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Investing in rural people

Progress on implementation of the IFAD Private-Sector Strategy

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Abbreviations and acronyms

4P	public/private producers’ partnership
APO	associate professional officer
COSOP	country strategic opportunities programme
PPP	public-private partnership
RB-COSOP	Results-based COSOP
RMF	results management framework
SME	small- and medium-sized enterprise

Progress on implementation of the IFAD Private-Sector Strategy

I. Introduction

1. IFAD's Executive Board approved the IFAD Private-Sector Strategy: Deepening IFAD's engagement with the private sector,^{1,2} at its 104th session in December 2011. This paper serves to update the Board on progress made in implementing the strategy.
2. As of July 2014, IFAD has surpassed the targets it set in the results management framework (RMF) of the private-sector strategy, in terms of both quantitative indicators and the time frame. In addition to regular IFAD instruments (country strategic opportunities programmes [COSOPs], loans and grants), which now include a much higher level of private-sector engagement, IFAD has also developed new mechanisms and programmes to attract further private-sector investment in smallholder farming. Examples are: the public/private producers' partnership (4P) mechanism, for which it will launch a five-country pilot later this year; and equity financing mechanisms to support rural small- and medium-sized enterprise (SME) growth, such as the Uganda Small and Medium Agribusiness Development Fund (with support from the European Union) and the Technical Assistance Facility of the African Agriculture Fund (also financed mostly by the Union).
3. In addition, IFAD formed its first two global private-sector partnerships – with Unilever and the Intel Corporation – as a result of more proactive outreach to companies at the corporate level. The Unilever partnership spans diverse knowledge and thematic issues and is working on the ground in China and India. IFAD's collaboration with Intel has resulted in the roll-out of new farm-extension software tools within IFAD-funded projects in Cambodia and Nepal. Moreover, IFAD's corporate private-sector partnership practice has developed a system of due diligence for selecting appropriate partners in order to help manage risk and better enable IFAD staff to build such partnerships.

II. Review of the RMF

4. The private-sector strategy defined three main strategic themes:³
 - (a) Strengthening IFAD's existing instruments – including COSOPs and project loans and grants – to increase engagement and partnership with the private sector at local and international levels, and to support better rural business environments;
 - (b) Building the capacity of IFAD and its staff by increasing partnerships with other institutions, supporting greater knowledge management capacity, and increasing staff capacity overall to better engage with the private sector; and
 - (c) Exploring options for direct IFAD support to rural SMEs.

A. Strengthening IFAD's existing instruments

5. **COSOPs.** IFAD set a strategic objective that all new results-based COSOPs (RB-COSOPs) from 2012 onward would systematically include private-sector actors as stakeholders for consultation and/or potential partnership.⁴ As of the 111th session

¹ IFAD Private-Sector Strategy: Deepening IFAD's engagement with the private sector: www.ifad.org/pub/policy/private/2012_e.pdf.

² The strategy focuses on how IFAD intends to engage with the "corporate private sector", defined as for-profit businesses or companies that are not owned or operated by government.

³ See the RMF of the IFAD Private-Sector Strategy annexed to this report.

⁴ IFAD defines partnership as: Collaborative relationship between institutional actors that combine their complementary strengths and resources and work together in a transparent, equitable and mutually beneficial way to achieve a common goal or undertake specific tasks. Partners share the risks, responsibilities, resources and benefits of that

of the Executive Board in April 2014, 17 new COSOPs had been prepared since 2012, almost all of which have included either consultation with the private sector and/or potential partnership opportunities explored with the sector. For example, deepened partnerships with the private sector are an integral part of the 2012-2018 COSOP for Ghana, including those with producer and business associations at different levels, apex organizations of financial institutions, and organizations and representatives of the corporate sector. Equally, in Uganda's most recent COSOP (2013-2019), proactive engagement with the private sector will continue to be an important feature of the country programme, in order to facilitate the establishment of solid public-private partnerships (PPPs). The vegetable oil sector will be the primary focus, but such partnerships will be replicated in other value chains as opportunities arise.

6. **Country loans and grants.** IFAD aimed to increase the use of loans and grants in support of PPPs, and specifically agreed that 20 per cent of all new loan projects or grants from 2013 onward would include the private sector as a partner or recipient, and that its grant policy would be reviewed and expanded to ensure broader engagement with the private sector from 2015 onward.
7. Progress to date indicates that more than 50 per cent of country loans and grants approved by IFAD since 2013 (of a total of 45) are to finance projects that include the private sector as a partner or recipient. Typically this involves facilitating the engagement of private value chain actors (e.g. processors, traders, input dealers, business and technical service providers, financial service providers) with IFAD target groups, thus leveraging the expertise and resources of private agribusiness companies and the local private financial sector. In some countries, IFAD-funded projects are working with global companies such as Mars in the cocoa value chain in Indonesia, and Nestle in the maize sector in Ghana. However, in the majority of cases, IFAD-supported projects work with domestic SMEs at local or national levels.
8. **Global and regional grants.** A significant number of IFAD's global/regional grants approved in the last two years have included an explicit linkage with the private sector. For example, the grant to Trade4All Limited, which aims to secure a transparent-trading Cash-on-the-Bag business model for smallholders in East Africa, was successfully tested with 160 traders and the intermediaries/agents they work with to source produce from smallholders in Kenya, Uganda and the United Republic of Tanzania. This new business model promotes win-win agriculture value chains for smallholders, traders and buyers by: (i) improving the efficiency of the value chain; (ii) improving the quality of the product; (iii) reducing transaction risks; and (iv) introducing fair prices for all.
9. IFAD revised its grant policy in 2009 to include the option of extending grants to for-profit, private-sector entities, and stipulated that recipients make a contribution to the project as well. Since this time, IFAD has extended three grants under this window. The first, a US\$500,000 grant, was awarded to Mali Biocarburant SA (MBSA), a company producing non-polluting biodiesel from jatropha nuts grown by 10,000 small-scale farmers organized in cooperatives in Burkina Faso and Mali. The grant aims to consolidate biofuel foundations set up by MBSA to help producers integrate jatropha into their farming systems and strengthen their associations and cooperatives. A second grant was given to Making Cents International to increase youth employment and self-employment by building the capacity of local financial institutions to provide better-targeted financial and non-financial services to rural youth and/or the enterprises that employ them. A third grant was approved to ICF Macro, Inc. in April 2014 to build local capacity to conduct impact evaluations. As indicated in the RMF of the strategy, IFAD plans to revise its grant policy in

collaboration and learn from it through regular monitoring and review. a contractual relationship is different from partnership, in that a contractor and the contracted party do not share responsibility for the development and delivery of a project IFAD Partnership Strategy, 17 July 2012: [EB-2012-106-R-4.pdf](#).

2015. The revised policy will build on lessons learned from IFAD's experience to date in extending grants to the private sector.

10. **Supporting a better rural business environment.** IFAD aimed to ensure that from 2013 onward, 50 per cent of its financed projects, programmes and RB-COSOPs having a significant private-sector focus would include policy dialogue aimed at improving the rural business environment. Since 2012, 9 of the 17 approved COSOPs have either explicitly included policy dialogue for improved rural business environments as part of their specific objectives (Ghana, Uganda, Viet Nam) and/or have included multi-stakeholder platforms for policy dialogue among the diverse value chain actors, including the private sector. Viet Nam's preparatory COSOP work for 2012 included an analytical paper on collaboration with the private sector and extensive consultations with companies, both local and international. And since 2013, approximately half of the 24 projects that had been designed with the private sector, either as a partner or as a recipient, have included policy dialogue for a better rural business environment. This is often pursued by facilitating multi-stakeholder platforms in which all key actors can meet to discuss and agree on the key issues involved in improving the functioning of the related value chains. The projects in Ghana and Senegal are good examples of this approach.

B. Building the capacity of IFAD and its staff

11. The second strategic objective of the strategy is to build the capacity of IFAD staff to better engage with the private sector through partnerships with like-minded institutions, improved knowledge management and direct staff training.
12. **IFAD staff capacity.** Since 2012, IFAD's own staff capacity in private-sector development issues at the operational level has been increased by the hiring of an additional technical advisor in the Policy and Technical Advisory Division, and a third will be coming on board by the end of 2014. In 2013, moreover, an associate professional officer (APO) was funded by the Government of Germany to support IFAD in this area of work. In the Partnership and Resource Mobilization Office, a new private-sector partnership officer and another APO (financed by the Government of the Netherlands) have been hired since 2012 to support IFAD in building its capacity for more corporate-level private-sector partnerships.
13. In terms of staff training, IFAD set a target to train 30 country programme managers (CPMs) and other country team staff in value chain analysis, PPP developments, private-sector financing tools, and similar thematic skills by 2014. By the end of 2012, over 20 staff members had been trained in value chain design guidelines, and training of another 20 staff members, mostly working in IFAD country offices, is planned for early 2015 in partnership with the German Development Cooperation agencies. Moreover, staff are independently attending training courses outside IFAD on this topic.
14. **Partnership with other organizations.** Starting in 2012, IFAD set a target to partner with at least 10 other development institutions, United Nations organizations and NGOs to deepen its work in private-sector development and partnerships. In this regard, it has built and continues to strengthen a number of key partnerships and alignments:
- (i) IFAD's belief that farming is a business has underpinned its partnership work with the Food and Agriculture Organization of the United Nations (FAO) on equity fund investments, rural finance, contract farming, value chain development studies and the Principles for Responsible Agriculture Investment (PRAI). Along these lines, IFAD is supporting the Committee on World Food Security's adoption of the PRAI, which are key to ensuring broad governmental, civil society and private-sector support for responsible investments in the agricultural smallholder sector.

- (ii) As an active participant in the United Nations Global Compact (UNGC), IFAD is part of a strategic policy initiative led by a business community committed to aligning itself with 10 universally accepted principles of responsible business in the areas of environment, labour, anticorruption and human rights. IFAD recently supported the UNGC's process to develop Food and Agricultural Business Principles, aimed at guiding companies in the creation of inclusive business models.
 - (iii) Partnerships have been established with a number of NGOs and research institutions – such as Oxfam, Wageningen University, the Institute for Development Studies (IDS), and the International Institute for Environment and Development (IIED) – to increase analytical understanding of how to reach sustainable and mutually beneficial PPPs. A current IFAD grant to IDS and IIED is financing an in-depth study of four ongoing PPPs in IFAD projects through data collection and real evidence; the results are expected to be published by end 2014/early 2015. The Executive Board will be invited to the workshop in which the publication is presented.
 - (iv) IFAD also continues as an active member of the World Economic Forum (WEF) and its agricultural initiatives: Grow Africa and the newly launched Grow Asia. The organization is providing technical input as a member of the Rural Finance Working Group, and is helping identify concrete entry points for WEF member countries in strengthening rural value chains.
 - (v) In addition to the Unilever and Intel Corporation partnerships noted above, IFAD is pursuing collaboration with appropriate multinational companies committed to working equitably with rural smallholder farmers, either through their own value chains or by offering products and services that better suit smallholder needs. New advocacy efforts and/or partnership exploration is underway with companies including Barry Calbut, BayerCropScience, Coca-Cola, Danone, Diageo, John Deere, Lavazza, Nestle, PepsiCo, SABMiller, Syngenta and Yara, among others.
15. **Knowledge management.** IFAD set a goal to increase its knowledge management capacity by organizing and participating in a greater number of workshops, forums and networks related to private-sector development and PPPs. It has organized numerous workshops and learning events on the topic of value chains, private equity financing, contract farming and PPPs. Various external participants were engaged, including equity fund managers, the World Bank, FAO, the International Finance Corporation (IFC), private companies and bilateral donors. Of note was the learning event on value chains held with Germany in December 2013, involving the German Agency for International Cooperation (GIZ), Kreditanstalt für Wiederaufbau (KfW – the German Government-owned development bank) and the German Federal Ministry for Economic Cooperation and Development (BMZ).
16. To document and disseminate experiences, good practices and lessons learned, various publications and reports were produced, including: a publication on IFAD PPP experiences;⁵ a how-to note on value chain project design; another upcoming one on design of win-win PPPs; several brochures; and PowerPoint presentations.
17. During the Governing Councils of 2012 and 2013, the membership actively participated in panels and round tables on the topic of PPPs, and private-sector companies were invited to participate to enrich the discussion on investing in agricultural development. The membership had the opportunity to engage with local private-sector companies from Egypt, El Salvador, Indonesia and Uganda, and with those bringing in the voice of multinationals such as Unilever.

⁵ www.ifad.org/pub/partnerships/ppp.pdf

18. IFAD regional departments also facilitate mutual exchange and training across country experiences. The Asia and the Pacific Division used the annual retreat in Viet Nam in 2013 to share experience from successful PPPs in Indonesia. About 70 staff members actively participated and gained experience in engaging governments in partnerships in agriculture with the private sector. In Indonesia, a small grant is currently being used to build the capacity, at various levels, of partnering government agencies to constructively engage with the private sector.

C. Exploring options for direct IFAD support to rural SMEs

19. In preparing the 2011 IFAD Private-Sector Strategy, IFAD had conducted a pre-feasibility study to assess the recommendation of the Independent Office of Evaluation of IFAD that the Fund establish a private-sector facility to provide direct financial support to rural SMEs. While the study determined that acting as a direct funder of rural SMEs was not recommended for IFAD at that point in time (for both financial and capacity reasons), it recommended that IFAD continue to explore alternative options to support rural SME growth.
20. On this basis, IFAD further determined that SME financing is a crowded field in which other donors are substantively involved. Thus collaboration with other partners would be more effective in supporting the rural SME sector. As an example, with European Union financing, IFAD is currently helping establish and manage the Uganda Small and Medium Agribusiness Development Fund. It is also exploring the possibility of obtaining cofinancing for its 4P mechanism. As described briefly below, the main idea of the 4P mechanism is to use public or donor resources to support the private sector (mostly agribusiness SMEs in developing countries) to reach out to small-scale farmers as suppliers of raw materials or as bottom-of-the-pyramid rural consumers.

D. IFAD's 4P mechanism

21. IFAD's 4P mechanism was developed in 2013-2014 based on the belief that a funding mechanism is needed to support the emergence of pro-poor 4Ps along value chains on a more-systematic basis. In general, small-scale producers, who constitute the bulk of IFAD's target group, show the greatest potential to become a reliable partner for the private sector in long-term business relationships. Indeed, an increasing number of private companies, both at international, but, largely, at national or local level, have begun targeting this segment as part of their business strategies. However, they face many challenges in reaching out to small-scale producers and are looking for partners such as IFAD to facilitate and support their new "inclusive" business strategies.
22. To address this challenge, the 4P mechanism proposed by IFAD would be used to finance business plans submitted by private companies (mostly local SMEs). The business plans will propose a partnership with smallholder farmers and will be selected through a competitive process. The use of public resources is justified on the grounds that the aim of the 4P funds is to address a "market failure" in which the perceived high risks and transaction costs of working with small-scale producers are preventing private companies from forging market-based business relationships with them, and that public funds are needed to finance the initial start-up costs of such partnerships. IFAD is seeking other donors and supplementary fund resources to finance the 4P mechanism, and is currently holding discussions with the European Union, IFC and the European Investment Bank on potential cofinancing. In the meantime, it will be using its grant resources to begin piloting the 4P mechanism in five countries later this year.

III. Conclusions and way forward

23. This report demonstrates that as of July 2014, IFAD has reached the operating targets set in the 2011 IFAD Private-Sector Strategy. While there have been substantial achievements, the Fund will continue to move forward in this thematic

area, especially as the topic has become a sine qua non of the global development agenda. The next few years will be devoted to continuing the expansion of IFAD's engagement with the private sector, both at country and global levels, through COSOP consultations and direct project engagement as defined by the strategy's RMF targets. Moreover, IFAD proposes to extend the training target to include a minimum of 10 staff trained per year. Partnership-building and knowledge management will continue to be a core part of its work. In addition, IFAD will continue to explore alternative mechanisms and funding sources to support PPPs, including the 4P mechanism, in collaboration with other donors and organizations. As noted above, using its grant resources, IFAD has already initiated some knowledge work through four country case studies and the launch of the 4P pilots, the results of which will be seen in 2015 and 2016. These experiences and lessons learned will help IFAD fine-tune and improve its work in this area.

24. At the corporate level, IFAD will continue to refine its tools and due diligence processes to ensure that IFAD staff are well equipped to work with private-sector actors, always ensuring that the rights and benefits of smallholders are front and centre in all IFAD-supported partnerships. Building on its experiences with Unilever and the Intel Corporation, IFAD will also refine its strategy for working with multinational corporations to ensure that partnerships focus on bringing tangible benefits to poor rural people.

Results management framework of the IFAD Private-Sector Strategy

Goal: Reduce rural poverty by deepening IFAD's engagement with the private sector

Purpose: Create markets; improve access to inputs, services, knowledge and technology; and increase income-generating or job-creating opportunities for poor rural people.

<i>Strategic themes</i>	<i>Indicators</i>	<i>Means of verification</i>	<i>Milestones/time frame</i>
1. Strengthening IFAD's existing instruments			
➤ e COSOPs more systematically to engage with private-sector stakeholders	All new RB-COSOPs systematically include the private sector as stakeholders for consultation and/or potential partnership	All new RB-COSOPs	2012 onward
➤ Increase use of loans and grants in support of public/private partnerships	20 per cent of all new loan projects or grants include the private sector as a partner or recipient 2009 grant policy is reviewed and expanded to ensure broader engagement with the private sector	Annual Portfolio Performance Review Revised IFAD Policy for Grant Financing	2013 onward 2015 onward
➤ Support a better rural business environment	50 per cent of IFAD projects, programmes or RB-COSOPs have a significant private-sector component, including policy dialogue for a better rural business environment related to the IFAD intervention	Annual Portfolio Performance Review	2013 onward
2. Building the capacity of IFAD and its staff			
➤ Build IFAD's capacity through partnerships	IFAD will partner with at least 10 other development institutions, United Nations organizations and NGOs, to deepen its work with the private sector – for policy dialogue, knowledge or cofinancing purposes	Results-based management plans and corporate management results (CMRs)	2012 onward
➤ Build IFAD's knowledge management capacity	IFAD will organize and participate in workshops, forums and networks related to private-sector development and PPPs	Results-based management plans and CMRs; IFAD website	Ongoing
➤ Build IFAD's staff capacity	30 CPMs and other country team staff are trained in value chain analysis, PPPs, private-sector financing tools, etc.	Results-based management plans and CMRs; Staff Performance Evaluation System	By 2014
3. Exploring how rural SMEs can be better supported			
➤ Conduct full feasibility study to explore alternative options to support rural SMEs	Full feasibility study report	Consultants' report	2012
➤ Decide, together with the Executive Board, on the way forward in supporting rural SME growth	Executive Board informal seminar	IFAD Governing Bodies	2013