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Investing in rural people

Management position on the Comments of the Independent Office of Evaluation of IFAD on the IFAD Private Sector Engagement Strategy 2019-2024

Note to Executive Board representatives

Please note that this replaces the unedited document posted on 6 September 2019.

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For: Review

Management position on the Comments of the Independent Office of Evaluation of IFAD on the IFAD Private Sector Engagement Strategy 2019-2024

A. Overall comments

1. The comments of the Independent Office of Evaluation of IFAD (IOE) are mostly based on the corporate-level evaluation (CLE) on IFAD's engagement in pro-poor value chain development rather than on a focused evaluation of IFAD's existing private sector engagement. Therefore, in several instances, IOE's comments are too focused on IFAD's pro-poor value chain work than on its broader private sector engagement. The IFAD Private Sector Engagement Strategy (PSS) 2019-2024 makes reference to the relevant IOE evaluations (footnote 7, page 2) and takes on board IOE's recommendations but sought to provide a more general framework that is relevant for the various forms of IFAD's private sector engagement – be it value chains or other actions.
2. Management has already responded separately to the CLE on value chain development and will be implementing the CLE recommendations as agreed at the 105th session of the Evaluation Committee (hereafter referred to as follow-up actions). These follow-up actions will complement the guidance provided in the PSS and constitute, in Management's view, the right documents to address several of the issues raised by IOE in its comments on the PSS. By way of illustration, while the PSS sets out the action areas and criteria for IFAD's private sector engagement, the follow-up actions will specify the type of interventions that IFAD would use in different value chains. This is because, as rightly highlighted by some members of the Evaluation Committee, what applies to the cocoa value chain in West Africa does not necessarily apply to the rice value chains in Asia. Hence a more granular approach is needed than what the PSS is meant to cover.
3. Finally, Management wishes to highlight that several of IOE's comments are already well addressed in the PSS and that certain comments do not reflect previous feedback and guidance provided by the Executive Board, for example with regard to the lack of ambition.

B. Specific comments

IOE comment objective 2: The actions "are defined in generic terms and it is not clear in what way they depart from 'business as usual' or IFAD's previous experience."

4. Management: The actions discussed under objective 2 relate to scaling-up, replicating and making systematic use of what has been successfully implemented in the past. Concrete examples are also given in action 1 under objective 2. Management would like to emphasize that a new strategy does not necessarily entail proposing only new actions; it should also take into account what already exists, build on and take forward what has been learned, and scale up what has worked in the past.

IOE comment: "While the implementation modalities ... are reasonable, they are more general principles than operational modalities."
5. Management: Management disagrees. Section III.C of the PSS provides details of implementation modalities such as the creation of the Private Sector, Advisory and Implementation (PAI) Unit as the internal champion. It also outlines training to be undertaken; describes how government non-objection will be sought; elaborates on the definition of micro, small and medium-sized enterprise (MSME); specifies the principles that will be applied for blended finance operations to avoid unnecessary subsidies by the private sector; explains where the resources will come from; describes the allocation mechanism; and defines selection criteria. Additionally, IOE's recommendations do not take into account the action plan provided in annex

I, which lists in detail the documents, systems and actions that will be undertaken to implement the PSS, along with the responsible divisions and timelines for their delivery.

IOE comment: Balance in strategic content. The PSS should have explored the experiences available to IFAD. Areas of capacity-building and policy engagement could have been touched upon.

6. Management (IFAD experience): Appendix II provides nine case studies illustrating the kind of innovative and successful partnerships that objective 2 will seek to scale up. Due to the word count limit for Executive Board documents, the main text of the PSS was mostly used to describe the strategic approach, while details of IFAD's experience were included in the appendices. However, Management agrees that an explicit reference to these case studies and their main features could have been made in the action area section.
7. Management (policy engagement): This is specifically addressed in the PSS, as follows: "[IFAD] will engage with governments to improve national policies and create an enabling environment for private sector investments in rural areas. IFAD will also build the capacity of its project staff to help identify public-private partnership opportunities at the country level" (section III.C, para. 20, second bullet point). Indeed, this was one of the recommendations made by the Executive Board during the second informal Board seminar.

IOE comment: The PSS should have reflected more on the response to IOE CLE recommendations on pro-poor value chain development.

8. Management: In addition to the general comment provided above, Management wishes to add the following: The PSS provides an overarching framework for both value chain and non-value chain activities. The strategy sought to address a large number of IOE recommendations while ensuring that a broader framework is in place to cover more general types of activity. For example, the PSS explicitly mentions the need to promote good policy and strengthen the capacity of public sector staff without limiting this to value chains as per CLE recommendation 4 "promote inclusive value chain governance and an inclusive policy and regulatory environment" and recommendation 7 "develop the capacity of project management teams and IFAD staff" to work with private sector entities for pro-poor value chain development".
9. Management also believes that some of the CLE recommendations such as "sharpen approaches to value chain financing" (recommendation 6) should be addressed in the follow-up actions agreed upon during the Evaluation Committee session rather than in the PSS. Indeed, while the PSS proposes to "deploy financial instruments that play a catalytic role in directing private sector financing into rural MSMEs and small-scale agriculture" and provides an example of such instruments, the follow-up actions will define the type of financial products most relevant for the various value chains.

IOE comments on the niche for IFAD in non-sovereign lending and on additionality.

10. Management- Management agrees with IOE's statements and wishes to point out that the content of paragraphs 13, 14 and 15 of the PSS is consistent with IOE's comments (e.g. working with microfinance institutions and impact investors and use of blended finance that covers first-loss suggested in IOE comments and long-term debt). The same applies for the PSS discussion of the additionality concept.

IOE comment: Partnering and external institutions consulted – "It is not clear why IFAD would seek to work with institutions that have not managed to reach smallholders".

11. Management: IFAD's objective in working with financial intermediaries (FIs) is to facilitate the expansion of financing benefiting its target group, by: (i) working with

established FIs that are present in the sector to scale up their investments and funding; and (ii) facilitating the expansion of FIs that are not active in this segment. Hence, Management is of the view that market-building should be part of the PSS approach and that IFAD should consider working with both types of FIs.

IOE comment: Funding and fund-raising. "If IFAD is to be credible in private sector investment, it has to allocate into own resources", build capacity/teams and systems.

12. Management: Management agrees with the need to build capacity and systems and plans to do so. This is clearly explained in the PSS (section III.C, page 7) and action plan (annex I). On resources, the PSS also explicitly states that "IFAD may consider allocating a limited share of its resources and/or Member States may consider contributing towards private sector interventions. This could be formalized, for example, through a private sector window, should Member States so wish. The amount to be allocated to the private sector will be informed by the consultations with Member States and IFAD's risk management framework".

IOE comment: Risks. "The statement that 'IFAD will ... mitigate all the risks stemming from engaging with the private sector' is slightly misleading."

13. Management: Management concedes that the wording should have been "IFAD will aim to manage and mitigate risks". Indeed, Management agrees that working with the private sector will entail risks and potential losses which will be addressed through the various mitigation measures detailed in the PSS (section III.D and annex III). IFAD's Risk Management Unit is making very good progress towards being fully equipped to assess private sector operations supported by experienced staff, sound risk policies (notably the Capital Adequacy Policy) and a strong governance structure. The risk management approach to the private sector is expected to be based on a detailed independent risk assessment for each new private sector operation. This assessment will provide an internal rating for each operation, which will represent the creditworthiness of the recipient. IFAD's exposure to the private sector will also be informed by different prudential operational limits at instrument, sector and country level to ensure that the risk is well distributed among IFAD's potential beneficiaries.

IOE comment: Human-resources and capacity-building. "IFAD needs to build expertise."

14. Management: Management is aware of the need to build expertise and capacity. This is recognized in the PSS and addressed through clear intended actions (including through the training activities listed in annex I). IFAD has already hired many staff with private sector expertise, including in the Risk Management Unit, Office of the General Counsel (where a private sector desk has been set up), Sustainable Production, Markets and Institutions Division (i.e. PAI, which will be the internal champion for private sector activities) and the Financial Operations Department. The building of staff capacity and training will be gradual and, as mentioned in the PSS, staff training and training of project staff are envisaged (section III.C, para. 20). Management will also use consultants to compensate initially for missing skills until a sufficient business volume justifies staff recruitment.

IOE comment: Financial resources. "The strategy is missing a budget."

15. Management: The PSS is an overarching strategic document and, similar to other IFAD strategies, does not include a budget. This is also consistent with the practices of other international financial institutions. Management will prepare budgets and provide more operational details during the implementation stage and plans to hold regular seminars to brief the Board on such details.
16. On resources, as mentioned in the PSS, during the Eleventh Replenishment of IFAD's Resources (IFAD11), the PSS will be implemented using additional new

resources. For IFAD12 and beyond, the option to top up contributions will be explored with Member States and further resources will be also sought from global initiatives, impact investors and foundations.

IOE comment: Impact evaluation. "IFAD should begin by analysing the social and economic impacts of its private sector investments."

17. Management: The PSS envisages impact evaluations for a sample of private sector operations, as is the practice for IFAD's public sector projects (see section III.F, p. 10 for specific reference).

IOE comment: "The strategy is not very ambitious."

18. Management: Management agrees that IFAD could have been more aggressive in the PSS. The relatively conservative approach taken reflects the Board's guidance to move forward gradually and prudently.

IOE comment: "Linking [the PSS] more strongly with IFAD's work on value chains."

19. Management: See Management's response to the CLE recommendations in this regard. However, if the Board recommends the inclusion of additional text in the PSS to better highlight IFAD work on value chains, Management will do so. Management is, however, of the view that this would not make a significant contribution to the PSS, given that IFAD's private sector activities and work on value chains are strongly linked and that the recommendations of the CLE on value chain development will be well addressed in the agreed follow-up actions.