



DEVELOPMENT CO-OPERATION TIPS TOOLS INSIGHTS PRACTICES

In practice

SPAIN'S HURUMA FUND: ATTRACTING PRIVATE INVESTMENT FOR SMALLHOLDER AGRICULTURE

Key messages

Spain's first social impact fund, the Huruma Fund, helps to fill the funding gap for smallholder and marginalised farmers in partner countries. The fund – a partnership between Spain, the European Union and private sector investors – shows how public resources can be used efficiently to attract private investment in areas of high risk but with a large impact on poverty.

Keywords

Finance | Innovation | Partnerships | Poverty and inequality | Private sector

Key partner

Spain

Challenge

Food security is a key priority for Spain's development co-operation, with evidence showing a clear link between agricultural productivity and poverty reduction. However, traditional bank screening models tend to exclude smallholder farmers from accessing credit to improve productivity, since they are considered high risk. Formal lending to smallholder and marginalised farmers in partner countries and territories therefore [only meets 3% of farmers' global demands for finance](#).

Approach

The [Huruma Fund](#) was launched in 2018 by COFIDES (the Spanish development finance institution), along with AECID (the Spanish Agency for International Development Cooperation), the European Union (EU) and private sector investors. Its aim is to support rural farmers in partner countries both directly (equity investments in agri-businesses) and indirectly (debt investments in rural financial institutions that then on-lend to farmers) to improve their livelihoods. The overall objective is to support 45 000 farmers globally: 70% of the funds are earmarked for Latin America and sub-Saharan Africa, and 30% for Asia.

- Public resources are provided by [AECID-FONPRODE](#) (EUR 20 million in reimbursable finance); the [EU](#) (first-loss funding of EUR 10 million and technical assistance of EUR 8.55 million); and [COFIDES](#) (EUR 1 million).
- 83% of the Huruma approved portfolio (in volume) is denominated in local currency so that foreign exchange risk is not passed on to the investees.
- The fund is managed by [GAWA Capital](#), an advisory company specialised in microfinance and with a track record of positive financial returns. Part of the Fund Manager's remuneration is directly linked to investees' social performance. This is calculated through a rural/agri impact score, which aims to capture the accomplishment of the fund's social objectives. The score obtained for each investment is audited by an independent social auditor.

Over its 10-year lifespan, the Huruma Fund expects measurable impacts to include an increase in the area under cultivation, an increased number of farmers reporting higher turnover, increased access to finance by smallholder farmers, and more sustainable jobs in the sector.

Results

The Huruma Fund shows how public resources can be used efficiently to channel private funding to impact investment projects:

- **The fund has been able to mobilise capital from a wide range of private investors**, reaching [a total size of EUR 120 million](#) in just nine months of fundraising. For example, Spain's CaixaBank raised an additional EUR 89 million (USD 107 million) for the fund from multiple private investors. This milestone for impact investment in Spain confirms the interest of the private sector in playing a key role in these operations.
- **The total portfolio approved by the fund amounted to EUR 55.4 million for a total of 12 deals** by January 2022: 2 quasi-equity investments in small and medium-size agri-business enterprises in India; and 10 debt investments (senior loans) to 10 Latin American financial institutions in Bolivia, Colombia, Ecuador, Peru and Panama. This implies a regional breakdown of 68% of the approved amount in Latin America and 32% in South Asia.
- **Farmers are benefitting directly**. In Ecuador, the Huruma Fund investment in [FACES](#) and [INSOTEC](#) provides microfinance and training to smallholders to boost farmers' agricultural productivity and income. In Peru, the investment in [NORANDINO](#) is benefitting smallholder farmers in the north mainly in the coffee, cocoa, sugar and banana value chains. It is closely aligned with Spanish co-operation's work with the government of Peru and its partners on irrigation and supporting women producers.

Lessons learnt

- **Public resources are key for attracting private investments.** The first loss contribution assumed by the EU has helped to attract investors by guaranteeing that project defaults (up to EUR 10 million) are covered by public co-operation funds.
- **Matching financial co-operation with technical co-operation allows for longer-term impact** through microfinance entities or financial co-operatives. For example, technical co-operation projects work to improve digitalisation, increase the use of data analytics, design and implement agricultural risk management systems and expand the network of rural agents.
- **Identifying the correct partner and aligning the interest of all parties involved have been crucial.** In this case, the fund manager, GAWA Capital had the right mix of relevant microfinance experience and a track record of positive returns.
- **Developing suitable products for smallholder farmers requires a thorough understanding of market gaps.** The Huruma Fund facilitates farmers' access to medium-term loans (3 years) – a key product missing in partner countries.

Further information

AECID (2021), *Plan de acción 2021 de la Agencia española de cooperación internacional para el desarrollo [2021 Action Plan for the Spanish Agency for International Development Co-operation]*, https://www.aecid.es/Centro-Documentacion/Documentos/Divulgacion/Comunicacion/2021_05_24_PLANACCI%93NA_ECID2021.pdf.

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OECD resources

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OECD (2021), *Making Blended Finance Work for Agri-SMEs: Lessons learned from selected case studies*, [https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD\(2021\)7&docLanguage=en](https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD(2021)7&docLanguage=en).

To learn more about Spain's development co-operation see:

OECD, "Spain", in *Development Co-operation Profiles*, <https://doi.org/10.1787/26d68de7-en>.

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