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Enabling poor rural people  
to overcome poverty

## Private-Sector Strategy

### Deepening IFAD's engagement with the private sector

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**For: Approval**

## Private-Sector Strategy

### Deepening IFAD's engagement with the private sector

The Executive Board is hereby invited to consider the amended to the following paragraphs of the Private Sector Strategy – Deepening IFAD's engagement with the private sector for inclusion in the document to be revised as EB 2011/104/R.4/Rev.1 as shown below.

#### **Box 6: Principles of engagement for IFAD's private-sector partnerships**

The private-sector companies that IFAD will be working with cannot be selected in advance and will depend on the context, companies present in rural areas, opportunities that may arise, and the interest of the companies themselves in building relationships with IFAD's target groups. In some projects, this may mean working with a large urban supermarket; in others, with a rural-based milling factory. The selection criteria will, however, follow basic principles of engagement:

- The support or partnership should be driven first and foremost by the interests and needs of small farmers and poor rural producers in the countries where IFAD operates; more specifically, poor rural men and women should benefit from this engagement as producers, suppliers, customers, distributors or employees;
- To the extent relevant, there should be evidence of country ownership and support for private-sector partnerships (as stipulated in the COSOP or the project design or grant document);
- Particularly where large and international companies are involved, ~~and wherever local conditions allow,~~ the companies must comply with social and environmental standards (assessed through due diligence during project preparation, at a minimum based on the 2009 Guidelines on Cooperation between the United Nations and the Business Sector);
- The impact of the engagement should be sustainable after IFAD's contribution to the partnership has ended; and

33. **Enhance policy dialogue for a better rural business environment.** ~~One of the major barriers to private-sector development in rural areas are inappropriate government policies and regulations.~~ IFAD will enhance its policy dialogue agenda ~~to support a better rural business environment in this area~~ at both national and global levels. At the national level, through its projects and programmes, including COSOPs, IFAD can support a better policy environment for rural businesses to thrive and engage IFAD's target group in their businesses (through supply chains, job creation or service provision). This may include supporting easier registration, licensing, and certification processes for rural businesses; supporting the enforcement of commercial contracts between small farmers and private companies; and reforming the agricultural/rural taxation system to attract private-sector investment. While IFAD may not have the leverage or expertise to support a better business environment at the macro level, it can partner with other organizations that have the resources and mandate to do so, such as the World Bank or bilaterals such as the United States Agency for International Development

(USAID) and the German Agency for International Cooperation. It can also deal with more locally-based or rural-based regulations that have direct relevance to its projects and programmes. For example, in elaborating COSOPs or designing projects with its partner governments, a policy component can be added that makes IFAD programme financing contingent on a change in relevant government policies. This has been done by IFAD, and has led in some countries to the establishment of a microfinance law and a change in value-added tax law in conjunction with restructuring the ownership of rural businesses.

43. On this basis, IFAD proposes to continue to explore options to support rural SMEs in the next two years. In 2012/~~2013~~, IFAD ~~proposes to conduct a full feasibility study~~~~will conduct a full assessment~~ that would include a more in-depth look at the rural SME market, an investigation of potential partners and instruments, and an exploration of implementation considerations. In ~~early~~-2013, the results of the ~~full feasibility study assessment~~ would be shared with the Executive Board through an informal seminar. At that point, a decision would be made as to how best to go forward to support rural SME growth in developing countries, in line with IFAD's mandate.
45. **Strengthening IFAD's existing instruments**
- Through its internal review process, IFAD will require that all new RB-COSOPs include the private sector as stakeholders for consultation and/or potential partnerships at country level.
  - IFAD will increase the number of loan projects and grants that include the private sector as a partner or recipient. ~~In 2015, based on the lessons learned from the increasing number of grants that will go to the private sector, in conjunction with this,~~ the ~~Revised~~-IFAD Policy for Grant Financing ~~of 2009~~ will be reviewed, and ~~if necessary~~ expanded to ensure broader engagement with the private sector.
  - IFAD will increasingly engage in policy dialogue to improve the rural business environment related to its projects, programmes and COSOPs.
48. **Exploring how rural SMEs can be better supported**
- IFAD will conduct a full ~~assessment~~~~feasibility study~~ in 2012/~~2013~~ to ~~assess~~ ~~analyse~~ alternative options for IFAD to support rural SMEs in developing countries (direct financing of SMEs would be excluded).
  - In ~~early~~-2013, IFAD will present the ~~assessment~~~~full feasibility study~~ findings to the Executive Board. Based on the deliberations of the Board, IFAD will then decide on the way forward to provide additional support to rural SME growth, beyond that which can be provided through existing IFAD instruments.
52. As mentioned above, in ~~early~~-2013 IFAD will present the ~~assessment~~ findings ~~of the full feasibility study~~ to the Executive Board in order to ~~assess~~ ~~determine~~ the options available to IFAD in ~~better~~ supporting rural SMEs in developing countries. These findings may entail a revision of the current strategy, in which case the revised strategy would be resubmitted to the Board for approval.