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Enabling poor rural people
to overcome poverty

Corporate-level evaluation of IFAD's Private-Sector Development and Partnership Strategy

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Annotation

This document contains the full report on the corporate-level evaluation of IFAD's Private-Sector Development and Partnership Strategy. The IFAD Management response will be shared orally at the session.



**Document of the
International Fund for Agricultural Development**

**Corporate-level evaluation of
IFAD's Private-Sector Development and Partnership Strategy**

12 April 2011

IFAD's Private-Sector Development and Partnership Strategy

Corporate-level evaluation

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(evaluation@ifad.org)

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2. Ghana
3. Guatemala
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5. Peru
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7. Uganda

Abbreviations and acronyms

AfDB	African Development Bank
AGRA	Alliance for a Green Revolution in Africa
ARRI	Annual Report on Results and Impact of IFAD Operations
AsDB	Asian Development Bank
CDD	community-driven development
COSOP	country strategic opportunities programme
CPM	country programme manager
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	international financial institution
IIC	Inter-American Investment Corporation
IOE	IFAD Office of Evaluation
MDB	multilateral development bank
PMD	Programme Management Department
PTA	Policy and Technical Advisory Division
RIDE	Report on IFAD's Development Effectiveness
RIMS	Results and Impact Management System
SME	small and medium enterprise
SNV	Netherlands Development Organisation
USAID	United States Agency for International Development

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IFAD's Private-Sector Development and Partnership Strategy

Corporate-level evaluation

Summary

1. **Background and objectives** (see paragraphs 69-71).¹ Upon approving IFAD's Private-Sector Development and Partnership Strategy in 2005, the Executive Board requested the Office of Evaluation to undertake a subsequent evaluation. The evaluation objectives were to: (i) assess the relevance and evaluate the implementation of the strategy; (ii) evaluate the emerging results of IFAD-supported projects designed after its adoption; (iii) assess the evolving approaches, as well as good and less good practices, to IFAD's private-sector development efforts; (iv) examine the instruments and experiences of other development organizations in engaging the private sector in agriculture and rural development, with the aim of identifying lessons that could be pertinent for IFAD; and (v) generate a series of findings and recommendations that could serve as building blocks for IFAD's future engagement with the private sector.
2. The importance of the private sector (see paragraphs 4-14). Private-sector entities have a central role to play in smallholder agriculture and rural development, offering opportunities for the creation of employment and wealth in rural areas. Their contribution in promoting access to markets, undertaking innovations, providing essential services - including technical assistance, training and rural finance - and supplying inputs have proven to be complementary and critical to the services provided by government agencies, NGOs and civil society organizations. However, the private sector is not a homogenous group of actors. Smallholder farmers, farmers' associations, agribusinesses and other commercial firms, as well as large national and international conglomerates, all form part of the growing private sector in developing countries.
3. IFAD's role and comparative advantage (see paragraphs 15-23). Given its mandate and taking into account the private sector's central role in smallholder agriculture and rural development, IFAD can aspire to take a leadership role globally in developing innovative approaches to engage the private sector to the benefit of the rural poor. IFAD's commitment to make the private sector an integral partner has been tenuous and not universally well received among staff until recently. In the last two years, however, IFAD Management has forcefully articulated a vision that sees small agriculture as a profitable business and building block for a more prosperous and dynamic rural society.
4. The relevance of IFAD's private-sector strategy (see paragraphs 84-99). The goal "to engage the private sector to bring more benefits and resources to IFAD's target group" and the immediate objective "to increase pro-poor private-sector operations and investments in rural areas" of the strategy were and remain relevant. However, there were little or no roll-out actions to facilitate implementation of the strategy; and the strategy did not consider adequately the need for ensuring corporate social responsibility and promoting fair trade practices and sound environmental management, in a context with wider private sector participation. Nor did the strategy sufficiently address the risks inherent in engaging with the private sector, such as the implications for poor people who are unable to take advantage of the resulting opportunities.
5. The 2005 strategy included the first IFAD-specific definition of the rural private sector. The evaluation concluded that this definition is too broad-based and does

¹ The paragraph numbers in the executive summary refer the reader to the main report, where additional information can be found on the same topic.

not adequately differentiate among private-sector operators working in agriculture and rural development, who often have very different needs, requirements, capabilities and opportunities. Rather, the definition lumps together operators at the smaller (rural) end of the private-sector continuum including agroprocessors and other rural microentrepreneurs, as well as national, regional and international operators. It also includes private-sector operators that belong to both the formal and informal economy.

6. The three broad lines of action of the strategy were as follows: (i) policy dialogue for local private-sector development; (ii) investment operations to support local private-sector development; and (iii) partnerships with the private sector in order to leverage additional investments and knowledge for rural areas. They were well chosen to achieve its goal and objective. The strategy's results framework was weak, well defined incentives and accountability were lacking, and no provision was made for systematic outreach and dissemination following its approval. Preparation of the strategy was not adequately organised, and did not entail any consultation with a cross section of IFAD staff or partners from developing countries and other organizations.
7. The implementation of the strategy (see paragraphs 105-150) was examined according to the strategy's three broad lines of action and implementation requirements. With regard to policy dialogue, about half the new generation country strategic opportunities programmes (COSOPs) - those considered by the Board between 2007 and 2010 - cover policy dialogue on the private sector and consultation with private-sector entities. There is however room for improvement in promoting a favourable policy and institutional environment for private-sector engagement at the country level, as well as scope for wider engagement in key policy arena that would create a more conducive international and regional trade environment.
8. Projects designed in 2009, as compared to those designed in 2004, made better provision for private-sector development through greater attention to rural micro and small enterprises, commodity value chains, market linkages and agricultural productivity. However, this was attributable to the gradual increase in IFAD's investment in marketing and rural enterprise development, rather than a result of implementing the strategy. Projects have not generally emphasized the role of the private sector in research and extension, analyzed the potential risks associated with the value chain approach, made full use of information and communication technology to promote market access, or built gender and environmental concerns into projects with major private-sector components.
9. The targets set in the strategy's results framework for mobilizing resources from the private sector for IFAD-funded projects have been met and exceeded. However, the evaluation found only a few concrete examples, as with the Alliance for a Green Revolution in Africa (AGRA), of partnerships to leverage investments from private foundations or philanthropic organizations. The Fund has some partnerships at the institutional level with other multilateral organizations (e.g. the OPEC Fund for International Development) specifically for private-sector development, but on the whole these are less developed than its partnerships in other areas.
10. Finally, the evaluation found that IFAD's governing bodies (especially the Executive Board, Evaluation Committee and replenishment consultations) have generally encouraged it to take a more favourable stance towards private-sector development. However, the Board did not exercise adequate oversight in the strategy's implementation including monitoring the fulfilment of "implementation requirements" (section VII of the strategy) such as reporting on achievements against specified key performance indicators.
11. Emerging results from the new portfolio (see paragraphs 152-159). The emerging results of projects with a significant private-sector component that started up after the strategy was approved in 2005 – as recorded by IFAD's self-evaluation system - reveal better overall performance than similar projects approved before 2005. In

particular, projects approved in recent years are performing better on 12 of the 18 indicators included in the project status reports prepared by country programme managers (CPMs) annually for each operation, including in terms of their “likelihood of achieving their development objectives”. This is important, as the ultimate aim of IFAD-supported projects is to promote private-sector engagement as a means of achieving better poverty reduction results on the ground, rather than supporting private-sector development and engagement as an objective per se. Finally, recent data from the Results and Impact Management System surveys show that the performance of most ongoing projects is moderately satisfactory in specific areas related to private-sector development, such as the “likelihood of sustainability of market, storage, processing facilities”.

12. Among other issues, the seven country studies brought out three key insights that could contribute to further strengthening IFAD’s work on the private sector (see paragraphs 181-192): (i) government commitment to and support for private-sector development is key to IFAD’s ability to design effective investment operations in agriculture and rural development; (ii) IFAD needs to use all its instruments (and not just investment operations) more effectively for promoting private-sector development in borrowing countries; and (iii) very little use has been made of the grants programme to support private-sector development, for example in terms of promoting policy dialogue and knowledge management.
13. The importance of corporate business process for better results (see paragraphs 195-238). The strategy made provision for adjustments to some key corporate business processes such as training, learning, knowledge management, and monitoring and reporting. In particular, it specified a number of “implementation requirements” to ensure that the strategy could be appropriately implemented to achieve the desired results on the ground. Some of those requirements were not met at all (e.g. appointing a staff member to oversee implementation, developing guidelines or a toolkit to operationalize the strategy, training staff); and most others only in part. The evaluation concludes that this has impeded the achievement of results on the ground.
14. IFAD’s existing organizational architecture and workforce (see paragraphs 207-211) is insufficient to promote partnerships and engage the private sector. In addition to the lack of a senior technical adviser on private sector issues,² a large number of front line staff (i.e. CPMs) have limited knowledge of and experience with the private sector including in terms of resource mobilization, which requires specialized skills, competencies and know-how. Efforts to conduct systematic training on the topic have also not been forthcoming. In spite of this, IFAD has done relatively well in adjusting the focus of recent operations to encompass value chains, market access and employment creation. But if IFAD is to develop a comparative advantage in linking smallholders to markets, it will need to build up the skills and global experience of its staff.
15. Instruments for private-sector development (see paragraphs 226-238). The evaluation concludes that IFAD has not yet fully leveraged its existing instruments (loans, grants, policy dialogue, partnership building and knowledge management) to promote partnerships with the private sector. At the same time, the evaluation underlines the limitations of the existing instruments and explains why using loan-funded investment projects (i.e. sovereign lending) – the main instrument currently at IFAD’s disposal for rural poverty reduction - is not effective for private-sector promotion in support of the rural poor. For example, governments are often reluctant to use public money to support private-sector entities, and when they are prepared to do so they often cannot ensure efficient management of such funds. Nor is the private sector keen to work in direct partnership with government institutions. Hence the bulk of assistance from other multilateral development banks (MDBs) for private-sector development is provided on a non-sovereign direct lending basis.

² Notwithstanding the lateral transfer in April 2011 of a staff member from the Near East, North Africa and Europe Division to work on private-sector development in the Policy and Technical Advisory Division.

16. The evaluation concludes that if IFAD were able to lend directly to the private sector, including small and medium enterprises, agroprocessors, microfinance institutions, cooperatives, farmers associations, commercial banks and others who face challenges in mobilizing financial resources, this could provide significant advantages to the rural poor. Direct lending to the private sector, which can take a variety of forms (e.g. equity investments, loan guarantee funds, venture capital, investment finance.) would contribute to spurring market-led development among the rural poor, especially if used in a coherent and synergistic manner in country programmes with IFAD's traditional instruments for agriculture and rural development.
17. **Recommendations.** The evaluation suggests that consideration of a new corporate private-sector strategy would be timely, and offers the following recommendations as inputs.
18. **Strengthen existing instruments to support private-sector development.** IFAD provides loans to governments, has a grants programme and is involved in non-lending activities (policy dialogue, knowledge management and partnership building). However, all these instruments must be used to their full potential, in particular ensuring that they are mutually reinforcing and can in a holistic manner contribute towards IFAD's private-sector development objectives.
19. **Strengthen the design, supervision and implementation support** of loan-funded projects that include private-sector development. More thorough analysis of the requirements for generating pro-poor benefits and possible risks of collaboration with private-sector entities involved in commodity value chains should be undertaken, with due attention to gender and environmental considerations. The grants programme should be used to provide complementary support to private-sector entities involved in IFAD operations, including technical assistance and advisory services to strengthen the capacities of private-sector entities. This might eventually necessitate an expansion of IFAD's grant policy.
20. **Ensure that COSOPs coherently articulate how synergies will be established** between investment operations and non-lending activities to support private-sector development at the country level. Specific recommendations with regard to policy dialogue and partnerships are summarized below:
- (i) **Policy dialogue.** IFAD needs to: (i) use the COSOP formulation process to more systematically discuss opportunities and constraints for rural private-sector development and to promote a dialogue within the country on these issues; (ii) work more closely with other MDBs to ensure that issues affecting private-sector development related to agriculture are on the agenda for dialogue with governments; and (iii) use the grants programme more strategically to fill gaps in IFAD's and the governments' understanding of these issues and provide the analytical underpinnings for enhanced policy dialogue.
 - (ii) **Partnerships.** It would be important for the Fund to engage more widely with foundations and philanthropic organizations with a strong private-sector orientation, at the corporate and country levels, that can provide knowledge and financing for IFAD-funded activities. In addition, the Fund should strengthen its collaboration with MDBs at both the corporate and country levels, inter alia, focusing on policy dialogue, knowledge management, cofinancing of operations, and identifying opportunities for scaling up successfully piloted innovations on private-sector development through IFAD operations. In particular, opportunities for partnership should be explored with agencies such as the International Finance Corporation (IFC), which can lend directly to the private sector and whose funding is seen as additional by governments. Under such partnerships, IFAD could support smallholders with seed capital, technical know-how and business development services, to engage in higher productivity activities and move up the value chain.

21. **Establish a private-sector development financing facility.** The evaluation concludes that IFAD should leverage its existing instruments to their full potential, but this would provide only incremental improvements to IFAD's target groups – especially small farmers. Therefore, in addition to implementing the above recommendation, the evaluation further recommends that IFAD establish a private-sector development financing facility to directly channel resources for private-sector operations in rural areas, with non-sovereign guarantees.
22. The proposed facility would support selected elements in the value chain that would have a direct impact on enhancing the productivity of small farmers and provide them with better incomes. However, the new corporate private-sector strategy will have to determine what type of direct support (e.g. equity investments, loan guarantees, venture capital, investment finance, technical assistance and advisory services) it would consider a priority for the rural poor.
23. The facility could include initial financing of US\$200 million for a five-year period. Voluntary contributions would be invited from Member States, foundations and philanthropic organizations, and others. The evaluation recognizes that direct lending would have significant implications for IFAD's legal, financial and supervision systems, as well as require IFAD to put in place standards of corporate social responsibility as a basis for due diligence in order to minimize the risks of lending directly to private entities. It would also require the development of staff capacities and expertise, as well as an adequate organizational structure. The evaluation recognizes that direct lending to private-sector entities (i.e. non-sovereign loans) will require the concurrence of the Board.
24. The facility would have a clear governance framework, and a systematic monitoring, evaluation and reporting system. In particular, ongoing monitoring and annual reporting to Senior Management and the Board throughout the five-year period will be essential to success. A thorough assessment of the facility and the projects funded at the end of the five years would serve as a basis for deciding together with IFAD governing bodies whether direct lending to the private sector ought to become a regular instrument at the disposal of IFAD for its rural poverty reduction efforts, as well as the size and administrative location of the facility.
25. **Assess IFAD's human resources and organizational architecture.** Management should undertake a thorough assessment of IFAD's organizational architecture and human resource capabilities and requirements for private-sector development, including management of the facility and promoting private-sector development in general. In this regard, the option of further reconfiguration by establishing a specific organizational unit (division³ or department) responsible for promoting IFAD's work on private-sector development and engagement should be explored. The reconfiguration could group together existing key staff currently working on private sector-related issues (senior technical advisers on private-sector development, rural finance and others). The assessment should also lead to the definition of an appropriate incentives and accountability framework for IFAD's work with the private sector. In addition, it is recommended that IFAD organize periodic peer reviews on its private-sector activities and architecture.
26. **Definition of private sector.** The new strategy should adopt a clearer and more focused IFAD-specific definition of the private sector, in light of the Fund's mandate to assist the rural poor. It should recognize that the private sector is a heterogeneous group of actors who have different capabilities and requirements. It should promote partnerships with private enterprises that can provide resources and services that improve the livelihoods and incomes of the rural poor.
27. **Process for preparation of the new IFAD private-sector strategy.** It is recommended that the strategy be developed based on consultation within IFAD to ensure that all key inputs are duly captured and as a means to building ownership

³ For example, along the lines of the recent establishment of a central Environment and Climate Division, including the assignment of dedicated staff in each PMD regional division working on the same topic.

for its implementation. Selective consultations with outside partners should also be conducted to obtain a wider view and feedback on the strategy. This could include farmers organizations, NGOs, other IFIs and development organizations that are currently working with the private sector (IFC, USAID, AfDB, etc.), as well as private-sector entities.

Corporate-level Evaluation of IFAD's Private-Sector Development and Partnership Strategy

Main report

1. This is the first corporate-level evaluation of IFAD's engagement with the private sector. The core of the evaluation is to assess the Private-Sector Development and Partnership Strategy (hereafter referred to as the private-sector strategy), approved by IFAD's Executive Board in April 2005.
2. The structure of the report is as follows: Chapter I defines the private sector, and provides information and analysis on the evolution of the role of the private sector in IFAD borrowing countries, the major changes to the Fund's development approach in the past decade, and an overview of the private-sector strategy. It also includes a snapshot of the strategy, instruments and organizational architecture of other selected development organizations. Chapter II provides an account of the evaluation objectives, methodology and process. Chapter III analyses the relevance of IFAD's private-sector strategy, while chapter IV includes an assessment of the implementation of the main objectives and the three broad lines of action of the strategy. Chapter V discusses the evidence thus far, limited though it is, of the results on the ground and summarizes lessons learned from seven country case studies. Chapter VI reviews a number of key corporate business processes which are essential for promoting IFAD's private-sector development efforts. Chapter VII includes an overview of the approaches and experiences of other development agencies in engaging the private sector, and chapter VIII contains the evaluation's conclusions and recommendations. The document contains numerous supporting appendices and annexes, which are listed in the table of contents.

I. The evolution of IFAD's support for private-sector development

A. Definition of the private sector

3. The private sector is that part of an economy in which goods and services are produced and distributed by individuals and organizations that are not part of the government. The private sector is primarily driven by a profit-making orientation. As such, NGOs, foundations, development aid agencies, civil society organizations and other non-profit organizations are not part of the private sector. The IFAD private-sector strategy states that: "The rural private sector includes a whole continuum of economic agents, ranging from subsistence or smallholder farmers, rural wage-earners, livestock herders, small-scale traders and microentrepreneurs; to medium-sized, local private operators such as input suppliers, microfinance institutions, transporters, agroprocessors, commodity brokers and traders; to other, bigger market players that may or may not reside in rural areas, including local or international commodity buyers and sellers, multinational seed or fertilizer companies, commercial banks, agribusiness firms and supermarkets. Associations of farmers, herders, water users or traders also constitute an important part of the private sector." It further states that: "IFAD's direct target group is the rural poor, who tend to be concentrated at the smaller end of the private-sector continuum. This group is considered part of the private sector because, in essence, it comprises agro- or rural-based microentrepreneurs who make their own economic decisions regarding what to produce and how to produce it, what to buy and sell, who to buy from and sell to, how much to buy or sell, and when IFAD will concentrate its efforts on supporting the development of this private-sector target group. However, since the livelihoods of IFAD's target group are often dependent on other private-sector operators, IFAD will also support or partner with those private-sector operators that can provide improved income-generating opportunities for IFAD's target group." The evaluation discusses the appropriateness of this definition in chapter III, which treats the relevance of IFAD's private-sector strategy.

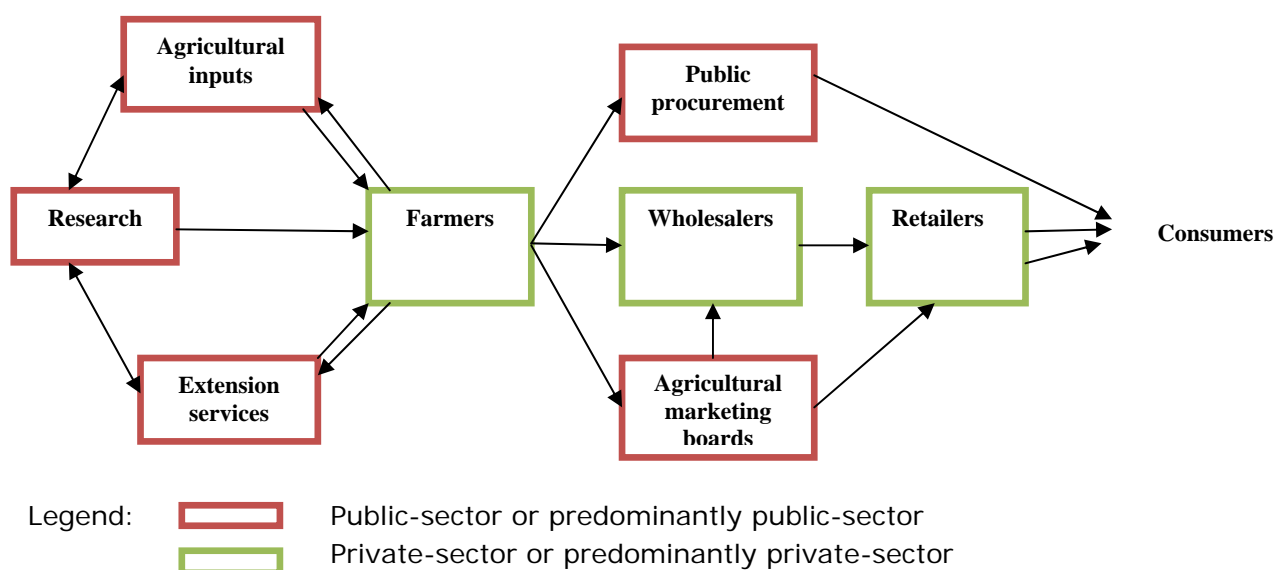
B. The evolving context of rural poverty reduction and the role of the private sector

4. The involvement of government in the rural economy began in colonial times and was carried over into post-colonial states. There was a perception that market failures and the diseconomies of scale of small farms called for a major presence on the part of government, extending in Communist societies to the production process itself and, in other countries, to a mix of state marketing boards to supply inputs and market outputs at controlled prices, and a range of supporting institutions: government research and extension services, and specialized agricultural development banks.
5. Until the late 1970s, these perceptions of the need for large-scale government intervention, not only in agriculture but in all sectors of the economy, dominated the development paradigm. Five-year development plans continued to assign a dominant role to government, whereas the private sector was given a limited role, often with suspicion about whether it had the necessary commitment to the public good. Closed economy, import-substitution models still prevailed despite the export-led "East Asian Miracle". Capital transfers were predominantly public-sector driven. The idea that the private sector could be the engine of economic development in terms of investment, innovation and employment generation was appropriate for developed nations but government planning and direct intervention was needed in poor countries.
6. Over the past 20 years or so, the paradigm has shifted. Most governments have now withdrawn from direct production for the market in agriculture and manufacturing through the privatization of enterprises. The private sector has been identified as a powerful catalyst for much-needed innovation and dynamic change in the realm of agricultural development and rural poverty reduction. The private sector is now being seen as being indispensable for ushering in revolutionary financial and technical resources, human capital, market access, cutting-edge business practices and other expertise related to food security. In many countries, even infrastructure is now owned or managed to some degree by private interests. The major role of government has shifted from being a direct investor and player to that of creating an enabling environment of appropriate policies and institutions that encourage the private sector to be the engine of growth.
7. The past 10 to 15 years have seen an acceleration of this shift as it impacts the small farm sector. A number of areas of significant change may be identified, including: (i) in most countries, the full-scale retreat of the state from rural marketing activities; (ii) increased private provision of agricultural services and technologies; (iii) the exponential increase in private remittances; (iv) more dynamic private agribusiness sectors in some regions; (v) the supermarket revolution, especially in Latin America; (vi) the advent of new microcredit channels in rural areas; and (vii) the growing role of private foundations and public-private partnerships in development assistance.
8. The private sector is not to replace the state but rather to complement it and work within the "embedded economy" by mobilizing private investment that is indispensable for promoting broad-based and sustained growth. Evans (1995) indicates that dynamic economies have to be "embedded" to be effective, calling for the private sector to catalyse development. Expanding the scope of state-society links to include a broader range of groups, actors and classes should result in a more politically robust and inclusive embedded economy.
9. The role of the private sector is increasingly important given the formidable challenges of food security and the inadequacy of the state to meet them effectively. This has paved the way for public-private partnership approaches, that is, to maximize interactions between the public and private sectors so as to deliver public services, such as provision and access to water, credit, technology, electricity or telecommunications, more efficiently and to more people, and to improve the

quality and the affordability of access to services provided. Tax revenues generated by private markets are viewed as critical to support public expenditure programmes. Private markets are the engine of productivity growth and thus create more productive jobs and higher incomes. Complementary to government roles in regulation, funding and provision, private initiative can help provide basic services that empower the poor by improving infrastructure, health and education. In sum, public-private partnership is a joint effort by public and private entities in which each contributes to planning, commits resources, shares risks and benefits, and conducts activities to accomplish a mutual objective of improving economic growth and reducing poverty.

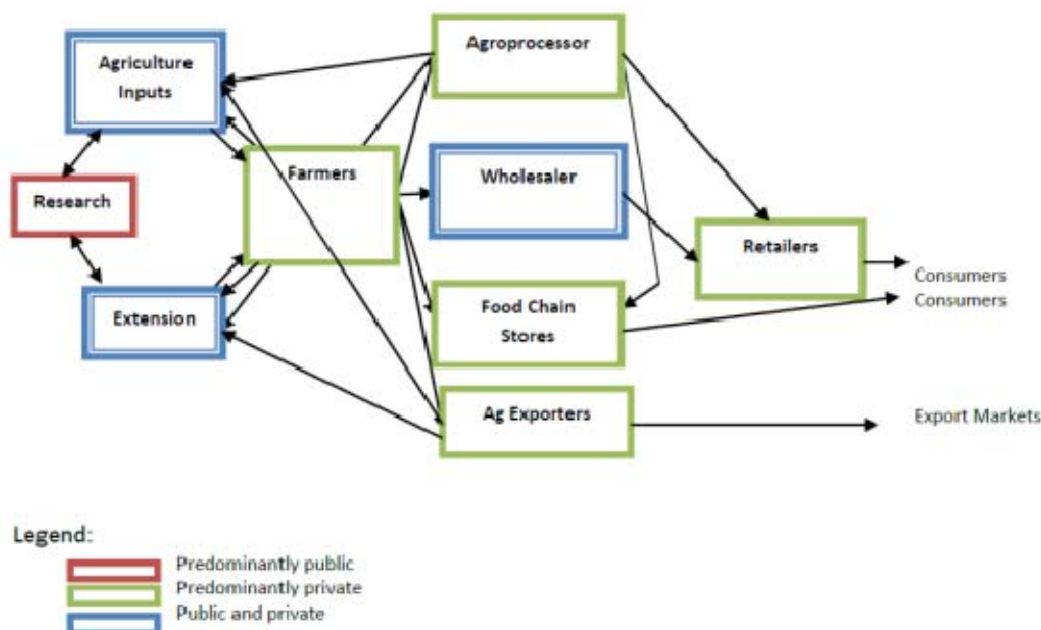
10. Agriculture production, processing and marketing have traditionally been, and will continue to be, quintessentially private-sector endeavours. The typical supply chain in agriculture in low-income countries historically consisted of the farmer who sold his produce to a middleman who, in turn, supplied retailers of various kinds. The government's role in this process has been in some cases as the supplier of farm inputs and extension, as the middleman through its support for marketing boards designed to manage prices of essential commodities and/or to ensure a fair price for the producers, and as the procurer of farm outputs for public distribution (see figure 1 below). The role of the government, while justified on theoretical grounds, has often been controversial because of the distortions it creates and its lack of market orientation. Traditional IFAD (and other donor) projects have attempted to improve the lot of the farmer and the rural poor within this supply chain and thus can be considered to be supportive of the private sector.

Figure 1
Traditional agricultural supply chain in low-income countries



11. However, with economic development, the rural private sector has grown in diversity and complexity. Private and non-governmental players have emerged in the supply chain: small and medium enterprises (SMEs) engaged in agroprocessing, exports and retailing. These new players have developed linkages with farmers, including small farmers, through various procurement arrangements that often include the supply of farm inputs, technical assistance, standards, contract farming, etc. (see figure 2). Historically, these players emerged only after countries reached middle or upper middle-income levels, as consumer demand became more diverse and sophisticated. But the pattern is increasingly emerging in low-income countries as well, being most evident in export crops but increasingly also in domestic markets. When structured appropriately, such arrangements can be very beneficial to the farmers.

Figure 2
Current trends in agriculture supply chains

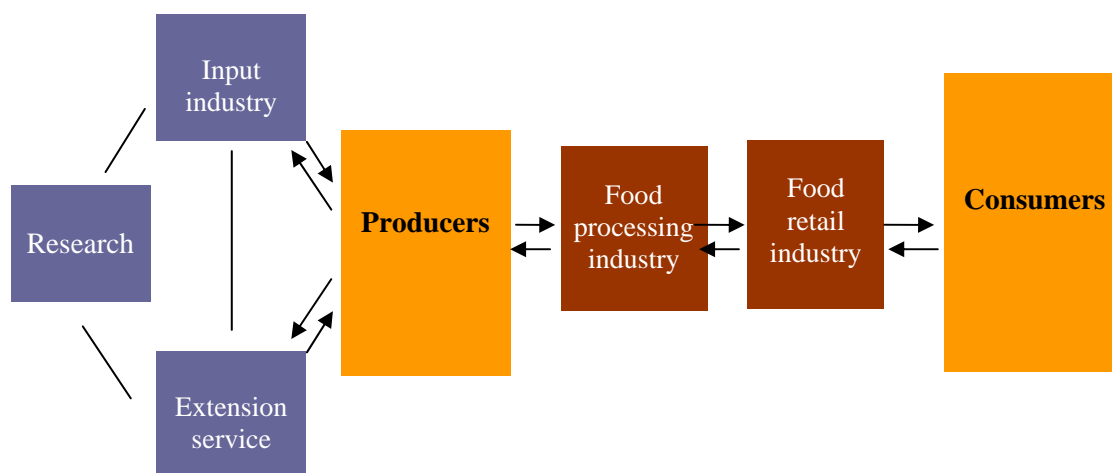


C. The heterogeneity of the private sector

12. The preceding section underlined the importance of the private sector in general in promoting economic growth and reducing poverty in developing countries. However, at this stage, it is critical to note that private-sector entities are a highly diverse group, including individual farmers, farmers' associations, agribusinesses, and large conglomerates that do philanthropic work. It is essential to be cognizant of this in designing and implementing agriculture and rural development strategies and operations in developing countries. While they share the common goal of making profit, the private sector at large is comprised of different types of operators in terms of their size and structure, objectives and coverage, priority areas of interventions, level of resources, technical and management skills, outreach capabilities and relationships with other institutions (e.g. government, NGOs, civil society, academia, etc.).
13. Some private-sector entities work only in the informal economy, and therefore do not have the required legal framework to benefit from government regulation, protection and incentives that may be in place to promote private-sector engagement and development. Others work only at the local level (e.g. small enterprises set up by the rural poor, such as provision stores at the community or district levels), whereas some might be more comprehensively involved in the value chain (see following paragraph) and play a wider role in linking "food to fork", as by providing agroprocessing, transport and marketing services. Larger private-sector entities might also have a regional or international dimension, as in promoting exports of processed foodstuffs to markets in developed countries.
14. Figure 3 below on the agriculture value chain can also help understand the diversity of the private sector and its contributions to rural poverty reduction through agriculture and rural development. The value chain describes the range of activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services), to delivery to final consumers. Private-sector operators have an important role at different stages along the value chain, from the provision of inputs (e.g. seeds, rural finance, fertilizer and pesticides) and extension services for both on- and off-farm activities. The private sector also has

an important role in food processing and retailing (e.g. in terms of value addition to agriculture commodities, packaging, transportation, distribution, and sale to end consumers), whether in local, national, regional or international markets.

Figure 3
Agriculture value chain



D. The evolution in IFAD's development approach

15. In the early years of its operations, IFAD's mission of rural poverty reduction was largely carried out through engagement with public-sector agencies in support of projects to help small farmers increase their productivity and output, and share in the benefits of the green revolution. In the course of the 1980s, there was increasing doubt about the sustainability of the model as agricultural growth slowed down after the initial impact of the introduction of new technologies, and evidence emerged that in many countries smallholders were not sharing in the increase in growth. Public-sector agencies were often unable to reach and serve smallholders and the rural poor. In particular, growth was often not reaching landless poor and indigenous communities living on marginal lands.
16. In the initial years of its operations, IFAD followed the integrated rural development model that had been taken up with enthusiasm by the donor community in the 1970s, but largely abandoned in the course of the 1980s because of its complexity and the inability of local institutions to cope with the simultaneous demand for a wide range of public services and investments. IFAD combined this with participatory approaches involving community-based organizations, which included setting up groups of the rural poor within villages and empowering them to take a more active role in the community, while providing resources to increase their access to productive assets that could move them out of poverty. In order to finance the access of the rural poor to assets, IFAD increasingly turned to an approach of linking the groups of smallholders and the rural poor to rural finance institutions, building on the wave of development of microfinance institutions using the Grameen Bank and other models. The evaluations that have been undertaken attest to the success of this model, particularly in contexts of social inclusion or marginalized groups such as indigenous peoples. It does not depend on efficient public service delivery, but instead creates a parallel structure of project management units with facilitators drawn from the public, NGO or private sectors, depending on availability and competence.
17. While this model is still a large part of the IFAD-financed portfolio, a number of weaknesses in the approach have become apparent over time. In the absence of robust economic growth, the options available to smallholders may be limited to increased output for their own consumption, or the production of handicrafts and

simple services for the local economy. With more and more producers serving a limited market, financial returns are often at levels that require the provision of subsidies, which in turn raises questions of the sustainability of growth. While many countries have successfully reduced rural poverty in recent years, this was achieved in most cases through migration to cities or abroad, and only to a limited extent through increased productivity of the smallholder agricultural sector or through higher wage rates for rural landless labour. One further limitation of the model pursued in the past was that it did not pay adequate attention to promoting market linkages, which would have allowed the rural poor to buy inputs and sell surplus produce to achieve better productivity and incomes.

18. For a number of reasons, the task of reducing rural poverty is one of the most challenging aspects of economic development. Government agricultural policies and rural institutions have been often captured by elites or rent-seeking groups; the bureaucrats who run them have little incentive to do so in an effective and efficient manner; and the rural poor are at the end of the queue for public investments in the social and physical infrastructure needed to reduce their costs of production and marketing and improve their livelihoods. Diseconomies of scale often make it unattractive to the private sector to serve the small farmer or small rural entrepreneur with the knowledge, finance, inputs and markets needed to raise productivity. Small rural operators are generally not organized and have limited bargaining power in the face of monopoly suppliers of inputs and buyers of outputs. The cooperative movement with the potential for increasing the bargaining power of small farmers has proven to be successful only very intermittently. Some effective models are being pioneered by NGOs on a micro scale but, for the most part, they are not being systematically piloted or scaled up. Similarly, diseconomies of scale affect the interest and capacity of the large multilateral institutions to serve the rural poor, given the high cost per beneficiary of projects and the premium on local knowledge.
19. In the past decade, a new approach has evolved based on building links between smallholder farmers and markets. This approach begins from the premise that unless there is a market for increased and higher value rural products, there is little point in organizing, training and financing producers to supply these products. It focuses therefore on the value chain linking production, processing, marketing and consumption of agri-based and rural-based products, and builds linkages between these various steps in the chain. This approach has been characterized by a division of labour between the public and private sectors which recognizes the importance of an appropriate enabling environment, including social and physical infrastructure, and legal, regulatory and policy frameworks for increased smallholder production and sale to the private market.
20. The point of intervention for this approach has varied from country to country, donor to donor and project to project. In some, there is a focus on forming producer groups, less formal in most cases than traditional producer and marketing cooperatives. These groups can then contract with private processors and traders on the quantity, quality and price of their output. Increasingly, intervention has taken the form of working with the private processor or trader to identify the weak links in the production chain and then taking steps to strengthen those links. The strength of this approach lies in the common interest of both the smallholder and the intermediary processor or trader in having an assured supply of output of the requisite quality at a reasonable price. In order to meet this objective, many intermediaries are willing to provide direct support to farmers through training, supply of appropriate inputs and meeting needs for storage or transport.
21. The donor community, including IFAD, has played an important role in facilitating the rapid expansion of this market linkage or value chain model. Some institutions, such as the International Finance Corporation (IFC), have undertaken major new programmes of support for rural private-sector development on the basis of the model. Others, such as the World Bank and Inter-American Development Bank

(IDB), have tried to ensure that the enabling environment and public-sector capacity keeps pace with the evolution of the new approaches. There is an important proviso here however. It would be naive to argue that smallholders invariably benefit from formal value chain linkages. There are huge variations in the potential prices received by smallholders depending on the structure of the market and the bargaining power of the smallholders. Compare for example the value chains for Kenyan smallholder coffee, where at times the farmer has received a payment equal to about 1 per cent of the supermarket retail price in Europe, and milk marketed by the Amul Dairy cooperative in India, where the milk supplier receives up to 80 per cent of the retail price.¹ IFAD has increasingly seen its role as ensuring that these arrangements work for the rural poor.²

22. IFAD came relatively late to an understanding of the potential of engaging the private sector in helping the rural poor benefit from integration into the market through participation in value chains. While other institutions were moving rapidly in this direction, IFAD was held back by its traditional close links to the public sector. Throughout the institution, from staff to Management to the Executive Board, there were those who saw this as a clear ideological choice between the public sector, NGOs and civil society, which was committed to reducing rural poverty, and the private sector, whose commitment was to private profit, often at the expense of the poor. Only in the past five years have attitudes among staff, Management and the Board evolved to the current approach, whereby the private sector is seen as a valuable instrument that with appropriate support and regulation, can contribute to sustainable rural poverty reduction. IFAD has made up for lost time, however, and in the past two or three years more than 50 per cent of new loans have had components linking smallholders to value chains.
23. As a further evolution in its development approach, the IFAD Strategic Framework 2011-2015 underlines that in order to leverage its comparative advantage and achieve greater impact, IFAD will articulate a more dynamic vision of rural development, one in which smallholder agriculture can become a strong, dynamic and high-value sector, driven by growing demand for food, biofuels and environmental services.³ For many of today's smallholder farmers, this will provide a robust pathway out of poverty. For this to happen, however, the smallholder agriculture sector must be market-oriented and must be supported by governments and donors as a business. It also needs to become more productive, more sustainable and more resilient to changing environmental and climatic circumstances. And it needs to be well integrated into dynamic rural economies in which rural-urban linkages play an ever greater role, and in which non-farm enterprises increasingly provide good employment opportunities for those who will not be able to make a profitable and sustainable living in agriculture. Finally, the Strategic Framework 2011-2015 recognizes the importance for IFAD of strengthening its partnership with the private sector at the global, regional and local levels.

E. Private-Sector Development and Partnership Strategy

24. IFAD works through governments and helps to implement programmes that they design and support. As a consequence, much of the emphasis of its activities over the years has been on making public interventions more effective for the rural poor. It was perhaps the recognition that, in this process, the Fund might not be taking full advantage of the potential role the private sector could play in rural poverty reduction that led donors at the Consultation on the Sixth Replenishment of IFAD's

¹ See *Pro-poor rural value-chain development: A thematic study* by Raswant and Khanna, IFAD 2010.

² "... the general move towards economies in which market forces and the private sector play a central role does not always reflect the interests of the rural poor. IFAD has an essential part to play in equipping the rural poor to interact more equitably with new market forces and in making market relationships work for them." (IFAD's private-sector strategy).

³ The Strategic Framework 2011-2015 was presented to the IFAD Executive Board in December 2010. Based on inputs from Board members, the document is being enhanced, and will be presented for approval to be approved by the Board at its 102nd session in May 2011.

Resources in 2002 to request Management to provide the Executive Board with a “strategy for achieving greater involvement of private-sector participants in IFAD programmes, through cofinancing and other forms of partnership consistent with IFAD’s mission”.

25. As a preliminary step in this direction, IFAD produced a discussion paper⁴ for the Governing Council in February 2003, which, among other issues, underlined the importance of partnership with the private sector for increasing market linkages.
26. In September 2004, a comprehensive document representing IFAD’s strategy for private-sector development and partnership was submitted to the Executive Board.⁵ The Board welcomed the broad thrusts presented therein, but requested a simplified and more operational document augmented by a results framework whereby the planned private-sector activities could be monitored and evaluated. Following the required enhancements, the Fund’s first private-sector strategy was approved by the Board in April 2005. The Board also requested that the IFAD Office of Evaluation (IOE) evaluate the strategy at the end of 2008.⁶
27. The goal of the private-sector strategy is to engage the private sector to bring more benefits and resources to IFAD’s target group, the rural poor. The immediate objective of the strategy is to increase pro-poor private-sector operations and investment in rural areas. The strategy includes three broad lines of action in order to achieve its immediate objective.
28. The first of these is **policy dialogue for local private-sector development**: All new country strategic opportunities programmes (COSOPs) will include a review of the appropriate policy and institutional environment for local private-sector development. The new COSOPs will also incorporate the Fund’s strategy to engage in policy dialogue with various stakeholders, including the country’s government, in order to promote local private-sector development. Furthermore, all COSOP consultation processes will involve the relevant representatives from the private sector (e.g. farmers’ associations, agribusiness firms, private microfinance institutions or commercial banks working in rural areas). In a few targeted countries where there is willingness on the part of the government, policy dialogue to support the local private sector will be included as a specific country programme activity. This could take the form of dialogue on appropriate policies for private microfinance institutions, SMEs, agricultural input and output markets, and other measures to improve the business environment. Policy dialogue for local private-sector development will be especially emphasized in countries where IFAD has a strong field presence.
29. IFAD will also intervene at the global level to promote equitable commercial linkages for the rural poor. Developing countries are still coping with the persistence of non-tariff barriers and agricultural subsidies in member countries of the Organisation for Economic Cooperation and Development (OECD), which limit the access of their small producers to international markets. IFAD will therefore continue to use global policy forums to highlight the concerns of developing country producers and reinforce the call for levelling the playing field in international trade.
30. Second, **IFAD will carry out investment operations to support local private-sector development**: Investment operations will support the development of the private sector as it relates to improving the livelihoods of the rural poor. There are a number of key areas where the Fund will play a role: (a) strengthening the business capacity of the rural poor and their organizations; (b) improving the access of the rural poor to private technical/advisory services; (c) supporting the

⁴ *Promoting Market Access for the Rural Poor in Order to Achieve the Millennium Development Goals*, www.ifad.org/gbdocs/gc/26/e/markets.pdf.

⁵ See summary of discussions on the topic contained in the minutes of the eighty-second Executive Board session, www.ifad.org/gbdocs/eb/82/e/EB-82-MINUTES.pdf.

⁶ The delay in carrying out this evaluation was due to the decision of the Board for IOE to conduct other corporate-level evaluations (on innovation and scaling up, joint evaluation with AfDB on agriculture and rural development in Africa, and gender), ahead of the private-sector strategy evaluation.

development of private rural financial institutions, and (d) supporting the development of private agricultural markets and SMEs, and their effective linkages to rural poor people.

31. **Third, IFAD will forge partnerships with the private sector in order to leverage additional investments and knowledge for rural areas:** IFAD will seek to leverage investments (e.g. in the form of cofinancing) from the private business sector and from private grant funds (foundations, philanthropic organizations, trusts, etc.) in support of development projects it finances. It will explore leveraging migrant workers' remittances to attract knowledge and resources to rural areas, and seek partnerships with other United Nations organizations, international financial institutions and regional banks as well as private development funds (e.g. Deutsche Bank) in support of local private-sector development. The Fund will also look to attract investments from agribusiness firms in developing commodity markets that are of importance to small rural producers.
32. It is important to recall that, as per its mandate, IFAD will however continue working mainly through the public sector. Catalysing private-sector investment is a complement to, and is supported by, public-sector expenditure; it does not replace it. Second, in all its forms, partnership with the private sector should be based on the principle of due diligence, whereby the assessment of risks and opportunities associated with engaging in a given private-sector partnership encompasses, on the one hand, partner selection based on an understanding of its governance and social accountability and, on the other, analysis of the product and/or service market to be developed. The basic principle for partnership with the private sector is that it should be fully consistent with IFAD's mandate and role and fulfil IFAD's mission of enabling the rural poor to overcome their poverty, while also enabling the private-sector partner to achieve its own corporate goals.
33. The private-sector strategy recognized the need for specific implementation requirements. These include the specific actions below.
34. **Mainstreaming the strategy into IFAD operations:** "Each IFAD unit or division will have to identify the activities that will be undertaken to achieve the common objectives, and include these activities in their annual workplan and budget. The divisional planned activities will then be aggregated at the departmental level, for a consolidated workplan and budget that is consistent with the overall objectives and outputs of the PSDP strategy. ... COSOPs and project design documents (when appropriate), will include an assessment of private-sector development in rural areas and will reflect partnerships and engagement possibilities with the private sector. Legal and financial procedures related to partnering with the private sector will also be developed and internalized within IFAD. ... IFAD's portfolio review and its results and impact management system (RIMS) indicators will include reporting on IFAD's engagement with the private sector."
35. **Guidelines, staff training and staff realignment.** IFAD would develop guidelines (or a tool kit) for operations staff, to assist them in operationalizing the strategy. Provide specific training to its staff on how to partner with or engage the private sector in their operational work. A staff member in the Programme Management Department (PMD) will be appointed as focal point for the private sector. Another focal point, located in the Resource Mobilization Unit, will be responsible for mobilizing resources from the private sector for IFAD corporate activities.
36. **Measuring results and impact.** A specific results framework with 16 key performance indicators was included in the annex to the private-sector strategy document, with a view to reaching all targets by end-2008. The results framework has been reproduced in appendix 5 of this evaluation report. The proposed medium-term time frame for achieving the objectives and outputs (as captured in the results framework) of the private sector strategy was from 2005 to 2008. The strategy required IFAD to measure its performance at the aggregate level, rather than according to the five geographic regions covered by IFAD operations. The

RIMS would be revised, as needed, to capture key indicators included in the private-sector strategy. The achievement of results would be monitored through the RIMS and the progress report on the project portfolio⁷ presented annually to the Board.

37. **Capturing, reporting and sharing lessons learned.** Capturing the lessons learned will be a continuous activity, with stocktaking conducted every few years to assess whether IFAD is moving in the right direction or whether there is a need to change direction or fine-tune the strategy and/or its operational guidelines.

F. Private-sector engagement during IFAD's Eighth Replenishment period

38. The importance for IFAD to further strengthen its partnership with the private sector was again emphasized by Member States in 2008, during the consultations on the Eighth Replenishment of IFAD's resources. As an input towards the debate, IFAD prepared a discussion paper on IFAD's response to the emerging role of the private sector.⁸
39. This paper proposed three key actions for the way forward: (i) IFAD would continue to work within the existing framework of the private-sector strategy to help build the conditions for successful partnerships between smallholder farmers and larger private-sector operators or private companies within the regular IFAD lending programme, looking at both the conditions that support the investment of private sector capital itself and ensuring that the partnership is beneficial to both sides; (ii) IFAD would also explore with potential partners, taking into account the institutions and facilities that already exist, the need for a new facility to promote private-sector investment in rural areas. The facility would have two broad purposes: to provide investment finance directed to the private sector; and to provide policy and institutional support to help establish the enabling environment for private-sector development. The facility would be financed with resources mobilized from sovereign investment funds, grants from multilateral and bilateral donors, and contributions from non-governmental sources (including foundations and private donors); and (iii) IFAD would assess the need, value added and feasibility of developing new instruments to engage directly with the private sector, including through non-sovereign lending and equity investments. It was recognized, however, that developing such instruments would have significant implications for the Fund's current structure, financial risk management, and institutional and staff capacity development. The approval of the relevant governing bodies would also be required.
40. While recognizing that in the changing context the development of new approaches with regard to the private sector might be needed, members urged IFAD to adopt a cautious approach and underscored the need to assess the risks associated with creating new instruments or facilities. Members encouraged IFAD to continue working through its regular operations and within the framework of the private-sector strategy to build the conditions for successful private-sector partnerships between smallholder farmers and other economic agents. In addition, members supported IFAD's exploring with potential partners the need for and value added of a new facility to promote private-sector investment that can stimulate pro-poor economic growth in rural areas.
41. The aforementioned replenishment paper laid the foundations for the decision by the Governing Council in February 2009 – while adopting the report on the eighth consultation of IFAD resources – for the Fund to strengthen its engagement with the private sector, and if deemed necessary, present a proposal for IFAD's role and

⁷ This report was first renamed the Portfolio Performance Report, which was thereafter merged into the Report on IFAD's Development Effectiveness in 2008.

⁸ See document Repl. VIII/4/6, www.ifad.org/gbdocs/repl/8/iv/e/index.htm.

instruments relative to engagement with the private sector, fully consistent with IFAD's mandate, to the Executive Board for approval in December 2010.⁹

42. The final consultation report noted that, during the Eighth Replenishment period, IFAD would continue to work through its regular operations and within the framework of IFAD's private-sector strategy to build the conditions for successful private-sector partnerships between smallholder farmers and other economic agents. Several agencies provide support directly to the private sector, but few if any of them prioritize investments in agriculture that bring direct benefits to very poor rural communities – though some are now considering doing so. IFAD will strengthen its partnerships with these agencies¹⁰ to find ways to stimulate such investments. The report also recognized that IOE would conduct an evaluation of IFAD's private-sector strategy in 2010, and that the findings of that exercise would provide lessons for future engagement.
43. Finally, it is useful to note that IFAD Management has currently established an in-house private-sector strategy policy reference group, composed of representatives from several IFAD divisions. Among other issues, the group is tasked with the responsibility of developing IFAD's new private-sector strategy, which is tentatively planned for presentation to the Board in December 2011.

G. The strategy, instruments and organizational architecture of other development organizations

44. The aim of this section is to provide a brief overview of the strategy, instruments and organizational architecture in other development organizations to support their efforts in private-sector development. This section should be read in conjunction with chapter VII and appendix 6, which are devoted to learning from the experience and good practices of other organizations.
45. At the outset, it is important to clarify that perhaps the most important instrument available to the multilateral development banks (MDBs) is the investments they make by lending resources for development projects in recipient member countries. There are two types of lending for projects that entail private-sector development and engagement: sovereign and non-sovereign lending. In the former (sovereign) type of lending, MDBs provide loans for development projects to recipient country governments, who in turn guarantee repayment to MDBs according to specific conditions and time frames. In these circumstances, financing private-sector entities that can play a role in promoting agricultural development can only be done by the government by on-lending funds to private enterprises or through a financial intermediary. In addition to project-based lending (i.e. loans for development projects), MDBs also provide policy-based lending to governments in support of institutional, legislative and policy reform aimed at fostering a more conducive environment for private-sector participation in the country's economic development. In most MDBs, project and policy-based lending with sovereign guarantees¹¹ is designed and managed by the respective operations/sector departments.
46. In non-sovereign lending, MDBs generally provide loan funds directly to private-sector entities in developing countries. In loans without sovereign guarantees (non-sovereign lending), the government is not required to take responsibility for repayment of the loan. The responsibility for repayment of such loans rests directly with the recipient private-sector entity in the country concerned.
47. However, some governments resist using loan funds (with sovereign guarantees) for private-sector engagement, either because of a desire to utilize the funds

⁹ See implementation matrix in annex II of the Report of the Consultation on the Eighth Replenishment of IFAD's Resources, www.ifad.org/gbdocs/gc/32/e/GC-32-L-5.pdf.

¹⁰ Such as IFC, the African, Asian, and Inter-American Development Banks, the European Bank for Reconstruction and Development (EBRD), and others.

¹¹ The term "sovereign guarantee" means that the government is responsible for repayment of the loan granted for a specific project to the multilateral development bank.

mobilized from MDBs only for areas that are more immediately under government control (e.g. infrastructure development), or in the belief that the private sector must mobilize funding without sovereign guarantee. Moreover, some governments, especially those with particular political inclinations, have cautious policies that do not necessarily favour wide-ranging private-sector engagement in the country's economic development process. At the same time, many private-sector entities find it cumbersome to deal with government in general, inter alia, because of the fear of inviting government interference and pressure in their operations, but also because of perceived government bureaucracies and inefficiencies.

48. All multilateral (and bilateral) aid organizations believe that a strong and dynamic private sector is critical for job creation, long-term economic growth and sustainable poverty reduction in developing countries. In recognition of this and the limitations outlined in the above paragraphs, virtually all major aid organizations – multilateral and bilateral – have established specialized organizational structures or dedicated facilities/windows that are meant to provide financing to the private sector directly, without sovereign guarantee. In fact, the majority of MDB financing for private-sector participation is provided directly to private-sector entities in developing countries without sovereign guarantees (i.e. non-sovereign lending), rather than through loan-funded projects that require a sovereign guarantee. The scope and architecture of these structures or facilities varies among organizations, but the underlying premise is the same: to promote private-sector development in recipient member countries. They all also attempt to use their resources to catalyse investments, knowledge and services from the private sector.
49. The section below provides an overview of selected aid organizations' strategy, instruments and organizational architecture for working with the private sector, with a focus on their lending activities without sovereign guarantees.
50. **World Bank.** The International Bank for Reconstruction and Development and the International Development Association continue to deal exclusively with sovereign borrowers, focusing their attention in the area of private-sector development on strengthening the enabling environment for private investment and supporting the growth of domestic capital markets for financing SMEs. The World Bank group also includes two separate entities specifically designed to address the financial needs of the private sector in developing countries: IFC and the Multilateral Investment Guarantee Agency (MIGA). The role of IFC is described below, whereas MIGA offers guarantee products to facilitate private investment in developing countries. The World Bank's private-sector development strategy boasts the objective of extending the benefits of markets to the poor and improving access and delivery of basic services. This comprehensive approach is supported by four key areas of intervention: (i) investment climate; (ii) direct support to firms; (iii) infrastructure; and (iv) social sectors. The World Bank has a department dealing with finance and private sector development, headed by a vice president.
51. **International Finance Corporation.** IFC provides investments and advisory services to build the private sector in developing countries. It promotes sustainable private-sector development, encouraging the growth of productive enterprises and efficient capital markets through a combination of loan and equity investments and technical assistance. IFC forms partnerships with a broad range of third parties, including foundations and charitable organizations, connecting them with businesses to fill critical gaps in such areas as environmental sustainability, health, education and rural development. It has 3,500 staff, half of whom are located in the field.
52. IFC is the largest organization of its kind. It was created in 1956 with authorized capital of US\$100 million. Since then, its capital has grown to about US\$18 billion and its assets to US\$61 billion. Its worldwide operations cover almost every developing country. Although a part of the World Bank Group, IFC has its own independent charter and governance structure. Until the mid-1980s, it depended on

the World Bank to mobilize financing for its operations, but since then it has developed its own treasury function and today is able to mobilize funding on its own balance sheet on terms that are comparable terms to those of the World Bank.

53. IFC operates on a commercial basis. It invests exclusively in for-profit projects and charges market rates for its products and services. However, all its investments must have a positive developmental impact. IFC employs a variety of instruments to finance private investments, with the mix of instruments tailor-made to meet the specific requirements of the project. These include:
- (i) **Equity:** IFC takes equity stakes in private-sector companies and other entities such as financial institutions, and portfolio and investment funds in developing countries. IFC is a long-term investor and usually maintains equity investments for a period of 8 to 15 years. When the time comes to sell, IFC prefers to exit by selling its shares through the domestic stock market in a way that will benefit the enterprise, often in a public offering. To ensure the participation of other private investors, the Corporation generally subscribes to between 5 per cent and 15 per cent of a project's equity. IFC is never the largest shareholder in a project and will normally not hold more than a 35 per cent stake.
 - (ii) **Loans:** IFC offers fixed and variable rate loans for its own account to private-sector projects in developing countries. Most loans are issued in leading currencies, but local currency loans can also be provided. The loans typically have maturities of 7 to 12 years at origination. Grace periods and repayment schedules are determined on a case-by-case basis in accordance with the borrower's cash flow needs. If warranted by the project, IFC provides longer-term loans and longer grace periods. Some loans have been extended to as long as 20 years. To ensure the participation of other private investors, IFC loans are usually limited to 25 per cent of the total estimated project costs for greenfield projects, or, on an exceptional basis, 35 per cent in small projects. IFC is willing to extend loans that are repaid only from the cash flow of the project, without recourse or with only limited recourse to the sponsors.
 - (iii) **Syndicated loans:** In addition to loans on its own account, IFC provides commercial banks and other financial institutions the chance to lend to IFC-financed projects that they might not otherwise consider. These loans are a key part of IFC's efforts to mobilize additional private sector financing in developing countries, thereby broadening the Corporation's development impact. Through this mechanism, financial institutions share fully in the commercial credit risk of projects, while IFC remains the lender of record.
 - (iv) **Quasi-equity:** IFC offers a full range of quasi-equity products with both debt and equity characteristics to private sector projects in developing countries. Among other instruments, IFC provides convertible debt and subordinated loan investments, which impose a fixed repayment schedule. It also offers preferred stock and income note investments, which require a less rigid repayment schedules. Quasi-equity investments are made available whenever necessary, to ensure that a project is soundly funded.
 - (v) **Hedging products:** IFC is one of the few organizations prepared to extend long-maturity risk management products to clients in emerging markets. The risk management products, or derivatives, are available to their clients solely for hedging purposes. By allowing private sector clients in the emerging markets to access the international derivatives markets in order to hedge currency, interest rate, or commodity price exposure, IFC enables companies to enhance their creditworthiness and improve their profitability.

54. Besides investment instruments, IFC also provides significant technical assistance/advisory services, some associated with its operations but also on a stand-alone basis, to strengthen private-sector organizations. Funding for these services comes largely from trust funds from a variety of donors. The magnitude of such assistance has grown dramatically over the last 10 years (US\$268 million in 2010), and there is some concern about its effectiveness and whether it is sufficiently focused on IFC's core business.
55. Although IFC's portfolio covers a variety of sectors and subsectors, starting in the early 1990s it made agribusiness an area of priority as part of its commitment to help reduce poverty and improve peoples' lives. IFC provides financial and advisory support to the agribusiness sector along the full value chain, directly to companies and indirectly through intermediaries (e.g. traders and financial institutions). As a general rule, IFC finances projects that have the largest demonstrated benefits for the overall efficiency and competitiveness of the supply chain, and the highest overall contribution to economic development. IFC's agribusiness investment portfolio at the end of financial year 2010 (ended 30 June 2010) reached US\$2.7 billion, representing more than 125 projects in 51 countries, and 7 per cent of IFC's total portfolio. In the 2010 financial year, IFC committed US\$536 million for agribusiness development, for 40 projects in 27 countries. Over 50 per cent of projects were in low-income countries. Although in the initial years IFC's agribusiness portfolio faced problems, the situation has reversed itself in the past few years, and the agribusiness portfolio now performs better than IFC's overall portfolio (78 per cent satisfactory or better on development impact versus 71 per cent; and 71 per cent satisfactory or better on financial performance versus 57 per cent). IFC expects its agribusiness portfolio to grow further in the coming years.
56. **Inter-American Development Bank.** IDB developed a private-sector strategy in 2004 and will develop a revised strategy in 2011. The main thrust of the Bank's private-sector strategy is to promote development through the private sector and not pursue private-sector development per se. The two other members of the IDB Group, the Multilateral Investment Fund (MIF) and the Inter-American Investment Corporation (IIC), which also target the private sector, have separate governing authorities and capital funding mechanisms, and thus are not subject to Bank strategies. A significant part of the IDB's total lending and non-lending activities are directed towards the private sector and channeled through two major types of activities: (a) private-sector development; and (b) private-sector operations. Private-sector development projects are classified as loans or grants with sovereign guarantees that: (a) have a direct beneficiary that is a private-sector firm (e.g. multisector credits, matching grants, business development services); (b) offer technical assistance; or (c) support regulatory, institutional or administrative reforms that assist private-sector activity. Private-sector operations are non-sovereign guaranteed operations that: (a) provide direct loans, guarantees, technical assistance and (in the case of IIC and MIF) equity to private-sector firms; (b) provide indirect funding for private firms through local financial institutions or investment funds; and (c) provide loans and guarantees to eligible state-owned enterprises without a sovereign guarantee.
57. IDB has a department headed by a vice president for private sector and non-sovereign guarantee operations. The vice presidency coordinates the development and delivery of private-sector and non-sovereign guaranteed operational programmes of the IDB Group. It leads the development and implementation of the private-sector integrated business plan, as well as the business plans of each entity, establishing annual strategic performance goals for each member of the IDB Group by building alliances with the Bank's vice presidencies for countries and for sectors. The department also promotes partnerships and strategic alliances with the private sector by facilitating fundraising efforts and implementing work programmes of those partnerships and alliances in relation to the priorities of the operational programme of the non-sovereign guaranteed areas.

58. **Inter-American Investment Corporation.** IIC is the private-sector arm of the IDB and operates on very similar lines to IFC, but with a focus on Latin America and the Caribbean and on SME development. It was created in 1985 with a capital base of US\$200 million subscribed by 21 countries, and began operations in 1989. Since then its capital base has grown to US\$759 million owned by some 44 shareholder countries, the last one to join being China in 2009. Its total asset base has grown to some US\$1.4 billion (2009). Thus, its operations are relatively small compared with IFC. Although a part of IDB, like IFC, IIC has a distinct legal and corporate structure and its own staff. However, it depends on IDB for funding.
59. To date, IIC has provided some US\$5 billion of funding to some 500 projects in Latin America and the Caribbean and mobilized some US\$13 billion in total investments. Its range of instruments are similar to those of IFC. SMEs are the focus of IIC investments. It has progressively reduced its minimum loan size requirement over the years to reach SMEs and currently stands at US\$100,000, with an average of US\$216,000. IIC also manages several equity investment funds on behalf of its individual shareholders.
60. As mentioned above, IIC's main focus is on SME development, irrespective of the sector. Financial services are the most significant activity representing 68 per cent of the total portfolio (2009). Agriculture and agribusiness investments, however, are also significant with 5.8 per cent of the portfolio, another 2.3 per cent in food, bottling and beverages, and 1.3 per cent in livestock and poultry. Thus, agriculture supply chain related investments were a significant part of the total IIC investments, even though agriculture is not a specific focus of IIC. This perhaps reflect the large number of middle-income countries where IIC operates and where food processing is a growing sector.
61. Besides IIC, IDB also maintains a window – Structured and Corporate Finance (SCF) – to make loans without sovereign guarantees to private-sector, state-owned and mixed capital companies. Although projects in all sectors are eligible for loans from this window, in practice its activities have been largely focused on delivering innovative financing solutions to its traditional areas of operations - infrastructure and financial and capital markets development. It also gives priority to “green” investments, including financing of biofuel plants, implementation of energy efficiency programmes, and financing of industries related to the production of equipment for the generation of renewable energy. IDB made some US\$919 million in non-sovereign loans to the private sector from its SCF facility in 2009.
62. **Asian Development Bank (AsDB).** The AsDB Strategy 2020 issued in April 2008 includes greater attention to private-sector development and private-sector operations, as one of the five main drivers of change. The strategy called for AsDB to expand its work with the private sector to generate greater economic growth in the Asia and Pacific region. It further noted that AsDB will assume greater – but thoroughly assessed – risks and act as a catalyst for investments that the private sector might not otherwise be willing to make. It will do more to help developing member countries to attract direct private-sector investments that support inclusive growth and improve the environment. To spur market-led growth, AsDB plans to invest in infrastructure and advise governments on the basics of a business-friendly environment, including reliable rules, regulations, and policies that do not disadvantage private-sector enterprise. AsDB's tools to catalyse change through greater private investments in developing member countries include direct financing, credit enhancements, risk mitigation guarantees and innovative new financial instruments. These tools are expected to create value by attracting private capital and deploying business management or technical expertise to specific sectors and transactions.
63. To manage these activities, the AsDB has a vice president heading the Private Sector and Cofinancing Operations Department, which handles non-sovereign lending and other products for engaging the private sector. The private sector department catalyses private investments through direct financing, credit

enhancements and risk mitigation instruments. It provides direct funding assistance through loans and equity investments. AsDB offers hard currency loans and local currency loans. Interest rates and other terms vary, depending on a company's or project's needs and risks. When investing directly in an enterprise, AsDB offers financing through equity investments, including direct equity investments in the form of common shares, preferred stock or convertibles. Equity investments (of no more than 25 per cent) in enterprises, especially financial institutions, occur before an initial public offering. AsDB provides guarantees that can be used to cover political risks and, more comprehensively, both political and credit risks. Sovereign lending involving private-sector entities is done through the operations complex.

64. Therefore, AsDB does not have a separate organization to handle its investments in private sector. Nevertheless, it has the full range of instruments employed by IFC and IIC at its disposal to support private investments. Total outstanding loans to the private sector stand at US\$2 billion (2009), and equity investments at US\$885 million. AsDB has elected to focus its private-sector operations almost exclusively on infrastructure and financial sectors. Although agriculture and agribusiness projects are eligible for investment from AsDB, its strategy indicates that these are likely to be rare and only in very low-income countries.
65. **African Development Bank.** AfDB issued a strategy update for its private-sector operation in January 2008. The Bank's vision for private-sector development is founded on a conceptual framework that links entrepreneurship, investment and economic growth with the Bank's ultimate goal of poverty alleviation. Given the importance of private-sector development as the engine for poverty-reducing economic growth, the Bank's strategy articulates five focal priorities for its interventions: (i) supporting private enterprises; (ii) strengthening financial systems; (iii) building competitive infrastructure; (iv) promoting trade; and (v) improving the investment climate. Although the Bank has played a major role in assisting African governments to improve their investment climates for over 40 years, it is only since 1991 that AfDB has assisted entrepreneurs by directly financing private-sector operations and other transactions without the support of a sovereign guarantee from the host country. In undertaking private-sector operations, the Bank recognizes that given the enormous financing needs of the continent, its primary objective should be to catalyse other private-sector investors by selectively building a portfolio of high-performance projects with strong demonstrable effects.
66. The Bank has a vice president as head of infrastructure, private sector and regional integration. It manages non-sovereign lending to the private sector through a special window established in 1991 within its infrastructure, private sector and regional integration department. The department has a full range of instruments at its disposal, including loans, equity participations, quasi-equity investments, guarantees, syndications, underwriting and advisory services. It also extends lines of credit to private financial institutions for lending to export-oriented companies and SMEs. The terms and conditions of its investments are generally along the lines of those of IFC.
67. AfDB assistance may be considered for private-sector projects to establish, expand, diversify and modernize productive facilities in various sectors – including energy, manufacturing, agribusiness, tourism, transportation, infrastructure, extractive industries, banking and finance, and other service industries – as long as the investment is beneficial to the economy of the host country. In practice, however, there has not been significant investment in agriculture and agribusiness through the private-sector window. AfDB non-sovereign investments in the private sector have grown in recent years and reached about US\$1.6 billion in 2009, of which US\$215 million was in the form of equity. As in the case of IFAD, promoting the private sector through sovereign lending is done through the operations/sector departments.

68. **United States Agency for International Development (USAID).** USAID has long focused on agricultural development as one of its priority sectors. It is devoting increasing attention to developing commodity value chains, including promoting access to markets, trade and microfinance. USAID underlines that to be competitive in today's global marketplace, farmers – especially small-scale farmers – need to be integrated into the full chain of production, from farm to fork. USAID facilitates this integration, enabling producers and rural industries to better connect with agricultural trade and market opportunities. In that context, USAID promotes the participation of private-sector entities to promote growth in the agriculture sector of developing countries. Unlike the multilateral comparators included in this evaluation, it does not have a specific department dealing with private-sector development or private-sector operations. It has a dedicated bureau for agriculture, markets and trade.

Key points

- The private sector is that part of the economy in which goods and services are produced and distributed by individuals and organizations that are not part of the government. Private-sector entities are primarily driven by a profit-making orientation.
- There has been a major change in the development paradigm:
 - The role of governments has shifted from being a participant in the market to setting and monitoring the “rules of the game”.
 - The private sector is increasingly seen as the engine of growth.
 - Public-private partnership is considered important in providing investments and complementary services to the rural poor.
- It is essential to be cognizant of the fact that private-sector operators in developing countries are heterogeneous, and that different private-sector entities play different roles along the commodity value chain in agriculture and rural development. At the same time, governments have an important complementary role to play along the value chain, as in undertaking agriculture research to develop improved seed varieties.
- IFAD's development approach has evolved in line with this change in the operating context and a majority of its projects now include components which support private-sector development through promoting market linkages. The IFAD Strategic Framework 2011-2015 now under development underscores the importance of promoting smallholder farming as a profitable business, and in this regard recognizes the ever-increasing importance of strengthening engagement with the private sector.
- In April 2005, IFAD's Executive Board approved the Fund's first corporate Private-Sector Development and Partnership Strategy, which laid out objectives and modalities for expanded private-sector engagement. Member States reinforced the importance for IFAD to further deepen its engagement with the private sector in the eighth replenishment period, in particular by strengthening partnerships with other development agencies that support private-sector development to stimulate greater investments in the agriculture sector.
- Other multilateral development banks (especially the World Bank Group) have a relatively long tradition of supporting private-sector development in recipient member states. The banks have dedicated organizational structures, departments and a variety of instruments to further their work on private-sector development. The majority of their lending for private-sector development is through non-sovereign loans provided directly to private-sector entities.

II. Evaluation objectives, methodology and process

A. Background

69. As mentioned, the Board requested this corporate-level evaluation upon approving the IFAD private-sector strategy in 2005. In adopting the Report of the Consultation on the Eighth Replenishment of IFAD's Resources the Governing Council, at its session in February 2009, also agreed to the conduct of this evaluation by IOE in 2010/11.
70. The objectives, methodology and process of the evaluation were discussed with IFAD Management at the outset of the evaluation. This was done in the context of

developing the approach paper,¹² which includes the evaluation's objectives, methodology and key questions, process, deliverables, timeliness, communication and dissemination activities, human resources requirements and budget.¹³

B. Objectives

71. The evaluation had the following five objectives:

- (i) Assess the relevance and evaluate the implementation of IFAD's 2005 private-sector strategy;
- (ii) Evaluate the emerging results of IFAD-supported projects designed after the adoption of the private-sector strategy;
- (iii) Assess the evolving approaches, as well as the good and less good practices, to IFAD's private-sector development efforts;
- (iv) Examine the instruments and experiences of other development organizations in engaging the private sector in agriculture and rural development, with the aim of identifying lessons that could be pertinent for IFAD; and
- (v) Generate a series of findings and recommendations that might serve as building blocks for IFAD's future engagement with the private sector.

C. Methodology and process

72. **Evaluation period.** The evaluation focuses mainly on the activities financed by IFAD since 2003, when the Member States decided, during the Consultation on the Sixth Replenishment of IFAD's Resources in 2002, for the Fund to develop "a strategy for achieving greater involvement of private-sector participants in IFAD programmes". Particular emphasis was however devoted to the period following the approval by the Board of the Fund's private-sector strategy in April 2005.

73. **Building blocks.** The evaluation followed the main provisions contained in the IFAD Evaluation Policy (2003)¹⁴ and Evaluation Manual (2009).¹⁵ To achieve its objectives, the evaluation was based on four mutually reinforcing building blocks, which included: (i) a strategy review and portfolio scan; (ii) assessment of results and seven country case studies; (iii) a review of selected corporate business processes, which looked at how IFAD manages selected internal processes, including skills availability and development, to support its private-sector agenda; and (iv) a comparator study, looking at how other institutions are promoting the rural private sector. The enquiry methods were a mix of document reviews, interviews and focus group discussions with IFAD headquarters and Executive Board members, as well as with representatives of governments, private-sector actors and project staff in borrowing countries, and visits to selected project activities on the ground. The objectives and process related to each of the four evaluation building blocks is described in more detail below:

- (i) **The strategy review and portfolio scan.** The aim of this building block was to assess: (a) the relevance of the 2005 private-sector strategy, both in terms of the strategy's goal and objectives as well as overall design; and (b) the implementation of the strategy's main objectives and three broad lines of action through COSOPs and projects approved following the strategy's approval. The latter included a comparison with projects approved by the Board before the adoption of the strategy, to discern the

¹² As per the IFAD Evaluation Policy, each evaluation begins with the preparation of an approach paper, which includes the evaluation's terms of reference (see appendix 2).

¹³ The draft approach paper was discussed with Management on 9 April 2010. The final approach paper, including Management comments, was issued by IOE on 19 May 2010. The approach paper is available at <http://www.ifad.org/evaluation/private/doc/approach.pdf>.

¹⁴ The Evaluation Policy was approved by the Executive Board in April 2003, http://www.ifad.org/evaluation/policy/new_policy.htm.

¹⁵ The Evaluation Manual was discussed by the Evaluation Committee in December 2008 and is available at http://www.ifad.org/evaluation/process_methodology/index.htm.

evolving approaches and attention to private-sector development in design. Details about the criteria used to select the COSOPs and projects reviewed by the evaluation are contained in chapter IV.

- (ii) **Assessment of results and country case studies.** Under this building block, the evaluation compared the results of a selection of projects with emphasis on private-sector engagement approved in 2003-2004 (i.e. before the approval of the private-sector strategy), with projects approved in 2006-2007. The comparison was made using data found in project status reports prepared by PMD, given that IOE had not yet independently evaluated these projects. More details on the criteria for selection of the projects and the data used may be found in chapter V, which contains the corresponding analysis related to this building block. The same chapter includes the main findings from the seven countries (Albania, Ghana, Guatemala, Pakistan, Peru, Sri Lanka and Uganda) covered by this evaluation. The main objective of the country case studies was to generate lessons learned, including identifying good and less good practices in private-sector engagement, based on a review of COSOPs, selected projects and interactions with multiple in-country partners. The case studies also enabled the evaluators to validate the findings and hypothesis from the evaluation's first building block. The evaluation team visited all countries except for Pakistan and Peru. A country working paper was prepared for each of the seven countries. The criteria for the selection of the seven countries and the specific methodology followed in preparing the country case studies is further discussed in section D of this chapter as well as in chapter V.
 - (iii) **Review of corporate business processes.** Through this component, the evaluation reviewed IFAD's organizational capabilities and processes to ensure appropriate engagement with the private sector. An assessment was made of the adequacy of organizational capabilities (e.g. in terms of management and human resources, including staff skills, competencies and incentives, learning and knowledge sharing), as well as IFAD's structure and processes related to operations (such as the role of the Governing Bodies, quality enhancement and quality assurance, supervision and implementation support, results measurement and reporting, country presence) for private-sector engagement. The corporate business process review also covered the mix of instruments available to IFAD to support private-sector development (e.g. investment loans, global, regional and country grant programmes, and non-lending activities) and their adequacy for the purpose. Finally, in this building block, the evaluation analysed the extent to which the main implementation requirements of the private-sector strategy were fulfilled. The findings emerging from the analysis conducted under this building block may be seen in chapter VI of this evaluation report.
 - (iv) **Comparator study.** The fourth building block of the evaluation was a review of the strategies, policies, instruments and experiences in private-sector engagement of selected development agencies. The aim of the review was to identify lessons that might be suitable – once adapted – to IFAD's own context and priorities. The study also enabled the evaluators to identify areas where IFAD was leading and areas where it was lagging, and was helpful in validating the overall assessment. The study was largely based on a review of documents and selective discussions with key informants in the development organizations covered. These included IFC, IDB, AfDB, USAID and the World Bank. The selection criteria for inclusion in the comparator study and the findings may be seen in chapter VII.
74. The strategy and its implementation were evaluated using the internationally recognized evaluation criteria of relevance and effectiveness, though not efficiency

(see below).¹⁶ In addition to the accountability aspects of the evaluation, a great deal of emphasis has been placed on learning from IFAD's experience in supporting rural private-sector development, and the report identifies a number of good practices that merit replication.

75. The efficiency of the private-sector strategy's implementation has not been evaluated. This is very difficult for any thematic evaluation because of the need to disaggregate the elements of the costs and benefits that are attributable to the particular theme that is being evaluated. For private-sector development, this is somewhat easier in principle, since one can compare a subset of projects that are entirely focused on support for private-sector engagement with a subset that have no such elements. In the case of most private-sector development projects, however, only projected and not actual benefits are available at this stage. On the cost side, comparisons of ex-ante data are also not very useful since IFAD-funded projects are often designed with a standard range of costs for each beneficiary moved out of poverty. Even ex post, it is likely to be extremely challenging to derive efficiency data since indirect benefits (e.g. indirect employment creation by enterprises through the demand they generate for local services) are likely to be much more important for projects with a private-sector development component.
76. **Evaluation phases.** The evaluation was organized in four main phases: (i) inception, during which the methods and the process were fine-tuned, the evaluation team of consultants was contracted, and the evaluation's approach paper was produced and finalized taking into account the comments of the core learning partnership and the senior independent advisers (see paragraph 78 below); (ii) the desk review and in-house interview phase, including a review of documents, interviews and focus-group discussions with representatives of IFAD Management and staff as well as the Executive Board; (iii) visits to selected IFAD-funded projects in five countries: Albania, Ghana, Guatemala, Sri Lanka and Uganda; and (iv) writing of the final report, including preparation of the agreement at completion point.
77. During the draft final report writing phase, IOE delivered PowerPoint presentations to the President of IFAD in January 2011, and to the Evaluation Committee of the Executive Board and the core learning partnership in March 2011 on the evaluation's findings and recommendations. The aim was to provide the main partners with an early opportunity to express their views on the findings and recommendations from the evaluation report, as well as provide any additional information and insights that might be helpful in finalizing the evaluation.
78. In line with IFAD's evaluation policy, a core learning partnership¹⁷ was established for the private-sector evaluation, with the aim of providing inputs and reviewing key deliverables, including the approach paper and the draft final report. Its members were also responsible for sharing all information and documentation with others in their divisions. IOE contracted two senior independent advisers¹⁸ to review the evaluation deliverables and assure IFAD Management and governing bodies of the quality of the evaluation and its overall process (see appendix 7 for their joint report on the evaluation process and the quality of the final report). In addition, the evaluation underwent an internal peer review within IOE.¹⁹ The comments of IFAD

¹⁶ Each of these criteria was rated according to the standard six-point scale used by IOE: 1 - Highly unsatisfactory; 2 - Unsatisfactory; 3 - Moderately unsatisfactory; 4 - Moderately satisfactory; 5 - Satisfactory; and 6 - Highly satisfactory.

¹⁷ Core learning partnership members were the Associate Vice-President, PMD; the Chief Development Strategist; the Director, IOE; all PMD division directors; the then Director of Innovative Financing; regional economists from the five PMD regional divisions; the Senior Technical Advisors on (i) rural finance, and (ii) value chains and access to markets; the Senior Portfolio Manager, PMD; the programme officer in the Office of the President and Vice President, selected country programme managers, and the lead evaluator and consultants' team leader for the private sector evaluation in IOE.

¹⁸ They are Robert Picciotto (former Director General of the World Bank's independent evaluation group, and currently Visiting Professor, Kings College, London) and Namanga Ngongi (former Deputy Executive Director of WFP, and currently President of the Alliance for a Green Revolution in Africa, [AGRA]).

¹⁹ The Director, IOE, and numerous evaluation officers were part of the internal peer review process.

Management and staff, the core learning partnership, the Evaluation Committee and Executive Board members interviewed, the senior independent advisers and the IOE peer reviewers were taken into account in this final evaluation report.

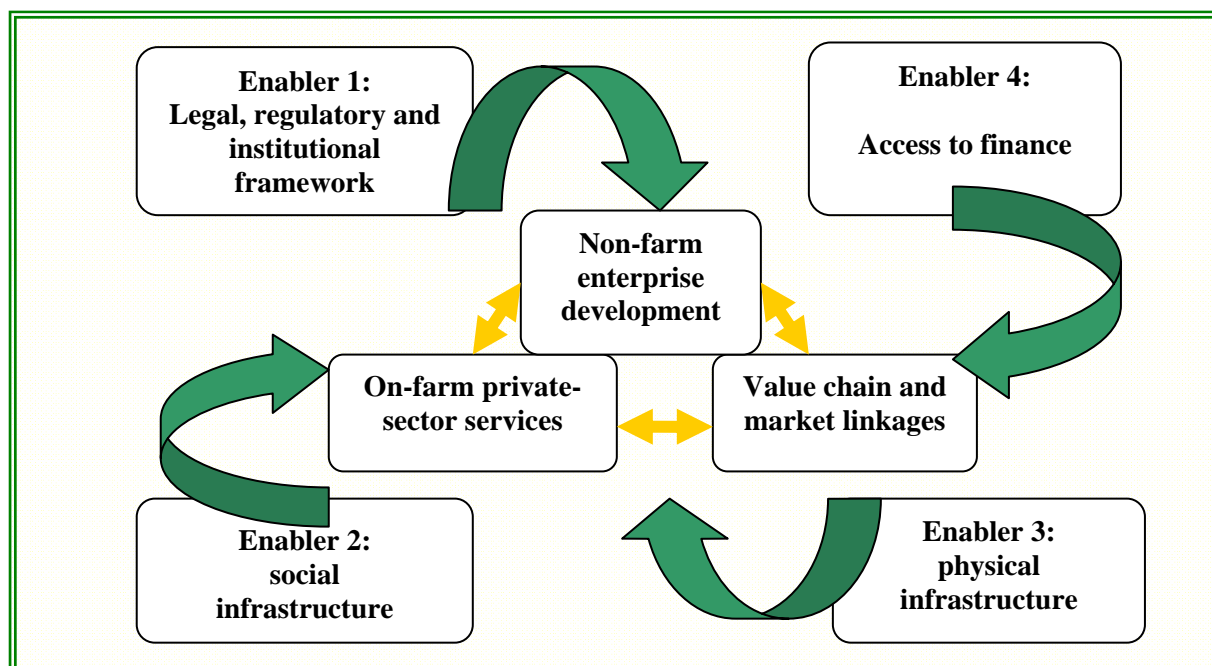
D. Framework for country case studies

79. The main objectives of the country case studies are outlined in paragraph 73(ii) above. The seven country case studies looked at a wide range of actual and potential support for rural private-sector development through IFAD-funded operations. The starting point was to look at the country strategy and programme over time and, specifically, the operations funded before and subsequent to the approval of the 2005 private sector strategy. Concretely, this involved reviewing both past operations and more recent activities. For this purpose, and as agreed with the core learning partnership at the outset of the evaluation, the role of the rural private sector was categorized as follows:
- (i) The first category is rural on-farm services. Among other issues, here the evaluation will be looking at the dimension of private-sector support for small farmers in the form of research, extension, training, seed multiplication, input supply, harvesting and on-farm storage.
 - (ii) The second category is involvement in value chain development. Here the emphasis is on the link between farm and output market through processing, product certification, off-farm storage, transportation, the role of supermarkets, etc. This has become an increasingly important part of IFAD-funded projects in recent years. It is estimated that no less than 50 per cent of 2008 projects had some component or aspect relating to value chain development.
 - (iii) The third category is rural non-farm enterprise development. The focus here is on support for enterprise development, skills training – both business and technical – and venture capital support.
80. In each of these areas, a number of public and private institutions are engaged in providing technical, commercial and financial support for the rural private sector. In order for the private sector to grow and contribute effectively to rural poverty reduction, however, a number of key enablers need to be in place (see figure 4).
- The first of these is the **legal, regulatory and institutional framework** for private-sector development. The lessons of the past point to the need for fair and transparent rules of the game governing private-sector activities. These range from broad political and social stability and effective governance, to land tenure practices, land registration, competition policy and regulation, property rights and a host of other factors that determine the context in which the private sector operates. IFAD's engagement in tribal land rights in India is an important example of its work in this area. Aspects of the institutional framework also include the effects of taxes and incentives for private-sector engagement and support for efforts to develop public-private partnerships.
 - **Social infrastructure** is also an important determinant of the level and growth of the private sector. Higher levels of education, better standards of health and effective community structures all contribute to an environment in which the private sector can function well.
 - **Physical infrastructure** in rural areas is generally recognized as a necessary condition for private-sector development. As farm products move up the value chain to local markets, to processing and to more distant urban and international markets, the quality of physical infrastructure – including water management structures, soil and land improvement, roads including feeder roads, bridges, railways, power supply, and communications infrastructure – becomes an increasingly significant determinant of the rate of growth of private enterprise. Physical infrastructure at the farm and community levels plays an important part of many IFAD-funded operations.

- **Access to rural finance** is another enabler of the development of the rural private sector. One of the important developments of the past two or three decades has been the growth of rural microfinance and the recognition of the important role it can play, particularly in on-farm enterprise development, health and weather insurance, and in encouraging off-farm enterprises such as the establishment of artisan production and local services. But once these enterprises grow, they need access to the commercial banking system and to more sophisticated financial products.

Figure 4

Key components and enablers of private-sector engagement in IFAD operations



81. An evaluation of IFAD support for rural private-sector development through country case studies does not need to focus on each of these enabling factors. However, it must question whether IFAD is assessing the context of private-sector development in supporting the components described in paragraph 80, and whether the absence or weakness of any of the above-mentioned enablers constitutes a binding constraint on effective private-sector development that needs to be addressed in parallel with direct support for the rural entrepreneur.

III. Relevance of IFAD's private-sector development and partnership strategy

A. Assessment of relevance

82. In line with the definition in the IFAD Evaluation Manual, the relevance of the private-sector strategy is assessed according to two main dimensions: (i) the relevance of the "goal and immediate objective" (see paragraph 27) of the strategy in relation to IFAD's overarching mandate and the needs of the rural poor; and (ii) the design of the strategy, that is, the extent to which the "three lines of action" (see paragraphs 27-32) and "implementation requirements" (see paragraphs 33-37) of the strategy were appropriate and coherent, in order to achieve the main goal and objectives defined in the strategy.
83. In particular, some of the questions that the evaluation covered to assess the relevance of the private sector strategy were as follows: Was it aligned with IFAD's mission of reducing rural poverty? Was it timely? Was there ownership of the document within IFAD in the course of preparation? Does it provide a clear and logical analysis of the topic which builds on the best analysis available at the time it

was produced? Does it propose appropriate objectives and the right measures for achieving these objectives? Does it define monitorable targets? Was there an effective dialogue and dissemination process following the completion of the strategy?

B. Relevance of goal and objectives

84. The goal of the private-sector strategy is to engage the private sector to bring more benefits and resources to IFAD's target group, the rural poor. The more immediate objective of the strategy is to increase pro-poor private-sector operations and investment in rural areas.
85. The 2005 private-sector strategy was the first attempt by IFAD to articulate its vision for promoting private-sector engagement in rural poverty reduction. The goal and immediate objectives of the private-sector strategy are based on a relatively coherent analysis, including an assessment of the constraints the private sector faces in rural economies, and a summary of the approaches of other development organizations to private-sector development and partnerships. The strategy also correctly recognizes that private-sector development and partnership is not an end in itself, but is one important means to reducing rural poverty through agriculture and rural development. More specifically, IFAD's efforts to promote the development and engagement of the private sector in developing countries is aimed towards ensuring that small, medium or large private-sector entities can fill the gap, as and where needed, to provide incremental and complementary resources, services and knowledge products that are needed to ultimately improve the lives and incomes of the rural poor.
86. For the first time, IFAD proposed a definition for the private sector to clarify the relevant stakeholders in the sphere of IFAD operations. The evaluation however concludes that this definition of the rural private sector is too broad-based, as it covers almost all private-sector operators, including those at the smaller (rural) end of the private-sector continuum including agroprocessors and other rural-based microentrepreneurs, as well as national, regional and international operators. It includes private-sector operators that are part of both the formal and informal economy, without clearly recognizing that the "informal" private sector acts under very different circumstances (in terms of labour regulations, incentives, taxation, etc.), yet provide essential services and support to the rural poor,²⁰ as compared to the "formal" private sector. The current IFAD definition in the private-sector strategy to be applied in developing COSOPs and financing projects leaves the door wide open, with limited strategic approach or guidance on the requirements and competencies for partnering with the different types of private-sector actors, who indeed play quite a diverse role in support of the rural poor.
87. Unfortunately, taking such a broad and all-encompassing definition of the private sector as the target of IFAD activities dilutes what should have been the essential focus of the private-sector strategy. Since small farmers have always been, and continue to be, the focus of IFAD, almost any IFAD-funded activity supporting any part of the value chain can be classified as promoting the private sector. Indeed, this has been the aim of all IFAD-supported operations thus far. What should have been new is to consider how IFAD can support private-sector operators in the processing, marketing and distribution links of the supply chain. These players are normally SMEs that cannot be supported directly by IFAD funding because of constraints of sovereign lending,²¹ the main financial instrument available currently to IFAD for its development efforts. While in principle funding channeled through rural finance intermediaries could be used for financing SMEs indirectly, in practice IFAD has limited the use of most of such funding to the establishment of micro-enterprises by the rural poor. Faced with this dilemma of how to kick-start

²⁰ For example, in terms of providing rural financial resources in remote areas, where commercial banks often do not have the required outreach capacities and infrastructure.

²¹ As noted, IFAD loans are provided to sovereign governments, which guarantee repayment of the loan to the Fund.

increased activities linking the rural poor to SMEs as part of the value chain, some projects have developed innovative approaches such as matching grants to SMEs willing to contract with suppliers from the poverty target group or the establishment of equity funds that can invest in SMEs. In the absence of an instrument outside sovereign lending, this requires that governments consent to having project funds passed on in this way.

88. In general, the evaluation concludes that the goal and immediate objective of the strategy are relevant to IFAD's mandate, strategic framework and operational models. They were relevant to IFAD's overarching mandate of reducing rural poverty at the time, and continue to be aligned with the directions of the Fund's most recent Strategic Framework 2011-2015,²² to strengthen partnership with the private sector in order to create more wealth and employment in rural areas. Likewise, they were and remain relevant to the needs of the rural poor, as greater private-sector engagement in agriculture and rural development activities can contribute to enhancing productivity, value addition and ultimately their incomes and nutrition. This is consistent with the findings of the recent report issued by the Evaluation Cooperation Group of the Multilateral Development Banks (Evaluative Lessons for Agriculture and Agribusiness, 2011),²³ which notes that "market-based private sector investments can be major drivers of technical change" in agriculture and agribusiness development.
89. The goal statement recognizes the critical role the private sector can play in enhancing the welfare and livelihoods of IFAD's target group (the rural poor), whereas the immediate objective clearly articulates how that would be achieved – namely, by seeking ways and means to ensure greater resource flow from and participation of the private sector to agriculture and rural development operations that focus on the needs of poor people living in rural areas.
90. One of the lessons of the evolving context of agriculture and rural development is the recognition that private-sector development is likely to be a necessary condition for reducing rural poverty in most of the countries in which IFAD is providing support. It is equally evident however that private-sector engagement is not a sufficient condition for rural poverty reduction and that a large part of IFAD's role will be to ensure that private-sector development is pro-poor. This issue is thoroughly discussed in the strategy document, and its implications are looked at in a number of areas, but this review is not followed through into the document's three lines of action (policy dialogue, investments and partnerships). For example, questions such as IFAD's role in promoting corporate social responsibility,²⁴ fair trade practices (as mentioned above) and supporting more competitive markets are not treated specifically in the strategy.
91. The evaluation analysed the extent to which the private-sector strategy was consistent with key corporate policies and strategies that had been adopted by 2005. The main purpose for doing so was to assess the coherence of policy directives provided to managers and staff within the Fund and others involved in designing, implementing and assessing IFAD-supported operations. The evaluation found that the strategy has some discussion of other key IFAD corporate policies and strategies that had been prepared by that time, such as the Strategic Framework for IFAD 2002-2006 and the IFAD Innovation Mainstreaming Initiative

²² To be presented to the Board for approval in May 2011.

²³ This report, launched in Washington, D.C. in January 2011, synthesizes recent work by the independent evaluation outfits of the Evaluation Cooperation Group and incorporates lessons from related research by multilateral development banks and from the academic literature on agriculture and agribusiness.

²⁴ Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. In the private sector, the goal of corporate social responsibility is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere.

(2004). While no one would argue that every strategy document that IFAD produces needs to systematically discuss and factor in all other corporate policy documents regardless of how remote the subject matter is from the topic under review, it is somewhat surprising that some of the key policies and strategies of direct relevance to the private sector such as the Rural Finance Policy (2000),²⁵ the Rural Enterprise Policy (2003) and the Policy for Grants Financing (2003)²⁶ are not mentioned in the document. Also, IFAD had adopted a Gender Plan of Action in April 2003, but there is just a passing reference in the private-sector strategy to the impact on employment of youth and women. Perhaps at the time the decision not to discuss gender issues in depth was understandable from the perspective of maintaining the focus of the document, but over time it has become clear that the issue of women's involvement in the value chain is an important one that merits careful consideration. Finally, the strategy should have looked at some of the potential due diligence issues that could arise in areas that are now identified as part of the corporate social responsibility framework, such as fair trade practices, environment, resettlement and child labour.

C. Relevance of design

92. **Timeliness.** The strategy came at the end of a cycle of internal reviews and shifts in emphasis among the IFIs recognizing the increasing importance of market linkages and the potential for enhanced private-sector development in the rural sector. It caught the beginning of an upward trend in agricultural prices and the wave of interest in corporate social responsibility, fair trade pricing and organic farming.
93. It could however be argued that IFAD ought to have developed the strategy earlier, given that the critical role of the private sector in promoting smallholder agriculture in developing countries had been recognized well before 2003, when the work on preparing the strategy began. As one example, as early as the late 1980s and 1990s the share of the private sector in capital formation in Indian agriculture was approximately three times greater than that of the public sector.²⁷ For close to two decades, private-sector entities in the country such as Tata, Mahindra and PepsiCo (which started contract farming in India in 1989) have been actively involved in providing a range of services along the value chain to the rural poor, including farm equipment leasing, provisions of seeds, pesticides and fertilizers, facilitating access to information through magazines and journals, and output marketing services.
94. **Ownership of the preparation process.** The strategy document was subject to the standard internal review process with discussion of the drafts in the Operational Policy and Strategy Committee. The preparation was initially carried out under the responsibility of the then External Affairs Department, including some consultation with PMD staff. Midway through the process, as a consequence of what was seen as slow and unsatisfactory progress in preparing the strategy, the Regional Economist in the Near East, North Africa and Europe Division of PMD, which had been prominent in IFAD's pioneer activities in support of private-sector development, was designated as the lead author of the document. There was no structured peer review process within IFAD and no external reviewers were asked to comment on the draft document. There was also little or no participation by borrowing countries or civil society. It is difficult to avoid a sense that the document was prepared to respond to the needs of a replenishment process and the concerns of some of the major donors, rather than as a way of achieving an internal commitment to enhance private-sector engagement. Part of the explanation for the latter is because of the prevailing ideological climate within many parts of the organization at the time, which did not entirely favour working with the for-profit private sector.

²⁵ IFAD has since prepared a revised Rural Finance Policy, which was approved by the Board in April 2009.

²⁶ A Revised Policy on Grant Financing has since been produced and was approved by the Board in December 2009.

²⁷ See *Private Sector Participation in Indian Agriculture: An Overview in Business Environment*, dated July 2005.

In sum, the evaluation concludes that there was limited ownership in the design of the private-sector strategy across the institutions, which was to be one of the major limitations during implementation.

95. **Design logic.** The main components and broad approaches defined in the strategy to meet its goal and immediate objective are well judged. These entail a set of guiding principles for IFAD's work on private-sector engagement including focusing on IFAD's comparative advantage and mandate, drawing upon the strategic framework available at the time, building on IFAD's catalytic role, and working within the existing financial, staff and administrative resources.
96. The "three broad lines of action", namely: (i) policy dialogue for local private-sector development; (ii) investment operations to support local private-sector development; and (iii) partnerships with the private sector in order to leverage additional investments and knowledge for rural areas, reflect the balance between investment and non-lending activities such as policy dialogue and partnerships that are essential for IFAD to further its private-sector agenda. However, one could argue that the emphasis on policy dialogue and partnerships as two of the three broad lines of action could be considered too ambitious in the IFAD context, especially given that at the time the Fund's capacities and experiences in undertaking policy dialogue and promoting partnership development and management were not sufficient (and, in fact, the evaluation concludes that these areas are still in need of further development, as discussed later in the report). One concrete example of an overly ambitious plan was the idea that the Fund would take part in policy dialogue on international trade issues that affect developing countries (such as non-tariff barriers and agricultural subsidies in OECD member countries).
97. The strategy included a set of coherent "implementation requirements" – see paragraphs 33-37 – which included: mainstreaming the strategy into IFAD operations; development of guidelines, staff training and staff realignment; measuring results and impact; and capturing, reporting and sharing lessons learned. The results framework including 16 key performance indicators is however the weakest part of the private-sector strategy. It was added on the insistence of the Board and shows evidence of hasty preparation. The outcome indicators have little meaning in the short, three-year time frame (2005-2008) that was defined for the strategy's implementation. There is no baseline and few targets against which to compare them, so that even if, for instance, the employment impact of IFAD-funded projects could be measured in the short term, there was no way to assess whether this was a positive achievement relative to the past or not.
98. One lacuna is that the strategy did not define an appropriate incentives and accountability framework for IFAD human resources management to ensure the appropriate and timely implementation of the strategy. A similar finding has emerged in recent evaluations of other corporate policies and strategies (in the areas of rural finance, innovation and gender). This is therefore a systemic issue – not specific to the private-sector strategy – that needs to be addressed across the board. The evaluation also questions the appropriateness of stating that "an IFAD staff member in PMD will be appointed as a focal point for the private sector". A major corporate strategy of this nature would have warranted a member of the IFAD Senior Management to champion its implementation. Further analysis of the strategy's "implementation requirements" and other key corporate business processes is contained in chapter VI of the evaluation report.
99. The strategy contained little in terms of roll-out, apart from provisions for training and development of guidelines/tool kit. In fact, following the discussion of the strategy in the Board, there seems to have been no further dissemination of the document within IFAD or with consultants and partners in-country (other than posting it on the web). It does not appear to have been used in the field or in discussions with other IFIs or with governments, despite the emphasis it places on partnerships. Most notably, the private sector itself was completely absent from the

process. Similar findings have been reached in evaluations of other corporate policies and strategies (see previous paragraph).

D. Overall assessment

100. The most important lesson from the private-sector strategy preparation and processing is the key role of ownership of policy documents within IFAD. In some idealized sense, strategies are supposed to be driven by demand within an institution, reflecting a genuine concern and interest among Management and staff in pulling together the threads of theory and practice on a particular topic into a coherent institutional approach. In the real world the motivation for strategies is diverse – from donors, the Board, borrowers, individual managers, etc. Regardless of the motivation for the private-sector strategy, it should have been obvious at the time that it related to an important topic which was highly relevant to IFAD operations. The fact that it was written at the behest of major donors is no excuse for the lack of managerial focus and the failure to use it effectively in internal discussions and discussions with borrowing member countries.
101. Based on the evaluation's composite analysis and ratings according to the different dimensions analysed in sections B and C of this chapter, the overall relevance of the private-sector strategy is considered moderately satisfactory. This overall rating reflects the view that – with some qualifications – on balance the goal and objective, analytic work underpinning the strategy, and the three lines of action, were satisfactory. However, this is offset by moderately unsatisfactory or unsatisfactory assessments in the following areas: ownership across the organization, quality of the results framework, coherence with other IFAD corporate policies and strategies, provisions for an accountability and incentives framework, as well as dissemination of the strategy among staff, consultants, borrowers and others.

Key points

- The relevance of IFAD's 2005 private-sector strategy is considered on balance moderately satisfactory by the evaluation.
- The strategy articulated IFAD's goal and immediate objective of strengthening partnership with the private sector, which in the last decade or so is playing an ever increasing role in rural poverty reduction in borrowing countries. It recognized that private-sector development is a means to reducing rural poverty and not an end in itself.
- The strengths of the private-sector strategy lie in the fact that it is broadly aligned with IFAD's mission of rural poverty reduction, it is of generally good analytic quality, and for the most part the broad lines of action proposed are sound and appropriate.
- The strategy included for the first time an IFAD-specific definition of the private sector. However, the evaluation concludes that the definition adopted in 2005 was too broad-based. It covered almost all private-sector operators including those at the smaller (rural) end of the private-sector continuum such as agroprocessors and other rural based micro-entrepreneurs, as well as national, regional and international entities.
- Some of the main weaknesses are the lack of ownership by Management and staff, the poor quality of the results framework, the need to think through more carefully the coherence with IFAD's other policies and strategies, the lack of an appropriate accountability and incentives framework, and the failure to disseminate the strategy and use it as a basis for dialogue on issues of private-sector development.

IV. Implementation of the strategy

A. Objectives and approach

102. This evaluation cannot assess the effectiveness²⁸ – in strict accordance with the definition of this evaluation criterion – of the private-sector strategy. This is because all the COSOPs and projects designed after the approval of the strategy have been ongoing for at most three to four years only, out of an average period of implementation of eight years for IFAD-funded projects globally. However, chapter V includes an appreciation of the emerging results of projects approved after the private-sector strategy based on the self-evaluation system maintained by IFAD Management.
103. The prime aim of this chapter is to analyse how well the private-sector strategy has been implemented through COSOPs and projects that were developed by the Fund following the approval of the strategy. The implementation of the strategy has been assessed according to the three broad lines of action: (i) policy dialogue for local private-sector development; (ii) investment operations to support local private-sector development; and (iii) partnerships with the private sector in order to leverage additional investments and knowledge for rural areas. In particular, the evaluation has examined the extent to which the selected new COSOPs and projects (see next paragraph) have satisfied the intentions laid out for each of the three broad lines of actions (see paragraphs 27-32). Efforts have been made to assess the achievements against those indicators in the private-sector strategy results framework that have been explicitly monitored by IFAD Management. Finally, this chapter also contains an analysis of whether the four main implementation requirements (see paragraphs 33-37) have been fulfilled.
104. The assessment was based on a review of 20 COSOPs considered by the Board between 2007 and 2010. This includes the four most recent COSOPs produced by each of the five PMD regional divisions in that period. The analysis also entailed a review of all 33 new projects approved by the Board in 2009. The year 2009 was selected as the most recent full year's lending programme preceding this evaluation. It allows for adequate time after the completion of the 2005 private-sector strategy to have enabled the Fund to fully integrate the provisions of the strategy into the design of investment operations as well as benefit from the further evolution of approaches and thinking in relation to private-sector development in agriculture and rural development.²⁹ In order to do a before and after analysis of the evolving approaches and emphasis to private-sector development in IFAD investment operations, the evaluation team also reviewed all 25 projects approved by the Board in 2004, the year before the strategy was approved. The full list of documents reviewed by the evaluation team to assess implementation may be seen in appendix 3.

B. Policy dialogue

105. The private-sector strategy notes that all new COSOPs will review the appropriate policy and institutional environment for local private-sector development. The new COSOPs will also incorporate the Fund's strategy to engage in policy dialogue with various stakeholders, including the government, in order to promote local private-sector development. Furthermore, all COSOP consultation processes will involve the relevant representatives from the private sector (e.g. farmers' associations, agribusiness firms, private microfinance institutions or commercial banks working in rural areas). In a few targeted countries where there is willingness on the part of

²⁸ Effectiveness is a measure of the "extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance".

²⁹ Normally, this takes 12-18 months from the start of project design to Board approval. Hence, one could argue that projects presented to the Board in 2007-2008 could also have been included in the sample. Apart from the reasons outlined above for only reviewing projects approved in 2009, one further rationale for excluding projects approved in 2007-2008 is the significantly enhanced level of effort and resources this would have entailed, as the evaluation team would have had to review a further 60 project design documents.

the government, policy dialogue to support the local private sector will be included as a specific country programme activity. Finally, at the global level, the strategy states that IFAD will continue to use global policy forums to highlight the concerns of developing country producers and reinforce the call for leveling the playing field in international trade.

106. At the country level, the evaluation found that about half the COSOPs reviewed (11 of 20) included a systematic examination of the policy and institutional environment. Two good-practice example COSOPs were those for Burundi (2008) and Malawi (2009). The Burundi COSOP provided a dedicated review on the enabling environment for local private-sector development, and highlighted the challenges faced by the private sector. It further noted that the private sector was hit hard by the conflict and embargo; and was hampered by poor access to financing, cumbersome administrative procedures, heavy taxation, corruption and insecurity, a poor road system and weak management capacity. In rural areas, the development of micro and small enterprises faced problems such as inadequate supporting infrastructure and technical skills, illiteracy and limited purchasing power. In addition, the COSOP concluded that the agricultural policy framework did not address issues relating to profitability or improving small producers' access to markets and land.
107. On the other hand, the Malawi COSOP highlighted the necessity of involving the private sector in enhancing input and produce markets. It reviewed the key constraints for private-sector development, including weak market infrastructure, high transportation costs, lack of market information, limited capacity and skills in storage and processing, and weak rural financial services. The COSOP noted that the inadequate involvement of the private sector in service delivery was a lesson learned from past operations, and that this would be reflected in the operations funded by IFAD in the future. It also expressed concern about the agriculture input subsidy programme, which was driving private-sector input suppliers out of the market.
108. Only six of the 20 COSOPs defined a clear agenda for carrying out policy dialogue with governments and other stakeholders on private-sector development issues. It is noteworthy that those COSOPs which made the greatest efforts to leverage policy dialogue in support of private-sector development were in countries where the private sector has not traditionally played a major role in the national economy, but where the COSOP identified substantial potential in strengthening that role, such as Afghanistan, Malawi and Viet Nam.³⁰ In the Afghanistan COSOP, the dialogue agenda was focused on supporting private sector-led agro-based enterprises and shaping microfinance policies. The Viet Nam COSOP indicated that IFAD would work with public and private partners in promoting private investment in upland areas and pro-poor market linkages. And in the Malawi COSOP (2009), among other issues, the country strategy was designed to build an enabling environment that would attract private investment, and develop a collaborative approach between the private and public sectors. Based on the analysis, the evaluation concludes that a clear agenda on policy dialogue is not a strong point in the COSOPs reviewed. The evaluation does however recognize that policy dialogue also takes place within the context of the design, implementation and completion of IFAD-funded projects, which is covered in the next chapter on the country case studies.
109. Around half the COSOPs reviewed (nine of 20) provided evidence of involvement of private-sector representatives in the consultation process leading up to the development of the country strategy.³¹ While the documents may understate the degree of involvement of private-sector representatives in practice, it is telling that such little weight was attached to private-sector consultation that it was not put on

³⁰ In addition to the 20 COSOPs reviewed, another example in this respect is the Bolivia COSOP. The Bolivia COSOP discusses establishing a market for the provision of assistance for the rural poor.

³¹ Each results-based COSOP is required to include an appendix documenting the consultation process followed.

the record. Even where consultation with the private sector was mentioned, there is in most cases just a general reference and no citing of any specific private-sector partner, other than “farmers’ organizations”. The good practice examples of involving the private sector in consultations are Malawi (2009) and the Dominican Republic (2010).³² The Malawi COSOP consultation process involved private-sector partners such as Africa Invest, among many others, and the country programme management team includes private-sector partners as well. At the operational level, engaging the private sector in project design was considered a key mitigation measure in the risk management framework, and the COSOP proposed that the private sector be represented on all project steering committees. In the case of the Dominican Republic COSOP, the private sector was highlighted as a key partner at various levels in operations, and three private entities/associations (Junta Agroempresarial Dominicana, Consejo Nacional de la Empresa Privada, and Asociacion de Jovenes Empresarios) were comprehensively involved in the COSOP consultation process.

110. There appears to be a disconnect between the prominent role implicitly given to private-sector development in the investment project proposals contained in COSOPs, as compared to the coverage, strategy and consultation with the private sector reflected in the COSOPs (e.g. in the sections devoted to country context, partnerships and policy linkages). All the COSOPs reviewed indicate that part of the upcoming investment projects will be directed to value chain and marketing development, rural enterprise development and rural finance, which require national and/or local private-sector partners in project design and implementation. Yet the uneven treatment of private-sector issues in COSOPs suggests that these interventions are being taken up opportunistically and not integrated into a broader strategy of support for rural private-sector development. The Burundi, Dominican Republic, Guatemala and Malawi COSOPs represent good practice and should be used as models for treatment of private-sector development in future COSOPs.
111. **At the global level.** The private-sector strategy also refers to the need for IFAD to intervene at the global level to seek reduced protection and increased access of small farmers to markets in OECD countries. This is extremely important. In fact, the 2011 report of the Evaluation Cooperation Group on Evaluative Lessons for Agriculture and Agribusiness notes that “some exports – often those of promising non-traditional items such as horticulture products and high-value fish – run into non-tariff barriers, such as very demanding sanitary and phytosanitary regulations. Agroindustries in Africa considering exports run into tariff escalation on processed goods whereby there may be free access for unprocessed produce, but tariffs rise rapidly with any additional processing.” It concludes by saying that “non-reciprocal trade have also harmed African agriculture, as farmers often cannot compete with imports of subsidized cereals and meats.” The joint evaluation by IFAD and AfDB (2009) on agriculture and rural development in Africa comes to the same conclusion.
112. While the attention in the private-sector strategy to the need for promoting global policy dialogue on trade issues is appropriate, and it is useful to put the issue on record, the strategy goes too far in implying that this is an area in which IFAD’s interventions were likely to have an impact. As mentioned earlier, the evaluation considers this to be an example of an action proposed in the strategy that was overly ambitious, especially in light of the Fund’s capabilities. That the authors of the strategy are likely to have been fully aware that this was largely rhetorical, rather than an actual element of the strategy, is clear from the fact that no mechanisms for this were discussed and no monitorable actions are proposed in the strategy document.

³² In addition to the 20 COSOPs reviewed, another example in this respect is the Guatemala COSOP. The Guatemala COSOP included consultations with socially responsible private-sector entities, which helped undertake sector diagnostics to ensure better access to markets and promote farmers’ competitiveness.

113. Having said that, in recent years the Fund has increasingly recognized the importance of contributing to the global debate on international trade, in order to promote a level playing field to enable rural poor smallholder farmers to access regional and international markets. The joint evaluation by IFAD and the AfDB on agriculture and rural development (2009) underlined the importance of this issue for African smallholder farmers. IFAD's 2011 Rural Poverty Report, which is an important instrument for engaging in policy dialogue in global and regional fora, has ample coverage of the opportunities and constraints faced by smallholders as a result of the distorted international trade regime. The President of IFAD has himself advocated for a better trade environment that allows for participation by smallholder farmers in several of his statements to key international agriculture platforms³³ in the last couple of years, including at the 2011 World Economic Forum in Davos.³⁴
114. **Overall assessment.** Half the COSOPs included a review of the country's policy and institutional environment for private-sector development; just a quarter contain a clear agenda for policy dialogue on private-sector issues; and half documented consultations with private-sector entities in the development of the COSOP. On another issue, there is evidence of increasing attention to advocating for a better international trade regime at the global and regional levels in recent years, even though this element was not sufficiently built into the private-sector strategy itself and is not yet being actively pursued by the Fund, especially at the country level.
115. All in all, therefore, the evaluation concludes that the implementation of the first broad line of action in the private-sector strategy, on policy dialogue for local private sector development, has been moderately satisfactory.

C. Investment operations

116. **Background.** The private-sector strategy's second broad line of action is to enhance "investment operations to support local private-sector development".
117. **Approach.** In order to assess the extent to which the projects approved after the adoption of the 2005 strategy pay attention to private-sector engagement, the evaluation developed a model with seven categories against which to assess the projects reviewed. The model (see table 1) begins by defining a traditional integrated rural development model of engagement, which supports income-generating activities within a holistic community-based development framework. The model then develops a private-sector development approach in which smallholders are provided with the services, skills, organizational structures and financial services required to enable them to access markets more effectively. In some cases the model builds more formal linkages with the private sector and works backward from those linkages to identify the supporting activities required to make them sustainable.

³³ See the President's statements to the Global Conference on Agriculture, Food Security and Climate Change held in The Hague in November 2010 and the Centre for Strategic and International Studies in Washington, D.C. in April 2010.

³⁴ The President had co-chaired a lunch session on the inter-linkages between agriculture, nutrition and health in his capacity as chair of the World Economic Forum's Global Agenda Council on Agriculture.

Table 1
A dynamic model of IFAD's integrated rural development and private-sector development approaches

<i>Category</i>	<i>Integrated rural development approach</i>	<i>Private-sector development approach</i>
1. Raising productivity	Support public research and extension services, semi-government bodies or NGOs to support farmers with seeds, inputs, advice, etc.	Demand-driven approaches which allow farmers' groups to contract with government, NGOs or private service providers for support services and/or formal links with large and medium-scale processors or traders that may supply planting materials, inputs and advisory services.
2. Market linkages	Development of farmers' or producers' groups to strengthening bargaining capacity and create scale economies in marketing.	Bottom-up approaches using farmers groups or private service providers to broker supply contracts with traders and processors or direct contract arrangements with large and medium-scale processors or traders with guaranteed off-take at agreed quality and prices.
3. Non-farm enterprises	Support for development of artisanal and small retail activities for the local market through technical training and microfinance mechanisms.	Use of service providers to link small producers to commercial banks and rural finance institutions and provide training in business and marketing skills, and to link producers with large and medium-scale processors or traders to market production.
4. Policies, institutions, regulations.	Discussions with governments in the context of projects on issues directly related to the projects.	COSOP coverage of private-sector development environment as a basis for policy dialogue including private-sector representatives and use of non-lending activities to develop understanding and promote dialogue.
5. Social capital	Support for empowerment through formation of groups of rural poor and building of apex institutions. Training in group management.	Service providers are contracted to help develop farmer and producers groups and provide training in business and marketing skills. Producer groups invest in enterprises and are supported with management and training skills. Specialized training is provided where needed.
6. Physical infrastructure	Community-driven development (CDD) approach: community identifies infrastructure needs; public construction; community provides labour and maintains the structures.	Private contractors are used to rehabilitate or build and maintain the infrastructure identified. Physical infrastructure is not community-driven, but designed to lower costs of access to markets in most promising areas.
7. Rural finance	Community groups engage in savings and credit activities for members and MFIs provide support for small agricultural and artisanal activities.	Service providers link farmers and entrepreneurs to banks or specialized institutions for larger loans than MFIs can provide. Rural financial institutions make available a full range of financial services including micro-insurance and advice on financial management

118. All 33 new projects approved in 2009 were reviewed – based on their design only – to assess their compliance with the 2005 private-sector strategy. Moreover, all 25 projects approved in 2004 (before the adoption of the strategy) were also analysed to assess their emphasis on private-sector development. In addition to the seven categories in the model (see table 1), partnerships with the private sector were also evaluated. Only those partnerships which envision the private sector providing finance to support the objectives of the project are regarded as compliant. In one case, the India Convergence of Agricultural Interventions in Maharashtra's Distressed Districts Programme, this financing partnership was explicit as the Sir Ratan Tata Trust provided US\$16 million in cofinancing towards total project costs. In all other cases, a judgment was made as to whether the design of the project was likely to encourage private-sector funding in the course of implementation.
119. In addition to the above analysis, the evaluation analysed the 33 project design documents from 2009 against five easily quantifiable indicators related to investment operations contained in the private-sector results framework (see

table 3).³⁵ One of the five indicators (“at least 15 per cent of IFAD projects will cofinance with or will generate complementary investments with the private sector”) falls under the “partnership” section in the results framework. However, given its project orientation, it has been reported in this section of the evaluation as well. Finally, the evaluation also explores some of the issues relating to the treatment of IFAD’s three corporate strategic objectives related to gender³⁶ in the context of enhancing private-sector engagement.

120. **Results.** Table 2 below shows the results of the analysis of the entire cohort of project designs reviewed. There is of course no yardstick as to what percentage of the portfolio should meet private-sector development objectives. A number of projects for example were mainly directed at better environmental management or empowerment of women and tribal people’s groups. Therefore, they have not been rated. For this reason, the evaluation pays more attention to differences between the 2004 and 2009 portfolios reviewed. In looking at table 2, the analysis shows that 70 per cent of the projects approved in 2009 were fully or partially compliant with the private-sector strategy, as compared to 60 per cent of the projects approved in 2004. Using an analysis with greater weight to projects that were rated fully compliant, as compared to those deemed partially compliant, there is a 25 per cent increase in compliance in the post-strategy period compared with the earlier period.³⁷ Perhaps much more striking, however, was the sharp increase in projects that were judged to be in full compliance, from one in the 2004 cohort to seven in 2009, as well as the significant increase in projects (from eight to 17) dealing with the promotion of market linkages, which usually have a significant private-sector involvement.

Table 2

Treatment of private-sector development in IFAD investment operations: Comparison between projects designed in 2004 and 2009

	2004		2009	
	Number	Percentage	Number	Percentage
Projects reviewed	25	100	33	100
Fully compliant with private-sector strategy	1	4	7	22
Partially compliant	14	56	16	48
Not compliant or unrelated to private-sector development	10	40	10	30
Attention in project design to:				
1. Productivity	6	24	11	33
2. Market linkages	8	32	17	52
3. Non-farm enterprises	9	36	6	18
4. Legal and regulatory reform	4	16	8	24
5. Social capital	14	56	16	48
6. Physical infrastructure	5	20	7	21
7. Rural finance	13	52	8	24
Partnerships	7	28	7	21

121. An analysis was also undertaken of those components of projects that introduced private-sector development approaches using the model developed by the evaluation. Not surprisingly, the most significant increase has been in market linkage or value chain projects, which promote better links between smallholders and larger regional, national or international markets. By contrast, there appears to

³⁵ The private-sector strategy results framework includes a total of 16 key performance indicators. The evaluation provides its assessment on the quality of the results framework in chapter VI of the report.

³⁶ These are: (i) expanding women’s access to assets; (ii) enhancing their role in decision making, including their representation in local institutions; and (iii) improving women’s well-being and easing their workload by facilitating access to basic rural services and institutions.

³⁷ The figure is based on the average rating of the portfolio, i.e. the weighted index of compliance which assigns a higher weight to full compliance than partial compliance.

have been less interest in the development of off-farm rural enterprises to serve the larger market. The focus in the value chains has mainly been on agriculture and livestock. The analysis shows much greater focus on policy, legal, regulatory and institutional issues in the 2009 portfolio, as compared to the projects approved in 2004. A notable feature is the decline in the number of rural finance activities that were viewed as compliant with the strategy. This may be the inverse of the expansion of market linkages. That is, as projects are designed with greater attention to market linkages, there seems to be a tendency to take the existing rural finance system as a given and use it to channel funds, rather than defining a systemic project component that has objectives related to increasing rural financial intermediation.

122. As indicated in table 2, in 2004 only one project (the Armenia Rural Areas Development Programme) met the criteria for full compliance with the private-sector strategy. In 2009 however, seven projects were judged to be in full compliance, located in Benin, Burkina Faso, Dominican Republic, Mauritania, Nepal, Sri Lanka and Zambia. The expectation might have been that middle-income countries were more likely to appear on the list but, consistent with the discussion on the COSOPs in paragraphs 106-110, the list suggests that it is more often in those countries where there is both weak public-sector capacity and limited market access by smallholders where governments see the greatest pay-off to private-sector engagement. Seven projects approved in 2009 in the aforementioned countries may be considered as flagship IFAD-financed operations for their attention to private-sector development. Box 1 contains excerpts from the President's Reports of each of these projects outlining their objectives and main modalities for engaging with the private sector.
123. As mentioned previously, in addition to the above analysis, the evaluation assessed five key performance indicators in the private-sector strategy's results framework, which contain a quantitative target and therefore can be more easily assessed (see table 3). The analysis was based only on the 33 projects approved in 2009 and did not include the projects approved in 2004 reviewed by the evaluation as they were designed before the strategy was introduced. The analysis reveals that the targets were exceeded in three of the four cases, for which data/information was easy to extract. This achievement merits to be commended.

Table 3

Achievement against selected key performance indicators in the results framework

<i>Key performance indicator</i>	<i>Achievement</i>
1. 20-25 per cent of all new IFAD projects strengthen the business capacities and skills of targeted rural poor or their organizations	48 per cent
2. In new projects with a component for agricultural production and related advisory services, 25-50 per cent of such services would be delivered by private-sector providers	35 per cent
3. In new projects with a rural financial service component, 50-75 per cent of the rural financial institutions supported, strengthened or scaled up will be private-sector institutions	Not clearly discernable from the review of documents
4. 20-25 per cent of all projects will link small farmers with private markets or intermediaries including contract farming initiatives or will support the development of small and medium enterprises	58 per cent
5. At least 15 per cent of IFAD projects will cofinance with or will generate complementary investments from the private sector	21 per cent

124. **Treatment of gender equality and women's empowerment.** Although it was not part of the evaluation approach paper, IOE assessed the interface between support for private-sector development and IFAD's corporate objectives on gender equality and women's empowerment. This was done especially with the aim of identifying lessons that need to be kept in mind for IFAD's future activities in relation to private-sector development. The Fund's corporate objectives for promoting gender equality and women's empowerment are to: (i) expand women's access to and control over fundamental assets – capital, land, knowledge and

technologies; (ii) strengthen women's agencies – their decision-making role in community affairs and representation in local institutions; and (iii) improve women's well-being and ease their workloads by facilitating access to basic rural services and infrastructure.

125. The evaluation identified seven flagship projects (see box 1) that favour private-sector engagement. The analysis of these projects revealed that they fully met the first of the above objectives. By following IFAD's design guidelines they increased women's access to and control of capital, knowledge and technologies. By and large these projects did not deal with issues of land rights, registration and tenure. Two projects are particularly notable in the steps they propose. In the Zambia Smallholder Agribusiness Project, it is intended that value chain analyses will be undertaken to assess where women have played or could play a significant role in value-chains, for example as small-scale traders or in value-adding activities. The project also aims at investigating specific constraints women face, such as poor access to finance or technical support, and exploring how to ensure that these services reach women. The Dominican Republic Border Regions Project has set an overall objective of narrowing the existing gaps between men and women in the project area, in relation to access to resources and productive assets, and opportunities to improve women's incomes. This is to be done by promoting gender-sensitive and inclusive productive activities and strong partnerships with the private sector at different stages of the value chain.
126. The second objective of gender equality and women's empowerment is much more problematic since it is not on the critical path of private-sector development and value chain projects. Indeed, this objective is much more clearly related to the traditional integrated rural development model, with its focus on community development and decision-making within the community context. The Dominican Republic project included a special component to strengthen women's agencies – decision-making role and representation in local institutions by specifying the need to include women as members of the project's economic organizations as well as setting a target for women in management positions in the organization (80 per cent of first level organizations and 90 per cent of second-level organizations). None of the other projects explicitly deals with this objective.
127. The third objective of facilitating access to basic rural services and infrastructure is also more consistent with the traditional model where communities determine their infrastructure needs. This of course links up with the traditional approach of promoting empowerment of women in representative bodies of the rural poor in the community. Five of the seven projects (Benin, Burkina Faso, the Dominican Republic, Nepal and Sri Lanka) include a component of infrastructure improvement or construction in the design. This is focused on market access, but it could be argued that the benefits of such access will accrue disproportionately to women, for whom this is a particularly problematic area for their participation in value chains and their ability to increase the profitability of their market activities.
128. The gender equality and women's empowerment objectives relate very clearly to the traditional model of support based on integrated rural development.³⁸ Since the traditional model is taking a smaller and smaller share of IFAD's new programmes, this is likely to create a tension with those gender objectives that are not intrinsic to value chain projects.

³⁸ For example, in the Tejaswini project in Maharashtra, IFAD is supporting the promotion and strengthening of women's self-help groups (SHGs) through technical assistance and increased access of the groups to commercial banks to support income-generating activities of the members. The SHGs have become an important force in elections for the village council and regional bodies, with a number of women being elected to these bodies. As a consequence they have been increasingly influential in determining the type of infrastructure investment that is undertaken and its location. In a number of villages, women were able to persuade the village council to locate a new well so as to reduce the time required to get water for household use.

129. **Overall assessment.** The handful of measurable targets in the private-sector strategy results framework have – in most cases – been met and exceeded. Moreover, it is reassuring to note that projects designed in 2009 include a wider treatment of private-sector development-related issues (based on seven categories in table 1 used to analyse the private-sector focus of investment operations), as compared to older generation projects. Therefore, projects of recent vintage on the whole may be considered more compliant with the second broad line of action (which is for IFAD investments to support local private-sector development) of the 2005 strategy.
130. In general, even though there may be room for further improvements, the evaluation concludes that the design of IFAD-funded investment operations approved after the adoption of the private-sector strategy, are satisfactory in terms of supporting private sector development, which is the second broad line of action of the strategy.

Box 1

Seven 2009 flagship projects

1. **Nepal: High-Value Agriculture Project in Hill and Mountain Areas:** Poverty persists in these areas because of poor infrastructure and access to services and markets. Stronger connectivity among farmers, input suppliers, traders/agribusinesses and downstream markets is fundamental to increasing agricultural diversification, productivity and incomes. Such increases can be achieved through initiatives focused on high-value crops, non-timber forest products (NTFPs), medicinal and aromatic plants (MAPs) and livestock. Appropriate pro-poor value chains and market systems for these high-value commodities can be developed through better access to technical services, finance, input supplies and market information, and improved infrastructure. The project is designed to exploit unmet demand for these commodities from the private sector and opportunities for export and import substitution.
2. **Sri Lanka: National Agribusiness Development Programme:** Government policy promotes public-private partnerships in agribusiness development to stimulate agricultural growth. However, efforts have been largely limited to facilitating contract farming arrangements aimed at enabling companies to obtain their supplies. Although such contracts allow a few small farmers to increase their incomes, the direct involvement of farmers in upstream processing and marketing would bring even greater benefits to a larger number of farmers. The proposed programme will provide small farmers with the necessary financial and technological assistance to enable them to engage actively in agricultural value chains as equal partners.
3. **Mauritania: Value Chains Development Programme for Poverty Reduction:** By 2010, according to projections, two thirds of Mauritania's population will live in urban areas. Nouakchott, the capital, is already a major consumer of agricultural products, most of which are imported. The programme aims to achieve growth by developing seven agricultural value chains (vegetables, dates, milk, poultry, skins and hides, red meat and non-timber forest products) that involve poor rural women and men as both key players and main beneficiaries. For each product, value chain working groups will be set up composed of, among others, members of rural organizations, the private sector, and service providers. The programme's support to the selected agricultural value chains will achieve the double objective of fighting poverty and increasing national production, thus reducing the country's reliance on food imports and vulnerability to food import price increases.
4. **Zambia: Smallholder Agribusiness Promotion Programme:** The programme is a public-private endeavour to reduce rural poverty by stimulating rural economic development through the transformation of small-scale producers into profitable farmers. It will seek to improve the effectiveness of policies and practices related to agribusiness and marketing, and to accelerate growth in agribusiness based on small-scale producers. The programme will adopt a two-pronged approach that combines (i) direct interventions at critical points in value chains to connect small-scale farmers with input suppliers and markets; and (ii) initiatives to address weaknesses in the enabling environment for rural commercial development.
5. **Benin: Rural Economic Growth Support Project:** Although many crops can be grown in Benin, only cotton growers are supported by an integrated value chain. However, they – and the country – remain highly vulnerable to volatile world markets. The new project will help Benin's small-scale rural producers in developing well integrated value chains for four non-cotton crops with a broader range of markets: roots and tubers, lowland rice, vegetables and pineapples. The specific objectives are to support: (i) the development of rural agro-based MSEs and income-generating activities, as actors in the priority value chains; (ii) the establishment and strengthening of interprofessional unions able to defend members' interests; and (iii) the construction of rural infrastructure to improve agricultural outputs marketing by the target groups.
6. **Burkina Faso: Rural Business Development Services Programme:** Burkina Faso is one of the best placed countries in the region with regard to rural microenterprise development. Its population enjoys a near-legendary reputation of being composed of very hard workers, accustomed to eking out a livelihood from a meagre and fragile natural resource base. The programme will be demand-driven and will set up 60 business development service providers – rural enterprise resource centres (CREERs) – which will act as the main contact point for the direct target group and will facilitate their access to programme resources. The CREERs will receive support to strengthen their network and deepen outreach over time. They will regularly organize promotion campaigns to foster rural entrepreneurship. The programme is expected to result in a significant number of income-generating activities expanding to become rural micro-enterprises.
7. **Dominican Republic: Development Project for Rural Poor Economic Organizations of the Border Region:** The programme addresses the challenge of providing small farmers with the means to benefit from niche market opportunities both domestic and international, improve consistency in product quality, increase volume on a sustainable basis and ensure food security. The specific objectives are to: (i) attain improved, effective and systematic linkages between agricultural and non-agricultural organizations of the target group and local, regional, national and external markets; (ii) develop and consolidate the planning, management and marketing capacity of beneficiaries' formal and informal economic organizations; (iii) improve the competitiveness of small farmers belonging to economic organizations to meet the demand and requirements of value chains and markets; and (iv) capitalize economic organizations and facilitate their access to sustainable financial markets.

D. Partnerships

131. **Background.** The third broad line of action in the private-sector strategy calls for IFAD to promote partnerships with the private sector in order to leverage additional investments and knowledge for rural areas. IFAD will seek to leverage investments (e.g. in the form of cofinancing) from the private business sector and from private donation funds (foundations, philanthropic organizations, trusts, etc.) in support of development projects it finances. It will explore leveraging migrant workers' remittances to attract knowledge and resources to rural areas, and seek partnerships with other United Nations organizations, IFIs and regional banks as well as private development funds in support of local private-sector development.
132. **Key performance indicators.** The private-sector strategy results framework sets out two explicit key performance indicators with regard to partnerships. These are as follows: (a) all new COSOPs include partnership possibilities with the private sector; and (b) at least 15 per cent of IFAD projects will cofinance with or will generate complementary investments from the private sector.
133. **General findings.** The strategy considers as partnerships a number of very different forms of association between IFAD and private-sector actors.
- First, there are financing partnerships where IFAD will look to private foundations and other private sources at the global or regional levels to provide cofinancing for its investment operations or grant activities. These may or may not support private-sector activities at the country level. They may simply be part of a funding pool used for IFAD's annual programme of work. While this has been included as part of the private-sector strategy, as the strategy document itself notes (in footnote 13), it would be a more natural part of IFAD's overall resource mobilization strategy. In any case, there are few concrete examples of this to date, in part because of the problem of governance of such funds. For example, private foundations would like to have some say in the use of their funding, and mechanisms that would allow this have not yet been worked out. One good example however is the corporate partnership with the Alliance for a Green Revolution in Africa (AGRA), which cofinances projects with IFAD to promote the engagement of private commercial banks (e.g. Equity Bank in Kenya) in the provision of rural finance to enhance agriculture productivity.³⁹
 - Second, there are financing partnerships at the project level. There are some examples of this to date, in India, Uganda and other countries. The financing provided in Uganda by the private-sector entity is part of the project's total costs and is not specifically earmarked for support of private-sector development activities. In the case of the project in India (see paragraph 179 below), the partnership goes beyond funding and IFAD has been able to draw on the marketing expertise of the Tata group in support of the project's training activities.
 - Third, there are financing partnerships at the component level. The funds provided by the private sector are generally not merged into the overall project costs, and are used in parallel with the project's overall resources. These partnerships can be with medium and large-scale companies, contracting with farmers through value chain projects as in Sri Lanka, or with commercial banks or microfinance institutions interested in providing rural financial services to help meet the project objectives.
 - Fourth, there are knowledge partnerships which can be combined with funding or independent of funding, whereby IFAD can draw on the technical expertise of the private sector, while the private sector in turn can tap into

³⁹ IFAD, FAO and WFP signed a joint partnership agreement with AGRA in 2008, which was approved by the Board in September of the same year.

the organizational skills and social capital that IFAD-funded project managers have built up. There are however few examples of this type of partnership in the projects reviewed by the evaluation.

134. **COSOPs.** Almost all the COSOPs reviewed⁴⁰ mention partnering with the private sector, although to quite a varying degree in terms of detail. The main potential areas for partnership with the private sector identified in the COSOPs are on improving market access, supporting rural finance, developing small and micro rural enterprise, and improving services in rural areas. Some aim to partner with the private sector to pilot innovative approaches financed by IFAD, for example in agroprocessing and value addition of commodities produced by the rural poor (e.g. honey and coffee in Guatemala). Most of the COSOPs also underlined the importance of exploring opportunities for mobilizing additional financial resources from the private sector to support the IFAD-funded country programme. There is hardly any discussion on possible knowledge partnerships with the private sector.
135. The COSOPs for Burundi (2008) and the Dominican Republic (2010) provide good examples of building partnership with the private sector. The Burundi COSOP does so through a range of value-chain related activities centering on promoting contract-based trade between producer organizations and private operators (merchants, processors and exporters). In addition, the private sector would be mobilized to support micro and small enterprises in developing processing activities; and finally support the diversification of the supply of rural services. In the Dominican Republic COSOP, the private sector was considered a key partner. In particular, the country strategy elaborated on the role that private-sector partners would play in providing rural services, enhancing value chains and linkages with local, national and export markets, and cofinancing rural development operations. In both these cases, the partnerships were clearly outlined, and were consistent with the capacity and resources of the private sector.
136. **Cofinancing investment operations.** As far as cofinancing of IFAD-funded projects with the private sector is concerned, the analysis carried out suggests that the target was achieved (and slightly exceeded), since 21 per cent of projects approved in 2009 were compliant – as compared to the 15 per cent target that was to be achieved by 2008 under the private-sector strategy results framework. It is however important that additional efforts are made to enhance the level of resources mobilized from the private sector, especially as IFAD pays increasing attention to scaling up successful operations including innovative agriculture and rural development approaches. In this regard, there are in fact ample opportunities, especially in emerging economy countries (Brazil, China, India and other middle-income countries) where large private-sector conglomerates are getting involved in philanthropic activities. However, this will require country programme managers (CPMs) to allocate more effort and resources, build their competencies and skills in dealing with the private sector, as well as gain a deeper knowledge of the private-sector landscape in borrowing countries.
137. **Remittances.** The private-sector strategy further stated that IFAD would explore leveraging migrant workers' remittances to attract knowledge and resources to rural areas. This is extremely important, as rural areas are known to receive 30 to 40 per cent of remittance flows. In fact, IFAD established a US\$18 million multi-donor financing facility⁴¹ in 2006 to reduce costs and increase options for poor rural households by creating partnerships between rural finance institutions and remittance operators. The facility finances projects that promote access to remittances in rural areas, link remittances to rural financial services and products, and develop rural investment opportunities for migrants and community-based organizations. In October 2009, as one key activity, together with AfDB, IFAD

⁴⁰ As mentioned, the evaluation team analysed 20 COSOPs considered by the Board between 2007 and 2010.

⁴¹ Funded by the European Commission, Inter-American Development Bank, Consultative Group to Assist the Poor, Luxembourg, Spain and United Nations Capital Development Fund.

organized a Global Forum on Remittances with the aim of sharing experiences and raising awareness among diverse stakeholders including private-sector entities about the benefits remittances can bring to economic and social development in developing countries. More than 20 projects have thus far been financed under the facility, dealing with a range of activities involving the private sector. These include, for example, in India developing electronic access for the rural poor to savings instruments, remittances, and credit and insurance services without the need to visit their commercial banks. Another example is a project in the Plurinational State of Bolivia that uses a microfinance technology platform to create access points close to the homes of remittance beneficiaries that will allow them to collect remittances as well as providing them with a number of financial services. Specifically, the project established a network of 200 strategically selected non-traditional agencies (gasoline stations, shops, pay-telephone centres, post offices, pharmacies, etc.) and will equip them with the required technology and skills to offer a technology platform adapted to the needs of the target group. This platform will install point-of-sale equipment in 200 non-traditional agencies and will offer Internet access, telecommunications capabilities, money transfer applications, insurance coverage and other services.

138. Even though the financing facility was established following the adoption of the private-sector strategy, there does not appear to be any explicit reference to the strategy in the founding or other documents of the remittances facility. In any case, even if the facility emerged of its own initiative in light of the importance of remittances for poverty reduction in developing countries, it is indeed an important initiative that contributes towards furthering the third broad line of action (on partnerships) of the private-sector strategy. However, the evaluation was unable to discern the required linkages between the relatively small grant-funded projects financed through the facility and the IFAD-funded investment portfolio. Therefore, the opportunities for mainstreaming the results of projects financed under the remittances facility is an issue that needs to be addressed moving forward.
139. **Partnership with development organizations.** The Fund recognizes that no single institution can possess the expertise and infrastructure needed to address the multi-dimensional nature of rural poverty. Collaboration among United Nations organizations, bilateral aid agencies, MDBs and other major organizations is a prerequisite for success. In fact, the development of effective partnerships is one of the principles of engagement of IFAD's Strategic Framework 2011-2015.
140. IFAD has entered into several partnerships at the institutional level with MDBs, which focus on cooperation on private-sector development. For example, in December 2010, IFAD signed an important partnership with the OPEC Fund for International Development in order to promote innovative financing mechanisms to attract private-sector investment in agriculture, as well as develop inclusive business models that bring benefits for investors and local small farmers. The 2008 revised memorandum of understanding with AfDB calls for cooperation on agribusiness and microenterprise development, agroprocessing and microfinance. Another example is the letter of intent signed by IFAD, AfDB, AFD and the Alliance for a Green Revolution in Africa (AGRA) in 2009 to establish an equity investment fund in Africa, in order to promote private operators involved in the development of agricultural food commodities in Africa.
141. There has been little partnership with United Nations organizations. For instance, IFAD has partnered with the United Nations Capital Development Fund in seven projects since 1990, with close to US\$15 million in cofinancing. IFAD and the United Nations Industrial Development Organization (UNIDO) cooperate in the areas of value chain development and market linkages, specifically agro-industry and agroprocessing and food production and bioenergy in Africa, Asia and the Pacific, and Latin America and the Caribbean. Under a recent initiative, IFAD and UNIDO agreed to intensify their strategic partnership and increase the developmental impact of their complementary assistance. Government support and funding have

been secured for three major programmes carried out under this partnership, in India, Nigeria and Sierra Leone.

142. The three Rome-based agencies work together in a number of areas, but thus far there is limited explicit collaboration on the private sector. There is therefore an opportunity to expand the partnerships with FAO and WFP, especially given their focus on food security and agriculture. As merely one example of such partnership, IFAD and FAO could work together on policy dialogue at the global, regional and country levels, to promote a more favourable policy and institutional environment for private-sector engagement.
143. Finally, the evaluation notes that, while there are some examples of partnerships at the institutional level, partnerships with MDBs and United Nations organizations on private-sector development issues have not been sufficiently developed in a systematic manner at the country level in support of IFAD country programmes. This is a concern that needs to be addressed urgently as inter-institutional coordination is an overarching element of effectiveness. The Evaluation Cooperation Group's 2011 Report on Evaluative Lessons for Agriculture and Agribusiness concludes that "in a sector where so many players are involved, results depend vitally on how well diverse efforts are coordinated."
144. **Overall assessment.** Although there are examples of cofinancing by the private sector at the project or component levels, only some formal partnerships have been formed at the corporate level with foundations, philanthropic organizations or trusts. This is partly because there are currently no existing mechanisms for IFAD to receive funding at the corporate level from such organizations. As advocated by the private-sector strategy, the evaluation also did not find any explicit knowledge partnerships in which IFAD can draw on the technical expertise of the private sector, while the private sector in turn can tap into the organizational skills and social capital that IFAD's project managers have built up.
145. Almost all COSOPs provide information about partnership opportunities with the private sector, although the depth of analysis varies significantly from COSOP to COSOP. The targets set in the results framework of the private sector strategy for mobilizing cofinancing at the project level have been exceeded, but there is a need for additional efforts in the same direction, especially as IFAD moves towards greater attention to scaling up for wider impact achievement.
146. By establishing a dedicated remittances financing facility, IFAD is ensuring that remittances can be channeled more efficiently to rural areas and used appropriately in support of agriculture and rural development activities. However, the evaluation was unable to trace the effects of the private-sector strategy on the establishment of the facility. While there are some partnerships focusing on private-sector development with other MDBs at the corporate level, similar partnerships with these organizations are generally unsystematic at the country level.
147. All in all, therefore, the evaluation considers moderately satisfactory the efforts made in developing partnerships with the private sector, in order to leverage additional investments and knowledge for rural areas, which is the strategy's third broad line of action of the private sector.

E. Implementation requirements

148. The third building block of the evaluation – review of key corporate business processes in support of private-sector engagement – is fundamental, as it contributes to a better understanding of underlying causes for good or less good results achieved on the ground. It is also important to see if the necessary adjustments were made to corporate business processes by IFAD Management to ensure effective implementation of the private-sector strategy. The examination of selected corporate business processes in this evaluation is consistent with the recommendation of the Peer Review of IFAD's Office of Evaluation and Evaluation Function that IOE become increasingly involved in the assessment of IFAD's

corporate business processes.⁴² In fact, the three other recently concluded corporate-level evaluations⁴³ by IOE in the past couple of years also included a review of selected corporate business processes.

149. Table 4 below summarizes the four broad implementation requirements identified in the 2005 private-sector strategy, including the 13 commitments made by IFAD Management when it was approved. The table shows each commitment and their implementation status, which were mainly in relation to adjusting key corporate business processes to ensure smooth implementation. A more comprehensive treatment of key corporate business processes may be found in chapter VI of this evaluation report.

⁴² The final peer review report is found at www.ifad.org/gbdocs/eb/99/e/EB-2010-99-R-6.pdf.

⁴³ On the: (i) joint evaluation with AfDB on agriculture and rural development in Africa, (ii) innovation and scaling up, and (iii) gender and women's empowerment.

Table 4
Actions expected and taken in implementing the private-sector strategy

<i>Implementation requirements</i>	<i>Status of implementation</i>	<i>Comment</i>
<i>Mainstreaming the strategy into IFAD operations</i>		
1. Each IFAD unit or division to identify the activities that will be undertaken to achieve the common objectives, and include these activities in their annual work plan and budget.	Partly achieved	This is done, however, on an ad-hoc basis without any consolidation at the divisional level.
2. The divisional planned activities will be aggregated at the departmental level, for a consolidated work plan and budget.	Not achieved	
3. COSOPs and project design documents will include an assessment of private-sector development in rural areas and will reflect partnerships and engagement possibilities with the private sector.	Partly achieved	The strategy per se did not have an immediate effect to enhance private-sector issues coverage. In fact, some COSOPs before the private-sector strategy had excellent treatment of the role of the private sector. More recent COSOPs and project designs do however have better coverage of private-sector issues, but there is scope for further elaboration of the analysis and coverage.
4. Legal and financial procedures related to partnering with the private sector developed and internalized within IFAD.	Not achieved	
5. IFAD's portfolio review and its Results and Impact Management System (RIMS) indicators will include reporting on IFAD's engagement with the private sector.	Very partially achieved	Only 5 out of 12 project level indicators in the results framework of the private-sector strategy are tracked through the RIMS. Reporting on the achievements of the indicators in the private-sector strategy results framework has been negligible (see comment related to implementation requirement number 11 below).
<i>Guidelines, staff training and staff alignment</i>		
6. Develop guidelines (or a tool kit) for IFAD operations staff.	Not achieved	Although a draft handbook was under preparation in 2005, it was never finalized or issued to IFAD staff, consultants and others concerned.
7. Provide training to staff on how to partner or engage with the private sector in their operational work.	Not achieved	No systematic training provided to staff or consultants, apart from some ad hoc knowledge sharing events, especially in recent years.
8. Appoint a staff member in PMD as focal point for private sector responsible for providing support to his/her colleagues on issues related to the private sector, implementation of the strategy, preparing progress reports, and monitoring and evaluating performance.	Not achieved	
9. Appoint focal point for mobilizing resources from the private sector.	Achieved	A person was appointed, but located in the then External Affairs Department, which did not facilitate synergies with IFAD's operations work.
<i>Measuring results and impact</i>		
10. IFAD will measure its performance at the aggregate level. The strategy will be monitored through the RIMS and through the Progress Report on the Project Portfolio, presented annually to the Board.	Very partially achieved	Only the 2006 Portfolio Performance Report (PPR) contained a section reporting on the results of the private-sector strategy. Thereafter, the PPR was merged into the RIDE, which did not include any such coverage over the years.
11. Revise or expand RIMS to capture key indicators in the results framework of the private-sector strategy.	Partly achieved	See comments under point 5 above.
<i>Capturing, reporting and sharing lessons learned</i>		
12. Capture lessons, with stock-taking conducted every few years, to assess if there is a need to change direction or fine-tune strategy and/or operational guidelines.	Not achieved	
13. IOE to undertake evaluation of strategy in 2008.	Achieved	Evaluation undertaken in 2010, as agreed with the Board. The advantage of the postponement is that the evaluation was conducted following a longer timeframe for strategy implementation.

150. It is evident from the table above that there has been little systematic follow-up in IFAD on the corporate business process and structural changes required to ensure a smooth and timely implementation of the private-sector strategy. The evaluation believes that most, if not all, of the 13 actions (see table 4) were necessary and would have allowed an even more effective implementation of the strategy and possibly the achievement of more far-reaching results on the ground. The absence of ownership of the strategy and accountability for its implementation during the agreed timeframes (2005 to 2008) is probably a large part of the explanation for this, since most of these are relatively “soft” targets and would have been quite easy to implement. It is also possible that the general awareness of the rapid growth in value-chain related projects led to some complacency that, since the key outputs were likely to be achieved without putting in place the supporting process and structural measures, these were not necessary. There is no evidence however of any review of the measures and explicit decision making as to which were still relevant. All in all, the evaluation rates as unsatisfactory the efforts made by Management between 2005 and 2008 to meet the critical implementation requirements agreed with the Board.

Key points

- **Policy dialogue:** (i) at the country level only about half of COSOPs included a review of the opportunities and constraints to private-sector development, while even fewer indicated a clear agenda for policy dialogue on key private-sector issues; and (ii) IFAD has not systematically taken up trade issues in COSOPs as envisaged by the strategy. However, in recent times the Fund has advocated – especially in global and regional fora such as at the AGRA Green Revolution Forum in 2010 – the need to work towards developing a level playing field to ensure that smallholder farmers in developing countries have adequate access to markets in OECD countries.
- **Investment operations:** (i) the targets (see table 3 in this chapter) set in the private-sector strategy results framework have – in most cases – been reached and exceeded; and (ii) projects designed in 2009 include a wider treatment of private-sector development issues, as compared to older generation projects.
- **Partnerships:** (i) the main targets (see specifically indicator 5 in table 3) set in the results framework of the private-sector strategy for mobilizing cofinancing at the project level have been exceeded, but there is a need for additional efforts in the same direction and also in developing knowledge partnerships; (ii) only a few partnerships have been formed at the corporate level with foundations, philanthropic organizations or trusts; (iii) COSOPs usually provide information about partnership opportunities with the private sector, although the depth of analysis varies significantly; and (iv) there are some partnerships focusing on private-sector development with other MDBs at the corporate level, but partnerships with such organizations are generally unsystematic at the country level.
- **Implementation requirements:** (i) mainstreaming of the strategy was partly achieved, though it is doubtful whether the achievement is attributable to the strategy; (ii) the provision of guidelines, staff training and staff alignment were not achieved; (iii) there was only very partial achievement of the requirement to measure results and impact; and (iv) the capturing of lessons on a continuous basis was not achieved, except that this evaluation which was specified among the requirements has now been undertaken.

V. Results and good practices from IFAD-supported operations

A. Objectives and approach

151. Apart from assessing the relevance of the 2005 private-sector strategy (see chapter III) and its implementation (see chapter IV), in this chapter the evaluation aims to: (i) assess the results of projects supported by IFAD; and (ii) identify good and/or less good practices in IFAD operations in private-sector development in recipient countries, based on seven country case studies. The analysis in this chapter is informed by the work conducted under the second building block of the evaluation (see chapter II).

B. Assessing results

152. The engagement of the private sector in IFAD-supported operations is not an end in itself. The main aim is to leverage their resources, knowledge and capacities to achieve better results on overall rural poverty reduction in developing countries. However, given the multiple partners (government, IFAD, civil society organizations, NGOs, cofinanciers, etc.) involved in project design and implementation, it is difficult to discern the specific contribution made by the private sector towards achieving better results on rural poverty reduction. It should also be kept in mind that more recent projects would have benefited from the positive evolutions in IFAD's operating model, especially in terms of direct supervision and implementation support and in some cases country presence. The assessment of results is further challenged by the fact that the projects supported by IFAD following the adoption of the strategy have been under implementation only for a relatively limited period of time and not yet covered through independent evaluations by IOE.
153. In light of the above, the approach taken by this evaluation is to rely mostly on the self-evaluation data generated by IFAD Management to gain an appreciation of the emerging results on the ground. In particular, in order to assess the effects of the 2005 private-sector strategy on IFAD's rural poverty reduction efforts, the evaluation compared the results of projects approved before and after the strategy. A key assumption taken by the evaluation is that the private sector has an important role to play in agriculture and rural development, and greater private-sector participation should in principle lead to better results.
154. The evaluation identified a sample of 17 projects approved in 2003-2004 in all five geographic regions covered by IFAD operations, which would therefore not have benefited from the guidance contained in the private-sector strategy approved in 2005. Thereafter, a total of 27 projects were identified and approved in 2006-2007, following the adoption of the strategy. It was important to select projects in 2006-2007, rather than projects approved in 2008 or 2009, as projects approved in 2006-2007 would have been under implementation for at least a few years by the time this evaluation was conducted, thus providing an opportunity to compare their emerging results in relation with the results of projects approved in 2003-2004.
155. The means for selecting projects entailed a careful review of their design and supervision documents, and the sample included only projects containing one or more of the following activities, implying a certain degree of private-sector engagement: promotion of access to input and output markets, rural microenterprise development, provision of rural financial services, agroprocessing, commodity value chain development and private-sector cofinancing. The evaluation recognizes that private-sector entities may also engage in other activities in agriculture and rural development. However, the aim of this analysis was not to be exhaustive, but primarily to see whether projects approved after the strategy were showing better or worse overall performance, as compared to those approved before the strategy.
156. Table 5 below therefore compares the two samples of projects using 18 indicators contained in the project status reports prepared by IFAD Management. Project status reports are normally prepared once a year by CPMs for each project. The evaluation however used only the most recent status report for each project as a basis for analysis, as they would provide a more current reflection of emerging results.
157. Before analysing the results included in table 5, it is worthwhile noting that a greater proportion of projects (44 per cent) approved in 2006-2007 included activities related to private-sector engagement, as compared to projects (32 per cent) approved in 2003-2004. This is in itself a reflection of the fact that greater attention is being devoted to private-sector engagement in recent operations.

Table 5
Comparison of results of projects approved before and after the private-sector strategy

<i>Indicator</i>	<i>Total satisfactory^a 2003-2004</i>	<i>Total satisfactory 2006-2007</i>
1. Acceptable disbursement rate	64.71	66.67
2. Quality of project management	76.47	70.37
3. Performance of M&E	52.94	55.56
4. Coherence between annual work plan and budget and implementation	68.75	62.96
5. Gender focus	76.47	81.48
6. Poverty focus	94.12	85.19
7. Effectiveness of targeting approach	100.00	77.78
8. Innovation and learning	62.50	88.89
9. Institution building (organizations, etc.)	62.50	81.48
10. Empowerment	56.25	85.19
11. Quality of beneficiary participation	94.12	88.89
12. Responsiveness of service providers	58.82	77.78
13. Exit strategy (readiness and quality)	56.25	71.43
14. Potential for scaling up and replication	75.00	84.62
15. Physical/financial assets	80.00	81.48
16. Food security	93.33	74.07
17. Overall implementation progress	70.59	81.48
18. Likelihood of achieving development objectives	64.71	88.89

^a Either moderately satisfactory or better.

158. While interpreting the data in table 5, it is important to recall that all projects in the 2006-2007 cohort are at relatively early stages of implementation, with room for further improvement as implementation further unfolds. Four of the 17 projects covered in the 2003-2004 sample have already closed and the remaining 13 have little implementation time remaining.
159. Table 5 reveals that the emerging results of projects approved in 2006-2007 are better than those approved in 2003-2004, across 12 of the 18 indicators covered by the project status reports, especially in terms of their gender focus, innovation and learning, empowerment, responsiveness of service providers, exit strategy, potential for scaling up, and likelihood of achieving development objectives. The latter is naturally arguably the most important indicator in the project status report, even though it is to be recognized there is room for further improvement in poverty focus, targeting, participation and food security. While the data does not lend itself to unequivocal conclusions, at the very least it is reassuring in the indication it provides that increased private-sector engagement has not been associated with any deterioration in portfolio quality. Finally, in interpreting the results in this section, it is useful to recall that the analysis is based on data from IFAD's self-evaluation system, which though improving, can be strengthened to enhance further the quality and reliability of data generated. Also, improvements cannot be attributed to the private-sector strategy alone, given that projects approved in 2006-2007 would have also benefited from the evolution in IFAD's operating model, in terms of direct supervision and implementation support, strengthened quality enhancement and quality assurance systems, and expanded country presence.
160. In addition, the evaluation team examined results reported in the RIMS, to obtain a complementary view of project performance related to private-sector development. Among all the indicators employed in the various project-level RIMS reports, the evaluation team identified five indicators (see table 6) that can be considered as proxies for private-sector development. Project results against these five indicators were assessed for the period 2007-2009. Based on the ratings generated by PMD

through the RIMS, on the whole, project performance across the five selected RIMS indicators is moderately satisfactory.

Table 6
Selected project results related to private-sector development

<i>Selected RIMS indicator</i>	<i>Number of projects that included this indicator</i>	<i>Report year in RIMS</i>	<i>Average RIMS rating</i>
1. Likelihood of sustainability of enterprises	37	2007-2009	4.05
2. Likelihood of sustainability of marketing groups	23	2008-2009	3.58
3. Effectiveness of creation of employment opportunities	44	2007-2009	4.08
4. Likelihood of sustainability of markets, storage, processing facilities	45	2007-2009	4.01
5. Likelihood of sustainability of improved performance of financial institutions	46	2007-2009	4.17

Note: In line with the RIMS Handbook 2007, the rating scale is from 1 to 6; 1 means highly unsatisfactory effectiveness or very weak likelihood of sustainability and 6 means highly satisfactory effectiveness or very strong likelihood of sustainability.

C. Good practices from IFAD-supported operations

161. As agreed with Management at the outset of the evaluation, the country work focused mainly on generating lessons learned and documenting good and less good practices in promoting private-sector development in IFAD-supported country programmes. The case studies also enabled the evaluators to validate the findings and hypotheses from the evaluation's first building block, namely the strategy review and portfolio scan. The rationale for framing the country case studies accordingly was based on the fact that it would not have been possible to conduct a rigorous results and impact assessment, given that the investment projects and related activities funded by IFAD following the adoption of the strategy would have only been under implementation for a short period of time when this evaluation was undertaken in 2010.
162. In consultation with PMD, one country was selected for a visit in each geographic region covered by IFAD operations. The five countries selected were: Albania, Ghana, Guatemala, Sri Lanka and Uganda. In order to expand the analytic basis of the country case studies, desk reviews were carried out in two additional countries (Pakistan and Peru), where a number of evaluations by IOE were already available. At the country level, in addition to visiting IFAD-funded projects, the evaluation teams interviewed a range of stakeholders, including representatives of governments, private-sector entities, beneficiaries, NGO/civil society and others. A country working paper was produced for each of the seven country case studies, following a standard template. While in principle the findings of the country case studies are quantifiable, in practice – since they did not constitute a random selection and were deliberately geared to countries where IFAD had significant private-sector operations on the ground and where these were judged to have been broadly successful – quantification would not provide useful information for the evaluation.
163. A standard approach was used for each country case study. The starting point was to review the COSOPs for each country produced before and after the private-sector strategy, to assess attention to private-sector development as well as determine the extent to which the main objective and three broad lines of action from the strategy are reflected therein. If there was no COSOP developed for the country after the adoption of the strategy,⁴⁴ the case study attempted to impute the

⁴⁴ At the time of the evaluation, Ghana (2006), Guatemala (2008), Pakistan (2009) and Peru (2009) each had new COSOPs developed after the 2005 private-sector strategy was approved. The COSOPs for Albania, Sri Lanka and Uganda predated the strategy, and so far no COSOP has been produced after 2005 in these countries.

approach to private-sector development on the basis of the projects designed and non-lending activities undertaken following the strategy.

164. In each country, the evaluation team reviewed and visited three IFAD-funded projects, two designed after the private-sector strategy and one before. This was to allow the evaluators to review the evolution in the treatment of private-sector development in IFAD investment operations. A total of 21 projects were studied in the country case studies. More than half the projects reviewed were approved between 2006 and 2010. Seventeen projects are ongoing and only four are closed. Each case study also examined IFAD's non-lending activities (knowledge management, policy dialogue and partnership building) and their emphasis on private-sector development. The list of projects and COSOPs reviewed in all seven countries is found in appendix 3. The analytic framework that was used for the country studies was described in chapter II, section D.
165. This section looks at the evidence that the country studies provided on the effectiveness of IFAD's private-sector engagement. It is organized according to the three broad lines of action contained in the strategy: policy dialogue, investment operations and partnerships.
166. **Policy dialogue.** Only in one of the countries studied was the COSOP used as a framework for developing a comprehensive view of the rural private sector and promoting a dialogue between the government and civil society on the steps needed. This was the Peru COSOP of 2002, which in fact predated the private-sector strategy. Based on experience from earlier projects, the Peru COSOP understood that most rural households had a pool of assets at their disposal, including natural resources, homes, farms and enterprises, each of which with the proper development and maintenance could generate income and enhance family balance sheets. The COSOP recognized farmers as entrepreneurs and not just producers of agricultural products and, consistent with an asset development focus, the commensurate need for enterprise development and financial services.
167. For the other countries studied, policy dialogue was mainly carried out at the project level. There were a number of instances of effective support, which are discussed in the next section on investment operations. But, in some cases, even in areas of fundamental significance for project results, e.g. finance for small enterprises in Albania and land tenure issues in Sri Lanka, these were not taken up at the project level. In Uganda, IFAD's low profile beyond the oilseeds subsector and limited policy dialogue was noted to the IOE mission by other donors. The 2008 Guatemala COSOP identifies policy dialogue as one of the three strategic areas to be addressed, though the focus is on supporting pro-poor policies and development planning rather than specifically private-sector development.
168. In sum, the case studies generally confirmed the evaluation's finding that policy analysis and dialogue on private-sector development is not given sufficient attention in IFAD-funded country programmes.
169. **Investment operations.** There is evidence from the country case studies that IFAD-supported investment operations directly and indirectly stimulated interest in the potential role of agribusiness development as an instrument for raising rural incomes.
170. The IFAD-funded projects covered in the country case studies were also assessed according to the seven categories contained in table 1: attention to raising productivity, establishing market linkages, promoting non-farm enterprises, contribution to favourable policies, institutions and regulations regarding private-sector engagement, building social capital, development of physical infrastructure, and promoting greater access to rural finance. The findings from the country studies in each of these categories are presented below.
171. **Raising productivity through private service provision.** The participation of small farmers in the value chain is not just a matter of finding new marketing

channels for their current outputs. Most IFAD value chain projects include mechanisms to increase the quality and quantity of output. In a number of countries, projects brokered links with large or medium-scale processors who supplied improved varieties of seeds or rootstocks to farmers, financed out of the IFAD loan proceeds. In Albania, the government extension services were able to provide technical support to farmers, but in most other cases there was a need to go beyond this. In Ghana, projects relied on private technical service providers and in Peru a highly innovative approach was developed using farmer-to-farmer technical support. The anecdotal evidence suggests significant improvements in productivity. Farmers in Sri Lanka, for example, gave estimates of from 15 to 50 per cent increases in income, mainly as a consequence of higher quality and marketability of their output using the improved rootstocks and hybrid seeds made available through the project. The Dominican Republic project increased incomes of at least 60 per cent as a result of increased smallholder productivity.

172. **Promoting value chains for improved market linkages.** Almost all the investment operations studied had promising interventions to support the value chain. The exception is Pakistan, where IFAD-funded projects follow the traditional approach. The projects visited took a number of forms and it is evident that CPMs are experimenting with new and innovative approaches that could be very promising. The Sri Lanka National Agribusiness Development Project represents a logical evolution of this approach by providing a mechanism whereby IFAD, through the government, can actually support smallholders to acquire a financial stake in the processing company to which they are supplying their produce. This is especially important since it creates a commitment on the part of smallholders to fulfil their contractual obligations to the processing company. Another variant is to work with a social entrepreneur, as was done in the case of AGEXPORT in Guatemala, where the company not only links communities with private companies, but also intervenes with the government to try to ensure the availability of the infrastructure and ancillary services needed. The evidence suggests that IFAD's expansion in the number of value chain projects is at least in part because this is what the rural poor demand and see as an avenue out of poverty. In particular it can free smallholders from their dependence on a single marketing channel – the truck owner who comes to the village and provides instant cash for purchases at very low prices. It introduces new products and links producers with new markets.
173. **Non-farm enterprise development.** In most of the countries covered, a uniform approach was adopted to both on-farm enterprises supported through the value chain and non-farm enterprises. While this approach was effective in terms of supporting access to finance and business training, it sometimes meant that there was not the same kind of focus on market linkages for non-farm products as in the case of agribusiness. The lack of a critical mass of activities in a particular subsector sometimes meant that small producers had to struggle to get the technical support and market information needed. The Ghanaian rural enterprise project was probably the most striking example of support for non-farm enterprises through the network of business advisory centres and rural technology facilities developed. The key here is to support the development of non-farm enterprises that go beyond the "sewing machine" culture that characterizes non-farm enterprise development in the integrated rural development model, where small producers serve the local market and often simply compete business away from other small producers. In Sri Lanka there were some promising activities of this kind, such as shoe production and mushroom cultivation. In Albania, IFAD-supported projects were supporting ecotourism in the mountain regions, and in Uganda, IFAD's support for access roads led to tourism development on Bugala Island in Lake Victoria. Overall, however, the country case studies suggest that IFAD needs to focus more carefully on the potentials and needs of non-farm enterprise.
174. **Policy, legal, regulatory and institutional reform.** As opposed to the mixed picture on policy dialogue at the national level discussed above, IFAD is much more

active in policy dialogue at the investment project level. While this plays a useful role, the essentially opportunistic nature of project-related dialogue means that IFAD does not take a coherent approach to the broad challenge of the supporting framework for private-sector development. The Pakistan desk study found for example that “the shortcomings of the programme are less a matter of the individual projects than of the programme as the sum of its parts. It does not reflect a coherent analysis of the constraints to rural private sector development in Pakistan and an effort to overcome these. In particular the enabling environment for rural private-sector development has not been adequately addressed.”

175. The evidence does suggest however, that private-sector development issues are taken up in the context of related projects. In most of the countries visited, project management units have themselves become part of the institutional framework and can be quite strong and effective lobbyists for private-sector development. In Ghana, the project management units have become advocates for a more favourable enabling environment for the private sector and the projects have contributed to setting up SME subcommittees within district assemblies. In Albania, the Mountain Areas Development Authority has been lobbying parliament and local authorities to provide incentives for private investment in the mountain areas. In Uganda, IFAD has helped set up an Oilseeds Platform as an advocacy group that can lobby for better conditions for the subsector. By contrast, there are many other issues that seem equally relevant that are not being taken up. In Sri Lanka, for example, issues of land registration and finance are the focus of almost every project-level discussion, but are not being raised to the national level.
176. **Social capital formation.** Without exception, in every country visited, IFAD is playing a major role in supporting the development of farmer and producer organizations and in providing training in business-related skills including management, marketing, basic accounting and preparation of business plans. The training is targeted to ensure at least proportional representation of women. IFAD is making an important contribution in developing the capacity of private service providers that supply these training services in most of the countries visited. The seven 2009 flagship projects (see box 1) are characterized by major capacity-building activities with a strong emphasis on gender balance in the provision of training.
177. **Physical infrastructure.** Support for market access through rural road construction featured in three of the case studies. With the heavy emphasis of the World Bank and the regional development banks on supporting rural infrastructure, the case for IFAD to intervene is not particularly strong. Nevertheless, a component of physical infrastructure support is often a useful means of buying the cooperation of both central and local governments, and in Guatemala, Pakistan and Uganda the inclusion in projects of carefully selected and designed infrastructure has proved critical to market access. Another important area is providing market and price information, which among the countries studied was only done in Peru. This is an area where IFAD could play a larger role, particularly with regard to the increased possibility of information and telecommunications technologies to provide market information.
178. **Rural finance.** IFAD often faces a dilemma in the rural finance components of projects that pay due attention to private-sector development (see box 2). If the CPM wants to be sure that funds will be available to support small farmers or entrepreneurs to participate in the value chain, it is generally necessary to design a captive institution or facility that will provide these funds. Thus, in some countries, institutions implementing projects are provided with funding and can channel resources directly to project beneficiaries. The trade-off has been that the overall financial system has been slow to develop approaches to support smallholders and there are a variety of ad hoc schemes in place to deal with this. By contrast, in other countries funds are not provided for direct support of investments by small entrepreneurs. The project finances service providers who train and assist farmers

in approaching commercial banks to obtain finance. The experience in a number of countries has been that only a small proportion of the loans applied for have been provided. This is a significant dilemma for the project management unit since the project has no control over the flow of financial support on which the project depends for meeting its objectives. In Kenya, which was not included in the seven country case studies, IFAD is providing around US\$2.5 million to Equity Bank (a private entity) to use as security for smallholders to borrow directly from the bank. This has resulted in a rapid uptake of small loans from the bank and served as an incentive for other commercial banks to expand their outreach to rural areas. In any case IFAD needs to revisit its approach to rural finance as part of the new thinking on its private-sector strategy.

Box 2

IFAD's rural finance dilemma

Most IFAD projects depend critically on access to finance of small farmers and businessmen as the key enabler to allow them to purchase the seeds, raw materials, commercial structures and equipment needed to implement their business plans. In principle IFAD would prefer that these funds be provided through the regular programmes of financial institutions such as commercial banks and microfinance institutions, that can assess the returns and risks associated with financing the business plans and manage the financial flows. The dilemma is that in many countries, financial institutions are not willing to provide such financing or only willing to do so at very high interest rates, due to the transaction costs and risks associated with serving small producers. In these circumstances CPMs often decide that the only way to proceed is to channel IFAD funds directly to project beneficiaries through some sort of special facility or through the PMU rather than take the risk that the project will not succeed because small producers cannot get loans. However, these special mechanisms may distort the overall credit framework, and governments and central banks often resist them.

- In Albania IFAD set up a specialized credit institution (the Mountain Areas Financing Facility) to serve its project areas in 1998. Over the years IFAD has been uncertain whether to continue with this or to rely on commercial banks to finance project beneficiaries. In the latest twist IFAD is proposing a new refinancing facility that would be available to both MAFF (now called FAF) and the commercial banks and reduce even further their risks in lending to small borrowers.
- In Sri Lanka, by contrast, IFAD has elected to work with the commercial banks. The mission participated in a meeting of the market and enterprise managers of the project units of the Dry Zone Livelihoods Support and Partnership Programme (DZLSPP), where they complained bitterly to the government about the failure of the commercial banks to support the business plans prepared by project beneficiaries. (The project provides training and assistance in preparing business plans to small producers through private service providers.)

The supply curve for rural credit is largely determined by the availability of collateral for the banks. Rural commercial lenders are unwilling to lend without substantial collateral, up to 150 per cent in some countries. The demand curve is a function of price. Few rural commercial ventures yield rates of return above 20 per cent in real terms, yet commercial interest rates are often well above those levels, especially those charged by for-profit microfinance institutions. There are good reasons to argue that there is a systemic market failure here in the high risks perceived by commercial lenders for viable small investments and working capital needs of rural entrepreneurs. There are grounds for intervening on both the supply and demand side to increase the level of rural lending. Interventions may include guarantees and refinancing schemes that reduce the amount of collateral banks will require, and subsidization of transaction costs in order to lower interest rates for approved investments and working capital. IFAD needs to work with governments to develop generalized schemes of this kind for small farmers and small businessmen based on realistic assessments of transaction costs and risks, and to put these in place in a systemic and non-distorting fashion. Yes, there will be some leakage, but this is still preferable to the unsustainable approach of channelling funding directly through project authorities. A very promising new development that IFAD needs to take on board is to promote a full-service relationship between commercial banks and the rural poor. In this model the relationship with the banks begins through savings deposits and allows the bank a view of the overall financial situation of the potential borrower that increases confidence and reduces risks. In addition IFAD needs to bring the bankers into the room when it prepares and discusses its projects. They need to see themselves as part of the constituency that is supporting the development of smallholders. As the experience of lending institutions in Bangladesh and other countries has shown, lending to smallholders can be good business with high rates of loan recovery.

179. **Partnerships.** Although the initial reference to partnership in the private-sector strategy refers to both financial and knowledge partnerships, the subsequent discussion refers almost entirely to financing. Arguably, the potential benefits of more financial partnerships have been exaggerated and in some cases may not outweigh the substantial transaction costs of entering into such partnerships. Far

more important is the potential for effective knowledge partnerships in which IFAD and the private sector share their experience for mutual benefit. In India, the partnership with the Tata Trust discussed earlier, began as a source of additional financing for the programme. As the programme has moved along, IFAD has found itself relying more and more heavily on the kind of marketing expertise and technical knowledge that Tata possesses as a major contribution to the effectiveness of the programme. Financing is not indispensable to partnerships of this kind, and its role is often simply to lock in the benefits of the knowledge partnership. At the concept stage of its operations, IFAD should require a consideration of knowledge partnerships that would add value to the operation and build these partnerships into its programme development model.

180. At the same time, the emphasis placed by the strategy on partnerships is well-founded. It is perhaps not so much that the private-sector development model requires stronger partnering than the traditional model, but more the very different nature of the partnerships. The traditional integrated rural development model required strong partnerships with local governments and NGOs; the private-sector development model requires partnerships at all levels and with a very wide set of actors. It requires IFAD to partner much more at the global and regional levels so as to tap into some of the innovative approaches that are being developed. An example of this is given in box 3 below. It also requires partnerships at the national level, such as with AGEXPORT in Guatemala, to allow IFAD-supported programmes to benefit from the expertise of such agencies and to share with them the burden of ensuring that the programmes supported, and the private companies with which the programmes engage, are socially responsible. As IFAD is drawn more deeply into the value chain and private-sector development, the issue of corporate social responsibility will take on a higher profile in the organization. IFAD needs to consider creating a focal point within the institution on this issue. It cannot afford a situation where it is held responsible for unsound environmental, resettlement or employment practices of private companies it partners with.

Box 3

Partnering at the regional level

AGRA is an African-led partnership working across the African continent to help small-scale farmers to lift themselves out of poverty and hunger. AGRA's programmes aim at developing practical solutions to significantly boost farm productivity and incomes for the poor while safeguarding the environment. The Alliance advocates for policies that support its work across all key aspects of the agricultural value chain – seeds, soil health, water, innovative financing, market access and agricultural education.

In 2008 a memorandum of understanding was signed by AGRA, FAO, IFAD and WFP at the FAO High-Level Conference on World Food Security, to link local food production to food needs, and work across Africa's major agricultural growing areas, or agro-ecological zones, to create opportunities for small farmers.

Since 2009 IFAD has worked with the Government of Mozambique and AGRA on the Rural Markets Promotions Programme (PROMER) in Mozambique. IFAD and the Government initiated the US\$40.6 million programme, and AGRA has so far contributed US\$2.5 million. IFAD is also working with AGRA through its grant programme. Since January 2009 IFAD has funded three AGRA associate grants for a total of US\$500,000.

For instance, IFAD funded a grant to the African Enterprise Challenge Fund (AECF), which is a private-sector fund hosted by AGRA - but is a separate entity. The AECF finances agribusinesses and other private companies in Africa through competitive matching grants and loans. The objective of IFAD support to AECF is to increase smallholder participant income through improved commercial linkages between smallholder farmers and commercial business. IFAD has recently given a US\$1.5 million grant to AECF, following its new grant policy which allows it to extend grants to the private sector.

D. Conclusions on the effectiveness of IFAD's engagement with the private sector

181. While the country case studies do not represent a random sample of IFAD-supported country programmes, a number of qualitative generalizations can be made that emerged fairly clearly from them.
182. Government commitment to and support for rural private-sector development is key to IFAD's ability to support the design of effective investment operations in this area. While this may seem obvious, it bears restating. There are still a large number of governments that for a variety of reasons do not wish IFAD resources to be used to support private-sector development. In some cases, the opposition to this is ideological. In other cases, such as Pakistan, it is more a question of the government wishing to channel resources to public-sector activities. In other cases, governments are concerned of potential political fall-out from being seen to favour particular private companies. Given the growing awareness within IFAD of the potential role of the private sector as a powerful instrument for rural poverty reduction, the Fund must challenge these governments to demonstrate a clear commitment to the rural poor. The central role of governments in promoting private-public partnership is also recognized in the 2011 report of the Evaluation Cooperation Group on Evaluative Lessons for Agriculture and Agribusiness, which states that "... a prerequisite for promoting public-private partnership is for governments to provide a policy environment that will induce private sector participation. Unless this condition is present, generating interest from the private sector is futile."
183. IFAD has played only a limited role in encouraging policy dialogue on private-sector engagement in rural poverty reduction at the country level. An increased role for the private sector in an area that has been largely in the public-sector domain is difficult for many governments to accept. Ministries of agriculture are not happy to be told that their extension and research activities are ineffective and need to be supplemented by demand-driven approaches and NGO-facilitated farmers' organizations. Governments are reluctant to steer resources towards enabling poor people to provide an assured and higher quality supply to a private operator whose profits will increase as a consequence, even if the poor stand to gain through higher prices and assured markets. Policy dialogue can help to create more openness to these approaches. This does not mean a dialogue between IFAD and the government, but rather a dialogue within the country among stakeholders. The COSOP should be used much more actively for this purpose. Only in a few cases among the countries studied did it provide a cogent analysis of the constraints to rural private-sector development, and the ways in which the poor could increase their share in the value chain. IFAD's primary mechanism for dialogue remains the lending programme, particularly issues around the choice of projects to support and how to design them. It could do much more by using its non-lending activities to promote dialogue.
184. Even where governments are reluctant for IFAD to partner with the private sector in support of rural poverty reduction, a well-chosen strategy can create openness to new approaches. IFAD's experience in Sri Lanka is a model of how a well-crafted set of investments have been instrumental in this regard. The Sri Lankan Government has had and continues to have a very ambivalent approach to private-sector development, but recognized the potential impact of projects like the National Agribusiness Development Programme both on the production of exportable products and import substitutes, and more importantly on the rural smallholder. The predecessor projects in Sri Lanka included components designed to increase the comfort levels of the concerned ministries with partnerships of this kind and have helped to create a more favourable environment for a national dialogue on the role of private agribusiness in the value chain.
185. Knowledge sharing is an essential adjunct of the policy dialogue and an area where performance has been uneven. There are examples of effective knowledge sharing.

In Albania, IFAD has supported an institution, Mountain Areas Development Agency, whose primary objective is knowledge creation and sharing, and this is working well, but such institutions are unlikely to be sustainable without continuing support and require a long-term commitment of the kind that IFAD has provided in Albania since 1998 when the institution was created. In Ghana, IFAD has used the project management units located in different government departments as a basis for knowledge sharing among ministries. By contrast, in Sri Lanka, where the same approach has been followed, the ministries have had thus far little interest in sharing approaches across projects, and not enough has been done to foster exchanges among project officers. Replication and scaling up of innovative approaches will require a much greater focus on effective knowledge sharing than was evident in most of the country case studies. Peru is an example of good practice here. Project managers are considered facilitators as opposed to executing agents, and each project has devoted considerable attention to knowledge generation and sharing. Most importantly, the projects employ "talking maps" which help to identify household and community cultural, economic and environmental resources. This supports family and community visioning of future development. Also key has been the facilitation of knowledge among beneficiaries both through and by technical assistance providers (as in farmer-to-farmer exchanges). Over the years, the Peru country programme has formalized knowledge in videos capturing local knowledge, has funded many knowledge projects and events (such as local heritage events) and has supported a variety of academic studies.

186. Very little use has been made of the grant programme in supporting private-sector development. In the seven countries reviewed, there are almost no grants that contribute to private-sector development. In Sri Lanka, IFAD provided a fairly substantial grant to a microfinance institution. The completion report of the grant suggests that this was an effective use of funds and that it greatly strengthened the capacity of the institution. Yet there is no link between this grant and any other IFAD-funded activities in Sri Lanka. The lack of synergies between IFAD investment operations and grant-funded activities is a recurrent finding contained in many other evaluations done by IOE. The grant programme could also be used to underpin policy dialogue and promote knowledge sharing activities related to private-sector development.
187. Where effective partnerships have been established with the private sector, they have contributed to corporate social responsibility and commitment to rural poverty reduction by the private sector. Closer collaboration with the private sector requires that IFAD choose partners that are willing to provide fair prices for supply contracts with the rural poor, and operate in an environmentally responsible manner. In a number of countries (Albania, Ghana, Sri Lanka and Uganda), formal or informal partnerships with private entities have been important in contributing to these outcomes. But in Pakistan, for example, there has been limited contact with private entities. There has not been enough collaboration between the government and the private sector to identify solutions to rural agriculture development opportunities and challenges.
188. The country case studies suggest the need for IFAD to use all its instruments (and not just investment operations) more effectively for promoting private-sector development in borrowing countries. The assertion that IFAD is a project-driven institution and that it deals with policy dialogue, knowledge sharing and partnerships through the projects it finances is the usual response to the arguments put forward above. This was perhaps relevant in the days of "little IFAD" with relatively small programmes, no country presence and reliance on cooperating institutions for project supervision. It is much less plausible at a time when IFAD is often the leading multilateral institution working at the retail level among the rural poor, and when the need to scale up the programme is increasingly central to its approach. The country case studies suggest that even among the success stories, IFAD has not yet made this transition.

189. **Sustainability.** In the longer term, despite the potentially high returns to effective private-sector development, this remains an area of very high risk. IFAD will need to internalize much more effective risk analysis, prevention and management practices going forward, now that it has effectively mainstreamed private-sector development in its operations. Since most of the investment operations that support private-sector development are relatively new, some of the key sustainability issues on which IFAD needs to focus are only beginning to emerge. This is an area where IFAD can benefit from an understanding of the risk management approaches adopted by other institutions, but IFAD's special mandate and focus will require the development of appropriate guidelines, training and procedures. The risks include the following:
- As more and more farmers enter the market, they become increasingly dependent on price levels and vulnerable to price movements. The risk is that during a bad year, small farmers may decide to revert to subsistence staples to ensure their families' survival. IFAD needs to explore mechanisms to help families through periodic market downturns. It needs to build these concerns into the training programmes it supports and discuss with private partners how best to handle them. It is after all equally in the interests of the processors that supply does not dry up the year after a price decline.
 - An important risk in the value chain approach is that the two parties may not keep their side of the contract – the processor may shift to cheaper sources of supply than the contracted price, and the farmers may respond to better price offers and not supply the processor at the agreed price. Again, this needs to be factored into training and contracts. Both parties need to see this as a partnership with gains and losses equally shared.
 - Another risk to the sustainability of these arrangements lies in the unequal market power of the two participants in the value chain. Even with the creation of producers' associations, small farmers are unlikely to be able to resist the pressures from a predatory intermediary, and may be forced to continue to supply at uneconomic prices. This is an area where links with fair trade NGOs could be particularly important in ensuring that prices continue to be fair and economic.
 - Many of these activities require initial subsidies to get off the ground. Small farmers will rarely use private service providers for extension services if there is a possibility of getting these services free from the public sector or getting subsidies to pay for them. Similarly, lines of credit channelled through special facilities may require subsidies to ensure that farmers and producers undertake the investments needed to implement the project. The project may not be sustainable once the subsidy is removed. This is of course also a risk for the sustainability of income-generating activities in projects using the traditional model.
 - Perhaps most important of all are the risks that relate to corporate social responsibility and the need for IFAD to put in place principles of engagement for dealing with issues such as environmental impact, working conditions and gender equality. IFAD is extremely vulnerable to perceptions in the international community that projects it supports may have negative environmental or social consequences, and a due diligence framework is needed to minimize these risks.
190. **Innovation.** The speed with which IFAD's CPMs have picked up on the shift among IFIs and aid agencies towards placing market linkages at the forefront of their operational approach to rural development is in itself evidence of considerable innovation within the institution. Clearly, the private-sector strategy did not anticipate that IFAD-funded investment operations would evolve so rapidly in this direction. In some areas, IFAD is now arguably the market leader. The comparator analysis of other institutions reported on in chapter VII suggests that IFAD has as

much to teach as to learn. The Sri Lanka National Agribusiness Development Programme is a project that could well trigger the development of a wholesaling approach to contracting. This project works through initiatives undertaken in partnership with medium and large-scale enterprises that invest in processing plants and contract with poor smallholders to provide raw materials. The project provides 49 percent of the investment in the form of a minority shareholding held initially by the project authority and gradually paid off out of the earnings of participating farmers, who then become minority owners. This may solve a major problem with the approach, which is that it requires a very substantial staff input on the part of the donor agency.

191. IFAD's own experience with the Uganda Vegetable Oil Development Project testifies to this. The particular variant of the demand-driven approach to extension that is being adopted in Peru is another example of an innovation that could point the way to a new generation of projects in an area that has proven particularly troublesome for most governments and aid agencies. Where innovation falls short of satisfactory, however, is in relation to technology. IFAD is not exploiting in its projects the capacities of the rapid expansion in rural areas of mobile phones and information and communication technologies in such areas as banking and market information. It needs to focus much more attention on these areas in future.
192. **Scaling up.** This may prove to be one of the strengths of the new model. There is already evidence on the ground that smallholders seeing the impact of participation in the value chain by their neighbours are becoming interested in participating themselves. Similarly private businesses are beginning to see this as a win-win situation that can both positively impact the bottom line and also help to solidify their reputation as responsible citizens with an interest in rural poverty reduction. As explained above, this is very visible in Sri Lanka where IFAD has formed strong partnerships with a number of medium and large companies to develop value chain programmes in agribusiness.

Key points

- In terms of results, the evaluation finds that projects designed in 2006-2007 provide deeper attention to engagement with the private sector, as compared to projects designed in 2003-2004 (i.e. before the private-sector strategy was adopted in 2005). Likewise, on 12 of the 18 indicators covered, the newer cohort of projects is demonstrating better emerging performance. Results from the RIMS reveal however that project achievements are on the whole moderately satisfactory in key areas related to private-sector development.
- Based on the seven country case studies, with the exception of Pakistan, private-sector development is a core element in the IFAD-financed country programmes. Evidence on the ground suggested substantial support for the value chain approach including access to markets.
- The role of governments in providing an enabling policy and institutional environment is critical for IFAD to effectively promote private-sector development at the country level.
- Rural finance emerged as a problematic area with a dilemma - whether to provide direct financial support to small farmers through the project unit or to work through the commercial lending framework, which could mean that potential project beneficiaries would not have access to finance.
- IFAD's non-lending services – policy dialogue, knowledge sharing, partnerships and use of its grant programme to support these – emerged as relatively weaker elements of the country programmes that could benefit from greater management focus. This is consistent with the results reported in chapter IV.

VI. Implementing the strategy: Review of adaptations to key corporate business processes

193. The third building block of the evaluation – review of key corporate business processes in support of private-sector engagement – is fundamental, as it contributes to a better understanding of underlying causes for good or less good results achieved on the ground. It is also important to determine whether the necessary adjustments were made to corporate business processes by IFAD Management to ensure effective implementation of the strategy. The examination of selected corporate business processes in this evaluation is consistent with the recommendation of the Peer Review of IFAD's Office of Evaluation and Evaluation Function for IOE to become increasingly involved in the assessment of IFAD's corporate business processes. In fact, the three other recently concluded corporate-level evaluations by IOE in the past couple of years also included a review of selected corporate business processes.
194. In particular, the evaluation reviewed the following processes and functions of IFAD for their coherence, interrelationship, and their influence on IFAD's work in the area of private-sector development: management and leadership, human resources management and organizational structure, knowledge management, grants and operational processes (country presence, supervision and implementation support, results measurement, quality enhancement and quality assurance, and IFAD's instruments for partnership with the private sector). In addition to the above, although it cannot be considered a corporate business process, the evaluation takes a look at the role played by IFAD governing bodies in promoting private-sector engagement, especially the Executive Board. The rationale for reviewing the role of the governing bodies is that they are responsible for providing the supporting policy environment and exercising oversight of the strategy's implementation. A similar analysis was done recently in the context of the corporate-level evaluation on gender equality and women's empowerment, which was discussed with the Board at its session in December 2010.

A. Governing bodies

195. In the last 10 years or so, the Fund's governing bodies have played an important role in encouraging IFAD to expand its cooperation with the private sector, to support the rural poor to improve their well-being through sustainable agriculture and rural development.
196. The central and increasing role of the private sector was widely discussed during the Fund's sixth replenishment in 2002. The final report of the sixth replenishment required IFAD Management to take two specific actions: (i) develop "a strategy for achieving greater involvement of private-sector participants in IFAD programmes, through cofinancing and other forms of partnership consistent with IFAD's mission, [to] be provided to the Eightieth Session of the Executive Board in December 2003" (it was eventually approved in April 2005, although it was first presented for approval to the Board in September 2004); and (ii) pursue opportunities for partnerships with private-sector enterprises in the financing of projects more systematically as part of IFAD's cofinancing and partnership strategy objectives.
197. Similarly, during the eighth replenishment of IFAD's resources in 2008, Member States reaffirmed the need for IFAD to strengthen the engagement of the private sector in IFAD-funded operations and, if the need is identified, present a proposal for IFAD's role and instruments relative to engagement with the private sector, fully consistent with IFAD's mandate, to the Executive Board in December 2010.⁴⁵ Member states also supported the undertaking of this evaluation as a basis for IFAD's engagement with the private sector in the future.

⁴⁵ In agreement with the Board, the Management proposal is expected to be presented to the Board in December 2011.

198. The Executive Board has had an important part in promoting greater participation of the private sector in IFAD-supported activities. It discussed the draft private-sector strategy in its session in September 2004. In particular, the Board noted that more work was needed on certain elements of the document and that it would need to be augmented by a results framework whereby planned activities could be monitored and evaluated. The revised document, together with the results framework, was presented and adopted by the Board at its eighty-fourth session in April 2005. The Evaluation Committee has also played a part, by reviewing key evaluation reports and further emphasizing the importance for IFAD to engage with the private sector.
199. However, at the same time, the Board seems to have overlooked that the critical implementation requirements of the private-sector strategy it approved in 2005 had not been put in place by Management – such as aggregate monitoring and reporting arrangements across the indicators contained in the strategy's results framework, or ensuring that the PMD focal point was appointed in a timely manner or that lessons were systematically extracted and shared across the organization.
200. The aforementioned leads to a similar conclusion documented in the recent corporate level evaluation on gender, where the Board was seen to devote deeper attention to discussing the approval of new policies, strategies and operations, as compared to the amount of time spent and resources invested in debating results, lessons learned and failures, which are crucial for future policy, strategy and operations development as well as prioritization of IFAD-funded activities.
201. Another conclusion from this evaluation is that the mechanisms within the Fund for briefing or reminding Board members (especially new ones) of key decisions taken in the past and their consequences (as in the case of the implementation requirements adopted in the framework of the private-sector strategy) are generally weak. Although major decisions are captured in the Board minutes, this remains a particularly important issue that merits attention in the future, especially in light of the relatively rapid turnover of Board representatives.

B. Management and leadership

202. According to the evaluation, in the last decade the role of IFAD Management in promoting private-sector engagement can be broadly distinguished in three specific periods: from the early 2000s to approval of the strategy in April 2005; from approval of the strategy to end-2008; and from 2009 to the present.
203. During the first period, Management recognized the growing role of the rural private sector in developing countries. This coincided with greater democratization, especially in Africa and an increasing shift from command-driven to market-oriented economic policies in many IFAD borrowing countries. The sixth replenishment (2002) was also a turning point, as for the first time Member States forcefully requested IFAD to take a more proactive stance to private-sector engagement. Management responded positively, by introducing the first corporate rural finance policy in 2000, followed by the rural microenterprise policy in 2003, both of which contained important implications for IFAD's engagement with the private sector. This initial period culminated in the development and approval of the Fund's first private-sector strategy in April 2005.
204. The second period, from approval of the strategy to the end of 2008, witnessed significantly diminished attention and space given by Management to furthering engagement with the private sector. The most overwhelming reflection of this is the fact that the private-sector strategy was not adequately rolled out, disseminated or implemented (see table 4 above). No focal point for follow-up on the implementation of the strategy was designated, as per the commitments agreed with the Board. Clearly Management did not view the strategy as being of sufficient priority to ensure that the implementation requirements approved by the Board were met. Part of the explanation may be found in the fact that Management was spending disproportionate time and attention on implementing the Action Plan for

Improving IFAD's Development Effectiveness in 2006-2007, rather than on consolidating earlier key decisions. The recent corporate-level evaluations on innovation and gender came to similar conclusions – underlining the limited Management attention paid to implementation of the important Initiative to Mainstream Innovations approved by the Board in December 2004 and the Gender Plan of Action of April 2003.

205. It is however to be noted that IFAD-financed COSOPs and projects between 2005 and 2008 did increasingly include components on market linkages and participation of private entities. It is obvious that there was growing interest in these approaches. There is little evidence for direct attribution of this to the strategy, but it may have played a useful role in supporting the increasing openness of staff, Management and the Board to private-sector engagement by in effect providing a green light. The increasing interest of Management in private-sector development is evidenced by the proposal for a new facility to support direct lending to the private sector in the 2008 replenishment paper. On the whole, however, until 2009 there was little in IFAD's public pronouncements or institutional positioning to suggest that a growing engagement with the private sector was taking place. In the last couple of years, the rhetoric has finally caught up with the practice on the ground.
206. The third period, from 2009 to date, has seen an ever-increasing articulation of the importance of the rural private sector for sustainable smallholder agriculture and rural development. This is most visibly captured in IFAD's most recent Strategic Framework 2011-2015, which enunciates the President's vision of moving from smallholder subsistence agriculture to smallholder agribusiness, with a prominent role for the private sector. The President has himself championed a greater role for the private sector in the global and regional platforms related to agriculture and economic development. Finally, the approval of the Revised IFAD Policy for Grant Financing in December 2009 is another example, as it opens the door for IFAD to provide direct financing to private-sector entities in developing countries for the first time.

C. Human resources management and organizational structure

207. The private-sector strategy made provision for specific training, preparation of a manual/toolkit, and assignment of a focal point on private-sector development, all of which were aimed towards supporting staff (especially CPMs) in furthering private-sector engagement in IFAD-supported country programmes. However, none of these measures were introduced after the strategy was approved in April 2005.
208. In terms of technical staff working on private-sector issues, in the early 2000s IFAD had a specialist devoted to private-sector development, although this position was cancelled after a few years. The individual was unable to provide the required support to operational staff, partly because the incumbent was located in the then External Affairs Department. Currently, one long-term consultant in the Policy and Technical Advisory Division serves as senior technical adviser on value chains and access to markets, but there is no adviser specifically dealing with private-sector development, which is a thematic area of specialization in its own right. Similarly, in the early 2000s, IFAD had a technical adviser on rural small enterprise development in the Policy and Technical Advisory Division, but the position was discontinued around 2007. IFAD does however at present have three technical advisers on rural financial services and staff specifically working on remittances, who look for ways and means to engage the private sector in their thematic areas of work. Moreover, as this evaluation was being finalized, the person occupying the post of regional economist in the Near East, North Africa and Europe Division was transferred, in April 2011, to the Policy and Technical Advisory Division as Senior Technical Adviser dealing with private-sector development.
209. With regard to CPMs, few have in-depth knowledge or background on private-sector issues. Some have educational qualifications in business administration or experience working in the private sector. This is understandable given the mandate

and operating model of IFAD, which works mainly through governments in developing countries. To the credit of the CPMs, they have been willing and able to support projects including private entities, which often takes them outside their comfort zone. In addition, IFAD is challenged in finding consultants of the requisite experience and seniority to work on private-sector issues given the limits of United Nations consulting fee scales.

210. Unlike other MDBs, IFAD does not have a specific organizational outfit devoted to private-sector development. This can be considered a limitation in furthering IFAD's engagement with the private sector, especially given the emphasis placed by the Strategic Framework 2011-2015 on promoting farming as a business - in which the private sector has a significant role to play. Therefore, the merits of setting up an appropriate form of organizational outfit - within the existing staffing levels available to IFAD - that deals with IFAD's work related to the private sector in a structured and systematic manner is worth serious consideration. To be effective, it would be important for such an outfit to include one or more specialists in private-sector development.
211. In sum, IFAD should develop the capacity to lead in this area. It is uniquely positioned to promote more effective public/private collaboration and partnerships on rural poverty. Leadership will require more staff with first-hand knowledge of and experience with private-sector operations; an appropriate organizational architecture that would take the lead and overall responsibilities for IFAD's work in private-sector development; staff who are better trained in private-sector issues; and dissemination of knowledge and guidance on these topics to staff and consultants.

D. Knowledge sharing and grants

212. **Knowledge sharing.** As one of its implementation requirements, the private-sector strategy underlined the importance of capturing, reporting and sharing lessons learned. It further stated that "... it is crucial to analyse and document what works and what does not in IFAD's approach to private-sector development. IFAD will need to learn from its successes and mistakes. Drawing lessons from ongoing experiences and sharing these within IFAD and with other development partners will allow IFAD to improve its way of working with the private sector.....[and] capturing lessons should be a continuous activity, with stocktaking conducted every few years...".
213. There are some initiatives to share knowledge both at IFAD headquarters and within and across IFAD-financed projects. At headquarters, seminars, knowledge fairs, and brown bag lunch discussions are held periodically on good practice examples of private-sector engagement in the field. There is however little focus on mistakes or learning from failures. To a large extent, knowledge sharing seems to take place largely through informal networks, where CPMs learn of approaches being introduced by colleagues responsible for programme management in other countries and contact them for additional information. In fact, one constraint on knowledge sharing is the absence of a staff rotation policy. Knowledge embedded in a particular country programme or with a particular CPM tends to be locked up in the country or division for a very long time given the lack of timely rotation of staff.
214. The regional implementation workshops, such as the Learning Event on Value Chains and Working with Private Sector organized by the Asia and the Pacific Division in February 2010, offer useful opportunities for sharing experiences and lessons across projects and countries, but these are mostly confined to specific regions. The Latin America and Caribbean Division also organized a two-day workshop on Developing Pro-Poor Business Models with the Private Sector at IFAD headquarters in October 2010 to explore partnership with the private sector with several private entities and experts from the region. In recent times, staff working in different geographic regions have attended regional implementation workshops organized by other divisions, which offer possibilities for cross-fertilization. The

regional electronic networks supported by IFAD also serve as important tools for knowledge sharing. On a related issue, the evaluation however found that IFAD managers and staff are not sufficiently familiar with the private-sector development activities of other institutions and are not making use of some of the innovative approaches now being adopted.

215. At the country level, IFAD has pioneered some good examples of knowledge sharing in recent years. In the case of India, the development of a well-staffed country presence office has enabled a focus on knowledge-sharing activities, with twice-yearly two-day meetings of senior staff from each project to discuss common problems and frequent seminars, visits to other project sites, and periodic learning events and seminars organized by the staff of the country office. In the case of Albania, by using a single agency as the focal point for its activities in the country, IFAD has been able to internalize the knowledge about different approaches. More usually, projects work with different coordinating units and different ministries, and the experience has been mixed. In Ghana, IFAD seems to have been able to increase communication and coordination across the different units involved in its projects. A more uniform approach would follow if IFAD were to clearly assign the mandate and accountability for knowledge sharing within the country to the country presence office.
216. **Grants.** The IFAD grants programme has not been fully exploited as an instrument for knowledge generation. A great deal of important knowledge is not available in-house or in-country. Using the grants programme regionally and globally allows IFAD to buy into knowledge that is being created elsewhere or to promote research designed to create new knowledge that can be used to enhance country programmes. As part of the evaluation, a scan was undertaken of grants in support of private-sector development, mainly at the global and regional level, but with some country examples drawn from past country programme evaluations. It was almost impossible to categorize the grants. Grants at the country level are most often a topping-up of loans as a way of funding technical assistance where governments refuse to borrow for the purpose. Where they are unrelated to lending they tend to be opportunistic, reflecting some good purpose which came to the attention of the CPM. The main purpose of country-level grants should be to fill gaps in knowledge as a basis for policy dialogue and lending; to support South-South knowledge sharing and countries learning from the experience of their peers; and to lay the groundwork for future programmes. The 2009 revised grants policy represents a significant move in this direction, and it needs to be implemented effectively and good practices disseminated widely within the institution. In fact, since the approval of the new policy, IFAD has given grants to Technoserve (an NGO that supports the commercial agribusiness sector), African Enterprise Challenge Fund, AGEXPORT, PhytoTrade, and numerous other organizations that directly support the private sector.
217. All in all, the evaluation concludes that a more systematic approach to knowledge management on private-sector engagement can prove to be very beneficial. However, in order for this to happen, better incentives and an accountability framework for knowledge sharing are needed, and time and resources have to be made available for the purpose. The current lack of a consolidated departmental or corporate agenda for knowledge management on private-sector issues is a constraint that needs to be addressed as well.

E. Internal processes and instruments

218. **Country presence and direct supervision.** The increasing decentralization of IFAD and the expansion of country presence is one of the most important positive developments for enhanced private-sector development and partnerships since the approval of the private-sector strategy. While the objective of country presence is not specifically to support private-sector development, the impact has in fact been disproportionately felt in such projects, which depend to a much greater extent on local knowledge. However, the evaluation notes that there are concerns with

country presence, especially with regard to the seniority of staff in country offices and their experience, knowledge and competencies in terms of private-sector development issues.

219. The move to supervising projects directly has brought similar benefits as CPMs build up contacts with a new set of economic agents and acquire familiarity with the constraints faced by the private sector in being involved in IFAD-funded projects. In Sri Lanka, the supervision mission was able to sit in at a conference at which private service providers were discussing their concerns about the difficulty of securing commercial bank finance for small entrepreneurs with government officials. This information can be factored not just into project management, but also into the broader policy dialogue and country strategy going forward.
220. **Measuring results.** The private-sector strategy stated that the RIMS indicators were to include reporting on IFAD's engagement with the private sector. It also said that IFAD would measure its performance at the aggregate level and that progress would be reported through the then Progress Report on the Project Portfolio (which has since been merged into the RIDE) presented to the Board annually.
221. The private-sector strategy results framework included 16 key performance indicators to be measured and reported on. However, no baseline was available or collected that could have provided an indication of whether performance measured against the key performance indicators was positive or not. The key performance indicators were often framed ambiguously, for example, not simply the number of enterprises established, but also those that were "strengthened" (e.g. "number of rural enterprises established/strengthened"). Only a few key performance indicators had some form of numeric target to be achieved in the period covered by the strategy (2005-2008).
222. Table 7 shows that of the 12 project-level indicators included in the private-sector results framework, seven are not included in the RIMS. However, it is possible to quantify achievements by individually reviewing project documents, which the evaluation has done. Table 3 in chapter IV provided an illustration of how well IFAD is achieving five of the established targets against the 12 project indicators which have been consistently monitored over time. The remaining four (of the 16) indicators in the results framework primarily relate to the COSOPs,⁴⁶ but there is no systematic monitoring system to collect and report on the progress made, even though this data can be compiled by reviewing each of the COSOPs adopted after approval of the strategy.

⁴⁶ These are: (i) COSOPs include strategy to engage in policy dialogue for local private-sector development; (ii) stakeholders in COSOP consultations include private-sector representatives; (iii) where appropriate, policy dialogue to support the local private sector is included as a country programme activity; and (iv) all new COSOPs include partnership possibilities with the private sector.

Table 7

Monitoring the private-sector strategy results framework using RIMS

<i>Results indicators listed in the private sector strategy</i>	<i>Whether the RIMS database includes the results indicators</i>	<i>Actual application of the indicators in individual project RIMS reports</i>
• Households with improvement in household asset ownership index	Yes <i>Third-level (impact) indicator of the RIMS</i>	No third-level indicators applied in current project RIMS reports.
• Number of private-sector jobs generated in rural areas	Yes <i>Second-level (outcome) indicator of RIMS:</i> - Number of jobs generated by small and medium enterprises	Of the 181 projects included in RIMS implemented in part or in full after approval of the strategy, the RIMS reports of two projects include this indicator.
• Flow of local private investment in rural areas	No corresponding indicator in RIMS	
• Number of rural enterprises established/strengthened	Yes <i>Second-level (outcome) indicator of RIMS:</i> - Number of enterprises operating after three years	Of the 181 projects included in RIMS, the RIMS reports of 45 projects include this indicator.
• Percentage of farmers using private advisory services	No corresponding indicator in RIMS	
• Percentage of rural poor accessing private financial services	No corresponding indicator in RIMS	
• Number of functioning marketing, storage and/or processing facilities	Yes <i>Second-level (outcome) indicators of RIMS:</i> -Number of functioning market, storage and processing facilities <i>First-level (output) indicators:</i> - Market, storage and processing facilities constructed and/or rehabilitated	Of the 181 projects included in RIMS, the RIMS reports of 48 projects include this indicator.
• 20-25 per cent of all new IFAD projects strengthen the business capacities and skills of targeted rural poor or their organizations (e.g. farmers' associations, savings and credit associations, and water users' associations)	Yes <i>First-level (output) indicators of RIMS:</i> - People trained in post-production, processing and marketing	Of the 181 projects included in RIMS, the RIMS reports of 62 projects contain this indicator.
• In new projects with a component for agricultural production and related advisory services, 25–50 per cent of such services would be delivered by private providers	No corresponding indicator in RIMS, even though this data can be obtained by reviewing project design documents	
• In new projects with a rural financial service component, 50-75 per cent of the RFIs supported, strengthened or scaled up will be private institutions	No corresponding indicator in RIMS, even though this data can be obtained by reviewing project design documents	
• 20-25 per cent of all projects will link small farmers with private markets or intermediaries (including contract farming initiatives) or will support the development of small and medium enterprises	No corresponding indicator in RIMS, even though this data can be obtained by reviewing project design documents	
• At least 15 per cent of IFAD projects will cofinance with or generate complementary investments from the private sector	No corresponding indicator in RIMS, even though this data can be obtained by reviewing project design documents	

223. It is left to the CPM to decide which key performance indicator from the private-sector strategy will be included in the RIMS of IFAD-financed projects. This has led to a situation – seen in the above table – that RIMS only collects systematically data across 5 of the 12 project specific key performance indicators. And, that too, in a fairly limited number of projects that apply the RIMS (see table 7). It is evident that RIMS has not been effectively used in monitoring the implementation and

results of the strategy. This is in part due to lack of oversight and performance management by managers within PMD. This is a missed opportunity, as the data could have been collected relatively easily within the RIMS context.

224. As mentioned earlier, the private-sector strategy required reporting at the aggregate (corporate) level on the achievements against the 16 key performance indicators in its results framework. The annual Portfolio Performance Report⁴⁷ submitted to the Board in April 2006 and December 2006 provided a useful account of the implementation of the strategy, including efforts being made to achieve results against the key performance indicators. The Portfolio Performance Report was merged into the RIDE, which has been presented to the Board annually since December 2007. None of the editions of the RIDE (or any other document since then) has included a consolidated analysis and reporting at the aggregate level on the achievements against the 16 key performance indicators in the results framework of the private-sector strategy.
225. **Quality enhancement (QE) and quality assurance (QA).** The private-sector strategy has worked its way into IFAD's internal QE and QA systems through the evolution of IFAD operations on the ground, and the growing emphasis on market access, rural finance services, and off-farm employment and enterprises. These aspects have also been incorporated in related internal operational guidelines, such as the Guidelines for Quality Enhancement (2007) and Guidelines for Quality Assurance Function and Process (2007). However, the notion of partnering with the private sector, and broader support for private-sector development, have not as yet been embedded in these operational guidelines. Although there is a passing reference to the strategy in the Guidelines for Quality Enhancement, these internal guidelines do little to ensure compliance with the strategy. For example, there is no explicit reference to private-sector engagement in the six key success factors in the maturity assessment template for assessing new COSOPs. However, the annual report on QA of IFAD-funded projects and programmes presented to the Board in December 2010 included a section on thematic areas needing improvement in design. This report notes that 7 per cent of the 36 projects exposed to QA in 2010 will need close attention in the treatment of the private sector, as compared to 5 per cent of all projects reviewed between 2008 and 2010.
226. **IFAD's instruments for promoting private-sector engagement.** IFAD has a number of instruments for promoting private-sector engagement, in one way or another. These include loans for development projects, grants, policy dialogue, knowledge management and partnership. Unlike other MDBs, IFAD is however only allowed to provide loans to Member State governments (sovereign lending) and not directly to the private sector, even though the latter may participate in activities related to loan-funded IFAD-supported projects.
227. IFAD was also not allowed to provide grants directly to private-sector entities until the approval by the Board of the revised grants policy in December 2009. IFAD grants may now be provided directly to private entities, insofar as the activities funded contribute to improving the lives of the rural poor. These grants may be provided for services that private entities can provide to the rural poor (training of private company employees to extend services or outreach to rural poor clients, market and business research for developing new financial products targeted to the rural poor, etc.). Grants may not be provided for equity or capitalization of private entities, or to finance long-term operating costs or activities that would have been covered by the company in the absence of the grant. This new grant window should therefore allow IFAD to broker the kinds of contacts between the medium and large-scale private sector and small farmers that are indispensable to the development of value chain programmes.
228. This is indeed an important evolution in one of IFAD's core instruments for rural poverty reduction. However it is to be noted that IFAD's overall grants window is a

⁴⁷ Previously known as the Progress Report on the Project Portfolio.

relatively minor component of its annual programme of work, so the amount of resources IFAD can provide directly for private-sector engagement is quite small. Moreover, as mentioned in the previous paragraph, the grants window does not allow IFAD to finance selected key activities that would enable greater private-sector development and engagement in developing countries.

229. Another important instrument at the disposal of IFAD for private-sector development for rural poverty reduction is policy dialogue. Through policy dialogue, for example with governments and other development partners, the Fund can contribute to creating a more favorable policy, regulatory and institutional environment, globally, regionally and in borrowing countries, for the participation of the private sector in agriculture and rural development activities. However, the evaluation concludes that IFAD's policy dialogue capabilities at the country level are often constrained by a number of factors. These include, inter alia, limited time and resource allocation, as well as insufficient skills and competencies of CPMs who are required to lead the policy dialogue efforts. There are therefore ample opportunities to use policy dialogue more effectively as a central instrument for ensuring a wider engagement of the private sector in rural poverty reduction efforts in borrowing countries.
230. Strategic partnership is an additional instrument that can be used to advance IFAD's private-sector agenda. This could include the development of a formal cooperative programme with an institution such as IFC, which is able to provide direct lending to the medium and large-scale private sector, and where IFAD's expertise in working with farmer organizations could provide a useful complement. Knowledge management as another instrument was discussed earlier in this chapter. However, in both areas, the evaluation's general finding is that the Fund has not sufficiently leveraged these instruments (policy dialogue, partnerships and knowledge management) to further its work in private-sector development in support of its mandate to reduce rural poverty.
231. With regard to IFAD's current lending activities, the examples of refinancing facilities⁴⁸ in Eastern Europe and other countries suggest that CPMs are becoming increasingly skilled in finding indirect ways to finance the private sector within the context of IFAD-supported country programmes. In Albania, Armenia and Moldova, refinance facilities are supporting loans to SMEs, which can establish value chains with smallholders and hire the rural unemployed. The Sri Lanka National Agribusiness Development Programme is providing finance to allow smallholders to take equity participations in investments where the majority partner is a medium or large-scale private processing or marketing firm.
232. However, in spite of examples of working with the private sector in the context of loan-funded projects with sovereign guarantees, a number of people interviewed by the evaluation team highlighted that the Fund is not able to attract sufficient participation by private entities on a systematic basis in its agriculture and rural development efforts. There are many reasons for this including, for example, the reluctance of private entities to work with governments within the context of a loan for which ultimately the government is primarily responsible, the hesitation of some governments given their overall policy environment and institutional capabilities to partner with private sector,⁴⁹ and the inefficiencies of reaching the private sector through an intermediary (in this case the government) rather than directly. Trying to engage the private sector through sovereign loans also exposes the Fund to the risk of being drawn into possible differences of opinion between public and private actors. Working through government can also constrain the Fund in the range of

⁴⁸ Refinancing facilities are mechanisms whereby the project refines loans made by commercial banks for project purposes up to a certain level. As a consequence, the bank gets funds it can use right away instead of waiting for repayments to come in. In addition, the refinancing facility may include guarantees which also reduce the risks to the banks of making these loans.

⁴⁹ For example, the Pakistan government has expressed reluctance to pass IFAD funds through to the private sector, and the Government of the United Republic of Tanzania turned down a proposal to develop a project along the same lines as the Uganda Vegetable Oil Development Programme.

private entities it can involve in IFAD-financed operations, especially if governments express a preference to work with selected private entities, rather than others that might be more suited for the task to be discharged.

233. In addition, it is useful to recognize that loans pass through governments and are made available through wholesale institutions to microfinance institutions, and are usually available to borrowers at high rates (e.g. 30 per cent per annum), regardless of the term of the investment. This not only favours short-term borrowing over long-term investment in plant and equipment, it also leaves many of the endeavours supported by IFAD vulnerable. For example, SMEs owned by poor people have little or no equity, and most are overleveraged. While overleveraging is not problematic in a growing business environment, in agriculture it poses challenges. In addition to normal business risks, there are weather and pest risks, and overleveraged businesses are at greater risk of insolvency if their cost structure is encumbered with excessive interest charges. While the recent thrust towards weather insurance is an attempt to solve the weather-related problems, it does not fully address the issue of inherent risks in developing businesses that have an onerous financial cost structure.
234. The inability of IFAD to develop institutions with a suitable financial structure has left many rural institutions, both farmers' organizations and microfinance institutions, poorly equipped to cope with business risks. This also means that IFAD's portfolio carries considerable risks. They may not be apparent while the projects are ongoing, but as noted in many earlier evaluations, the sustainability of IFAD's projects and the institutions supported is relatively low. To address this issue, IFAD needs to take steps to reduce the financial risks inherent in the capital structure of the institutions developed and supported by providing a judicious mix of equity and long-term finance. While partnerships with IFC and others could address the financial needs of medium to large enterprises that would engage with smallholders in value chains, there would be little interest on their part in financing the smaller enterprises that are critical to providing services in rural areas, which, as noted earlier, remain financially vulnerable because of the paucity of suitable instruments available to IFAD (especially equity) in supporting local private initiatives.
235. Given the experience and efforts of other MDBs (see chapters I and VII and appendix 6), the limitations outlined above of engaging the private sector through loans to governments, and in light of IFAD's evolving mandate of transforming small farming into a business in which the private sector has a major role, the evaluation believes the time has come for IFAD to develop the necessary instruments for channelling resources directly to the private sector. The evaluation recognizes that there are a variety of private entities that could be supported, and that resources made available directly to the private sector would be for different purposes and take different forms depending on the nature of enterprise and activity supported, including equity investments, loan guarantee funds, venture capital, investment capital, working capital, etc. A part of its support could be provided for technical assistance and advisory services, although the IFAD grants window could be utilized for this type of assistance required by private-sector entities.
236. By focusing its direct lending to profit-making SMEs, microfinance institutions, agroprocessors, cooperatives, commercial banks, farmers associations and other private operators in the formal economy facing challenges to mobilize capital from financial markets, IFAD would be able to better contribute to commodity value chain development and ultimately become more effective in reducing rural poverty. In particular, non-sovereign lending to the private sector could allow IFAD to make direct investments in different entities to improve their physical and financial infrastructure, skills and technology, as well as provide new private sector entities capital for covering initial overhead costs. For example, the Fund could channel resources to agroprocessors working in rural areas for business infrastructure and

skills development, which in turn would benefit IFAD target groups involved in agriculture production activities. Similarly, IFAD could channel money to small seed companies to produce and sell seeds in rural areas covered by IFAD operations. Any direct lending would, however, have to complement IFAD's existing instruments for rural poverty reduction, with the ultimate aim of further spurring market-led growth and development in rural areas.

237. There is little doubt that IFAD could play a much more active role in developing public-private partnerships if it were also allowed by its own charters and in agreement with borrowing governments to provide direct lending to the private sector in support of its agriculture and rural development efforts. This would however pose a challenge for the Fund, as the organization would need to develop the required legal, financial and supervision framework, and put in place standards of corporate social responsibility as a basis for due diligence in this area. It will take time to develop these standards and systems, including partnerships and staff capacities and expertise, as well as the organizational architecture that would be needed for the major paradigm shift this would entail.
238. In conclusion, the evaluation believes that IFAD can do a lot more with the existing instruments already at its disposal, although they need further strengthening, resource allocation, and development. However, based on the analysis in this evaluation and the experience of other development organizations in promoting private-sector development, this would only bring incremental benefits to IFAD's target groups – especially small farmers. One complementary approach that is worth serious consideration is the creation of a separate private-sector development facility that could be used to pilot one or two private-sector loans in each region. If such a facility were additional to regular country allocations, it would allow sceptical governments (both donors and recipients) to see the impact of such financing and possibly create a more positive climate in the future for allowing IFAD's regular funds to be passed through to the private sector in support of the rural poor. Subsequently, a decision could be made as to whether to fold such a facility into the regular programme of work. An important benefit of the separate private-sector development facility is that it would allow large private foundations contributing to the facility along with governments to play a role in its governance.

Key points

- The Board provided the required support leading up to the approval of the private-sector strategy, but did not exercise the required oversight during the implementation period (2005-2008).
- Few CPMs have in-depth knowledge or background on private-sector issues. It is to their credit that CPMs have been willing and able to support projects that include private entities. IFAD is challenged in finding consultants of the requisite experience and seniority to work on private-sector issues given the limits of the current consulting fee scales.
- While the evaluation found reasonable knowledge sharing within regions, there was still little cross-regional learning taking place. A large part of knowledge sharing was undertaken on an informal basis and there is little attention to learning from failures. There was also inadequate knowledge about what other institutions were doing and limited effort to use the grant programme to support knowledge creation and sharing.
- On internal processes, setting up country presence and instituting direct supervision have made valuable contributions to promoting private-sector participation in IFAD-funded country programmes, but very little effort has been put into monitoring and reporting on the strategy's results. The QE and QA processes do not provide sufficient coverage of private-sector development issues. For example, there is no explicit reference to private-sector engagement in the six key success factors included in the maturity assessment template for assessing new COSOPs.
- While IFAD's workforce includes a long-term consultant working on value chains and access to markets, three staff working on rural finance and one staff member recently redeployed to work on private-sector development, it does not have sufficient staff expertise on small and medium enterprise development or private-sector engagement. The need to reconsider IFAD's organizational architecture with the possibility of establishing an organizational unit devoted to private-sector development merits consideration, whether or not the Fund is involved in directly channelling resources to the private sector in the future.
- The Fund needs to leverage existing instruments better so that they can be more appropriately used in promoting private-sector development in recipient Member States. This would however only represent an incremental improvement, as the evaluation has highlighted numerous constraints for effectively engaging the private sector through loans with sovereign guarantees.
- The evaluation concludes that wider participation of the private sector in rural areas is essential to spur market-led growth and development. For its part, IFAD can play an important role in developing the private sector, especially small and medium enterprises, commercial banks, microfinance institutions, agroprocessors, cooperatives and others, that can be of use to the rural poor. This will however require directly channelling resources to the private sector, if the Fund is to build on the enormous potential and opportunities offered by the private sector in agriculture and rural development.
- In the context of directly channelling resources to the private sector, the evaluation recognizes that different private entities have different requirements. Direct channelling of resources would serve different purposes depending on the nature of the enterprise and activity to be support. Some examples of support include equity investments, loan guarantee funds, venture capital, investment capital and working capital. Part of direct support could also be used for technical assistance and advisory services, although the IFAD grants window could eventually be used for such purposes.
- The evaluation raises the possibility of introducing a special private-sector development facility – on an experimental basis – to which private foundations could contribute along with official donors. Such a facility would enable IFAD to channel resources directly for private-sector development, with non-sovereign guarantee, especially in countries where governments are reluctant to have public money channelled to private institutions. The organization would need to develop the required legal, financial and supervision framework, and put in place standards of corporate social responsibility as a basis for due diligence in this area. It will also need to develop the partnerships and staff capacities and expertise as well as organizational architecture that would be needed for the major paradigm shift this would entail.

VII. Learning from the experience of other organizations

A. Background

239. The fourth building block of the evaluation (undertaking a comparator study) was to review the priorities and experiences of other development organizations in private-sector engagement. The comparator study covered five organizations, namely AfDB, IFC, IDB, USAID and the World Bank. These organizations were selected based on two main criteria: (i) attention paid to private-sector development; and (ii) ease of access to documentation related to private-sector engagement and key informants within the organizations, taking into account the timeframes of the IOE evaluation and resources available. All the organizations included in the comparator study were also visited by the evaluation team.
240. However this chapter only provides a summary of the main findings from the study, focusing on the lessons that are of most relevance to IFAD from other organizations as it moves forward in its private-sector activities. A wider account of the findings, by organization covered, are given in appendix 6 of this document.

B. Main cross-cutting findings

241. IFAD can learn a great deal from the comparators and needs to organize itself to glean best practices systematically. One of the striking lessons from the study is how little the aid agencies seem to know about what other agencies are doing, even in a sharply defined context such as rural private-sector development where the relevant constituencies within each agency are reasonably clear. Arguably, however, given that this is central to IFAD's mandate, it is important that the Fund stay informed. For example, IFAD's regional economists in PMD are well placed to take on this function but other staff may be designated for the purpose. Another important mechanism for cross-fertilization could be the designation of peer reviewers across institutions. This needs to be carefully coordinated, so that each agency builds into its activities the time required for its staff to review studies and programmes, as well as to participate in platforms to discuss them.
242. With respect to support for increased farm productivity, most organizations are struggling with the sustainability of demand-driven approaches. Some organizations are moving away from costly approaches to extension for enhancing productivity, such as promoting farmers' field schools and training and visits, because these activities place a heavy burden on government budget funding. Instead, they are exploring demand-driven approaches, in which farmers' groups contract with public, private or NGO service providers, with donors providing all or part of the funding. The problem is that there is no exit strategy, and that sustainability appears to rest on the shoulders of long-term donor involvement.
243. Most organizations are making market linkages through the value chain approach the centerpiece of rural private-sector engagement. The value chain approach represents the intellectual breakthrough of the decade that began in 2000, and all the institutions interviewed see this as the mechanism for breaking out of the subsistence trap for smallholder agriculture. Yet there are many different intervention models being pursued, and it will be important to track their relative success in different contexts carefully in the future.
244. There has been too little systematic analysis and experimentation on non-agricultural value chains in the rural sector. The work done by the IDB stands out as best practice in this area (see appendix 6). The context of Latin America with large amounts of remittances creating purchasing power in the rural areas, and with limited agricultural options for many smallholders, creates the potential for moving beyond agricultural value chains to other activities that can employ rural workers and generate income opportunities. IFAD has a great deal to learn from this work. A country such as Pakistan, which has large remittances from the Gulf

and land-holding patterns that approximate the Latin American model, could well benefit from these approaches.

245. Policy dialogue is best carried out in the context of policy-based lending supported by analytic work. Most of the policy dialogue carried out is through these instruments of the MDBs studied. In general, investment projects in other MDBs have played a limited role in influencing policy, except insofar as they represent allocation decisions supporting particular development priorities. That does not mean that IFAD should opt out of policy dialogue to promote private-sector development. One option is for IFAD to strengthen its partnership with other MDBs, with the aim of ensuring that the issues of concern to the rural poor are also on the policy dialogue agenda of the MDBs, rather than engaging the government alone. Moreover, IFAD has not sufficiently used its grant programme to provide the analytic underpinnings of the private-sector issues it would like to see addressed in policy dialogue at the country level.
246. IFAD is the market leader in building social capital for the rural poor through business-related training and linking this to the formation of associations that can compete more effectively. None of the other institutions studied has the capacity to intervene at the "retail" level in support of these organizations. Indeed, this is an area where it is likely that over time other organizations will seek IFAD's help and support. IFAD needs to maintain its edge through careful analysis of the approaches it is adopting and their efficiency. IFAD needs to maintain the links it has established between business development services and the formation of farmer, producer and business associations. The service providers have helped these groups to develop a common language and knowledge basis for participating more effectively in the market. Maintaining these linkages will be critical as the track record of business development services in many parts of the world has not been a good one. The impact of training is particularly difficult to evaluate and IFAD needs to put in place systematic indicators for assessing its effectiveness.
247. Rural infrastructure is of special interest to most of the large MDBs and IFAD's keeping a rein on its activities in this area seems well-judged. The provision of essential rural infrastructure is an important dimension for private-sector engagement in smallholder agriculture and rural development. In fact, other MDBs have provided a fair amount of attention to the development of rural infrastructure. Again, this is an area that IFAD needs to continue to emphasize, but taking into account the work of other MDBs. It needs to ensure that the rural roads, storage and market development needed for the value chain to work effectively are being constructed, rehabilitated and maintained, whether or not the Fund is providing direct financing for these activities in all countries covered by its operations. Moreover, IFAD might also want to focus particularly on access to market information which is present in the activities of other MDBs, but where the coverage seems uneven.
248. Most agencies are shifting to a more comprehensive model of rural finance support that encompasses deposit mobilization and a range of financial products and services including micro-insurance. In this area, IFAD seems a little behind the curve and could benefit from a systematic dialogue with some of the other institutions on their experience.
249. There are mixed signals on the value of cofinancing partnerships with recognition of the high transaction costs for both donors and governments. The trend in most institutions has gone beyond the stage of considering partnership as having value in and of itself. Institutions are assessing the benefits and costs of partnering and often finding that the net balance is negative. Increasingly, partnership is taking the form of knowing what other institutions are doing and avoiding conflicts or overlaps. Institutions need to look instead for knowledge partnerships to help them plan, coordinate and engage jointly in analysis, evaluation and policy dialogue, and only to look for financing partnerships where there is a genuine fit and complementarity of each donor's interests and activities.

250. There are a number of useful insights that may merit further reflection and debate in the eventuality of IFAD engaging in direct lending to the private sector in the future.

- Direct lending to the private sector does not mean that IFAD will directly retail funding to small enterprises. For practical reasons, such lending will either go to medium and large companies willing to contract with small producers, or to financial intermediaries.
- Promotion of and investment in agribusiness venture capital funds could be a particularly interesting avenue for IFAD to capitalize small enterprises capable of creating rural employment.
- Due diligence issues can be effectively handled through internal ex ante evaluation procedures and partnering in potentially sensitive situations.
- Support for enhanced social and environmental standards can go well beyond “doing no harm” and can leverage substantial positive impact on social and environmental conditions.
- A separate unit devoted to private-sector engagement is likely to be needed within IFAD, but care should be taken to ensure the coherence of public- and private-sector lending in the country strategy.
- The level of risk that an organization wants to shoulder is a policy decision. That is, private-sector lending can be very conservative and even less risky than public-sector lending, or it can also include high risk/high return activities.
- Lending to the private sector would require IFAD to become much more nimble and able to move from identification to approval in a six-month timeframe.

Key points

- The experience of comparator institutions provides a rich menu for IFAD to consider as it develops its activities in support of greater private-sector engagement.
- Direct private financing institutions or windows suggest a number of interesting areas for IFAD: first, the promotion of corporate environmental and social standards that go beyond “doing no harm”; second, setting up due diligence procedures for selection of private-sector entities that may receive direct lending; and third, the need for accelerated procedures to meet the shorter time lines of the private sector.
- Policy-based lending, rather than investment projects, have been the main vehicle for MDBs in promoting a more conducive policy and institutional environment for private-sector development in developing countries.
- Infrastructure is of major importance for private-sector involvement. As such, most other multilateral development banks have invested significantly in this area. IFAD needs to seek complementarities in supporting rural infrastructure development with the work of other donors.
- Most other MDBs have dedicated departments and separate organizational structures to promote their work with the private sector. IFAD will need to think about defining and strengthening its organizational architecture for private-sector development in the future.

VIII. Conclusions and recommendations

A. Conclusions

251. **The main message.** There has been a major paradigm shift in the past 20 years or so in acknowledging the potential and contribution of the private sector in agriculture and rural development in recipient countries. The latter have realized that the for-profit private sector can be a critical ally in their own efforts to promote sustainable pro-poor development that can result in better incomes and livelihoods for the rural poor.
252. For its part, in the last decade and especially in recent years, IFAD has made some adjustments to adapt to this new reality by widening the government-led focus of its country strategies and projects to promoting greater involvement of the private sector in its operations. Among other steps, this included the adoption of a corporate private-sector strategy in 2005, greater attention to value chain development, commercialization and access to markets, as well as articulating a new vision in its Strategic Framework 2011-2015, which is centred around “farming as a business” and recognizes the central role commercialization and for-profit private-sector operations can fulfil.
253. However, there are a number of factors that have constrained IFAD’s efforts in promoting private-sector development, with the ultimate aim of reducing rural poverty. These include, inter alia, IFAD’s current broad-based definition of the private sector, so that clarity is lacking on the main private-sector actors to be engaged, the lack of instruments for direct lending to the private sector, an organizational architecture and work force that is mostly geared to developing investment projects executed by governments, corporate business processes that have not fully been adjusted to the new development paradigm, and existing instruments that have not yet been sufficiently leveraged for private-sector development.
254. In sum, IFAD needs to do more to be able to fully exploit its potential in four areas: (i) organization and human resources architecture; (ii) instruments, both by strengthening existing ones and experimenting with direct lending to the private sector; (iii) introduce changes in corporate business processes that did not occur following the introduction in 2005 of the private-sector strategy; and (iv) bringing clarity to the definition of the private sector in the context of IFAD operations.
255. **The importance of the private sector** (see paragraphs 4-14). The past decade has seen a sea change in the growing importance of the private sector in overall economic and social development in developing countries. Most governments and other development actors increasingly consider the private sector an important partner in their common cause towards improving incomes and livelihoods, whether by providing services related to health, education, transportation, electricity, water, telecommunications, research and development, or agriculture. This change in perception of the private sector from being irrelevant to forming part of the solution is also anchored in the favourable experiences and policies in relation to private-sector engagement adopted by countries which witnessed rapid growth and development in the past 20 years.
256. As a result, a large number of governments in developing countries are increasingly limiting their involvement in directly producing and supplying goods and services to rural areas. Instead, the major role of the government in this new context is seen in creating an enabling environment of appropriate policies and institutions that encourage the private sector to be the engine of growth. This paradigm shift has not happened in all countries and regions, and there are alternative approaches to achieving the right balance between government and the private sector, but the trend is overwhelmingly a move towards greater private-sector involvement in economic and social activities.

257. Private-sector entities have a central role to play in smallholder agriculture and rural development, offering opportunities for the creation of employment and wealth in rural areas. Their contribution in promoting access to markets, undertaking innovations, providing essential services including technical assistance, training and rural finance, and supplying inputs have proven to be complementary and critical to the services provided by government agencies, NGOs and civil society organizations in the development process. The private sector, therefore, has emerged as one of the key institutional constituencies in the development architecture of the smallholder agriculture and rural sectors, and their role, for example, in terms of innovation and scaling up through additional investments is only likely to increase moving forward.
258. It is however important to be cognizant that the private sector is not a homogenous group of actors. Smallholder farmers, farmers' associations, agribusinesses and other commercial firms, as well as large national and international conglomerates, all form part of the growing private sector in developing countries. Moreover, some private-sector actors (such as small rural traders) only participate in the informal sector of the economy. Therefore, private-sector engagement and development needs to take this reality carefully into account, as private-sector actors have different legal frameworks, capabilities, priorities and needs.
259. **IFAD's role and comparative advantage** (see paragraphs 15-23). IFAD is the only MDB with a mandate to focus exclusively on smallholder agriculture in rural areas. Its operations extend to all geographic regions, providing opportunities for cross-fertilization of lessons learned and good practices on private-sector engagement from a diverse range of contexts and situations. Given its mandate and taking into account the central role the private sector has in smallholder agriculture and rural development, IFAD can aspire to take a leadership role globally in developing innovative approaches for the engagement of the private sector to the benefit of the rural poor.
260. In the last decade, IFAD has recognized the importance of engaging more actively with the private sector. However, its commitment to truly and energetically make the private sector an integral partner has remained uncertain and hampered by an unsupportive ideological mind set affecting some Executive Board members, IFAD managers and some staff until 2009. In the past couple of years, the new IFAD Management has forcefully articulated a vision that sees small agriculture as a profitable business, which can provide the basis for a more prosperous and dynamic rural society. This vision is built on the need for better linkages between smallholder producers and local, national, regional and international markets, which is creating the momentum needed for IFAD to take on a more assertive role globally as well as at the country level in promoting the participation of the private sector in sustainable smallholder agriculture and rural development.
261. **The relevance of IFAD's private-sector strategy** (see paragraphs 84-99). The development of IFAD's 2005 private-sector strategy⁵⁰ was a reflection of the need for IFAD to engage with the private sector. The goal "to engage the private sector to bring more benefits and resources to IFAD's target group" and the immediate objective "to increase pro-poor private sector operations and investments in rural areas" of the strategy were and remain relevant. However, there were little or no roll-out actions to facilitate the implementation of the strategy; and the strategy did not consider adequately the need for ensuring corporate social responsibility, promoting fair trade practices, and sound environmental management, in a context with wider private-sector participation. Neither did the strategy sufficiently consider the inherent risks associated with engaging the private sector, such as the implications for those poor people who would not be able to take advantage of the opportunities offered by the private sector. The synergies between the private-

⁵⁰ Which the Fund is currently in the process of revising. According to the provisional timelines, Management plans to present the revised strategy to the Board in December 2011.

sector strategy and other key corporate policies and strategies (e.g. on rural finance, grants, and rural enterprise) were also not clearly articulated.

262. For the first time, the strategy included an IFAD-specific definition of the private sector. The evaluation concludes that this definition of the rural private sector is too broad-based, as it does not adequately differentiate between private operators working in agriculture and rural development who often have very different needs, requirements, capabilities and opportunities. Rather, the definition lumps together operators at the smaller (rural) end of the continuum, including agroprocessors and other rural microentrepreneurs, as well as national, regional and international operators. It includes private operators that are part of both the formal and informal economy. Unfortunately, taking such a broad and all-encompassing definition of the private sector as the target of IFAD activities dilutes what should have been the essential focus of the strategy. Since small farmers have always been, and continue to be, the focus of IFAD, almost any IFAD-funded activity supporting any part of the value chain can be classified as promoting the private sector.
263. The three broad lines of action of the private-sector strategy were well judged, namely: (i) policy dialogue for local private-sector development, (ii) investment operations to support local private-sector development, and (iii) partnership with the private sector in order to leverage additional investments and knowledge for rural areas, to achieve its goal and objective. They reflect the right balance between lending and non-lending activities that are essential to further IFAD's engagement with the private sector. The experience of implementing the strategy suggests, however, that the significant emphasis on policy dialogue and partnership were ambitious given that these areas continue to be a challenge for IFAD, even beyond the thematic area of private-sector development.
264. The private-sector strategy's results framework was weak, the need for a well-defined incentives and accountability framework was not duly considered, and no specific provisions were made to ensure a systematic outreach and dissemination following the approval of the strategy. The process followed in the preparation of the strategy was not adequately organized, for example, it did not entail broad consultation with IFAD staff, or partners from developing countries or other organizations. In this regard, one constraint found by the evaluation was that there was limited ownership of the strategy across the institution during its implementation. This was because the impetus for the strategy mainly came from some (but not all) constituencies within the Fund's governing bodies, rather than the Management and staff of the institution. Part of the explanation for the latter is because of the prevailing ideological climate within many parts of the organization at the time, which did not entirely favour working with the for-profit private sector.
265. **The implementation of the strategy** (see paragraphs 105-150) was examined according to the strategy's three broad lines of action and implementation requirements. With regard to policy dialogue, about half the new generation COSOPs (those considered by the Board between 2007-2010) include attention to policy dialogue on private sector as well as due consultation with private-sector entities in the preparation of the corresponding country strategies. There is however room for improvement in promoting a favourable policy and institutional environment for private-sector engagement at the country level, as well as scope for wider engagement in the key policy arena that would create a more conducive international and regional trade environment.
266. Projects designed in 2009 as compared to those designed in 2004 make wider provision for private-sector development, especially through greater attention to rural micro and small enterprises, commodity value chains, market linkages and enhancing agricultural productivity. IFAD has met or exceeded selected key performance indicators related to investment operations defined in the results framework of the strategy, for example in terms of involving the private sector in building business capacities and skills of the rural poor, or generating cofinancing

from the private sector. However, this achievement was more a result of IFAD's gradually enhanced investment in marketing and rural enterprise development, rather than an effect led by the implementation of the strategy. Going beyond the specifics of the strategy to the needs of a more comprehensive framework for effective private-sector engagement, it is noteworthy that projects have not generally sufficiently emphasized the role of the private sector in research and extension, analysed the potential risks associated with the value chain approach, made much use of information and communication technology to promote access to markets, nor as yet done much to incorporate gender and environmental concerns in projects with major private-sector components.

267. The targets set in the strategy's results framework for mobilizing resources from the private sector for IFAD-funded projects have been exceeded. Moreover, the establishment of the remittances financing facility was an important initiative to further partnership with the private sector in ensuring more efficient and timely transfer of resources to rural areas, but the results of projects financed under the facility have not been adequately internalized into IFAD investment operations. The evaluation found only a few concrete examples (e.g. with AGRA) of partnerships to leverage investments from private foundations or philanthropic organizations. The Fund has some partnerships at the institutional level with other multilateral organizations (such as the OPEC Fund for International Development) specifically for private-sector development, but on the whole IFAD's partnerships with such organizations on private-sector issues are less developed than its partnerships in other areas of its work. The evaluation did not find any specific knowledge partnerships, which would enable IFAD to draw upon the technical expertise of the private sector. The country studies broadly confirmed the findings captured in this and the previous two paragraphs related to policy dialogue, investment operations and partnerships for private-sector development.
268. As mentioned above, the results framework of the private-sector strategy did not contain easily measurable key performance indicators, nor did it include baseline values or targets against which progress could be reported. Data was not systematically collected for all indicators specified, and reporting did not take place annually as envisaged by the strategy. This is a missed opportunity that could have served to ensure the appropriate implementation of the strategy and generation of lessons for future IFAD-supported activities in private-sector development.
269. Finally, the evaluation found that despite some evidence of conservative approaches being taken in the past, IFAD governing bodies (especially the Executive Board, Evaluation Committee and the replenishment consultations) have encouraged IFAD to take a more favourable stance towards private-sector development. With regard to the Board, however, it did not exercise adequate oversight in the implementation of the strategy, for example, in terms of monitoring the fulfilment of the strategy's implementation requirements including the preparation of reports on the achievements against the specified key performance indicators.
270. **Emerging results from the new portfolio** (see paragraphs 152-159). The emerging results of projects with a significant private-sector component approved after the strategy was introduced – as recorded by IFAD's self-evaluation system – reveal better overall performance as compared to similar projects approved before 2005. In particular, the projects approved in recent years are performing better on 12 of the 18 indicators included in the project status reports prepared by CPMs annually for each operation, including in terms of their likelihood of achieving their development objectives. This is important, as the ultimate aim of IFAD-supported projects is to promote private-sector engagement as a means to achieving better results on reducing rural poverty on the ground, rather than supporting the development and engagement of the private sector as an objective per se. In interpreting these results, it is fair to note that: (i) improvements cannot be attributed to the private-sector strategy alone, but also to the positive evolution of

IFAD's operating model, especially the establishment of country presence and direct supervision and implementation support; and (ii) they are based on data from IFAD's self-evaluation system, which though improving, can still be further strengthened to ensure greater reliability. Finally, recent data from RIMS surveys show that performance of ongoing projects is mostly moderately satisfactory in specific areas related to private-sector development, such as the likelihood of sustainability of market, storage, processing facilities.

271. The seven country case studies and visits undertaken by the evaluation teams broadly validate the finding that newer IFAD-supported projects are more comprehensive of private-sector development issues. In particular, they show that increasingly, in most countries, private-sector development is an important dimension of IFAD-funded projects, and evidence on the ground suggests substantial support for value chain development including emphasis on rural enterprise development, employment generation and access to markets. The country studies also brought out three key insights that can contribute to further strengthening IFAD's work on private sector. The following findings are particularly noteworthy: (i) government commitment to and support for private-sector development is a key to IFAD's ability to design effective investment operations in agriculture and rural development; (ii) IFAD needs to use all its instruments (and not just investment operations) more effectively for promoting private-sector development in borrowing countries; and (iii) very little use has been made of the grants programme to support private-sector development, for example in terms of promoting policy dialogue and knowledge management.
272. **The importance of corporate business processes for better results** (see paragraphs 195-238). The private-sector strategy made provisions for adjustments to some key corporate business processes, such as human resource requirements, training of staff, learning and knowledge management, and monitoring and reporting. In particular, it specified a number of implementation requirements to ensure that the strategy could be appropriately implemented to achieve the desired results on the ground. This was a fairly modest set of provisions, perhaps reflecting the intention to keep the strategy cost-neutral. Even with this modest agenda, some of the implementation requirements were not implemented at all (e.g. the assignment of a staff member to oversee the implementation of the strategy, the development of specific toolkits/guidelines to operationalize the strategy and training of staff), and most others were implemented only in part. In fact, this is a recurrent finding that also appeared in previous evaluations, notably that the institution devoted due attention to the development of new corporate policies, strategies, initiatives and pilot programmes, without sufficient follow through by making the corresponding adjustments to corporate business processes. This was also the case with the implementation of the Direct Supervision and Field Presence Pilot Programmes, Innovation Mainstreaming Initiative, and Gender Plan of Action. Finally, on knowledge management, some initiatives are taking place to share lessons and good practices related to private-sector engagement, at headquarters, in the field, and between the headquarters and the field. However, more can be done, especially as staff appear to have limited knowledge of private-sector development experiences and approaches pursued in other organizations.
273. **IFAD's existing organizational architecture and workforce** (see paragraphs 207-211) is not adequate to truly be able to promote partnerships and engage the private sector. Apart from not having a senior technical adviser on private-sector issues for many years (notwithstanding the recent designation in April 2011 of a Senior Technical Adviser on the subject through a lateral transfer), a large number of front line staff (i.e. the CPMs) have only limited knowledge and experience of engaging with the private sector including in terms of resource mobilization, which requires specialized skills, competencies and know-how. In fact, it is rather rare to find staff at IFAD who have had previous experience of working in the private sector. Efforts to conduct systematic training on the topic have also not been forthcoming. In spite of this, IFAD has done relatively well to adjust the focus of its

recent operations with wider attention to value chains, market access and employment creation. But if IFAD is to develop a comparative advantage in linking smallholders to the market, it needs to build up the skills and global experience of its staff. This will require better human resources management, including clear incentives and accountability framework that rewards staff for good results in private-sector development or holds them accountable otherwise.

274. **Instruments for private-sector development** (see paragraphs 226-238). The evaluation concludes that IFAD has an array of instruments (loans, grants, policy dialogue, partnership building and knowledge management) for promoting private-sector development, but has not yet leveraged them to their full potential for the purpose. For example, the revised grant policy of 2009 opens up some limited opportunities for IFAD to provide direct financing to the private sector. However, attention will need to be devoted to ensuring synergies between grant-funded and investment operations. In fact, there are merits in considering an expansion of the grant policy to ensure a wider engagement of the private sector, so that grant financing can also be provided, for example, equity or capitalization of private-sector entities as well as for financing their long-term operating costs or activities. So there are opportunities to better and more widely use the existing instruments to promote private-sector development.
275. At the same time, the evaluation explains why using loan-funded investment projects (i.e. sovereign lending) – currently the main instrument at IFAD’s disposal for rural poverty reduction – is not effective as an instrument for the promotion of the private sector in support of the rural poor. For example, governments are often reluctant to use public money to support private-sector entities, and when they are prepared to do so, they often cannot ensure efficient management of such funds. Nor is the private sector always keen to work in direct partnership with government institutions. Hence the bulk of the assistance by other MDBs for private-sector development is provided on a non-sovereign direct lending basis.
276. The evaluation concludes that, while it is essential to better leverage existing instruments, this will only result in incremental benefits to IFAD’s target groups – especially small farmers. Therefore, the evaluation also concludes that if IFAD were able to lend directly to the private sector, including SMEs, agroprocessors, microfinance institutions, cooperatives, farmers associations, commercial banks and others, which face challenges to mobilize financial resources, this could provide significant advantages to the rural poor. For example, direct lending in the form of loan guarantee funds to commercial banks could contribute to better access to rural financial services and related products, and providing investment funds to agroprocessors in their start-up phase would ensure greater opportunities for value addition to agricultural produce of the rural poor. Therefore, direct lending, which can take a variety of forms (equity investments, loan guarantee funds, venture capital, investment finance, etc.) to the private sector by IFAD would contribute to spurring market-led development among the rural poor, especially if used in a coherent and synergistic manner in the country programmes along with IFAD’s traditional instruments for agriculture and rural development.

B. Recommendations

277. IFAD’s Management has begun the process of preparing a new private-sector strategy, which will be presented to the Board for consideration in December 2011. The evaluation suggests that it is timely to consider a new strategy and offers the following recommendations as inputs to its development:
278. **Strengthen existing instruments to support private-sector development** (see paragraphs 265-271 and 274-275).⁵¹ IFAD provides loans to governments, has a grants programme, and is involved in non-lending activities (policy dialogue, knowledge management and partnership building). However, all these instruments

⁵¹ Paragraph numbers refer to key paragraphs in the conclusions that form the basis of each recommendation.

must be utilized to their full potential, in particular ensuring that they are mutually reinforcing and can in a holistic manner contribute towards IFAD's private-sector development objectives.

279. **Strengthen the design, supervision and implementation support of loan-funded projects that include private-sector development.** More thorough analysis of the requirements for generating pro-poor benefits and possible risks of collaboration with private-sector entities involved in commodity value chains should be undertaken, with due attention to gender and environmental considerations. The grants programme should be used to provide complementary support to private-sector entities involved in IFAD operations, including technical assistance and advisory services to strengthen the capacities of private-sector entities. This might eventually necessitate an expansion of IFAD's grants policy.
280. **Ensure that COSOPs coherently articulate how synergies will be established between investment operations and non-lending activities to support private-sector development at the country level.** Specific recommendations with regard to policy dialogue and partnerships are summarized below:
- (i) **Policy dialogue.** IFAD needs to raise its profile on policy issues relating to the role of the private sector in supporting rural poverty reduction, especially at the country level. This will require: (i) using the COSOP formulation process to more systematically discuss the opportunities and constraints to rural private-sector development and to promote a dialogue within the country on these issues; (ii) working more closely with other MDBs to ensure that issues affecting private-sector development related to agriculture are on the agenda of their dialogue with governments; and (iii) using the grant programme more strategically to fill gaps in IFAD's and the government's knowledge and understanding of these issues and provide the analytical underpinnings of an enhanced policy dialogue.
 - (ii) **Partnerships.** There is a need to strengthen partnerships with a range of institutions that have the potential to enhance IFAD's work. First, it would be important for the Fund to engage more widely with foundations and philanthropic organizations with a strong private-sector orientation, at the corporate and country levels, that can provide both knowledge and financing for IFAD-funded activities. In addition, the Fund should strengthen its collaboration with MDBs both at the corporate and country levels, focusing on policy dialogue, knowledge management, cofinancing of operations, and identifying opportunities for scaling up successfully piloted innovations on private-sector development through IFAD operations. In particular, opportunities for partnership should be explored with agencies such as IFC, which can lend directly to the private sector and whose funding is seen as additional by the government, with IFAD supporting smallholders through seed capital, technical know-how and business development services, to engage in higher productivity activities and move up the value chain.
281. **Establish a private-sector development financing facility** (see paragraphs 274-276). The evaluation concludes that IFAD should leverage its existing instruments to their full potential, but this would provide only incremental improvements to IFAD's target groups – especially small farmers. Therefore, in addition to implementing the above recommendation (“strengthen the existing instruments to support private-sector development”), the evaluation recommends that IFAD establish a private-sector development financing facility to directly channel resources for private-sector operations in rural areas, with non-sovereign guarantee. This would open up new opportunities that would allow IFAD to better contribute to achieving MDG1.
282. IFAD has come to realize that small farmers need to be assisted through support services, such as input supply and output marketing (including agroprocessing).

The proposed facility therefore would support selected elements in the value chain that would have a direct impact on enhancing the productivity of small farmers and provide them with better incomes. However, the new corporate private-sector strategy will have to determine what type of direct support (e.g. equity investments, loan guarantees, venture capital, investment finance, technical assistance and advisory services) it would consider a priority for the rural poor.

283. The facility could include initial financing of US\$200 million for a five-year period. Voluntary contributions would be invited from Member States, foundations and philanthropic organizations, and others. The evaluation recognizes that direct lending would have significant implications for IFAD's legal, financial and supervision systems, as well as require IFAD to put in place standards of corporate social responsibility as a basis for due diligence in order to minimize the risks of lending directly to private entities. It would also require the development of staff capacities and expertise, as well as an adequate organizational structure. The evaluation recognizes that direct lending to private sector entities (i.e. non-sovereign loans) will require the concurrence of the Board.
284. The facility would have a clear governance framework, and a systematic monitoring, evaluation and reporting system. In particular, ongoing monitoring and annual reporting to Senior Management and the Board throughout the five-year period will be essential to success. A thorough assessment of the facility and the projects funded at the end of the five years would serve as a basis for deciding together with IFAD governing bodies whether direct lending to the private sector ought to become a regular instrument at the disposal of IFAD for its rural poverty reduction efforts, as well as the size and administrative location of the facility.
285. **Assess IFAD's human resources and organizational architecture** (see paragraphs 272-273). Management should undertake a thorough assessment of IFAD's organizational architecture and human resource capabilities and requirements for private-sector development, including management of the facility and promoting private-sector development in general. This would enable the Fund to determine the most suitable organizational set-up and human resource needs for better engagement with, including mobilization of resources from, the private sector in the future. In this regard, the option of further reconfiguration by establishing a specific organizational unit (division⁵² or department) responsible for promoting IFAD's work on private-sector development and engagement should be explored. The reconfiguration could group together key staff currently working on private-sector issues (senior technical advisers on private-sector development, rural finance and others) within a more relevant and focused agenda to promote private-sector development and engagement. The assessment should also lead to the definition of an appropriate incentives and accountability framework for IFAD's work with the private sector.
286. In addition, building on the experiences of external peer reviews undertaken on IFAD's rural finance services and evaluation function, it is recommended that IFAD organize periodic peer reviews on its private-sector activities and architecture. The peer reviewers would include peers and experts from other development organizations mandated to examine the relevance, effectiveness and efficiency of IFAD's work and organizational set-up for engagement with the private sector, and make recommendations for improvement based on best practices.
287. **Definition of private sector** (see paragraph 258 and 262). The new strategy should adopt a clearer and more focused IFAD-specific definition of the private-sector strategy in light of the Fund's mandate to assist the rural poor. It should recognize that the private sector is a heterogeneous group of actors who have different capabilities and requirements. It should promote partnerships with private

⁵² For example, along the lines of the recent establishment of a central Environment and Climate Division, including the assignment of dedicated staff in each regional division working on the same topic.

enterprises that can provide resources and services that improve the livelihoods and incomes of the rural poor.

288. **Process for the preparation of the new IFAD private-sector strategy** (see paragraph 264). It is recommended that the strategy be developed based on consultation within IFAD to ensure that all key inputs are duly captured and as a means to building ownership for its implementation. Selective consultations with outside partners should also be conducted to obtain a wider view and feedback on the strategy. This could include farmers organizations, NGOs, other IFIs and development organizations that are currently working with the private sector (IFC, USAID, AfDB, etc.), as well as private-sector entities.

APPENDIX 1**Definition of Evaluation Criteria Used by IFAD Office of Evaluation**

<i>Criteria</i>	<i>Definition^a</i>
Project performance	
<ul style="list-style-type: none"> • Relevance 	The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, institutional priorities and partner and donor policies. It also entails an assessment of project coherence in achieving its objectives.
<ul style="list-style-type: none"> • Effectiveness 	The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance.
<ul style="list-style-type: none"> • Efficiency 	A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results.
Rural poverty impact^b	
<ul style="list-style-type: none"> • Household income and assets 	Impact is defined as the changes that have occurred or are expected to occur in the lives of the rural poor (whether positive or negative, direct or indirect, intended or unintended) as a result of development interventions. Household income provides a means of assessing the flow of economic benefits accruing to an individual or group, whereas assets relate to a stock of accumulated items of economic value.
<ul style="list-style-type: none"> • Human and social capital and empowerment 	Human and social capital and empowerment include an assessment of the changes that have occurred in the empowerment of individuals, the quality of grass-roots organizations and institutions, and the poor's individual and collective capacity.
<ul style="list-style-type: none"> • Food security and agricultural productivity 	Changes in food security relate to availability, access to food and stability of access, whereas changes in agricultural productivity are measured in terms of yields.
<ul style="list-style-type: none"> • Natural resources and the environment and climate change 	The focus on NRE involves assessing the extent to which a project contributes to changes in the protection, rehabilitation or depletion of NRE. It also assesses any impacts projects may have in adapting to and/or mitigating climate change effects.
<ul style="list-style-type: none"> • Institutions and policies 	The criterion relating to institutions and policies is designed to assess changes in the quality and performance of institutions, policies and the regulatory framework that influence the lives of the poor.
Other performance criteria	
<ul style="list-style-type: none"> • Sustainability 	The likely continuation of net benefits from a development intervention beyond the phase of external funding support. It also includes an assessment of the likelihood that actual and anticipated results will be resilient to risks beyond the project's life.
<ul style="list-style-type: none"> • Promotion of pro-poor innovation, replication and scaling up 	The extent to which IFAD development interventions have: (i) introduced innovative approaches to rural poverty reduction; and (ii) the extent to which these interventions have been (or are likely to be) replicated and scaled up by government authorities, donor organizations, the private sector and others agencies.
<ul style="list-style-type: none"> • Gender 	This criterion assesses the efforts made to promote gender equality and women's empowerment in the design, implementation, supervision and implementation support, and evaluation of IFAD-assisted projects.
Overall project achievement	
	This provides an overarching assessment of the project, drawing upon the analysis made under the various evaluation criteria cited above.
Performance of partners	
<ul style="list-style-type: none"> • IFAD • Government • Cooperating institution • NGO/CBO^c 	This criterion assesses the contribution of partners to project design, execution, monitoring and reporting, supervision and implementation support, and evaluation. The performance of each partner will be assessed on an individual basis with a view to the partner's expected role and responsibility in the project life cycle.
^c community-based organization	

a. These definitions have been taken from the Organisation for Economic Co-operation and Development/Development Assistance Committee *Glossary of Key Terms in Evaluation and Results Based Management* and from the IFAD Evaluation Manual (2009).

b It is important to underline that the new manual also deals with the “lack of intervention”. That is, no specific intervention may have been foreseen or intended with respect to one or more of the five impact domains. In spite of this, if positive or negative changes are detected and can be attributed in whole or in part to the project, a rating should be assigned to the particular impact domain. On the other hand, if no changes are detected and no intervention was foreseen or intended, then no rating (or the mention “not applicable”) is assigned.

APPENDIX 2



**Document of the
International Fund for Agricultural Development**

**IFAD's Engagement with the Private Sector
in Rural Poverty Reduction**

Corporate-level Evaluation

Approach Paper

17 May 2010

Office of Evaluation

I. Background

A. Changing perception of the role of the private sector in rural poverty reduction

1. The involvement of government in the rural economy began in colonial times and was carried over into post-colonial states. There was a perception that market failures and the diseconomies of scale of small farmers called for a major presence on the part of government, extending in Communist societies to the production process itself and, in other countries, to a mix of state marketing boards to supply inputs and market outputs at controlled prices, and a range of supporting institutions: government research and extension services, and specialized agricultural development banks.

2. Until the late 1970s, these perceptions of the need for large-scale government intervention, and not only in agriculture but in all sectors of the economy, dominated the development paradigm. Five-year development plans continued to assign a dominant role to government, whereas the private sector was given a limited role and often with a degree of suspicion about whether or not it had the necessary commitment to the public good. Closed economy, import-substitution models still prevailed despite the advancing 'East Asian Miracle'. Capital transfers were still predominantly public-sector driven, and export-led growth was just gaining acceptance. The idea that the private sector should lead economic development in terms of investment, innovation and employment generation was appropriate for developed nations but government planning and direct involvement was needed in poor countries.

3. Over the past 30 years, the paradigm has shifted. Most governments have now withdrawn from direct production for the market in agriculture and manufacturing through the privatization of enterprises, including, in many cases, banking institutions. In many countries, even infrastructure has become privately owned or managed to some degree. The major role of government has shifted from being a direct investor and player to that of creating an enabling environment of appropriate policies and institutions that encourage the private sector to be the engine of growth. This paradigm shift is encapsulated in the Report of the 2003 United Nations Commission on the Private Sector and Development (see Box 1 below).

4. Before this change in the general paradigm, the small farm sector, perhaps the largest private-sector activity in most developing countries was dominated by government activities in production, markets and investments. The past 10-15 years have seen an acceleration of this shift as it impacts the small farm sector. A number of areas of significant change may be identified, including: (i) in most countries, the full-scale retreat of the state from rural marketing activities; (ii) increased private provision of agricultural services and technologies; (iii) the exponential increase in private remittances; (iv) more dynamic private agribusiness sectors in some regions; (v) the supermarket revolution, especially in Latin America; (vi) the advent of new microcredit channels in rural areas; and (vii) the growing role of private foundations and public-private partnerships in development assistance.

5. Reflecting these changes, in 2005, IFAD prepared a new private-sector strategy document¹, which noted that only in the past 10-20 years has "*... the economic environment within which the rural poor seek their livelihood ... changed substantially in many developing countries*". In Africa and Eastern Europe "*...governments that used to play a key role in the organization of economic relations have now largely withdrawn from productive activities*". In Asia, traditional government involvement in the provision of inputs and in purchasing and/or fixing prices in product markets has been subjected to market forces and competition from the private sector. "*In Latin America as well, economic reforms over the last two decades have meant that productive economic activities – including the provision of rural services, once dominated by state organizations – have been opened up to the market*".

¹ IFAD's Private-Sector Development and Partnership Strategy (document EB 2005/84/R.4/Rev.1).

6. The aforementioned private-sector strategy document goes on to argue that *"In this new and dynamic global environment, the role of the private sector is becoming ever more important. The private sector provides most income-generating activities and job-creation opportunities, and is increasingly becoming the driving force for economic growth and poverty reduction. IFAD's target groups (i.e. small farmers, herders, woman-headed households, rural wage-earners, rural micro entrepreneurs and small agricultural traders) represent a large part of the private sector in developing countries; and rural poor people interact on a daily basis with other private operators in order to access resources, buy inputs, use technology, receive services, obtain credit, or sell their services and products"*.

Box 1: Report of the United Nations Commission on the Private Sector and Development

As late as 2003, the Secretary-General of the United Nations felt the need to appoint a commission on the private sector and development. The report issued in March of 2004 made a strong case for the importance of the private sector in poverty reduction.

"The Commission believes that any approach to private-sector development—and the policy and action recommendations that accompany it—should be grounded in the realization that the savings, investment and innovation that lead to development are undertaken largely by private individuals, corporations and communities."

"Small and medium enterprises can be engines of job creation—seedbeds for innovation and entrepreneurship. But in many poor countries, small and medium enterprises are marginal in the domestic ecosystem. Many operate outside the formal legal system, contributing to widespread informality and low productivity. They lack access to financing and long-term capital, the base that companies are built on."

"This report is about walking into the poorest village on market day and seeing entrepreneurs at work. It is about realizing that the poor entrepreneur is as important a part of the private sector as the multinational corporation. It is about acknowledging that the private sector is already central to the lives of the poor and has the power to make those lives better. It is about using the managerial, organizational and technological innovation that resides in the private sector to improve the lives of the poor."

"It is about unleashing the power of local entrepreneurs to reduce poverty in their communities and nations. Entrepreneurship flourishes perhaps most in small and medium firms with significant potential to grow and innovate. This dynamic segment is typically the hotbed of entrepreneurship and innovation. It can drive economic growth, create jobs and foster competition, innovation and productivity".

7. There are, however, challenges: new markets do not always evolve in ways that allow small rural producers and entrepreneurs to capture the opportunities that might open up in the new environment. *"As a result, the general move towards economies in which market forces and the private sector play a central role does not always reflect the interests of the rural poor. IFAD has an essential part to play in equipping the rural poor to interact more equitably with new market forces and in making market relationships work for them."* (IFAD's private-sector strategy)

B. Evolution of IFAD's approach to private-sector development and partnership

8. For a number of reasons, the task of reducing rural poverty is one of the most challenging aspects of agriculture and rural development. Government rural and agricultural policies and institutions have been often captured by elites or rent-seeking groups; the bureaucrats who run them have little incentive to do so in an effective and efficient manner. The rural poor are also at the end of the queue for public investments in the social and

physical infrastructure needed to reduce their costs of production and marketing and improve their livelihoods. Diseconomies of scale often make it unattractive to the private sector to serve the small farmer, or small rural entrepreneur, with the knowledge, finance, inputs and markets needed to raise productivity. Small rural operators are generally un-organized and have limited bargaining power in the face of monopoly suppliers of inputs and buyers of outputs. The cooperative movement with the potential for increasing the bargaining power of small farmers proved to be only very intermittently successful. Some effective models are being pioneered by NGOs on a micro scale but, for the most part, they are not being systematically piloted or scaled up. Similarly, diseconomies of scale affect the interest and capacity of the large multilateral institutions to serve the rural poor, given the high cost per beneficiary of such programmes and the premium on local knowledge.

9. IFAD was established to support government efforts to reduce rural poverty, but in practice its approach to development has been a pragmatic one that involves seeking out projects that support rural poverty reduction. Inevitably, however, since IFAD works through governments and helps to implement programmes that they design and support, much of the emphasis of its activities over the years has been on making public interventions more effective for the rural poor. It was perhaps the recognition that, in this process, the Fund might not be taking full account of the potential role the private sector could play in rural poverty reduction that led donors at the Consultation on the Sixth Replenishment of IFAD's Resources in 2002 to request Management to provide the Executive Board with a *"strategy for achieving greater involvement of private-sector participants in IFAD programmes, through co-financing and other forms of partnership consistent with IFAD's mission"*.

10. In September 2004, a comprehensive document setting out IFAD's **strategy for private-sector development and partnership** was submitted to the Executive Board. The Board approved the principles underlying IFAD's strategy but requested a simplified and more operational document with a results framework to be resubmitted to its Eighty-Fourth Session in April 2005. The revised strategy document was approved in April 2005 and, in so doing, the Board also requested that the Office of Evaluation (IOE) should evaluate the strategy some years into its implementation.

11. The IFAD Strategic Framework 2007-2010 includes strategic objectives regarding: "transparent and competitive agricultural and produce markets"; and "opportunities for rural, off-farm employment and enterprise development". Expected operational outcomes include: *"Increased private-sector investment in rural areas: In the rural areas of developing countries, the smallholder farmer, the small-scale produce trader and the multinational agroprocessing company all form part of the private sector. Stimulating private-sector investment in rural areas, and ensuring that it works to the benefit of poor rural people in IFAD's key areas will be one of IFAD's key operational outcomes. Guided by its 2005 Private-Sector Development and Partnership Strategy, IFAD will work with a range of upstream and downstream market intermediaries – national rather than international wherever possible –and help them to reduce their risk and transaction costs, access sources of financing, build their capacity and outreach, and participate in national processes for policy development."*

12. The Report of the Consultation on the Eighth Replenishment of IFAD's Resources (February 2009)² states that a strong and diverse private sector, providing agricultural inputs, production and financial services and markets, which poor rural producers are able to access and use, is critical for increasing their agricultural production and incomes. Under its private-sector strategy, IFAD can do much to engage and forge partnerships with a growing number of private-sector actors. It is, for example, working to link rural producers to export markets and to bring privately-owned financial institutions into rural finance operations. The Report of the Consultation further noted that, during the Eighth Replenishment period, IFAD would continue to work through its regular operations and within the framework of IFAD's private-sector strategy to build the conditions for successful private-sector partnerships between smallholder

² See document GC 32/L.5.

farmers and other economic agents. Several agencies provide direct support to the private sector but few, if any, prioritize investments in agriculture that bring direct benefits to very poor rural communities – though some are now considering the possibility of doing so³. IFAD will strengthen its partnerships with these agencies to find ways to stimulate such investments. The Report of the Eighth Consultation reiterated that IOE would conduct an evaluation of IFAD's private-sector strategy in 2010, and that the findings of that exercise would provide lessons for future engagement.

13. With regard to the latter, IOE has accumulated a fair amount of experience in evaluating IFAD activities involving the private sector. One of the main lessons that numerous country programme and other evaluations highlight is that the commercialization of small farmers is extremely important to take them out of poverty. Small farmers have the potential to act as small entrepreneurs and can therefore be instrumental in ensuring food security and growth. Also, in the context of preparing the 2009 Annual Report on the Results and Impact of IFAD Operations (ARRI), an issues paper was produced that examined in detail the opportunities and challenges associated with promoting access to input and output markets, including the role of the private sector in the process. A workshop was organized with representatives of IFAD Management and staff to discuss the main issues and identify priority areas for moving forward. Some of the main issues emerging from the workshop included: (i) the need to better understand value chains⁴, in which the private sector plays a prominent role; (ii) diversifying approaches to rural finance throughout the value chain and not just at the farm level; (iii) the importance of innovation; (iv) working on developing public-private partnerships; and (v) sharing knowledge both within and outside IFAD. Box 2 from the ARRI below summarizes some key discussion points related to improving access to markets.

14. During the Eighth Replenishment of IFAD's Resources, discussions were also held on the possibility of establishing a new facility to promote private-sector investment in rural areas, the aim being to provide investment finance directed to the private sector and to policy/institutional support to help establish an enabling environment for private-sector development. It was also recognized that IFAD should assess the need for and feasibility of developing new instruments to engage with the private sector, including through non-sovereign lending and equity investments. IFAD agreed that "If such a need is identified, a proposal for IFAD's role and instruments, fully consistent with IFAD's mandate, will be prepared and presented for approval to IFAD's Executive Board by December 2010", even though it was felt more appropriate to defer such a presentation until after the present evaluation had been completed. Finally, it is worth underlining that in 2009 the Executive Board approved IFAD's new grants policy, which for the first time opened the window for financing private-sector entities involved in IFAD-supported activities in borrower countries.

³ The agencies identified included the International Finance Corporation (IFC); the African, Asian and Inter-American Development Banks (AfDB, AsDB, IDB); Inter-American Investment Corporation; European Bank for Reconstruction and Development (EBRD); and bilateral agencies such as the German Investment and Development Company; Agence Française de Développement; Promotion et Participation pour la Coopération Économique (both of France); Capital for Development Group of the United Kingdom; and Swedfund of Sweden.

⁴ In the context of the approach paper, a value chain is defined as the entire chain of activities for firms and distribution networks operating in a specific industry (thus, for an agricultural product, running the gamut from growing a particular crop, including the provision of inputs and technical services, to the processing, logistics, distribution, marketing and final sale). Value-chain analysis is then used as a means of identifying poverty-reduction strategies/activities that would upgrade and add value for IFAD's target group in the various steps/activities that make up the chain.

Box 2. Key findings on market access, ARRI 2009

There is now a more systematic and focused approach to market access and value chain analysis than in the past. The design of projects approved over the last few years is quite different to those covered by completion evaluations undertaken to date.

Partnerships with the private sector and other development agencies are important, but can be difficult to forge. IFAD needs to develop better models for working with the private sector, developing public/private-sector partnerships and working with other international organizations.

There is a need for more flexible and diversified financing instruments, such as lending to the private sector. Conventional instruments limit what IFAD can do in terms of addressing value chain constraints, especially those beyond the farm, such as the financing constraints faced by larger operators that poor people may depend upon both for farm inputs and for marketing and processing services.

Government policy is important in shaping market opportunities and constraints. Policy dialogue is vital and, although IFAD's ability to influence policy may be limited, it will need to generate a better understanding of how policy can affect project outcomes.

The trade-offs between targeting the poor and commercializing production give rise to concern. However, they may be addressed by a more in-depth analysis of poor people's needs, the use of social safety nets, and by equipping the poor with the skills they need to access labour markets.

C. The 2005 IFAD Strategy for Private-Sector Development and Partnership⁵

15. The Fund's private-sector strategy of 2005 starts by carefully and fully defining what IFAD means by the private sector. It states that the rural private sector includes a whole continuum of economic agents, ranging from subsistence or smallholder farmers, rural wage-earners, livestock herders, small-scale traders and microentrepreneurs; to medium-sized, local private operators such as input suppliers, microfinance institutions, transporters, agroprocessors, commodity brokers and traders; to other, bigger market players that may or may not reside in rural areas, including local or international commodity buyers and sellers, multinational seed or fertilizer companies, commercial banks, agribusiness firms and supermarkets. Associations of farmers, herders, water users or traders also constitute an important part of the private sector.

16. The strategy further underlines that IFAD's direct target group is the rural poor, who tend to be concentrated at the smaller end of the private-sector continuum. This group is considered part of the private sector because, in essence, it comprises agro- or rural-based microentrepreneurs who make their own economic decisions regarding what to produce and how to produce it, what to buy and sell, who to buy from and sell to, how much to buy or sell, and when. IFAD will concentrate its efforts on supporting the development of this private-sector target group. However, since the livelihoods of its target group are often dependent on other private-sector operators, IFAD will also support or partner with those private-sector operators that can provide improved income-generating opportunities for the target group.

17. After briefly identifying the variety of economic constraints that limit the potential for growth of private agents – including lack of access to knowledge and skills; inappropriate institutional and policy framework; and inadequate rural infrastructure – the strategy stresses that in order to stimulate private-sector-based rural economies to the benefit of the poor, what is needed is not only a lessening of the obstacles that each group faces on its own terms but the creation of conditions that can facilitate fair market relations among the various players. In partnership with the public sector, other donors, NGOs and relevant private organizations,

⁵ Part of the text in this section has been taken from the IFAD private-sector strategy document of 2005.

there is an important role for IFAD to play in helping both the rural poor and other private operators overcome the various market constraints, and in making their market-based relationships more profitable and appealing, resulting in win-win situations for both groups.

18. The strategy document discusses the evolution of IFAD's engagement with the private sector. It specifically notes that since its foundation, IFAD has been supporting the private sector as represented by smallholder farmers and other rural poor residents. As recently as 10-20 years ago, and to some extent even today, the rural poor were looked upon mainly as local producers with few linkages to the rest of the economy. Indeed, early IFAD-supported projects focused mainly on boosting food production and improving the food security of rural households (within a largely 'subsistence economy' model). This called for financing the delivery of non-market-based, public rural services (such as extension, credit and infrastructure) and the capacity-building of public institutions. As noted earlier, the environment in which IFAD's target groups produce, work and obtain services has changed substantially over the past 10-20 years. The withdrawal or reduction of the state's role in providing services and purchasing outputs means that the private sector is increasingly fulfilling this role, or is at least expected to do so. This reinforces and underscores the fact that smallholder farmers and other rural entrepreneurs are private-sector actors operating in a much wider and dynamic context. Private-sector-driven economies have now created real opportunities for many rural poor residents, but there are also major challenges. Left to themselves, markets for goods and services in poor rural areas are not automatically more efficient than the state-led or mixed systems they have replaced. And even where they are, they certainly do not guarantee benefits to poor and un-organized rural producers, who do not easily gain access to these markets.

19. The objective of the 2005 strategy is to increase pro-poor private-sector operations and investment in rural areas. Three broad lines of action are called for: (i) policy dialogue for local private-sector development; (ii) investment operations to support local private-sector development; and (iii) partnerships with the private sector in order to leverage additional investments and knowledge for rural areas.

20. The strategy underlined the need for IFAD to develop guidelines (or a tool kit) for its operations staff to assist them in operationalizing the strategy, but they do not appear to have been formulated. Provision for staff training on partnering or engaging with the private sector was also foreseen. A staff member of the Programme Management Department (PMD) was to be appointed as focal point for the private sector.

21. The strategy included a results framework with 16 key performance indicators (e.g. at least 15 per cent of IFAD-funded projects will cofinance with, or generate complementary investments from, the private sector), and all targets in the results framework were expected to be reached by end-2008. In order to measure results and impact, IFAD's Results and Impact Measurement System and related monitoring and reporting tools were to be expanded or revised to capture the key indicators specified in the private-sector strategy. Reporting to the Executive Board was to be done by means of the Progress Report on the Project Portfolio (since merged into the Report on IFAD's Development Effectiveness). However, no section is devoted specifically to engagement of the private sector.

22. It is important to note that the global economic crisis has led to questioning of the appropriate balance between public regulation and private economic activity, and this questioning extends to the role of the state in agriculture. Problems associated with soaring food prices in mid-2008, for example, led many countries to re-think the implications of food security for domestic policy. As such, any evaluation of the 2005 private-sector strategy should also look at its continuing relevance in the light of events since it was published.

II. Objectives of the Evaluation

23. This is the first corporate-level evaluation of IFAD's engagement with the private sector. The 2005 strategy is rooted in IFAD's long-standing engagement with the private sector in the context of its operations. The underlying assumption of the strategy is that IFAD faces institutional constraints leading to sub-optimal engagements with the private sector. By addressing some of these constraints, increasing awareness of good practices among governments and IFAD staff, and defining a clear and measurable results framework, IFAD could play a more effective role in reducing rural poverty.

24. The core of the evaluation will be to assess the relevance of the 2005 private sector strategy against the results framework (2005-2008) laid out in the strategy. The evaluation will review IFAD's efforts to implement the strategy through a review of selected IFAD policies, country strategies, programme design and implementation, as well as attention to private sector in its non-lending activities (knowledge management, policy dialogue, partnership building, and grants).

25. The evaluation will not, however, be limited to examining the relevance, implementation and achievements of the 2005 private-sector strategy, but will also assess more broadly the evolution of IFAD's approaches and results in engaging the private sector over the years, and identify good practices and lessons for future operations. Therefore, the specific objectives of the evaluation are to:

- (vi) determine the relevance and evaluate the implementation of IFAD's 2005 private-sector strategy;
- (vii) assess the evolving approaches and results of IFAD's engagement with the private sector;
- (viii) examine the instruments and experiences of other development organizations in engaging private sector in agriculture and rural development, with the aim of identifying good practices that could be pertinent for IFAD; and
- (ix) generate a series of findings and recommendations that may serve as building blocks for IFAD's future engagement with the private sector.

III. Evaluation Approach, Methodology and Process

A. Evaluation Approach

26. **Period of coverage.** The evaluation will focus particularly on the activities funded by IFAD since 2003, which coincides with the decision by Member States during the Sixth Replenishment of IFAD's Resources (2002) for the Fund to develop "a strategy for achieving greater involvement of private-sector participants in IFAD programmes". In order to gain an appreciation of results on the ground, use will be also made of existing IOE evaluations and self-evaluation reports by IFAD Management prepared since 2003. In this regard, it should be borne in mind that these evaluations mostly cover projects that were designed in the mid-1990s and early 2000s but were under implementation until recently, and, as such, do not constitute the distant past.

27. **Key components of the evaluation.** There are four components that constitute the core building blocks of the evaluation, which will contribute to the preparation of the main evaluation report. In terms of its implementation, the evaluation will be conducted in phased manner (see section III C: Phasing of the evaluation).

- (i) The first component of the evaluation is a strategy review and portfolio scan, which is intended to look at achievements against the results framework of the 2005 strategy and provide an overview of the results of IFAD-funded operations with respect to the private sector.
- (ii) The second component involves country case studies. Eight countries will be selected for in-depth review to validate the findings of the strategy review and portfolio scan, as well as to identify good practices and the causes of less good performance in private sector engagement. The final list of countries to be covered will be determined during the desk review phase of the evaluation (see paragraph 39).
- (iii) The third component is a review of selected corporate business processes, which looks at how IFAD manages its internal process, including skills availability and development, to support its private sector agenda.
- (iv) The fourth component is a comparator study, looking at how other institutions are promoting the rural private sector

28. **The strategy review and portfolio scan.** This component will seek to provide an overview of IFAD support for private-sector development. It will entail reviewing: (i) selected corporate strategies, and recent country strategies and project designs to determine their coherence with the 2005 private-sector strategy; and (ii) the results of IFAD's private-sector engagement by mining existing evaluation and self-evaluation reports. Efforts will be made to benchmark the results across the five geographic regions where IFAD operates, and to identify lessons learned specific to different countries to enable cross-fertilization and exchanges of experience. This will be done by collecting data based on a review of evaluation and operational documents, and by holding a series of bilateral and focus group discussions with IFAD Management and staff. This component is also expected to generate key hypotheses and issues that merit deeper investigation and follow-up during the country work phase (see paragraph 30).

29. An important element of the strategy review and portfolio scan will be a review of the range of instruments (e.g. loans, grants) that IFAD has at its disposal and the corresponding challenges and opportunities they offer to promote the involvement of private-sector entities. For example, one key question is how effectively IFAD can promote private-sector engagement and development with loans provided to governments. In addition, the strategy review and portfolio scan will provide some analysis of IFAD's private-sector engagement at the corporate level, for example, by looking at the volume of funds raised from the private sector to cofinance IFAD-supported programmes, and the role of corporate and regional grants that have been given to the private sector (e.g. the Farmers Forum, etc.). A specific working paper will be prepared by the evaluation team to summarize the outcome of the strategy review and portfolio scan.

30. **Country case studies.** Eight countries will be covered under this component of the evaluation. The main objective of the country case studies is twofold: (i) to validate the results and hypotheses emerging from the strategy review and portfolio scan; and (ii) to identify good and less-good practices in private-sector engagement and the underlying causes for the same. A tentative list of countries developed in consultation with the PMD, to be confirmed following the strategy review and portfolio scan, include: Albania, Ghana, Guatemala, Pakistan, Peru, Sri Lanka, Uganda and the United Republic of Tanzania. Owing to resource and time limitations, country visits will be only undertaken to Albania, Ghana, Guatemala, Sri Lanka and Uganda. All studies will make use of available evaluation and other reports as well as interviews with IFAD staff. For the five case studies that will entail country visits, information will be also collected from partners at the country level and during visits to selected IFAD-funded projects. A country working paper will be prepared for each of the eight countries covered under this

component of the evaluation. The specific methodology to be followed in preparing the country case studies is discussed below (see Section III, B).

31. **Review of corporate business processes.** Apart from assessing results of private-sector engagement in IFAD operations, the evaluation will look more broadly at IFAD's organizational capabilities and processes to ensure appropriate engagement with the private sector. An assessment will be made of the adequacy of organizational capabilities (e.g. culture, direction/leadership, competencies including staff skills and incentives, learning, etc.), as well as IFAD's structure and processes (e.g. quality enhancement and quality assurance, supervision and implementation support, results measurement and reporting, country presence, evaluation, etc.) for private sector engagement. A dedicated working paper on the topic will be prepared by the evaluation team.

32. **Comparator study.** The fourth component of the evaluation will involve reviewing the strategies, policies, instruments and experiences in the private-sector engagement of selected development agencies. The aim of the review will be to identify lessons that may be suitable – with due adaptation – to IFAD's own context and priorities. The study will be largely based on a review of documents and, selectively, discussions with key informants in the development organizations covered. The proposal is to cover a selection of institutions with a similar mandate to IFAD⁶. As part of the assessment of the adequacy of IFAD's instruments (see paragraph 29 above), the comparator study will also review the synergies between private-sector lending windows such as the IFC, Asian Development Fund and African Development Fund with the regular operations of the World Bank/IDA, AsDB and AfDB, respectively. In addition, an effort will be made to capture the experience of IFC, EBRD and the Commonwealth Development Corporation in providing support to agroprocessing operations. A specific evaluation working paper will be prepared on the comparator study, which will also inform the draft final evaluation report.

B. Country Case Study Methodology

33. The main objectives of the country case studies are outlined in paragraph 30 above. The eight country case studies will look at a wide range of actual and potential support for rural private-sector development through IFAD-funded operations. The essential unit of the evaluation will be the country programme. The starting point will be to look at the country strategy and programme over time and, specifically, the operations funded before and subsequent to the approval of the 2005 private-sector strategy. Concretely, this will involve reviewing both past operations and more recent activities. For this purpose, the role of the rural private sector will be categorized as follows:

- (i) The first category is rural on-farm. Among other issues, here the evaluation will be looking at the dimension of private-sector support for small farmers in the form of research, extension, training, seed multiplication, input supply, harvesting and on-farm storage.
- (ii) The second category is the value chain. Here, the emphasis is on the link between the farm and the output market through processing, product certification, off-farm storage, transportation, the role of supermarkets, etc. This has become an increasing part of IFAD-funded projects in recent years. It is estimated that no less than 50 per cent of 2008 projects had some component or aspect relating to value chain development.

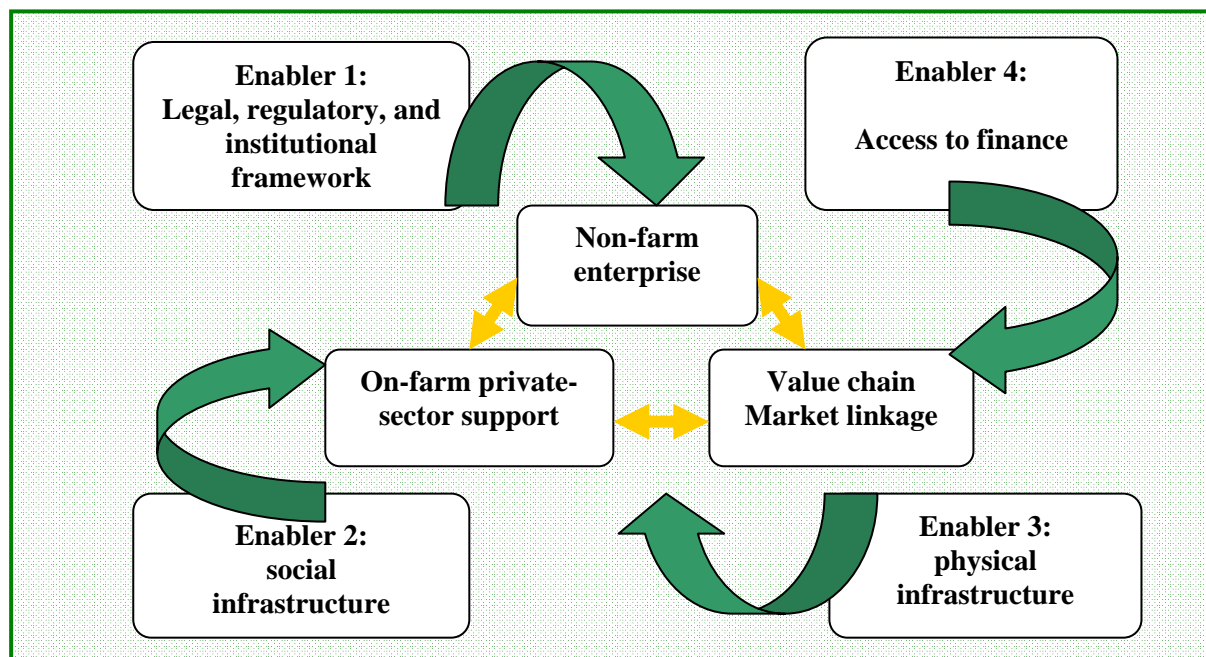
⁶ AfDB, Agence Française de Développement, AsDB, Commonwealth Development Corporation, Department for International Development (United Kingdom), EBRD, Food and Agriculture Organization of the United Nations (FAO), IDB, IFC, International Food Policy Research Institute, United Nations Industrial Development Organization (UNIDO) and the World Bank.

- (iii) The third category is rural non-farm enterprise. The focus here, inter alia, is on support for enterprise development, skills training – both business and technical, and venture capital support.

34. In each of these areas, a number of public and private institutions are engaged in providing technical, commercial and financial support for the rural private sector. In order for the private sector to grow and contribute effectively to rural poverty reduction, however, a number of key enablers need to be in place (see Figure 1).

- The first of these is the *legal, regulatory and institutional framework* for private-sector development. The lessons of the past point to the need for fair and transparent rules of the game governing private sector activities. These range from broad political and social stability and effective governance, to land tenure practices, land registration, competition policy and regulation, property rights and a host of other factors that determine the context in which the private sector operates. IFAD's engagement in tribal land rights in India is an important example of its work in this area. Aspects of the institutional framework also include the effects of taxes and incentives for private-sector engagement and support for efforts to develop public-private partnerships.
- *Social infrastructure* is also an important determinant of the level and growth of the private sector. Higher levels of education, better standards of health and effective community structures all contribute to an environment in which the private sector can function.
- *Physical infrastructure* in the rural areas is generally recognized as a necessary condition for private-sector development. As farm products move up the value chain to local markets, to processing and to more distant urban and international markets, the quality of physical infrastructure – including water management structures, soil and land improvement, roads including feeder roads, bridges, railways, power supply, and communications infrastructure – becomes an increasingly significant determinant of the rate of growth of private enterprise. Physical infrastructure at the farm and community levels plays an important part of many IFAD-funded operations.
- *Access to rural finance* is another enabler of the development of the rural private sector. One of the important developments of the past two or three decades has been the growth of rural microfinance and the recognition of the important role it can play, particularly in on-farm enterprise development, health and weather insurance, and in encouraging off-farm enterprises such as the establishment of artisan production and local services. But once these enterprises grow, they need access to the commercial banking system and to more sophisticated financial products.

Figure 1: Key components and enablers of private-sector engagement in IFAD operations



35. An evaluation of IFAD support for rural private-sector development through country case studies does not need to focus on each of these enabling factors. However, it must question whether IFAD is assessing the context of private-sector development in supporting the components described in paragraph 34, and whether the absence or weakness of any of these enablers constitutes binding constraints to effective private-sector development that need to be addressed in parallel with direct support for the rural entrepreneur.

36. The **evaluation framework** in Appendix 2 outlines the evaluation objectives and maps them with the key questions the evaluation will address, as well as the activities that will be undertaken for collecting data and information to answer the key questions.

C. Phasing of the Evaluation

37. The evaluation will be divided into the following phases:

38. **Inception.** Under this phase, the aim would be – among other tasks - to review key IFAD documents related to the private sector, develop further the overall evaluation approach and methodology, fine-tune the evaluation framework as required, develop the criteria and finalize the selection of countries, develop the detailed terms of reference for the country work, finalize the composition of the core learning partnership (CLP) (see section IV), prepare an indicative table of contents for the country working papers, and complete the selection of the consultants team and the senior independent advisers (SIAs, see paragraph 46).

39. **Desk review.** The strategy review and portfolio scan as well as the comparator study will be undertaken during this phase. Once the corresponding preliminary draft working paper on these topics is available, IOE will make a presentation to IFAD Management and staff on the emerging findings. The aim of this interim presentation will be to promote learning during the evaluation and obtain feedback on the hypotheses and key questions for the country case studies. During the desk review phase, arrangements will be also made for country visits by IOE.

40. **Country work.** IOE will contract one well-qualified consultant or deploy one of its own staff members to conduct each country study. Country work will be carried out in five of the

eight countries during missions of 5-7 days. Specific activities at the country level will be defined during the inception phase, and include discussions with government, beneficiaries, private-sector partners and others, as well as visits to selected IFAD-funded projects. The country working papers will be finalized following the country visits (in the five cases where country visits are undertaken), and all eight papers will be shared with PMD for review and comment.

41. **Corporate business process review.** This review will be undertaken once the country case studies have been completed. It will be important to be able to use the results of the country case studies in identifying key business process issues and framing the questions to be taken up in this process.

42. **Final report preparation.** The focus of this phase will be on preparation of the draft final report, building on the four components of the evaluation. The draft report will be shared with IFAD Management for comments. IOE will prepare an 'audit trail', which will clearly illustrate how Management's comments have been treated in the final report. Comments will be treated in line with the provisions contained in the IFAD Evaluation Policy⁷. IOE will be responsible for the overall evaluation process, for the contents of the final report, and for all other deliverables produced during the evaluation, as per the Evaluation Policy. A learning stakeholders' workshop will be held before the evaluation report is finalized to discuss the main issues, lessons and recommendations contained therein.

IV. Core Learning Partnership

43. The role of the CLP is to provide guidance to the evaluation process and review key evaluation deliverables. In particular, at the start of the evaluation, CLP members will help flag issues and information sources for the evaluation. After the completion of the independent evaluation report, the CLP will discuss the evaluation findings, deepen the understanding of the findings and recommendations, and eventually work out the operational implications of the evaluation recommendations and the division of labour/responsibilities among the various stakeholders involved. IOE representatives will facilitate the CLP discussions. The proposed composition of the CLP is as follows:

- Mr Kevin Cleaver, Associate Vice President, Programmes
- Mr Henock Kifle, Chief Development Strategist
- Mr Luciano Lavizzari, Director IOE
- All PMD regional division directors and regional economists
- Mr Rodney Cooke, Director, Operation Policy and Technical Advisory Division
- Ms Vera Weill-Halle, Director, Innovative Financing
- Mr Shyam Khadka, Senior Portfolio Manager, PMD
- Mr Ashwani Muthoo, Senior Evaluation Officer, IOE
- Mr Henning Pedersen, Country Programme Manager (CPM), Near East & North Africa Division
- Mr Michael Hamp, Technical Adviser, Rural Finance
- Mr Vineet Raswant, Technical Adviser, Value Chains and Access to Markets
- Mr Ronald Hartman, CPM, Asia and the Pacific Division
- Ms Chitra Deshpande, Programme Officer
- Representatives of FAO and other development institutions (to be identified)
- Selected private-sector partners from developing countries (to be identified)

44. The CLP will be responsible for sharing all information and documentation with colleagues in their respective divisions. Members of the CLP will be asked to meet a number of times

⁷ "IOE will decide which comments should be incorporated in the revised (final) report. As a general rule: (i) the draft report will be revised to incorporate comments that correct factual errors or inaccuracies; (ii) it may also incorporate, by means of a note in the report, judgments that differ from those of the evaluation team; and (iii) comments not incorporated in the final evaluation report can be provided separately and included as an appendix to the report".

during the evaluation to discuss the draft approach paper, emerging findings following the desk review phase, and the draft final report. They will be also invited to take part in the learning workshop to be organized towards the end of the process.

V. Evaluation Team

45. Under the overall guidance of the Director, IOE, the designated lead evaluator for the evaluation will be Ashwani Muthoo, Senior Evaluation Officer, IOE, supported by Messrs. Pietro Turilli, Evaluation Officer, Jicheng Zhang, Evaluation Research Analyst, and Ms Katrin Aidnell, Associate Evaluation Officer. The evaluation consultants' team will be led by Mr Basil Kavalsky (Economist) who, among other tasks, will be responsible for the comparator study, one country study and preparation of the draft final report. Mr Marc de Sousa, an expert on rural finance and regional economics, will be responsible for some of the country studies. Consultants with expertise in value chain, access to market, agribusiness and related private-sector themes will be identified for the other country studies. A consultant (still to be identified) with expertise in organizational issues and preferably with experience in private-sector engagement will assess the instruments, organizational capabilities and processes to promote the participation of the private sector in IFAD operations.

46. IOE will mobilise the collaboration of two SIAs for this evaluation. Their role will be to review and comment on key deliverables and provide inputs and advice on methodology, process and content issues. The SIAs will prepare a short joint final report on their assessment of the quality of the evaluation, which will be shared with IFAD Management and the Executive Board. Their report will be included in an annex of the final evaluation report. Professor Robert Picciotto, a renowned development evaluator with a thorough knowledge of IFAD and rural poverty reduction⁸, will be one of the two SIAs. The second SIA will be Dr Namanga Ngongi, who has wide experience and knowledge of the United Nations and government systems as well as of agriculture development in general⁹.

VI. Time Frame

47. The following is a provisional time frame for the evaluation, which will be elaborated during the inception phase of the evaluation:

⁸ Professor Robert Picciotto was formerly Director-General of the World Bank's Independent Evaluation Group and is currently Professor at King's College, London.

⁹ Dr Namanga Ngongi was previously Deputy Executive Director of the World Food Programme and is currently President of the Alliance for a Green Revolution in Africa (AGRA).

<u>Date</u>	<u>Activities</u>
19 Mar 2010	Distribute draft approach paper to IFAD Management
9 Apr	Meeting with IFAD Management to discuss draft approach paper
May	Revise and finalize approach paper
Jun-Jul	Desk review phase: (i) strategy review and portfolio scan; and (ii) comparator study
Sep	Presentation to IFAD Management on emerging findings
Aug-Sept	Country work phase
Oct	Share country working papers with IFAD Management for comment
Oct	Corporate business process review
Oct-Nov	Prepare draft final report
End-Nov	IOE internal peer review process
End-Jan	Send draft report to IFAD Management for comment
Early Feb	Learning workshop to discuss the draft final report
End Feb 2011	Prepare and finalize evaluation's Agreement at Completion Point ¹⁰
Apr 2011	Discuss final evaluation report, together with the Agreement at Completion Point, in the Evaluation Committee and Executive Board

VII. Communication and Dissemination

48. Copies of the full evaluation report will be distributed to concerned staff in-house, Executive Board members and others. The main report will not exceed 50 pages. As per usual practice, an evaluation profile and one/two insights will be prepared based on the evaluation, to be distributed more widely both within and outside IFAD. Profiles/insights are communication tools (two-page brochures) prepared by IOE for a wider audience. The profile will contain a succinct summary of the evaluation's findings and recommendations. Each insight will focus on one learning theme emerging from the evaluation, with the aim of promoting debate among development practitioners, policy-makers and others on the topic. As mentioned earlier, a learning workshop will be organized to discuss the draft final report and to lay the foundations for the Agreement at Completion Point. All outputs will be also published in the dedicated web page on the private-sector evaluation, which will be created under the IOE section of the Fund's corporate website.

¹⁰ The Agreement at Completion Point, an action-oriented document, will capture the evaluation's main findings and recommendations and illustrate IFAD Management's understanding of the main evaluation findings and their commitment to adopt and implement its recommendations within specific time frames.

Private Sector Strategy Evaluation Framework		
Objectives	Key questions	Key activities
1. Determine the relevance and evaluate the implementation of IFAD's 2005 private sector strategy	<ol style="list-style-type: none"> 1. Is it the right strategy for IFAD's overall objectives of contributing to the reduction of rural poverty? 2. Has the 2005 Private Sector Development and Partnership (PSDP) strategy been relevant since approval? 3. To what extent the strategy has achieved its targets against the results framework 2005-2008 laid out in the strategy? 4. What is the further progress from 2009 onward? 5. During the implementation of the strategy, what have been successes and why? Where has it been less successful and why? 6. How has the Strategy changed the way IFAD approaches working with the private sector as compared to before 2005? 7. To what extent does IFAD's strategic guidance provide the institution with a clear, coherent (along corporate policy and guidelines), results focused and well-resourced framework to promote operations on private sector development and partnership? 	<ol style="list-style-type: none"> 1. A critical review of the 2005 private sector strategy; 2. Desk review of IFAD's strategic guidance on all documents related to private sector development and partnership in general approved by EB, GC and IFAD Management; 3. Analyse the data provided by PMD on the progress and achievements in relations to certain indicators; 4. Desk review of IEO evaluation reports since 2003; 5. Desk review of self-evaluation reports prepared by IFAD management since 2003; 6. Review of selected country strategies and project documents; 7. Interviews with IFAD Staff.
2. Assess the evolving approaches and results of IFAD's engagement with the private sector;	<ol style="list-style-type: none"> 1. Are the IFAD framework, and related policies and strategies approved after the 2005 private sector strategy coherent in supporting IFAD's engagement with private sector as elaborated in the 2005 strategy? 2. To what extent IFAD's capabilities and structure and processes are adequate for achieving the targets of engaging private sector in rural poverty reduction? 3. Is IFAD's strategic guidance on private sector development and partnership well reflected into country strategies and 	<ol style="list-style-type: none"> 1. Desk review of IFAD Strategic Framework, selected IFAD policy and strategy documents approved after the 2005 private sector strategy; 2. Review of the a few selected policies and strategies approved before 2005 private sector strategy; 3. Desk review of countries strategies and operations in relation to private sector development; 4. Interviews with IFAD management and staff on organizational capabilities, structure and processes; 5. Select eight countries as case studies which would form a basis for the evaluation; 6. Country visit to five of the eight selected countries

Private Sector Strategy Evaluation Framework

Objectives	Key questions	Key activities
	<p>programmes (COSOPs, project design and implementation, and non-lending operations)?</p> <p>4. To what extent the projects' design take the country and local context for private sector development into account? Are the private sector operations in country programmes consistent with IFAD's mandate and government policy? Are they well-adapted to local context?</p> <p>5. Did the projects identify opportunities for partnering or cofinancing with private sector players in implementation?</p> <p>6. Are the private sector activities in countries relevant the needs of target groups?</p> <p>7. Are the private sector operations coherent with other key activities in the country programmes? And therefore, contributing to poverty reduction?</p> <p>8. Do IFAD projects set monitorable objectives for private sector operations? Does the M&E system include measurable indicators for progress in achieving private sector development and partnership objectives?</p> <p>9. What tangible results can be shown either in field operations, partnership building with private sector, or improved policy environment?</p> <p>10. What are the good practices and lessons? What are the key success factors and constraints?</p> <p>11. Are these operations sustainable? What are the key innovation features? How is the potential for replication and scaling-up?</p> <p>12. Are there significant differences between countries in the responsiveness and similarly between regions? What are the determinants for these differences?</p>	<p>and structured discussions with key policy makers, partners, government officials, projects staff, implementing agencies, NGOs and representatives from civil society, in country international donors, advocacy groups, IFAD country representatives.;</p> <p>7. Identifying good practices and constraints faced in promoting private sector development and partnership in country studies;</p> <p>8. Desk review of IEO evaluations since 2003;</p> <p>9. Desk review of self-evaluation reports by IFAD management prepared since 2003 in relation to private sector and the selected countries;</p> <p>10. Draft country working paper for strategy review and portfolio scan;</p> <p>11. Draft country working paper for corporate business processes;</p> <p>12. Draft country working papers for each of the eight countries covered in the evaluation</p>

Private Sector Strategy Evaluation Framework

Objectives	Key questions	Key activities
	13. Have there been successful policy dialogues involving IFAD alone and/or with other partners? 14. Are there a set of factors which seem to foster private sector development and partnership emerging from IFAD's experience?	
3. Examine the experience of other development organizations in terms of their corporate strategies, processes, instruments and lessons learned to support rural private sector development, with the aim of identifying good practices that could be pertinent to IFAD.	1. Which instruments have the other organizations deployed in their operations? How well have other organizations done? 2. What have they learned about what does and does not work? 3. What are the good practices and lessons from these organizations that IFAD could reflect on in considering future operations relating to private sector development and partnership?	1. Desk review of the strategies, policies, instruments and experience for private sector engagement of other agencies (AfDB, AsDB, IDB, UNIDO and World Bank); 2. Summarize the good practices and lessons of other organizations; 3. Benchmark IFAD's strategic guidance against other organizations' strategies and policies; 4. Interviews with staff of other agencies; and 5. Determine which of the proposed strategies for private sector partnerships have worked.

APPENDIX 3**List of Policies and Strategies Reviewed by the Evaluation****A. Policies and Strategies**

1. Draft, 2011-2015 IFAD Strategic Framework
2. Climate Change Strategy (Apr 2010)
3. Policy on grant financing (Dec 2009)
4. Revision of the lending policies and criteria (Dec 2009)
5. Policy on engagement with indigenous people (Sep 2009)
6. Results measurement framework for the eighth replenishment period 2010-2012 (Sep 2009)
7. Rural finance policy (Apr 2009)
8. Revisions to the General Conditions for Agricultural Development Financing (Apr 2009)
9. Policy on improving access to land and tenure security (Sep 2008)
10. Replenishment Paper on Private Sector (2008)
11. Results Measurement Framework for Reporting on progress achieved against the IFAD Strategic Framework 2007-2010 (Sep 2007)
12. Innovation strategy (Sep 2007)
13. Strategy for Knowledge Management (Apr 2007)
14. IFAD Strategic Framework 2007 – 2010 (Dec 2006)
15. Policy on supervision and implementation support (Dec 2006)
16. Policy on targeting (Sep 2006)
17. Action Plan for Improving its Development Effectiveness (Dec 2005)
18. Private Sector Development and partnership Strategy (Apr 2005)
19. Gender Plan of Action (2003)
20. Rural Finance Policy (2000)
21. Rural Enterprise Policy (2004)
22. Report on the Sixth Consultation on the Resources of IFAD (2003)

B. Reports released from 2006

23. Progress report on the implementation of the IFAD Strategy for knowledge Management (Apr 2009)
24. Final progress report on implementation of IFAD's Action Plan for Improving its Development Effectiveness (Dec 2007)

C. Final report of the consultation Governing Council

25. Final report of the consultation GC 2009
26. Final report of the consultation GC 2006
27. Final report of the consultation GC 2003

List of Projects Reviewed in the Strategy Review and Portfolio Scan

Project Approved in 2009 (33 in total)	
<i>2009 December EB</i>	
<i>Western and Central Africa</i>	
1.	Côte d'Ivoire: Agricultural Rehabilitation and Poverty Reduction Project
2.	Gambia: Livestock and Horticulture Development Project
3.	Liberia: Agriculture Sector Rehabilitation Project
<i>Asia and the Pacific</i>	
4.	Cambodia: Tonle Sap Poverty Reduction and Smallholder Development Project
5.	Kyrgyzstan: Forestry and Carbon Trading Project
6.	Nepal: High-value Agriculture Project in Hill and Mountain Areas
7.	Sri Lanka: National Agribusiness Development Programme
<i>Latin America and Caribbean</i>	
8.	Brazil: Cariri and Seridó Sustainable Development Project (PROCASE)
9.	Plurinational State of Bolivia: Plan VIDA-PEEP to eradicate extreme poverty – Phase I: Pilot Project to Strengthen the Capacity of Communities and Families Living in Extreme Poverty in Cochabamba and Potosí
<i>Near East and North Africa</i>	
10.	Egypt: On-farm Irrigation Development Project in the Oldlands
11.	Georgia: Agricultural Support Project
12.	Sudan: Rural Access Project
13.	Turkey: Ardahan-Kars-Artvin Development Project
<i>2009 September EB</i>	
<i>Western and Central Africa</i>	
14.	Chad: Pastoral Water Management Project in Sahelian Areas
15.	Mauritania: Value Chains Development Programme for Poverty Reduction
<i>Eastern and Southern Africa</i>	
16.	Ethiopia: Pastoral Community Development Project II
17.	Zambia: Smallholder Agribusiness Promotion Programme
<i>Asia and the Pacific</i>	
18.	Bangladesh: Participatory Small-scale Water Resources Sector Project

19.	Pakistan: Crop Maximization Support Project
<i>Latin America and the Caribbean</i>	
20.	Brazil: Semi-arid Sustainable Development Project in the State of Piauí (Viva o Semi-Árido)
21.	Ecuador: Ibarra-San Lorenzo Development Project
22.	Mexico: Community-based Forestry Development Project for Southern States (Campeche, Chiapas and Oaxaca)
<i>Near East and North Africa</i>	
23.	Lebanon: Hilly Areas Sustainable Agricultural Development Project
24.	Sudan: Revitalizing The Sudan Gum Arabic Production and Marketing Project
<i>2009 April EB</i>	
<i>Western and Central Africa</i>	
25.	Benin: Rural Economic Growth Support Project
26.	Burkina Faso: Rural Business Development Services Programme
27.	Mali: Rural Microfinance Programme
<i>Eastern and Southern Africa</i>	
28.	Burundi: Agricultural Intensification and Value-Enhancing Support Project
29.	Ethiopia: Community-based Integrated Natural Resources Management Project
<i>Asia and the Pacific</i>	
30.	Afghanistan: Rural Microfinance and Livestock Support Programme
31.	China: Sichuan Post-Earthquake Agricultural Rehabilitation Project
32.	India: Convergence of Agricultural Interventions in Maharashtra's Distressed Districts Programme
<i>Latin America and the Caribbean</i>	
33.	Dominican Republic: Development Project for Rural Poor Economic Organizations of the Border Region

Projects approved in 2004 (25 in total)	
2004 December EB	
1.	Burkina Faso : Sustainable Rural Development Programme
2.	Ethiopia : Agricultural Marketing Improvement Programme
3.	Lesotho : Sustainable Agriculture and Natural Resource Management Programme
4.	Tanzania , United Republic of : Agricultural Services Support Programme
5.	Zambia : Rural Finance Programme
6.	Bangladesh : Microfinance for Marginal and Small Farmers Project
7.	Indonesia : Rural Empowerment and Agricultural Development Programme in Central Sulawesi
8.	Nepal : Leasehold Forestry and Livestock Programme
9.	Viet Nam : Decentralized Programme for Rural Poverty Reduction in Ha Giang and Quang Binh Provinces
10.	Argentina : Patagonia Rural Development Project
11.	Brazil : North-East Rural Family Enterprise Development Support Project
12.	Ecuador : Development of the Central Corridor Project
13.	Guatemala : National Rural Development Programme: Central and Eastern Regions
14.	Algeria : Rural Development Project in the Traras and Sebaa Chioukh Mountains of the Wilaya of Tlemcen
15.	Armenia : Rural Areas Economic Development Programme
16.	Jordan : Agricultural Resource Management Project - Phase II
17.	Sudan : Western Sudan Resources Management Programme
2004 September EB	
18.	Burundi : Transitional Programme of Post-Conflict Reconstruction
19.	Sri Lanka : Dry Zone Livelihood Support and Partnership Programme
20.	Azerbaijan : North-East Development Project
21.	Yemen : Al-Dhala Community Resources Management Project
2004 April EB	
22.	Congo : Rural Development Project in the Plateaux, Cuvette and Western Cuvette Departments
23.	D.R. Congo : Agricultural Revival Programme in Equateur Province
24.	Gambia, The : Participatory Integrated Watershed-Management Project
25.	China : Rural Finance Sector Programme

List of 2009 COSOPs Reviewed by the Strategy Review and Portfolio Scan**2010**

1. Azerbaijan (NEN 1)
2. Dominican Republic (LAC 1)
3. Nigeria (WCA 1)
4. Sierra Leone (WCA 2)

2009

5. Chad (WCA 3)
6. Congo (WCA 4)
7. Haiti (LAC 2)
8. Malawi (ESA 1)
9. Pakistan (APR 1)
10. Peru (LAC 3)
11. Philippines (APR 2)
12. Syria (NEN 2)
13. Sudan (NEN 3)

2008

14. Afghanistan (APR 3 Apr)
15. Brazil (LAC 4)
16. Burundi (ESA 2)
17. Ethiopia (ESA 3)
18. Morocco (NEN 4)
19. Viet Nam (APR 4 Sep)

2007

20. Tanzania (ESA, 4 Sep)

List of COSOPs and Projects Reviewed during the Seven Country Case Studies

Country	COSOP Year
Albania	2005
Ghana	1998, 2006
Guatemala	2003, 2008
Pakistan	2003, 2009
Peru	2002, 2009
Sri Lanka	2003
Uganda	2004

Country	Project Name	Approval year	Effectiveness year	Closing year
Albania	Mountains to Markets Programme	2008	2009	2014
Albania	Programme for Sustainable Development in Rural Mountain Areas	2006	2007	2012
Albania	Mountain Areas Development Programme	1999	2001	2008
Ghana	Northern Rural Growth Programme	2007	2008	2017
Ghana	Root and Tuber Improvement and Marketing Programme	2005 Sep.	2006	2015
Ghana	Rural Enterprises Project – Phase II	2002	2003	2011
Guatemala	Sustainable Rural Development Programme in El Quiché	2010	-	-
Guatemala	National Rural Development Programme, Phase 1: Western Region	2003	2006	2013
Guatemala	Rural Development Programme for Las Verapaces	1999	2001	2012
Pakistan	Crop Maximization Support Project	2009	2009	2015
Pakistan	Programme for increasing Sustainable Microfinance	2007	2008	2013
Pakistan	Dir Area Support Project	1996	1997	2008
Peru	Project for Strengthening Assets, Markets and Rural Development Policies in the Northern Highlands	2007	2009	2015
Peru	Market Strengthening and Livelihood Diversification in the Southern Highlands Project	2002	2005	2011
Peru	Development of the Puno-Cusco Corridor Project	1997	2000	2008
Sri Lanka	National Agribusiness Development Programme	2009	2010	2015
Sri Lanka	Smallholder Plantations Entrepreneurship Development Programme	2006	2007	2018
Sri Lanka	Matale Regional Economic Advancement Project	1998	1999	2007
Uganda	Community Agricultural Infrastructure Improvement Programme	2007	2008	2013
Uganda	District Livelihoods Support Programme	2006	2007	2015
Uganda	Vegetable Oil Development Project, phase I	1997	1998	2012

APPENDIX 4**Evaluation Bibliography**

AfDB/IFAD Joint Evaluation of the Agriculture and Rural Development Policies and Operations in Africa (2010)

Annual Report on Results and Impact of IFAD Operations (2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010)

Corporate-level Evaluation on IFAD's Efforts and Achievements in Gender Equality and Women Empowerment, Approach Paper (2009)

Corporate-level Evaluation on IFAD's Capacity to Promote Replicable Innovations, Approach Paper (2008)

Country Programme Evaluation Report, Republic of India (2009)

Corporate-level Evaluation on IFAD's Rural Finance Policy (2007)

External Review of the Results and Impact of IFAD Operations (2002)

Independent External Evaluation (2005)

Interim Evaluation Report on the Vegetable Oil Development Project, Republic of Uganda (2011)

Rural Enterprise Policy (2004)

APPENDIX 5

Private Sector Strategy Results Framework⁶⁶
(2005-2008)

NARRATIVE SUMMARY	KEY (PERFORMANCE) INDICATORS	MONITORING AND EVALUATION MECHANISMS
<p>Goal: Increase growth and reduce poverty in rural areas through increased private sector activities</p>	<ul style="list-style-type: none"> • Households with improvement in household asset ownership index • Number of private sector jobs generated in rural areas 	<ul style="list-style-type: none"> • Revised RIMS indicators
<p>Objective: Increased pro-poor private sector operations and investment in rural areas</p>	<ul style="list-style-type: none"> • Flow of local private sector investment in rural areas • number of rural enterprises established/strengthened • percentage of farmers using private advisory services • percentage of rural poor accessing private financial services • number of functioning marketing, storage and/or processing facilities 	<ul style="list-style-type: none"> • Statistics on private investments and flow of funds (International Monetary Fund, World Bank, UN databases) • Revised RIMS indicators
<p>Outputs: 1. Enabling policy and institutional environment for local private sector development provided</p>	<ul style="list-style-type: none"> • COSOPs include strategy to engage in policy dialogue for local private sector development • Stakeholders in COSOP consultations include private sector representatives • Where appropriate, policy dialogue to support the local private sector is included as a country programme activity 	<ul style="list-style-type: none"> • COSOP documents • Project design documents • Revised RIMS indicators • Portfolio reviews • Evaluation reports • Project completion reports
<p>2. Local-private sector development supported through IFAD investment operations:</p> <ul style="list-style-type: none"> • Strengthened business capacity of the rural poor and their organizations • Private technical/advisory services provided to the rural poor • Private RFIs strengthened to reach out to the rural poor • Private agricultural markets and small and medium enterprises 	<ul style="list-style-type: none"> • 20-25 per cent of all new IFAD projects strengthen the business capacities and skills of targeted rural poor or their organizations (e.g. farmers' associations, savings and credit associations, and water users' associations) • In new projects with a component for agricultural production and related advisory services, 25–50 per cent of such services would be delivered by private sector providers • In new projects with a rural financial service component, 50-75 per cent of the RFIs supported, strengthened or scaled up will be private sector institutions • 20-25 per cent of all projects will link small farmers with private markets or intermediaries (including contract farming initiatives) or will support the development of SMEs 	<ul style="list-style-type: none"> • COSOP documents. • Project design documents • Revised RIMS indicators • Portfolio reviews • Evaluation reports • Project completion reports

⁶⁶ Reproduced from the annex of the private sector strategy document, as approved by the Board.

NARRATIVE SUMMARY	KEY (PERFORMANCE) INDICATORS	MONITORING AND EVALUATION MECHANISMS
supported and linked to the rural poor		
3. Partnerships with the private sector established within the context of projects and programmes	<ul style="list-style-type: none"> • All new COSOPs include partnership possibilities with the private sector • At least 15 per cent of IFAD projects will cofinance with or will generate complementary investments from the private sector 	<ul style="list-style-type: none"> • COSOP documents • Project design documents • Evaluation reports • Project completion reports • Resource mobilization unit reports on resource mobilization

APPENDIX 6

A Review of the Recent Experience of Selected Comparator Organizations in Supporting PSD⁶⁷

A. The World Bank

1. Value chain work has a long history in the Bank through vertical integration projects –many of them related to plantation agriculture in the post-colonial era. Some of these were very successful. In the late 80s and 90s Bank theology moved away from the idea of commodity-led programmes, which were characterized as ‘picking winners’. There was a substantial portfolio shift and a movement to adjustment operations. The pendulum has not quite swung back, but the 2008 WDR discussion of linkages and the approach in the recent Agricultural Action Plan represents an important step. The strategy encompasses: Raising agricultural productivity; linking farmers to markets and strengthening value chains; and facilitating exit and entry including through promotion of rural non-farm incomes.⁶⁸

2. *Raising farmer productivity:* New style research projects include private actors through agricultural innovation matching grants and outsourcing of extension services. There is now little of the traditional support for national research and extension services. Almost everything that is now done has either a private sector or a decentralized orientation. The Bank has done a lot on private sector involvement in research and is exploring demand driven approaches, but the problem has been that of ensuring sustainability and quality control. The poorest farmers cannot pay. The biggest problems relate to basic food crops with local markets. When farmers need advice on sorghum, why would the private sector come in. On research and seed replication the private sector is also very reluctant to engage in activities where there is open pollination and no control over the product. Extension approaches such as Train and Visit and Farmers’ Field Schools have huge budget requirements and in practice have not proven sustainable.

3. *Value Chains:* There has been particular emphasis on the market linkages. The substantial increase in CDD driven in part by the earlier strategy has led to many demand-driven community sub-projects that link local farmers to markets; and the anchor unit for Agriculture has had a substantial increase in its agri-business staffing. Nor has the Bank been very restrictive in focusing value chains narrowly on the rural poor. There is a need for multiple instruments for multiple target groups. By supporting value chain links for medium size farms the Bank can help increase the demand for labour and for off-farm services. In Mexico the Bank has projects where farmers have 7 to 10 hectares each. The Bank’s value chain work is focused mainly on the MIC’s and on export crops. Despite efforts in Africa, not much is happening there. Even in say Kenya, only 30,000 out of a million farms produce for export markets. Contract farming for processing is an area with high potential. Also there is scope for expanded synchronized planting and farming where smallholders work together i.e. organizing farmers and moving them up the supply chain.

4. *Rural non-farm enterprises:* This has mainly been supported through CDD projects. There is ample evidence of the success of the CDD approach. Part of this is of course through rural finance. A good example is the BANSEFI project in Mexico which includes a range of services to promote non-farm rural private sector development including even rural education.

⁶⁷ Prepared by the IOE private sector evaluation team.

⁶⁸ In the words of one staff member: “One of the important lessons is that there are no ‘universally replicable’ models be it Amul or BRAC or whatever. It is a matter of drawing from these experiences and adapting them to the local situation.”

5. *Policy and Regulatory Reform:* The Bank has initiated a set of country exercises on the rural investment climate (RICAs). These are jointly financed by IFAD. The rural investment climate studies started in 2003. So far there have been six completed pilots including studies on Sri Lanka and Tanzania (also Benin, Nicaragua, and Ethiopia). The regular Investment Climate Assessments (ICAs) carried out by the Bank are only 'urban' and limited to registered activities. The RICAs focus on the rural sector. Many of the reports are now on the website. Another important area is land titling and registration. Without secure titles farmers will be reluctant to undertake longer term investments.

6. *Social Infrastructure:* While the Bank has put considerable effort into developing farmer organizations, their sustainability seems to be a major issue. The problem is how to organize the poorest. The Amul experience in India has been difficult for the Bank to replicate – it works when road networks, trucks, cold storage, etc. are all in place – a much more challenging problem in Africa.

7. *Rural Infrastructure:* There is enormous demand and a need to prioritise with the focus on the areas with the maximum potential agricultural productivity gain. They are looking particularly at the issues of maintenance and sustainability. The focus is increasingly on spot improvement in roads, i.e. investing in the trouble spots. In some places earth roads work while in others there is a need for an engineered solution with drainage. There is a great deal of resistance to this approach – 'why just put concrete in one part?' There is also a need for a broader view of how roads fit into the objectives of rural development. Issues of maintenance become particularly important. There has been some work done with performance based contracting for maintenance but it is proving very difficult. 'The contractor did not build the road and does not know what state it is in or what the maintenance implications are.' In general it is better to link construction with maintenance and not to pay too much of the money up-front.

8. *Rural finance:* The Bank is trying hard to find ways of improving rural credit. Four audits on rural finance were conducted by IEG in Moldova, Vietnam, Philippines and Romania.

9. *Partnerships:* While the Bank has some sort of partnership with every institution working in the rural development field, perhaps the most interesting issues relate to the collaboration with IFC inside the Bank Group. From both sides there are comments on the difficulty of forging effective collaboration and synergies. This mattered less when IFC was a less significant player in rural space, but it is now increasingly important. Even examples given of effective collaboration turned out to be more in the nature of an agreement to let one or other institution handle the particular programme than a genuine joint effort.

B. The International Finance Corporation (IFC)

10. In 2007 agri-business was made a strategic priority of IFC. The programme in this area had been growing gradually in the 1990s, but an evaluation of the agri-business portfolio in 2003, covering the period to 2001 had assessed this as one of the weakest areas of IFC's overall activity with only 39 per cent of projects having good development outcomes. An assessment made in 2010 of the current portfolio found that the proportion of agri-business projects with positive development outcomes had doubled to 78 per cent.

11. *Support for value chains:* What accounted for this turn-around? In the 90s international markets were not attractive for agricultural production, prices were in a slump and returns to agricultural activities were very low. Under the pressure to get involved in agri-business IFC engaged in some very low return programmes. The turning point came around 2000 when a secular upward trend in food and agricultural commodity markets began. At the same time IFC moved to a different model of support for agri-business. Instead of one off investments in companies it increasingly supported value chain projects using an anchor enterprise – a processor, trader or supermarket with

backward linkages to producers. IFC is of course able to invest directly in the anchor (up to 25 per cent of the capital of the enterprise); it provides assistance with marketing and technology and also brings its advisory services to bear on the relations with the farmers in the value chain. By and large IFC does not work with multi-national companies. 95 per cent of its value chain projects are with local traders. This said they tend to work with the larger local traders and processors. "SME financing is a neighbourhood activity". In addition to investing in equity, IFC gives them credit lines or on-lending guarantees.

12. Most of the portfolio growth in agri-business has been in emerging markets – probably 75-80 per cent. There is an increasing involvement in Africa but starting from a very low base. The main focus of investment is in processing. By and large they stay away from primary production and do not invest in plantations for example. IFC has now been asked to scale up its activities in agri-business substantially, from US\$600 million at present to US\$3 billion in the future. This will require a different approach. The bread and butter national value chain programmes are too labour intensive. Scaling up will require more wholesaling and probably more links with traders. This will probably be mainly to help trading companies cover their risks in the foreign exchange and commodity markets.

13. *Policy and Regulatory Reform:* In selected cases IFC's approach has encompassed broader advisory services in the areas of market reform and land reform. In general, however, they have a limited involvement and impact on the business environment. What they hope to do instead is to raise standards in the enterprises they support in areas such as financial practices, corporate governance and environmental safeguards, with the objective that these standards progressively become those of the industry as a whole. They are for example working with clients to certify environmental practices e.g. with soybean farmers in Brazil. They have established a consultative group to advise on the impact of palm oil on deforestation and vet the palm oil loans they provide. Similarly they are working to certify that child labour is not used in cocoa production in Cote d'Ivoire. The attempt is to increase the proportion of certified or benevolent practices among IFC clients.

14. *Rural Finance:* In the rural sector, IFC lends to banks or MFIs that lend to farmers. They provide advisory services to the commercial banks in areas such as risk management. In their experience these projects are most successful when they are part of a supply chain and not just a one-off support for a financial institution. They are trying to use the supply chain/finance approach in India, working with buyers and providing credit through the buyers' field agents. In micro-finance, the emphasis has now shifted from loans, to savings and micro-insurance programmes. BASIX in India is a particularly interesting example - a wealth management programme in which advisers talk to people about how best to manage their money. The programme guides people through a range of choices. The founder of the programme had begun with lending operations alone, but surveys showed that of micro-finance borrowers only 50 per cent were better off as a result of borrowing; 30 per cent were in the same situation and 20 per cent were worse off. He therefore decided that a more holistic approach was needed including productivity improvements, savings, health insurance, weather related insurance, etc. He started to develop a range of products for MFIs. IFC is a major shareholder of BASIX and of BRAC in Bangladesh. IFC has supported over 500 financial institutions and probably close to 100 MFIs in 60 countries.

15. IFC is also gearing up on the issue of micro-insurance, co-investing with LEAPFROG an NGO established in South Africa, in re-insuring small insurers e.g. a micro-insurance company in South Africa which is insuring people with AIDS. IFC is also supporting the development of micro-insurance products which can be sold through MFI networks – the networks take no risk – they are simply the agents.

16. *Partnerships:* IFC has recently developed an important partnership with ECOM – a US based company working in various countries to support improved coffee production. This is particularly attractive because ECOM works with smallholders. By providing 5 year

money to ECOM, IFC has been able to stabilize the company's debt profile (it was receiving one or two year money from commercial lenders). In return IFC has been able to push ECOM on tougher environmental and social standards. In Nicaragua, ECOM is working with 8,000 coffee farmers. There is a US\$25 million credit line from IFC to ECOM. The coffee goes to Nestle which has certified the product. There is also an IFC advisory project to support on-farm activities. The result has been a 40 per cent increase in farmer incomes. Aside from this IFC is relatively light on formal partnerships – even with the World Bank there is little coordination. In some projects the World Bank tried to bring IFC in but the lending cycles of the two institutions are very different. There has been some formal co-financing of value chains with private partners e.g. with Rabobank in India, but IFC has not found that this approach adds much value and is no longer doing it.

17. *Grant Technical Assistance:* In addition to lending IFC is also a major provider of technical assistance to the agri-business sector. The technical assistance provided covers a number of relevant areas: a) environmental and social responsibility; b) linking of farmers with traders and processors; c) the business enabling environment, d) access to finance – both agricultural finance and micro-finance, and e) infrastructure through PPPs. The pricing policy for IFC advisory services is based on apportioning the private and public benefits and getting the client to pay for the private part. Earlier these were provided free, but increasingly they find that in areas such as energy efficiency projects, the clients can save considerable money and are willing to pay for IFC energy audits. The payment can be cash or in-kind contributions. The starting point tends to be matching contributions. Delivery is often through coterminous IFC staff. Most of the staff are local, with a ratio of about 20 local to each internationally recruited staff member. (This is also seen as helping to build up the local consulting industry).

18. Because of the difficulty of assessing demand for and success of IFC advisory services a great deal of emphasis has been placed on evaluation of these products within IFC. There are M. and E. staff in all the regional hubs. There is a self-assessment at the end of each project. IFC has developed a set of mandatory indicators that can be used to aggregate outcomes and do impact evaluations. Local consulting firms are used to carry out these evaluations and they are asked to evaluate both the intermediary and the beneficiary.

C. Inter-American Development Bank (IDB)

19. The past ten years have seen a transformation of the rural areas in Latin America with the increased importance of non-farm income including remittances. The market environment has also changed with the explosion of supermarket chains and the increase in market access through trade agreements which have created new opportunities e.g. the impact of NAFTA on fruit and vegetables. In the first 3 or 4 years of NAFTA in Mexico for example, there was a great deal of public investment but not much happened. In years 4 to 6 however, private US companies moved in to source products for the US market.

20. *Farmer productivity:* IDB has tried to support a move from the traditional extension model to one based on public sector financing with services supplied by the private sector. Farmers who engage private service providers for technology enhancement are given matching grants through the project. This has been taken up in Argentina, Uruguay, Ecuador, El Salvador and the Dominican Republic. The assumption was that over time this would lead to a market that was not subsidized for agricultural services. IDB has evaluated the impact of these programmes on technology adoption and productivity in terms of yield and efficiency. They found that the projects were generally effective. It was important however to provide continuity. It is wrong to assume that once there is a market for private extension services the donor agency can then withdraw. In these situations the producers may end up with neither public nor private service providers. In two schemes there were experiments with declining subsidies. In general however, the feeling is that even with subsidies in the form of matching grants

the approach is still better than public sector provision of extension services which is extremely inefficient and costly. Understandably “ministries hate these programmes”. In addition to support for purchasing extension services there is also support for matching grants to purchase technology e.g. greenhouses in Ecuador. The conclusion from the experience to date is that private provision of on-farm services works, and farmers benefit, but in no case is this sustainable in the absence of project support.

21. *Value chains:* IDB has been struggling with how best to work with the private sector in supply chains and how it can add value to these. In some cases they have undertaken background surveys and analyses of market opportunities. One of the most interesting projects is the Pro Negocios project in Honduras which was modelled on a USAID project. In this case young agriculture graduates were selected to help organize producers in poor areas and present proposals to IDB which will channel US\$30,000 to US\$250,000 through the banking system for these programmes. IDB of course lends to the Government and the commercial bank role is that of paymaster. IDB hires a private implementation agent to handle the programme. The agent evaluates and approves the sub-projects and IDB gives a no objection. Environmental and social safeguards are part of the proposal. Essentially this is an effort to jump start value chains. A similar approach has been adopted in Bolivia.

22. *Non-farm enterprises:* IDB is experimenting with new projects which apply the ‘anchor’ approach used in the value chain to non-farm enterprises as a way of achieving rural (and municipal) poverty reduction. This is handled through their window for direct guarantees to the private sector.⁶⁹ In Brazil IDB has given US\$10 million to a programme in which hardware stores and manufacturers of building materials provide training for construction workers. The training is given at night on topics such as painting, plumbing etc. Seventy per cent of decisions on products used in construction outside of the major construction projects are made by the construction workers. The participating hardware stores and building material companies have had a 30 per cent increase in their sales as a result of the project. 250,000 workers have been trained. Once they are trained and certified they can be listed on a special web-site as trained specialists. In Northern Mexico the SEMEX project is paving streets in 12 poor neighbourhoods. IDB has provided a partial credit guarantee of US\$12 million to SEMEX. They provide services but also micro-credits. Municipalities give 50 per cent of the costs and families the rest while SEMEX provides the services. Once the streets have been paved, the municipality undertakes to collect garbage regularly. The curious thing is that of course the poor end up paying for the paved streets while the rich get their streets paved for free – or at least from their taxes. But the poor recognize the benefit from paved streets and garbage collection in quality of life and lower illnesses of children etc.

23. *Policy and Regulatory Reform:* Most of the focus is on land titling and registration etc. There is substantial activity, but the programme has shifted from land registration since the experience suggests that registration is not enough and there is a need for a full title. In some countries there were grass roots movements to stop land titling since once campesinos got title to their land they sold them to large companies, took the money and eventually became indigents. The Panama land titling project built in a social component to try to ensure this did not happen.

24. *Rural finance and micro-finance:* Very little IDB lending, perhaps because of availability of remittance income. There are micro-finance projects however and an evaluation of these is ongoing.

25. *Physical infrastructure:* IDB support this mainly through regional development funds which support decentralized provincial or municipal infrastructure. They are trying to evaluate alternative design standards in order to minimize the costs, e.g. through restrictions on the size of vehicles that can use the roads with communities applying voluntary restrictions; permanent maintenance programmes with farmers undertaking

⁶⁹ IDB considers this a flagship programme in poverty reduction and has set up a special office to handle it.

maintenance with contributions from the municipality; covering as many roads as possible with selective upgrading if demand expands. A key issue for the rural roads programme is sustainability. Initially in Peru the central government put in all the money. For the second project they wanted to get inputs from municipalities and this was quite successful with 92-94 per cent realization of collections from the municipalities. While the project is very successful, with hindsight it needed more links with markets to have an even greater impact. They included fairs in the project where new activities could be proposed to potential private marketers or processors. They are trying to do this now in Nicaragua and Panama i.e. to build a regional development project around rural road rehabilitation.

26. *Partnerships*: The Multilateral Investment Fund was established jointly with IFAD in 2004 to work on remittances. It facilitates and co-finances projects that utilize remittances for development. It worked initially in Latin America but was then broadened on IFAD's initiative to become a global facility of which IFAD provides the secretariat. It was extremely difficult initially to align the reporting and operational procedures of the two institutions. The view in IDB is that while the programme is a useful one, handling this as a partnership with IFAD has not been particularly useful or effective and they are easing out of this and that it is preferable to let IFAD handle it in future.

D. United States Agency for International Development (USAID)

27. There is a general concern about scalability of the activities AID is supporting. In the words of one staff member: "Are there too many boutique projects?" AID is looking at new paradigms but there are few examples of this as yet.

28. *Productivity*: In the 60s and 70s USAID support for the green revolution was instrumental in giving a major boost to small farmers in the developing world. In the past decades efforts have moved out of production and into agri-business. Now with food security re-emerging as an issue there is a shift back to production. Productivity was "missing for a generation". Now increasingly AID looks at extension services as the 'salesmen for new technology.'

29. An important area of AID's work, both on productivity and the value chain concerns bio-technology. There is a partnership with Monsanto, for example, which is donating genes that will eventually be subject to field trials in Nigeria on root crops. In the case of cotton in Burkina Faso, Monsanto is developing insect resistant varieties. At the other extreme they are looking for companies to help farmers to access technology. In India for example, small US biotechnology companies are developing drought resistant seeds. AID awards grants to US companies which sub-contract with local companies to help propagate the seeds. An important by product of this work is to help India bring together universities and government research institutes – and get away from the 'stovepipes'. AID is also supporting the development of new models of private/public extension services. In India for example they are helping build on existing private sector models to support one-stop shops for farmers where they can get advice on technologies and access companies providing inputs, seeds etc. There is a certification program for private extension services in India and the hope is that eventually this could be extended to the public sector as well.

30. *Value Chains*: Value chains are a major part of AID's support for the agricultural sector and the agency is active up and down the chain. One of the issues AID faces is where in the chain to put its money. It tends to go mainly to NGOs and universities, sometimes in partnership with food companies. AID also supports major corporations by meeting some of the start-up costs associated with working in a new location. The Office of Development Partnerships in USAID can engage the private sector and negotiate alliances for the private sector to invest in a particular market. They look for an overlap

between private commercial interests and development. Resources are shared on a 1 to 1 basis. Thus there is a partnership with General Mills in a number of countries to link their capacity to small to medium grain processors in the value chain. General Mills is helping to establish standards for the grain processing industry and is providing technology and technical assistance. USAID provides funds for nutritional supplements for the grains and helps to develop the capacity of the small processors. This is also intended to reduce post-harvest losses. The assumption is that over time General Mills will take over and run the programme themselves. It is obviously extremely time-consuming to identify and work with small local private operators and this depends on USAID missions. USAID does not limit itself to working with US companies and is also engaged with Nestle, Carrefour and others in these programmes.

31. *Non-farm enterprises:* This has proven a difficult area, particularly in scaling up micro-enterprises to small and medium levels.⁷⁰ AID has tended to use a cluster approach at the country level and to get groups of producers to work together in areas such as wood products, tourism etc. They usually contract international consulting firms to provide TA and training. The consultant helps to develop market linkages. A trade development project in Morocco brought people to trade fairs in order to put together processors and producer groups. AID is also trying to support local service providers in providing services to farmers and small business, but sustainability is proving a major issue given the need for continuing subsidization. AID tried to use business services firms as an entry point to supporting micro-enterprises but found that they were often reluctant to move into the rural areas.

32. *The policy and regulatory framework.* AID views this as key for enterprise development. "Direct services to enterprises are useful but not critical." Enterprises want to stay informal and this often makes direct interventions difficult. An important area for USAID is bio-safety assistance. They have a programme based in IFPRI and are working with 5 or 6 companies to establish bio-safety systems

33. *Micro-finance.* This is a major USAID programme. Support has risen from US\$65 million in 1989 to US\$275 million now. "Micro-finance is now a mature industry." AID supports both the NGO and the rural bank models for micro-finance provision. In Eastern Europe and the more advanced countries they have tended to go the banking route with full service banks.

34. *Rural Infrastructure:* AID does not do much directly on rural infrastructure – it got out of this in the 80s and 90s. This is largely handled under the Millennium Challenge Account which provides matching funds to qualifying countries. A country level steering committee is then set up to allocate these funds which tend to be mainly used for infrastructure development depending on national priorities.

E. African Development Bank (AfDB)

35. *The role of PS lending in AfDB:* The Bank began its direct private sector lending in the late 1990s. Loans to the private sector now account for roughly US\$1 billion out of the AfDB's total annual lending of US\$7-8 billion. The first principle is to establish that the project cannot be financed through the available private sector financing sources alone and that AfDB and development partners are therefore critical to the undertaking of the project. This is not easy to establish as it depends on the cost of funds.⁷¹ Second, this must be a part of AfDB's own country strategy. Finally the transaction itself should have a demonstration effect. (The objective is to finance the operation during construction and then to be refinanced by commercial banks.) This assessment of whether the operation meets these criteria is made by an independent group reporting to the Chief Economist, and the rating is made available to the Board. AfDB will not finance

⁷⁰ In a study carried out by Michigan State University in Africa it was found that only 1 per cent of enterprises graduated from micro to small.

⁷¹ In general AfDB tries to ensure that there is a level playing field with private finance for the project and it charges what commercial banks are charging so as not to displace them – in some cases this has gone as high as Libor plus 18 per cent.⁷¹ Second, the enabling environment in the country must be suitable for PS lending.

more than 33 per cent of the total costs of a project. While not a criterion it is considered a particular advantage if the programme supports PPP type transactions. In Uganda for example, AfDB is supporting private sector energy generation through a non-sovereign loan and transmission investment through a regular sovereign loan.

36. *Composition of PS lending:* AfDB's private sector strategy emphasises infrastructure and this is now the focus of about 40 per cent of AfDB's PS lending, with financial intermediation accounting for 30 per cent and the remaining 30 per cent in direct investment mainly for mining, industry and services. As far as PS financing of agriculture is concerned, there are three components of support:

- **Direct loans:** AfDB has a minimum size of US\$10 million per loan to the private sector. There have only been 3 agri-based loans in the direct private sector lending portfolio so far, each for US\$10 million. These are; a loan to Ghana which has closed, an ongoing loan to Gabon, and a loan to Morocco, which was approved but cancelled. They have just approved a loan to the African Agriculture Fund. The loan to Ghana for oil palm production is the closest AfDB has come to supporting a value chain project through its private sector window. The project was 60 per cent owned by a Belgian group, 20 per cent government and 20 per cent investors and employees. The company came with a package including a nucleus plantation, outgrowers and provision for improved stock. AfDB contributed US\$15 million of the US\$45 million project. They are currently looking at a sugar investment in Mali which is 65 per cent owned by Illovo sugar from South Africa. (This project will be a PPP with a loan to Government to cover the social development needed by the community – schools, roads, etc.) The Gabon project support oil palm and rubber and is with the same Belgian group as the Ghana project.⁷²
- **Equity:** The only direct equity contribution for agricultural activities is through support of private equity funds based in Africa. In agribusiness they have provided US\$20 million to a private equity fund based in South Africa, US\$20 million to the African Agriculture Fund, and recently approved US\$20 million to a Forestry Fund.
- **Lines of credit:** Five years ago the lines of credit were 80 per cent of the PS portfolio, but now with the increased emphasis on infrastructure and mining, this has been reduced. The lines of credit are also the largest part of the PS agricultural portfolio. The commercial banks that receive these lines of credit, can lend to any enterprise, agricultural or non-agricultural, but some of these lines of credit go to dedicated agricultural banks in Ghana, Namibia and Botswana. Note that these are publicly owned, but they are treated as loans to the private sector because there is no sovereign guarantee – they are given directly to a corporatized entity. The sub-loans under the line of credit usually target medium scale enterprises with loans from US\$5 million and up. There are no examples as yet of value chain projects supported through these credit lines. They have experimented with different approaches for targeting women's enterprises, but there is a fundamental problem of the bankability of these enterprises. One programme provides a 50 per cent guarantee fee, but this just reduces the amount of collateral which the commercial bank asks for. A major part of the problem is that they find that borrowers need to be depositors of the commercial bank. The lesson is that if you want a loan 'don't keep your money at home.'

37. *Due Diligence:* AfDB meets the due diligence requirements of lending to the private sector in part through cofinancing with other development finance institutions such as IFC or EIB. This allows a joint approach to getting agreement on social and environmental responsibility. The AfDB appraisal team always includes social and

⁷² When asked why there were so few of these projects the response was that it was a matter of staffing. Private sector projects are handled by a separate unit in AfDB. There are two staff working on agriculture in that unit, whereas the Agriculture department in AfDB has 100 staff members.

environmental expertise. There is full public disclosure of the social and environmental assessments. In addition when the size of an agricultural project exceeds 2000 hectares a special review of settlement issues is undertaken – these are identified as Category 1 projects and require public consultation. Unlike public sector projects, all PS projects have an ex ante review undertaken by a special independent unit reporting to the Chief Economist, which looks at the development outcomes associated with the lending or investment. The unit also looks at the additionality of AfDB involvement in projects, from three perspectives: Political risk mitigation; financing; and development impact. An interesting feature of this is that the review is not limited to AfDB's participation in the project, but treats donor financing as a joint activity. Thus for example the assessment is made as to whether the donors are jointly providing the financing needed for the project to go forward and not simply on the added value of the AfDB share of the total.

38. *Partnerships:* In general they try to partner in the PS operations. Partnerships include IFC – about 15 to 20 per cent of operations are partnered with IFC, KfW, EIB, the Development Bank of South Africa (DBSA), etc. So far all direct PS loans for agriculture have been cofinanced with IFC. They also try to bring in private banks, e.g. they have partnered with Standard Bank of South Africa and Nigerian private banks.

39. *What value does AfDB's capacity to lend to the private sector add to the institution and to its borrowers?* From the perspective of the private borrower, the inclusion of AfDB in the project brings a substantial mitigation of the political risk and the capacity of AfDB to intervene in the face of political or other constraints. In addition AfDB's presence can 'crowd in' investments from other sources. From the point of view of AfDB it enables the institution to take a total view of the economic environment in the country and to form partnerships with the private sector that might otherwise have little motivation to undertake. AfDB's experience in lending to the private sector suggests that if anything the risks associated with non-sovereign lending in Africa may be less than those associated with sovereign lending, since the repayment record thus far is excellent. It also enables AfDB to provide direct funding for the corporate sector rather than looking for intermediate routes through Government agencies which may give the wrong signals in the longer-term about the appropriate institutional framework for PSD support. The private sector also often brings important technical know-how to bear on the project, which promotes sustainability.

APPENDIX 7**Joint Report by the Evaluation's two Senior Independent Advisors**

1. We are satisfied that our major comments on the approach paper and an earlier draft were heeded. The final report presents balanced and plausible findings and provides sound recommendations for what needs to be done in the years ahead. Detailed comments follow.

Chapter I

2. Taking the role of other development agencies into consideration IFAD's comparative advantage is the incubation of institutional initiatives followed by up-scaling and mainstreaming promoted in partnership with other organizations in order to help ensure that indigenous assets are fully utilised; that property rights are secure and that the rules of the game embedded in value chains are pro-poor and promote inclusiveness.

3. Whereas the private sector is central to agricultural growth, it is the policy and institutional context within which private agents operate that determines whether the pattern of growth is inclusive of the poor - or not.

4. Critical and diverse obstacles need to be overcome in different country situations so that market risks and rewards are borne equitably and the benefits flowing to the poor are enhanced. In particular, key policy issues that the 2005 strategy had neglected may need to be addressed: land tenure, child labour, trans-national monopolies, price volatility, food security concerns, fair trade initiatives. Had these aspects been treated more explicitly they would have made the strategy more relevant and responsive to evolving global policy issues⁷³.

Chapter II

5. The methodology of the report complies with the approach successfully applied in prior corporate reviews carried out by IOE. Thus the report draws on portfolio scans; country case studies; a business process review and a comparator study. The typology of projects selected for review covers a wide spectrum of IFAD's project portfolio. A prior SIEA recommendation to focus on the delivery of the agreed 2005 strategy was heeded. And as we also suggested, the evaluation made use of project status reports for projects not yet evaluated by IOE⁷⁴.

6. The case study countries were selected in consultation with management to focus on the learning dimension of the evaluation⁷⁵. While this was a defensible decision it would have been useful to judge the representativeness of the country choices through an examination of private sector policy friendliness indicators for the selected countries and comparing them with those of other countries in the relevant region.

7. The evaluation opted to concentrate on the relevance and effectiveness of the strategy and to withhold judgment on its efficiency. This is due to the paucity of reliable evaluation material and budget data at project level. Also missing are socio-economic impact findings at farm and household levels. Such valuable information would have been available had IFAD projects been equipped with robust monitoring and evaluation systems, a critical issue that needs follow up.

⁷³ A vast literature about the feasibility of supply management of export crops and the development impact of Fair Trade initiatives is available.

⁷⁴ On the other hand, the evaluation did not rely on survey questionnaires directed to IFAD partners and stakeholders in the public, private and voluntary sectors as we had recommended.

⁷⁵ The purposive sampling of countries to meet formative evaluation purposes may have induced a selection bias by overestimating IFAD's responsiveness to the new policy directions of the 2005 strategy.

Chapter III

8. As noted in our comments on Chapter I, the overarching policy context of the strategy needs to be beefed up. This said the basic assessment of relevance contained in this chapter seems reasonable. It points to a clear-cut leadership gap at the institutional level⁷⁶. It also draws attention to the lack of participation of borrowing countries and the civil society in the process of strategy formulation.

9. The evaluation is also on the mark with respect to its assessment of the results framework⁷⁷ and it correctly suggests that the strategy needs updating to reflect the bitter lessons of experience associated with hasty privatizations, the growing profile of organic farming and fair trade initiatives⁷⁸, etc.

10. On the other hand, the broad private sector definition used in the strategy statement (and sharply criticized by the evaluation) is not inconsistent with the specification of the private sector partners that IFAD can work with in support of agricultural and rural development - or with a suitable treatment of the critical and complex interface between farmers and the small and medium enterprises that service farmers and process/market agricultural products.

Chapters IV and V

11. This is the core of the evaluation. The assessment is plausible and fair⁷⁹ although it might have stressed more explicitly that IFAD could have been more aggressive in building internal capacity, in forging more effective partnerships and in leading the international policy dialogue on the involvement of the private sector in agricultural and rural development.

12. At the project level, assessment of compliance with the tenets of the strategy relies on an ingenious evaluation framework in Chapter IV and taps into a self-evaluation data base in Chapter V: both sets of results indicate that a significant policy reorientation took place following approval of the strategy.

13. At the country level, the mixed quality of the policy dialogue is adequately documented by the case studies and many valuable policy lessons are drawn. At the institutional level, a nuanced assessment of the partnership dimension is provided along with a sobering score card of implementation promises vs. actual achievements

Chapter VI

14. The evaluation of business processes is straightforward and refreshing. It addresses the performance of Board oversight; identifies skills gaps; documents weaknesses in quality assurance arrangements and highlights the benefits of a field presence. Finally it suggests that the introduction of a well-funded and properly staffed Private Sector Development Facility would enable IFAD to participate more directly in the evolving role of the private sector in credit guarantee schemes, risk reduction instruments and challenge funds.

Chapter VII

15. This chapter is well crafted and concise. It draws on the experience of five other development organizations in this complex and (until recently) sorely neglected area. It demonstrates that no systematic knowledge sharing is taking place across institutions. It identifies common challenges;

⁷⁶ On the other hand, the shift observed with respect to operational priorities undoubtedly reflects strong ownership of the policy shift among some individual CPMs

⁷⁷ This assessment raises a policy question: should the Independent Evaluation Office play a role in assisting IFAD management design appropriate monitoring and evaluation arrangements of thematic policies.

⁷⁸ Engagement of the private sector in advanced agricultural research geared to climate change adaptation also needs emphasis.

⁷⁹ The limitations of the analysis are acknowledged at the outset of the chapter: no evaluation reports on projects approved since the strategy was approved are available since implementation of IFAD projects normally takes eight years.

isolates the comparative advantage of IFAD and pinpoints the specific areas where IFAD is lagging behind others. It also highlights good practices and puts forward issues that will need to be addressed if IFAD decides to move forward with direct lending to the private sector.

Chapter VIII

16. Section A pulls together the main findings of the evaluation. However, the section might have highlighted recent and disturbing global food security trends to make clear that a new strategy (that also draws on the findings of the evaluation) is badly needed. Such a strategy would be designed to ensure that IFAD is properly organized and staffed to take the lead in partnerships that help engage the private sector in cutting edge agricultural research, up-scaling of rural innovations, building of local capacities, land tenure reform initiatives and value chain designs that protect the interests of small farmers and landless farm workers.

17. Section B offers a highly relevant agenda for agreement at the completion point meeting with one exception: there is no need for a new definition of the private sector. Beyond semantics the problem that really needs fixing lies in the lack of a robust policy framework solidly grounded in policy evidence and responsive to the contemporary aspirations of IFAD's developing member countries. A recommendation addressing the continuing failure of IFAD and its partners to incorporate workable M&E components in IFAD funded projects should also have been included.

RP/NN: rp/nn
April 17, 2011

APPENDIX 8**Excerpts from the Report of the Chairperson of the Evaluation Committee to the Executive Board on the Discussion on the Private Sector Evaluation**

1. The Committee discussed and welcomed the Corporate-level evaluation on IFAD's private sector development and partnership strategy undertaken by the Independent Office of Evaluation (IOE).
2. The Committee underlined the importance of discussing the written IFAD Management response at the same time as the corresponding evaluation reports in the future.
3. The report was found to provide useful inputs in the discussions leading to the development of a new IFAD strategy for private-sector development, which is expected to be presented by the IFAD Management in December 2011.
4. The Committee emphasized that the departing point for discussions around the engagement by the Fund with the private sector is for IFAD to develop a more differentiated definition of the private sector in the context of IFAD operations.
5. The Committee underlined that governments are not generally reluctant to engage with the private sector, but may be constrained in doing so by selected national policies and institutional architecture.
6. The Committee highlighted that the private sector is a heterogeneous group of actors, needing different types of support. This should be clearly captured in the new strategy.
7. The Committee also emphasized the need to address the gender dimension, agricultural research and nutrition in the development of the new strategy by the Fund. It was also noted that the recommendation to establish a Private Sector Financing Facility could be useful and needed further elaboration by Management in the development of the new private sector strategy, taking into account complementarity of other partners.
8. The Committee underlined the importance for IFAD to establish partnerships on Knowledge Management on private sector development with relevant institutions.
9. The Committee noted that the Management will need to assess and elaborate recommendations further during the development of the new strategy.
10. The Committee noted that Management plans to produce a draft private sector strategy for consideration by the Board in December 2011. Before that, it was agreed that the draft document be presented for discussion in an informal seminar in September 2011.
11. The Committee:
 - a. Reiterated the need for IFAD to develop a clearer definition of the private sector in the context of the Fund's operations. This is extremely important given the heterogeneous nature of private sector entities working in rural areas.
 - b. Also emphasized the importance of partnerships with other institutions in order to enhance IFAD's knowledge on private sector development.
 - c. Underlined the importance of a favourable investment climate, which will require IFAD's concerted engagement in policy processes at country level.
 - d. Highlighted the risks of working with the private sector which need to be clearly spelled out in the forthcoming private sector strategy.
 - e. Encouraged IFAD to review its current organizational architecture and human resources to ensure that it has commensurate capacities for working towards private sector development.

- f. Recognises the importance of strengthening the existing IFAD instruments for private sector development and assess the corresponding costs.
- g. Recommended on the private sector financing facility to further delineate the development of the facility, as part of the forthcoming private sector strategy. This also requires outlining various options including expanding the cooperation with organisations that already have facilities for direct lending to the private sector. The eventual introduction of private sector facility should be undertaken in a gradual manner ensuring the complementarities with IFAD public sector operations.