extent to which the pilot project proposals were developed in a participatory manner with the POs/ag-CSOs, smallholder farmer groups and agriculture value chain actors, and in consultation with the recipient country. These guidelines are intended to be used by SEs to finalize and support the implementation of GAFSP funded Missing Middle pilot projects, and ensure regular, sustained, inclusive, and meaningful participation of relevant actors.

Key Elements and Indicators	Means of Verification
<p>1. Participation is inclusive/representative</p> <ul style="list-style-type: none"> - Key actors are identified and representatives of POs/ag-CSOs/smallholder farmers/value chain actors self-select or select who will represent them in the participatory processes. - All interests/sectors connected with pilot projects are invited to participate (e.g. women, smallholder producers, CSOs, private sector, public sector institutions, technical experts, donors, and others). - Particular attention has been paid to ensure the voice and participation of smallholder farmers, especially women smallholder farmers. - Participation opportunities include stakeholders from rural producing areas. 	<p>Description in proposal and/or documents such as:</p> <ul style="list-style-type: none"> - Description of selection criteria and details about how actors were selected to be included in the pilot proposal. - Lists of participants in key meetings and their roles. - Invitations and meeting announcements.
<p>2. Participation is well planned and more than a one-off activity</p> <ul style="list-style-type: none"> - There is an agreed process for scheduling and organizing participation. The decision making process, roles and responsibilities of actors are clearly defined ahead of opportunities for participation; and announcements of opportunities for participation are communicated widely in advance to ensure broad participation. - Entities like POs/ag-CSOs would be directly involved in the conceptualization and design of the pilot projects so that the activities under the pilot projects are demand-driven and address the actual needs of smallholder farmers/smallholder farmer groups. - Self-selected representatives of key stakeholders (including smallholder farmer groups and value chain actors) participate in the co-ordination arrangements with clearly identified roles in implementation. Representatives of key POs/ag-CSOs should be invited to be members of these committees from the outset and should designate their own representatives. - Consultations and opportunities for participation are provided regularly throughout development of the GASFP Missing Middle pilot project proposal. - There are specific plans and platforms to ensure participatory processes during implementation. 	<p>Description in proposal and/or documents such as:</p> <ul style="list-style-type: none"> - Documents outlining agreed process endorsed by key actors, defining roles and stating who is responsible. - Invitations and meeting announcement.

3. Participation is meaningful and transparent	Description in proposal and/or documents such as:
<ul style="list-style-type: none"> - Participation opportunities employ methodologies to ensure equal voice of women and men smallholder farmers. - Dissenting voices are accepted and recorded. - Minutes of meetings are recorded, provided to the participants and disseminated broadly. - Support is provided to enable broad participation of key stakeholders in consultation, implementation and for capacity building. 	<ul style="list-style-type: none"> - TOR, methodology, and agenda endorsed by stakeholders. - Meeting reports and distribution lists. - Description and/or documentation outlining in-kind, financial or donor resources available to support consultation implementation and for capacity building.
4. Participation impacts pilot project design and implementation	Description in proposal and/or documents such as:
<ul style="list-style-type: none"> - There is evidence of meaningful participation by key actors in the planning and implementation of the Missing Middle pilot project proposal. - There is clear evidence that the pilot proposal is responsive to gender concerns. - There is evidence that input received from all actors involved in participatory processes was reflected in the pilot project proposal. - There is ownership/broad political support for the pilot project proposal. 	<ul style="list-style-type: none"> - Documentation from independent, self-selected representatives of POs/ag-CSOs/ smallholder farmers/value chain actors that provides an analysis and assessment of the design and impact of the consultation process organized by the SE.

Template for Missing Middle Pilot Project Proposal for GAFSP financing

[Not more than 15 pages]

Section	Content	How this will be assessed by the GAFSP Steering Committee
<p>1. Specific objectives, expected results, and target entities including POs/ag-CSOs and their smallholder farmer groups, and agriculture value chain actors</p> <p>[smallholder farmers to be disaggregated by gender]</p>	<ul style="list-style-type: none"> ▪ Clarity on the specific objectives and expected results of the proposal and how it links with supporting entities including POs/ag-CSOs and their smallholder farmer groups. ▪ Clarity on how the objectives will enable GAFSP public funds to crowd in additional private and commercial funds from within the agriculture value chain at the end of the pilot project; how managerial, governance and technical training, and access to finance will be provided to women and men smallholder farmers. ▪ Where applicable, clarify how the objectives will enable access to markets, technology and information, extension services, sustainability of POs/ag-CSOs, and food and nutrition security. ▪ Specify the M&E framework to be used at the project level to assess progress on the above objectives. ▪ Specify how participation and voice of women smallholder farmers will be enhanced in POs/ag-CSOs and smallholder farmer groups. ▪ Be explicit on the number and type of targeted smallholder farmers, including their disaggregation by gender. 	<p>Assessed against the objective and success factors of the GAFSP Missing Middle Pilot Projects Initiative. Proposals with stronger support of entities including POs/ag-CSOs-smallholder farmer groups' nexus, and workable and productive partnerships between POs/ag-CSOs and actors in the agriculture value chain will be given priority. For details please see paragraphs 20 and 21.</p>

<p>2. Activities to be financed</p>	<ul style="list-style-type: none"> ▪ Clarity on the causal link between the proposed activities and objectives, including explaining the expected pathways that will support the nexus of POs/ag-CSOs, and smallholder farmer groups, and develop partnerships with actors in the agriculture value chain for improving food and nutrition security and rural livelihoods. ▪ Reasons why the above activities were selected. Provide rationale for innovative models being proposed, if applicable. 	<p>Assessed against the causal link between the proposed activities and objectives, including the expected pathways that will lead to improvement of food and nutrition security and rural livelihoods of women and men smallholder farmers through entities including POs/ag-CSOs, and partnerships with actors in the agriculture value chain. Specifically, whether the pilot proposal provides a clear causal pathway from the proposed activities to (a) access to finance (crowding in private resources) and capacity building; and (b) extension services, technology, and markets, and thereby improve food security and nutrition of smallholder farmers. Whether the proposed activities are identified as high-priority in the country's POs/ag-CSOs-smallholder farmer groups' nexus, and the likelihood of success.</p>
<p>3. Implementation arrangements</p>	<ul style="list-style-type: none"> ▪ Clearly state the institutional arrangements/governance structure identifying the role of stakeholders in implementation (POs/ag-CSOs, government institutions, and actors in the agriculture value chain). ▪ State how the proposed implementation arrangements will strengthen capacity of entities including POs/ag-CSOs to deliver core services sustainably to smallholder farmer groups (first tier farmer organizations) after completion of pilot project. ▪ Clearly articulate the exit strategy of the pilot project. 	<p>Assess whether the channeling entities including POs/ag-CSOs in the pilot projects (a) are already supporting smallholder farmer groups for increasing food and nutrition security and rural livelihoods; (b) are willing to scale up those activities; (c) have demonstrated experience in managing contracts, not limited to loan agreements; (d) are willing to make relatively small financial and/or in-kind contributions (e.g. staff time) to the pilot project; (e) can or plan to develop partnerships with actors in the agriculture value chain and crowd in finance; (f) have members and good potential reach to smallholder farmer groups; (g) are charging or plan to charge membership fees to their members; and (h2) are legally registered or incorporated in the country.</p> <p>Determine whether the pilot proposal presents clear and verifiable evidence that the capacity required to implement the proposed activities is in place, to ensure that the proposed financing is used in an effective and efficient manner.</p>

<p>4. Amount of financing requested</p>	<ul style="list-style-type: none"> ▪ Clarify the basis for indicative cost estimates. ▪ Detail linkages with other co-financing sources and its comparable size relative to the larger project under preparation or under implementation, if the pilot is a component. ▪ Provide a summarized cost table (including all relevant financing sources) and estimated unit costs for major investment items. 	<p>Assessed against: (a) alignment with the GAFSP Framework for the Missing Middle Pilot Projects Initiative; (b) the expected results; (c) available GAFSP Trust Fund resources; and (d) confirmation that GAFSP funds are additional and not displacing other donor or potential private sector financing.</p> <p>The pilot project proposal could form part or be a component of any larger project including non-GAFSP projects under preparation or under implementation with support of the SE in any GAFSP eligible country, with resources ring-fenced to benefit missing middle targets. The pilot proposal could also be a new intervention.</p> <p>Assessment of cost estimates will be against realism of estimated unit costs.</p>
<p>5. Time frame of proposed support</p>	<ul style="list-style-type: none"> ▪ Expected duration of the proposed activities. 	<p>Assessed against the expected life of the GAFSP Missing Middle Pilot Project (about 3 years)</p>
<p>6. Risks and risk management</p>	<ul style="list-style-type: none"> ▪ Major risks that may affect the achievement of the specific objectives, and implementation of each component (activity), including operational risks and mitigation measures in place. 	<p>Assessed against the significance of the risks and the mitigation measures in place.</p>

<p>7. Consultation with entities including POs/ag-CSOs, smallholder farmers, and agriculture value chain actors</p>	<ul style="list-style-type: none"> ▪ The pilot projects would be developed by the SEs in close consultation with relevant entities e.g. POs/ag-CSOs that are directly connected with smallholder farmers and agriculture value chain actors ▪ The selection of POs/ag-CSOs in terms of size and capacity would be in line with the policies and procedures of the respective SEs. However, the focus of the pilots would be to reach and support the smallholder farmers. ▪ The POs/ag-CSOs would be directly involved in the conceptualization and design of the pilot projects so that the activities under the pilot projects are demand-driven and address the actual needs of smallholder farmer groups and smallholder farmers. ▪ The SEs would consult with relevant authorities in the GAFSP eligible countries, and obtain their ‘no objections’ in the form of letters or e-mails prior to submission of the proposal documents. If there are existing partnership/umbrella agreements between governments and SEs that allow Missing Middle Pilot Projects, then these can be highlighted in the proposals instead of providing written ‘no objections’. ▪ The process and the extent of consultation with local POs/ag-CSOs that are directly connected with smallholder farmer groups and agriculture value chain actors. Document the extent to which the consultation added value to the design of the pilot project. 	<p>Assessed against the quality of participation and consultation with relevant entities including POs/ag-CSOs, their smallholder farmer groups/smallholder farmers, and agriculture value chain actors</p> <p>What was the nature of the outreach effort to POs/ag-CSOs and agriculture value chain actors, what was the process of obtaining input from them? Whether the proposal presents clear and verifiable evidence of participation by POs/ag-CSOs, their smallholder farmer groups/smallholder farmers, and agriculture value chain actors in the preparation of the proposal and a mechanism to facilitate such participation in the implementation of the proposed activities.</p> <p>[Please see Annex - 6 for list of verifiable criteria upon which this will be assessed by the SC sub-committee].</p>
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Document Checklist to be submitted by the SE

	Documents	Details	File Name (files to be in Microsoft Word only; supporting documents can be in Microsoft Excel or PDF)
1.	Cover letter from the SE to the SC submitting the pilot project proposal	Letter indicating that the SE has directly involved entities like POs/ag-CSOs and agriculture value chain actors in the project design and discussed the pilot project proposal with relevant government authorities.	
2.	'No objections' letter or e-mail from the relevant line ministry and the ministry of finance or equivalent	Examples of relevant line ministries: agriculture, rural development, health, women and child welfare, environment/natural resource management, etc.	
3.	Pilot project proposal	GAFSP Pilot Project Proposal (not more than 15 pages) specifically addressing the selection criteria, submitted by the SE.	
Notes:			