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Midterm Review of IFAD's Private Sector Engagement Strategy 2019–2024

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Action: The Executive Board is invited to review the Midterm Review of IFAD's Private Sector Engagement Strategy 2019–2024.

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Midterm Review of IFAD's Private Sector Engagement Strategy 2019 – 2024

I. Introduction

A. Background

1. In recent years, IFAD has taken major steps to strengthen its engagement with the private sector. A key milestone in this journey was the approval by the Governing Council, in February 2019, of a change in the Agreement Establishing IFAD to allow the Fund to finance private sector organizations and enterprises directly. The amendments to IFAD's basic legal texts came into force in September 2019, with the adoption of the Private Sector Engagement Strategy (PSS) 2019–2024 by the Executive Board (EB 2019/127/R.3).

2. This document presents a midterm review (MTR) of the PSS and aims to assess the relevance of the strategy with respect to internal and external changes that have taken place since its adoption. The MTR focuses on progress against objectives and intended actions; identifies challenges and areas for improvement; and provides recommendations. Importantly, it does not constitute a review of IFAD's overall engagement with the private sector.

B. Methodology

3. This MTR analyses the relevance and progress of IFAD's PSS 2019–2024 and uses a combination of quantitative data from the PSS action plan and data obtained from IFAD systems and documents. The MTR also draws on findings from various stocktakes[1] conducted by IFAD staff. These data were complemented with interviews and workshops involving a broad range of corporate stakeholders (see appendix VI).

II. Context

4. The PSS was adopted in September 2019, two months after the 2019 State of Food Security and Nutrition in the World (SOFI) reported that 800 million people were going to bed hungry every night. Since then, adverse climate change events, the COVID-19 pandemic and conflicts, notably the war in Ukraine, have further **exacerbated the challenges that the rural poor face**.

5. The pandemic and its accompanying lockdown measures resulted in challenges for small producers and rural households involved in food systems to access inputs, markets and finance.[2] Similarly, the war in Ukraine resulted in steep price increases of key food commodities, and fertilizers and fuel.

6. The COVID-19 pandemic and the Ukraine crisis occurred during the first years of the PSS and have influenced its implementation. For instance, the need for virtual meetings became commonplace and, for project design, IFAD was obliged to made process adjustments and **conduct due diligence virtually**. At the same time, IFAD's enhanced decentralization process has translated into more presence on the ground, **increasing opportunities for engagement** with the private sector in the field.

7. The early years of PSS implementation also saw internal and external developments that opened up new opportunities for IFAD. These include, IFAD's credit rating, the

[1] "NEN Private Sector Engagement Stocktake" (2022), "Lessons learned from IFAD's inclusive rural and agricultural finance experiments in WCA (2009-2020)", Value chain stocktake report 2010-2021.

[2] Oman, S., Kongongo, F., Kelly, S., & Ilie, E. 2021. Assessing the impact of COVID-19 on agrifood manufacturing small and medium enterprises in sub-Saharan Africa. Rome, FAO and Vienna, UNIDO.

progress and commitments made during COP 26, and the recommendations arising from the Food Systems Summit.

III. Findings

8. **The PSS set two primary objectives:** objective 1 (O1): mobilize private funding and investments into rural micro, small and medium-sized enterprises (MSMEs) and small-scale agriculture; and O2: expand markets and increase income and job opportunities for IFAD's target groups through private sector engagement. The PSS outlined four actions to achieve these primary objectives: (i) O1.1: direct private sector financing into rural MSMEs through the deployment of financial instruments; (ii) O1.2: crowd in private sector investments through IFAD's programme of loans and grants (PoLG); (iii) O2.1:develop inclusive value chains (VCs) with the private sector to expand upon IFAD's public-private-producer partnerships (4Ps); and (iv) O2.2: scale up the use of technology and other cost-effective solutions to support small-scale producers and rural populations.

9. **The MTR found that the PSS objectives and action areas were and remain relevant.** This relevance is actually growing in the context of the ongoing crises where access to finance, markets, and income and job opportunities has deteriorated. The strategy's actions were key to catalysing funding, and expanding income and job opportunities for small producers and rural poor people, notably for women, youth and other disadvantaged groups.

10. **The PSS implementation modalities have proved successful in ensuring delivery despite the context of crisis.** The PSS has taken a gradual approach to scaling up IFAD's engagement with the private sector through the programme of work (PoW), ensuring full alignment with IFAD's mandate, steady delivery, and close engagement with governments and other partners. IFAD has been particularly careful in selecting like-minded private sector partners with whom to engage (see appendix II for examples).

11. **IFAD successfully implemented a new workstream entailing direct private sector funding (O1.1).** The Private Sector Advisory and Implementation Unit (PAI) was established as a specialized unit to support and coordinate the structuring, implementation and supervision of the non-Sovereign Private Sector Operations (NSOs). IFAD's approach for engagement through NSOs – where concerns about mission drift were the highest – have been grounded in a rigorous search for additionality, impact and complementarity with public sector interventions, and the efforts of other key development partners in the ecosystem. Together with the creation of the Private Sector Trust Fund (PSTF), the development of internal guidelines and tools (box below), along with the strengthening of various divisions and departments, have solidified the framework for the operationalization and governance of NSOs. The Private Sector Financing Programme (PSFP) was launched in 2021 to institutionalize the delivery of NSOs. IFAD is fully cognizant of the risks involved in funding the private sector directly and has developed a cautious risk mitigation approach (appendix V).

Box 1

Institutional processes, frameworks and guidelines for NSOs*	
(i)	Establishment of PAI
(ii)	Framework for NSO operations and establishment of the PSTF
(iii)	Non-Sovereign Operations Implementation and Review Guidelines
(iv)	Credit risk guidelines for NSOs
(v)	Legal templates for NSOs
(vi)	NSOs quality assurance tool
(vii)	NSOs impact framework
(viii)	Procurement guidelines for NSOs
(ix)	Social, Environmental and Climate Assessment Procedures (SECAP) review note and the Environmental and Social Management Framework (ESMP) matrix for NSOs
(x)	Methodology for the pricing of NSOs
(xi)	NSOs disclosure policy

* See appendix II for details.

12. To date, IFAD's track record in NSO approvals and disbursements is promising, which confirms the relevance of the PSFP's positioning and offer. As of September 2022, six NSOs had been approved by the Executive Board, plus an equity investment of EUR 8.4 million in the Agribusiness Capital Fund (ABC Fund).[3] These six investments have an expected total outreach of 403,000 direct and 1.4 million indirect beneficiaries, of whom 60 per cent are expected to be women and 35 per cent to be youth, for an overall investment of US$25.5 million and an aggregated total project cost of US$166.2 million (see appendix II for details). These six NSOs are examples of countercyclical funding in response to the COVID-19 crisis and, recently, to the war in Ukraine. Additionally, the pipeline of potential projects is growing. The PSFP is still young; implementation is not yet complete and its results cannot yet be confirmed. Efforts are therefore needed to support implementation, complementarity and origination from the PoLG in pursuit of the objectives set in country strategic opportunities programmes (COSOPs) (see appendix II for details on origination) and at the corporate level.

13. **The PSFP offers IFAD a platform through which to strengthen its role as assembler of finance.** The PSFP offers a toolkit of financial instruments (equity, debt and risk mitigation instruments) and deployment modalities that could be leveraged to secure stronger interest from private sector players of different sizes, not just in agriculture and climate but also in the areas of gender, nutrition and youth. Assuming that IFAD maintains high ambitions for the PSFP, further strengthening of capacity both at headquarters and in the field will be needed.

14. **Despite the PSFP's potential, resource mobilization has been challenging.** The PSFP has shown good potential for development results and leverage with the initial US$25 million contribution made by IFAD and, while efforts have been made in communication and outreach, more work is needed to increase PSFP's offer internally and externally. The programme's innovative model and short track record to date, along with the global crises, have made fundraising challenging. For the PSFP to grow, sustained support is needed. This support is particularly important as the programme requires additional resources (estimated at US$140 million in assets under management) to break even and become financially sustainable. This objective is achievable provided that IFAD can mobilize additional resources for the PSFP, otherwise impact ambition will need to be readjusted (see appendix II). To increase the programme's relevance, the PSFP could be leveraged not only to serve low-income countries, lower-middle-income countries and fragility-affected countries but also to strengthen IFAD's offer to upper-middle-income countries.

[3] The equity investment was IFAD's first NSOs with a contribution from the Swiss Agency for Development and Cooperation.

15. **The number and mix of approaches to crowd-in private sector investments in the PoLG (O1.2) have continued to grow and have gained in sophistication.** These include rural financial interventions that benefited a broad array of enterprises, participating financial institutions' activities and small producers in the form of matching grants, guarantee funds, and regular or blended lines of credit. IFAD has also extended non-financial support by providing production and/or business technical assistance to de-risk private sector investment. In parallel, there is a concomitant **recognition of the limited financial resources, staff and project management unit capacity,** and gaps in the toolbox for private sector interventions, design budgets, enterprise experience and market analysis capacity.

16. **Value chain projects and 4Ps (O2.1) have been frequently used to engage with the private sector through the PoLG.** Since the adoption of the PSS, 39 VC projects have been approved, representing 81 per cent of the total projects approved during the same period (2020–2021) (see appendix II). However, the total number of VC projects has not increased in the last 5 years (2017–2021), as IFAD is moving towards fewer but larger projects per replenishment cycle. Furthermore, the MTR has confirmed that without clear financial incentives, private sector entities may not have the capacity or interest to directly engage with small-scale rural producers, (see appendix II).

17. **Engagement with the private sector through the PoLG did not translate into strong private sector cofinancing.** Financing by the private sector in the PoLG remains low, at around 6 per cent of all cofinancing. There are various explanations for this low ratio: (i) IFAD does not systemically track crowding-in results; (ii) private sector actors are only interested in cofinancing IFAD-supported activities that are commercially viable; (iii) there is insufficient engagement with private sector actors at the design stage to integrate them into IFAD projects; and (iv) public sector projects took too long to be designed and disbursed (see appendix VI).

18. **Activities to integrate private-sector-led solutions into IFAD's PoW to serve COSOP objectives (O2.2) have seen encouraging growth**. The MTR shows that IFAD made most progress in the area of technology-based solutions. Such activities have included the promotion of climate risk management apps, digitalization of small-scale rural cooperative financial institutions, and field apps backed by artificial intelligence, building on IFAD's role as market aggregator, knowledge broker, pivotal stakeholder and provider of technical advice. The adoption of the information and communications technologies for development (ICT4D) strategy and action plan in 2019, as well as the creation of an ICT4D team and coordination group were instrumental in scaling up the use of digital solutions from private sector partners.

19. **Delivery of the PSS would benefit from enhanced coordination, monitoring and incentives.** Throughout the MTR period, responsibilities for the delivery of the PSS remained fragmented, with tasks and roles scattered across various departments. PAI supports and coordinates the NSOs and oversees selected private sector initiatives such as the ABC Fund and the Smallholder and Agri-SME Finance and Investment Network (SAFIN); the Global Engagement, Partnership and Resource Mobilization Division is in charge of fundraising and engagement with corporate private sector partners including large multinationals; the Environment, Climate, Gender and Social Inclusion Division (ECG) leads on climate-positive/sensitive finance and safeguards; the Programme Management Department (PMD) leads on the management of country programmes, in which sovereign and non-sovereign investments need to work in synergy; while the Strategy and Knowledge Department (SKD) provides technical expertise and measurement and data services. This fragmentation is further compounded by the lack of: (i) clear standards, key performance indicators (KPIs) and incentives to engage with the

private sector; and (ii) a corporate system to track the various forms of engagement, collaboration and outcomes.

20. **Good complementarity has been achieved at the PoW level and with Rome-based agencies (RBAs), although more could be done.** For instance, the exposure IFAD gained through the ABC Fund was key to collecting more analytics to design the PSFP in a complementary manner to the ABC Fund and the PoLG. IFAD and the ABC Fund are continually sharing information on pipeline prospects. Although results are encouraging, the referral process could be further improved. PAI is also collaborating with the Farmers' Organizations for Africa, Caribbean and Pacific (FO4ACP) programme and ECG/the IFAD Climate Facility in designing a climate finance programme through the enhanced Adaptation for Smallholder Agriculture Programme (ASAP+) for increasing access of famers' organizations to climate resilience interventions. In terms of RBA collaboration, at least two recent projects have involved the World Food Programme as a partner. The exact number of projects being undertaken to date with the RBAs or other development partners is unknown as IFAD is not tracking aggregated data on PSS interventions. Moving forward, a more active exploration and tracking of collaboration opportunities with relevant United Nations agencies and international financial institutions is needed.

21. **IFAD's capacity to deliver on private sector engagement has been strengthened through a combination of recruitment, secondments and training, although internal processes have prevented the Fund from fully reaping the benefits of these efforts.** PAI externally recruited experienced technical staff to structure and deploy NSOs, and has benefited from the secondments of experts from the Governments of Germany, Japan, Sweden and Switzerland. In parallel, relevant departments and divisions (including the Office of the General Counsel, Office of Enterprise Risk Management, Operational Policy and Results Division, Financial Controller's Division, ECG, Financial Management Services Division, PMD and the Quality Assurance Group) have also strengthened their capacities to provide specialized expertise throughout the NSO development cycle.

22. IFAD also expanded its climate and value chain teams, created a new ICT4D team and included requirements of private sector experience in selected technical roles. However, several positions have remained vacant for long periods given internal processes such as reassignment and decentralization. Engagement with the youth, nutrition and gender teams has yet to be explored actively. IFAD engagement with impact investors and other actors to better communicate about its offer is also an area for improvement. Additionally, while training has been delivered to IFAD staff on private sector engagement and to project management units (PMUs) on pro-poor development of VCs, a more systematic approach based on skill gap analyses should be adopted.

IV. Recommendations

23. **The PSS should put greater emphasis on strengthening IFAD's role as an assembler of finance, building the resilience of IFAD's beneficiaries and creating opportunities for private sector engagement at the corporate level within the framework of COSOP objectives and well-integrated transformational country programmes.** Such approach could focus on building a pipeline to promote rural markets and the agricultural midstream. It could also catalyse more climate finance to promote the climate adaptation and mitigation efforts of small producers and rural poor people, as well as the use of de-risking products and private sector technology-based solutions. The MTR also shows that programmes financed by supplementary funds and IFAD's own convening power offer valuable opportunities to engage with the private sector and assemble more finance, such as in the Public Development Banks platform initiative

(see appendix II). The option to explore strengthened private sector financing in the Thirteenth Replenishment of IFAD's Resources (IFAD13) will be brought to Member States in due course.

24. **The set-up for the implementation of the PSS needs to be strengthened with a focus on coordination and building synergies.** IFAD needs to promote greater coordination and coherence in the delivery of the entire strategy, to create operational synergies and efficiencies based on a clear system of roles and responsibilities, accountability (KPIs) for results and incentives, and data/tracking systems. This could entail the nomination of regional focal points in SKD to facilitate collaboration with PMD. In addition, the processing of NSOs and other mechanisms that support private sector engagement needs to be streamlined to foster both efficiency gains and interest from private sector entities.

25. **Staff and PMU capacity needs to be further upgraded and strengthened both in the field and at headquarters**. PAI and the Talent Management Unit will complete a skills gap analysis to inform these efforts. Special attention will be given to ensuring that country teams and PMUs have access to learning opportunities and training on private sector topics.

26. **A funding strategy for the PSFP should be implemented.** The PSFP needs financial support from donors and investors to maintain its delivery, become sustainable, and ensure the long-term impact ambition of the programme. IFAD will continue exploring various fundraising opportunities and strengthen efforts to increase the PSFP's visibility and offer to Member States and private partners. It will also open up a discussion with Member States during the IFAD13 Consultation about different funding options.

27. **Results measurement of private sector engagement needs to be strengthened.** A systematic approach to defining and measuring private sector activities and cofinancing will be developed. IFAD needs to define, track and measure private sector interactions, and produce aggregated data on engagement, including cofinancing activities and RBA collaboration.

V. Monitoring

28. A holistic PSS tracker – encompassing all the strategy's objectives and actions – will be developed to provide regular updates on implementation progress and establish best practices for future investments in both the sovereign and the non-sovereign channels.

Completion status of the PSS Action Plan

Actions	Responsibility	Milestone	Timeframe	Institutional Support	Status
1. Institutional set-up, capacity building and training					
Action 1.1: Set up a Private Sector, Advisory and Implementation Unit (PAI), which will be responsible for leading, coordinating and providing the technical expertise for IFAD's private sector operations.	OPV	Announcement through a President's bulletin.	May 2019	HRD	Completed
Action 1.2: Recruit and assign staff to PAI and consolidate IFAD's existing private sector-related activities (such as the Agribusiness Capital Fund and Smallholder and Agri-SME Finance and Investment Network within PAI to ensure a strategic approach to private sector engagement.	OPV	Nomination of a PAI Head and assignment of staff within PAI.	Q2-Q3 2019	HRD	Completed
Action 1.3: Nominate focal points with private sector expertise across all IFAD departments.	PAI: Overall coordination; PMD (regional divisions and IFAD Country Offices [ICOs]): Project and portfolio management; OPR: Results management; ECG: Environmental, social and governance (ESG), and gender issues; RIA: Impact assessment LEG: Legal aspects; FMD: Financial management; RMU: Risk management; GPR: Global engagement and outreach.	Creation of an inter-departmental PSS coordination group with clear definition of responsibilities within IFAD.	Q3 2019	HRD	Completed
Action 1.4: Identify key needed skills and develop training modules on private sector topics for staff working on new private sector operations.	PAI (PMI), FOD, HRD	Three training modules developed on relevant topics with certification (financial modelling/analysis, due diligence, negotiating transactions).	Q1 2020	PAI, HRD and other departments to identify relevant trainers	- Skills gap analysis through HRD - Finalization of training module by PMI/PAI; - Timeline of trainings for 2023 and beyond.
		1 training delivered/year.	2020/2021		PS modules during ESA (2020) and NEN (2021) Operations Academy.

2. Operational policies and guidelines					
Action 2.1: Develop key documents to establish the framework for IFAD's private sector transactions, notably the: (i) risk management policy; (ii) ESG policy, (iii) Non-sovereign financing policy and project complaint mechanism; and (iv) additionality and development impact assessment framework.	• PAI: Overall coordination • RMU: Financial risk management • ECG: ESG risks • OPR, RIA: Additionality and impact assessment Framework	Guidelines and policies approved to review and process private sector transactions.	Q2-Q3 2020	LEG	Completed
Action 2.2: Develop basic financial instruments and related policies and guidelines, which would allow IFAD to engage directly with financial institutions and other private sector entities.	PAI, FOD	Basic financial instruments deployed targeting the private sector.	Q2-Q3 2020	LEG	Ongoing
3. Systems and processes					
Action 3.1: Develop a business origination and review process for private sector projects using the existing project delivery team concept and building on the existing review process of IFAD's public-sector operations, while taking into account the private sector context.	OPR, PMI	Procedures document finalized and approved.	Q4 2019-Q2 2020	PMD - Regional divisions/ICO, Operational Strategy and Policy Guidance Committee, design review meetings, Quality Assurance Group, ECG, LEG	To be finalized (NSO review guidelines)
Action 3.2: Set up a standardized credit risk rating system for private sector projects, to assess each private sector transaction and monitor operations across the portfolio.	Risk Management Unit (FOD), new financial committee (to be established)	Finalization of credit risk rating system for private sector operations	Q2 2020	ECG for safeguards	Ongoing (credit risk rating system)
Action 3.3: Define ESG impact and safeguard rating system, as well as indicators for monitoring results.	OPR, ECG	Finalization of ESG review procedures.	Q2 2020	PAI, ICF	Completed (SECAP Review note and ESMP matrix available for NSOs)
Action 3.4: Establish: (i) an additionality and development impact assessment system, coupled with clear supervision and reporting duties for financial institutions to report on their operations; and (ii) a development impact assessment framework to track results, which enables consistent reporting through the Operational Results and Management System.	RIA, OPR	Finalization of additionality assessment system and development impact assessment procedures and system.	Q3 2020	PAI,, ICF,FOD	(i) Completed (NSO Framework, Appendix 8: Assessing additionality and development results); (ii) NSO Impact Framework.
Action 3.5: Prepare funding agreement templates	LEG (a private sector desk is being established)		Q2-Q3 2020	Outside counsel	Ongoing. LEG is working on various templates. Some are finalized, others are under review.

4. Cooperation and outreach					
Action 4.1: Develop operational partnerships to build a pipeline and identify investment opportunities.	PAI	Partnership and co-financing with development partners successfully established.	-	FOD, ERG	Ongoing
Action 4.2: Ensure effective multilateral coordination with other multilateral development banks (MDBs) on private sector engagement to ensure adherence to best practices.	PAI	Participating in MDB forums on relevant topics. IFAD is already a member of the Global Partnership for Effective Development Cooperation and is looking to join the Development Finance Institution Working Group on Blended Concessional Finance for Private Sector Projects.	-	OPR, GPR and other departments, IFAD internal task force on common principles for blended concessional finance	Completed
Action 4.3: Provide effective outreach regarding resource mobilization from the private sector and the envisaged lending to the private sector.	GPR, PAI	Amount of resources mobilized from the private sector and foundations.	-	All IFAD departments	Ongoing

PSS Objectives and Actions: A review of progress to date

O1.1 - "Deploy financial instruments that play a catalytic role in direct private sector financing to rural MSMEs and small-scale agriculture".

1. In the context of the PSS O1.1, IFAD worked on three main tracks to initiate this new work stream: (i) Institutional; (ii) Operational; and (iii) Resource Mobilization.

2. **(I) Institutional track.** The Private Sector Advisory and Implementation Unit (PAI) was established as a specialized unit to support and coordinate the delivery of all Non-Sovereign private sector Operations (NSOs). PAI was also assigned the responsibility for the oversight of selected private sector-focused initiatives, notably the Agri-Business Capital (ABC) Fund and the Smallholder and Agri-SME Finance and Investment Network (SAFIN). Currently, PAI includes dedicated investment professionals with varied experiences, both from the public and private sectors (AfDB, IaDB, Oikocredit, Eastern Africa Development Bank, Deutsche Bank, J.P. Morgan). PAI also benefited from secondment of two senior investment officers from the Governments of Sweden and Japan, and of two junior professional officers from the Governments of Germany and Switzerland. These proved very useful at early stages to sustain delivery without putting pressure on IFAD's budget.

3. Together with the creation of the PAI unit and the Private Sector Trust Fund (PSTF), the development of several internal guidelines and tools have solidified the required framework for the operationalization and due governance of direct investing in private partners. These included: the Framework for non-sovereign private sector operations and Establishment of a Private Sector Trust Fund (EB 2020/129/R.11) (2020), Non-Sovereign Operations Design Guidelines (Q1 2021), Credit Risk Guidelines for Non-Sovereign Operations (Q3 2021), Legal Templates for NSOs: Loan Agreement (LA), Term Sheet (TS), Letter of Information (LOI), Legal Due Diligence Checklist, Mandate Letter (ML), Non-Disclosure Agreement (NDA) (Q4 2021, ongoing), Non-Sovereign Operations Quality Assurance Tool (Q3 2021), Non-Sovereign Operations Impact Framework (Q4 2022), Procurement Guidelines for Non-Sovereign Operations (Q3 2020), SECAP Review Note and ESMP Matrix for Non-Sovereign Operations (Q4 2020), and the Non-Sovereign Operations Disclosure Policy EB 2022/136/R.5 (Q4 2022).

4. A new template will be developed in the Grants and Investment Projects System (GRIPS) specifically for NSOs. Subsequently in 2023, IFAD will develop an NSO module in its online Operational Results Management System (ORMS) to ensure adequate monitoring and reporting of the results achieved through the PSFP projects lifecycle.

5. Additional institutional processes entailed also adherence to the Blended Finance Principles for DFIs, ensuring best practices in the use of wider-reaching financial instruments for blended finance operations.

6. **(II) Operational track.** The Private Sector Financing Program (PSFP) was approved in February 2021 with the ambition to mobilize private funding and other investments to deliver economic, social, and environmental benefits to rural poor and small producers in Low Income Countries (LICs), Lower-Middle Income Countries (LMICs), and Fragile States. The PSFP has a unique positioning in the impact investing space by way of its tolerance to lower expected returns and small ticket-size transactions, permitting IFAD to reach players that are not currently reached by other organizations.

7. The PSFP is the umbrella program to institutionalize the delivery of NSOs. It takes a direct approach of investing in private sector enterprises which target specific groups of beneficiaries. Although the recipients of funds are the enterprises themselves, the desired development impact does not stop there; the ultimate beneficiaries of NSO interventions are the rural poor, in alignment with IFAD's

mandate. Such multi-layered outcome is designed into NSO projects from the start, and careful attention is taken in the selection of the private sector partners: must be socially-committed entities that provide solutions to the key challenges faced by the rural poor, and that can deliver the specific targeting of beneficiaries IFAD requires, by mission and vision, during project implementation. Accordingly, NSOs are intended to add to, and complement the solutions already available through IFAD's PoLG by utilizing the private sector as venue.

8. Additionally, the PSFP has the potential to deliver impact outside of traditional public sector channels in countries with debt distress, conflict, or weak governance. However, the efficacy of NSOs is heavily dependent on the choice of the private sector partner. Relevance and alignment to IFAD's mandate is one of the five Investment Screening Criteria evaluated by the PSFP during the project origination phase, together with additionality, impact, E&S standards and risks as stipulated in the Framework for IFAD Non-Sovereign Private Sector Operations.

9. Depending on the amount of resources raised, the PSFP is expected to reach between 5.7 and 13.9 million beneficiaries over the period 2021-2030. Targeted outcomes for NSOs include (i) increased employment, (ii) strengthened livelihoods, (iii) development of human capital through training, (iv) increase in SME efficiency and outputs, and (v) decrease in negative environmental impact of SMEs or FIs.

10. These target are achievable provided that IFAD is able to mobilize additional resources for the PSFP, otherwise the break-even point and the program's expected outcomes will need to be readjusted (see Appendix II for details on PSFP's financial sustainability).

Table 1: PSFP's Expected Outreach by 2030

Scenario	**Low**	**Medium**	**High**
Amount raised	USD 103 M	USD 165 M	USD 252 M
Total amount with leverage (x5)	USD 515 M	USD 825 M	USD 1.26 B
% of NSOs in LICs, LMICs and Fragile States	90%	90%	90%
% of NSOs that promote Climate Smart Agriculture, Adaptation and Mitigation	50%	50%	50%
% of women	50%	50%	50%
% of youth	30%	30%	30%
Total number of beneficiaries	5.7 M	9.1 M	13.9 M

11. To date, PAI has delivered six NSOs through the PSFP which were approved by the Executive Board (EB) in Nigeria, Uganda, Madagascar, Mozambique, Bolivia and Cambodia, plus an equity investment in the ABC Fund of EUR 8.4million; and a pipeline of potential projects to be financed by the PSFP continues to grow.[4] The average ticket size for this group of six investments is USD 4.3 million, with an expected total number of 403,000 direct and 1.4 million indirect beneficiaries, an average total project cost[5] of USD 27.7 million (a 6.5 expected leverage effect[6]), for an aggregated total project cost of USD 166.2 million. Based on their respective logframes these six NSOs are expected to generate outcomes, among others, in terms of: (i) Increased income and revenues for small producers involved in food systems; (ii) Increased production and farmers' productivity; (iii) Improved access to finance for small producers and rural poor, as well as agri-SMEs involved in food

[4] The current PSFP pipeline contains 55 prospective NSOs, of which 6 present investment readiness. In its lifetime, more than 100 potential projects have been screened by the PSFP for bankability and adherence to NSO Investment Criteria.
[5] Includes both realized and expected co-financing for a project.
[6] The leverage effect is calculated as Total Project Cost divided by Nominal Amount. It gives a sense on how much the initial IFAD contribution has been amplified by realized and expected co-financing.

systems; and (iv) Strengthened resilience of small producers against impacts of climate change.

12. All projects are examples of countercyclical funding, addressing the effects of COVID-19 in the projects' respective countries. IFAD's target groups are all effectively addressed through these investee operations.

13. While promising, these NSOs are yet to be implemented which calls for great attention to implementation processes.

Table 2: PSFP's Outreach Metrics

		Targeting		Outreach		Themes		
NSO Project	**Country**	**Women**	**Youth**	**Direct Beneficiaries**	**Indirect Beneficiaries**	**Climate**	**Digital**	**Sustainable Production**
Babban Gona	Nigeria	60%	60%	95,000	382,000	✓	✓	✓
EERF	Uganda	50%	30%	173,000	607,000		✓	✓
Soafiary	Madagascar	35%	30%	4,000	16,000	✓		✓
Futuro	Mozambique	75%	30%	21,000	105,000		✓	✓
Crecer	Bolivia	77%	39%	65,000	149,500		✓	✓
AMK	Cambodia	60%	20%	45,000	180,000	✓	✓	✓
Total / Average		**60%**	**35%**	**403,000**	**1,439,500**			
Grand Total					**1,842,500**	Impacted People		

Table 3: PSFP's Financial Metrics (in USD, millions)

NSO Project	**Instrument**	**Nominal Amount**	**Tenor (Years)**	**Grace (Years)**	**Total Project Cost**	**Leverage Effect**
Babban Gona	Senior Debt	5.0	7	3	35.0	7.0
EERF	Senior Debt	5.0	5	2	40.0	8.0
Soafiary	Senior Debt	3.5	4	2	8.2	2.3
Futuro	Senior Debt	2.0	5	1	7.0	3.5
Crecer	Subordinated Debt	5.0	7	2	41.0	8.2
AMK	Subordinated Debt	5.0	7	3	35.0	7.0
Average[7]		**4.3**	**6.0**	**2.3**	**27.7**	**6.5**

14. NSO financial sustainability and risk mitigation is also ensured on a project-by-project basis with (i) adequate risk-based pricing, and (ii) thorough financial risk management, following the principles established in the Credit Risk Guidelines for NSOs, an in-depth assessment of counterparty risk during the design process, and ongoing monitoring of deployed operations.

15. For non-financial risks, the Framework for Non-Sovereign Private Sector Operations extensively covers risk management, outlining key risks in engaging directly with the private sector. In addition to operational risk, IFAD is exposed to fraud, corruption and financial crime risk, legal risk, fiduciary risk, and reputational risk. NSOs are all subject to risk assessments by IFAD's risk management teams that are independent from the project origination team.

16. Furthermore, E&S screening is conducted for each project based on IFAD's SECAP. All NSOs must adhere to IFAD's recently updated SECAP, which aims to uphold the highest standards of environmental sustainability and minimize any environmental harm. Ensuring E&S standards subsequently hedges reputational risk for IFAD, as associating with projects engaged in harmful environmental practices can damage IFAD's image. Loan disbursements to NSOs are contingent on meeting

[7] For methodological consistency, weighted averages were used in the calculations except for ordinal data categories (nominal amount and total project cost).

environmental standards, and full compliance of the partner's ESG policies to IFAD's SECAP.

17. **Lessons Learned at the NSO level.** Key lessons learned throughout the processes of origination, design, and early implementation of NSOs are:

(i) Considering the private sector complex environment and the peculiarities of the private entities IFAD selects as partners or recipients of financing, several private sector-specific potential issues and risks have to be duly assessed and mitigated during the due diligence phase. Thus, a strong ecosystem with private sector familiarity and expertise is needed, both at the country level and at headquarters;

(ii) Regarding the need for Government written non-objection, and based on the initial experiences, it is preferable to obtain such non-objection early on in the design process. However, should it only be possible to obtain the written non-objection later during design, it would nevertheless be important to obtain some form of commitment from the Government to the broad design features of the NSO. Similarly, it is important to keep the Government informed of progress and solicit any guidance it may wish to offer throughout the process;

(iii) There is still large space for optimization and streamlining of NSO processing (e.g. concept notes and project appraisal reports could be shortened), and a careful observation of gaps where efficiency can be gained is needed;

(iv) Great efforts have been done on creating a pipeline of bankable projects, with more than 100 potential projects being screened by the PSFP for financial feasibility and adherence to NSO Investment Criteria. Nevertheless, due to a careful approach on direct financing of private sector partners, selection for NSO financing remains highly competitive, and systematic origination from the PoW, with adequate capacity and incentives, is needed.

18. **ABC Fund.** The Agri-Business Capital (ABC) Fund is an independent impact investment fund sponsored and conceptualized by IFAD and a key component of its private sector strategy. It seeks to invest, to catalyse blended capital and to mobilize technical assistance to be deployed into underserved agribusiness segments. Accordingly, it is managed by an Independent Fund Manager (Bamboo Capital Partners - BCP) and an independent board of directors oversees it, to which IFAD and the other initial shareholders, including the European Commission, the Organization of African Caribbean and Pacific States (OACPS), the Government of Luxembourg, and the Alliance for Green Revolution in Africa (AGRA) have nominated representative members.

19. To date, the ABC Fund has approved a total 42 projects for a total amount of EUR 41.9 million. 38 of these projects have been disbursed, resulting in a growth of the outstanding portfolio of EUR 27.1 million by September 2022. It is estimated that the Fund has impacted 349,308 small farmers, of which 143,703 were female farmers and 71,538 youth, and have sustained 2,750 permanent rural jobs, 29% of which have gone to women and 30% have gone to youth.

20. The ABC Fund and the PSFP are different in their investment approaches, geographic focus, and product offerings. The main differences between the PSFP's and ABC Fund's investment approaches are: (i) the ABC Fund strives to generate commercial returns as well as impact, while the PSFP has a focus on cost recovery; (ii) the ABC Fund operates with a smaller ticket size (from EUR 200 to 800 thousand) than the PSFP (ranging from USD 2 to 5 million); and (iii) while both have global investment mandates, the ABC Fund has a particular focus on ACP (African, Caribbean and Pacific States), whereas the PSFP expects 90% of its investments to be in LICs, LMICs and fragile situation countries.

21. **SAFIN.** The Smallholder and Agri-SME Finance and Investment Network (SAFIN), also hosted by PAI, is a global network that was conceived to foster dialogue and

alignment across stakeholders that are active on both the demand and supply segments of agri-MSME finance. SAFIN's membership includes donors, Development Finance Institutions (DFIs), Multilateral Development Banks (MDBs), private investors, agri-MSME platforms, farmers' organizations and technical assistance providers. SAFIN is the only global network of diverse actors with an agenda exclusively focused on agri-MSME finance. The value proposition of SAFIN lies in being a network where different actors in the agri-MSME finance ecosystem convene to address strategic knowledge gaps, share learning, and identify opportunities to work together on new, transformative interventions.

22. Ongoing SAFIN initiatives have the capacity to better inform the design of IFAD's Non-Sovereign Operations (NSOs) and directly link to priorities established in the PSFP and PoLG. For example, SAFIN is currently collaborating with PAI in the implementation of an Access to Finance Survey targeting farmers' organizations, some of whom are already members of SAFIN. The results of the survey will lead to the design of a new PSFP co-sponsored program, where some SAFIN partners can play an important role as co-designers or implementers. The PSFP is also optimizing SAFIN's vast membership base to engage in Design Clinics. These are informal SAFIN coordinated sessions to exchange ideas on IFAD project designs, with a preselected group of SAFIN partners, who can provide expertise and lessons learned from their own experiences.

23. **(III) Resource Mobilization track.** As an immediate response to the COVID crisis, in April 2020 IFAD set aside USD 25 million from the IFAD 11 grant envelope to support COVID-19 response activities related to private sector projects and other resilience initiatives. The Governments of Luxembourg and Finland supplied an additional EUR 2 million and EUR 1 million respectively in grants in 2021, and the Government of Germany pledges a contribution of EUR 12 million in 2022. An additional EUR 8.4million grant was given to the Agribusiness Capital (ABC) Fund in 2020 thanks to the support of the Swiss Development Cooperation. Almost all seed funding for NSOs has been allocated, although several promising funding discussions are currently taking place for varying amounts from third-party banks, funds, and development partners, as well as IFAD member states. Given the fact that the current amount of PSFP funding (USD 28 million) is not enough to meet the ambition of the Programme, nor to ensure full cost coverage at a programme-level, intensive dedicated fundraising is ongoing. So far, there are advanced discussions for additional total amounts of about USD 25 million in grant and USD 97 million in returnable capital from various donors and partners.

24. **PSFP's Financial Sustainability.** The PSFP was created with the ambition to become self-sustainable, and its return objective is to fully cover operational costs and maintain the value of the invested portfolio to ensure the financial sustainability of the program and its activities. Based on projections of a 10-year financial model, the PSFP is expected to generate sufficient income from interest and fees to fully cover its total costs with a minimum of USD 140 million in additional resources mobilized for the investment portfolio, at which point the PSFP will be able to replenish itself for further investments, and organically grow its portfolio of successful projects.

25. If the fundraising discussions currently taking place materialize and the program further manages to raise and deploy at least USD 50 million in additional resources, the PSFP is forecasted to partially break-even (at an operational costs level) within 2026; if additional resources are pledged by IFAD and deployment continue and reach the USD 140 million mark, the PSFP is forecasted to fully break-even by end-of-year 2027 (at a programme level, including recovery of currently assumed expected capital losses). If IFAD is not able to mobilize additional resources for the PSFP, these break-even points may need to be reassessed.

O1.2 - "Use IFAD's PoLG to crowd-in private sector investments".

26. IFAD PoLG projects recognize the importance of working with the private sector, both by crowding-in partners and by achieving co-financing, and the vast majority of project designs stipulate for such partnerships. Private sector partnerships in projects with Value Chain (VC) components are conducted through direct relationships with corporates, financial institutions, and multi-stakeholder coalitions, via three main channels:

(a) **Bottom-up:** Encouragement and support for country teams to build and develop partnerships at local level that can evolve for greater scale and impact. These are typically collaborations with small and medium sized VC enterprises throughout the PoLG, including local cooperatives and social enterprises.[8] Bottom-up projects are led by country teams, and clear initial objectives and operational links are established.

(b) **Top-down:** Partnerships with global and regional actors, such as corporations, foundations, technical service providers, and media outreach partners, typically consist of larger VC programmes. Top-down projects are generally operationalised via a Memorandum of Understanding (MoU) or Letter of Intent (LoI). This approach ensures programmatic initiatives that complement IFAD's programmes which then get implemented in partnership with country teams.

(c) **Financial Institutions:** Financial institutions include fully commercial, cooperative, MFI and community-based organizations. These partnerships have typically been at the project or country level (bottom-up), but opportunities may exist at regional or multi-country level. Unlocking opportunities in the Public Development Bank[9] channel is also a priority for IFAD engagement for the "Finance in Commons" initiative, started in 2021.

27. Evidence so far shows that without clear financial incentives, the private sector (especially local MSMEs and agribusinesses) may not have the capacity or interest to directly engage with small producers, especially in the remote areas where IFAD operates. Financial incentives can include either (i) a combination of direct matching grants (either coming through IFAD's Regular Grant Window[10] or through POLG budgets) and infrastructure support for MSMEs and agribusinesses, especially in difficult and marginal environments where a higher level of nudging is needed to attract the private sector[11]; or (ii) in more favourable and advanced economic settings, to facilitate or reduce the costs of access of the MSMEs or agribusinesses to commercial financial service providers.

28. Furthermore, implementation is not always straightforward. A recent PMI review of 19 VC projects from all IFAD regions approved between 2016 and 2020 identified the following challenges on the project side: (i) reluctance of member state governments to engage in comprehensive partnerships with private sector stakeholders through PoLG projects, or to involve the private sector at later stages of implementation; (ii) lacking initiative of project management units (PMUs) to identify and attract potential private sector partners; and (iii) insufficient PMU staff capacity and expertise in engaging with private stakeholders. At the same time, potential private partners do not always have the necessary capacity or the willingness to engage in win-win partnerships with smallholder producers.

29. In terms of origination of NSO projects through the PoLG, the current referral process does not generate a sufficient and steady supply of sound investment

[8] Multi-Stakeholder Platforms (MSPs) are an effective way to bring together smallholder producers, the private sector and other value chain actors, and governmental institutions. This approach has proven to be effective in improving value chain governance, reducing power asymmetries, negotiating better prices and services for farmers, establishing more trust and transparency, and bolstering commitment among value chain stakeholders.
[9] To be considered a private sector stakeholder, the PDB has to demonstrate a large degree of private sector practices in its ongoing business and an accompanying governance aligned with private sector standards.
[10] The new IFAD Regular Grant Policy being developed has a dedicated tranche for private sector entities, selected competitively, to receive such grants with a mandatory minimum of 20% matching co-financing.
[11] The risks of market distortions generated by subsidies to the private sector should be duly assessed and mitigated.

opportunities. For instance, the PSFP and the ABC Fund currently conduct frequent meetings with IFAD's local offices; while NSO opportunities do arise in these meetings, disjointed expectations, enterprise maturity and capability, the variable level of quality and feasibility of the projects, timeline misalignment, and funding capacity for IFAD's NSOs and the ABC Fund make coordination difficult and impractical.

O2.1 - "Develop inclusive value chains with private sector partners".

30. Agricultural and food value chains (VCs) involve mostly private sector actors that play a crucial role in selling inputs to small producers, purchasing their commodities, and adding value to their products. IFAD has been promoting more inclusive VCs and the public-private-partnership-producer (4P) model to respond to the asymmetry of power between small-scale producers and bigger private sector actors. After the adoption of the PSS, 39 VC projects were approved, representing 81 per cent of the 48 total projects approved during the same period (2020-2021). This shows an increasing trend in following a VC approach at design.

31. Out of the 39 VC projects approved, 35 projects (90%) included collaboration with the private sector at different degrees and intensities, out of which 16 projects (46%) followed a full-fledged 4P approach. The collaboration with the private sector post-PSS adoption included a diverse variety of companies (small, medium, large, as well as national and international) through the different VC stages (inputs and services, production, processing, marketing), and focusing on various crops (cereals, vegetables, fruits), forestry and medicinal herbs, livestock, and fisheries. From the available information (11 out of 39 projects), private sector co-financing amounted to USD 113 million, representing 6% of the overall 11 projects' budgets (USD 1.89 billion). This would be an under-estimate as co-financing from the private sector is not always accurately accounted for at design and is often provided as parallel or complementary financing which is more difficult to track.

32. In terms of what has worked, the recent projects approved since the PSS show that these partnerships occur more frequently and successfully in high value commodities and more structured value chains (such as fruits and vegetables, cocoa, coffee, dairy, oilseeds), where quality standards, traceability and specific processing procedures link the producers and private companies more tightly, and where incentives for side-selling are minimized. Furthermore, partnerships are occurring both with local agribusinesses/MSMEs as well as with larger multinational companies. Partnerships are working well especially in cases where the project management unit (PMU) has the necessary tools and expertise (internal or external) to select, screen, negotiate and manage the relationships between the projects and the private sector. In order to strengthen the capacity of IFAD staff and the PMU to design and provide implementation support to inclusive VC development projects as well as partner with the private sector, IFAD launched in 2020 and 2021 both global and regional training events on these topics. Trainings are now available online to all IFAD staff and will be further rolled out in 2023 and beyond.

33. Several VC development projects with a 4P model were approved post-PSS, and a number of them feature partnerships with large multinational companies. For example, the PADFAII project in Cameroon has recently brokered a partnership between targeted producer organizations and Nestlé for the supply of 400 tonnes of onion powder per year. The project team made a significant contribution to the agreement on quality and quantity requirements.

34. In Nigeria, IFAD has a long-standing partnership with major agribusiness company Olam. An outgrower scheme developed under VCDP has linked smallholder rice farmers to the company. Due to the success of these linkages, Olam provided grants totalling about USD 250,000 to selected farmers when the COVID-19 pandemic hit their supply chain and impacted the incomes of farmers.

35. In June 2020, IFAD and leading multinational company Mars signed a MoU and announced their collaboration on the SFITAL project. This partnership follows the positive experience of a joint initiative in Indonesia, where cocoa smallholders were linked with Mars to increase their production. The new SFITAL project explores environmentally sustainable ways to link small-scale producers to global supply chains, focussing on palm oil in Indonesia and cocoa in Indonesia and the Philippines. The project was developed jointly between IFAD, Mars, and ICRAF (the third implementation partner), with very good teamwork and constant communication and collaboration. Mars is involved both as a co-financier, providing USD 1.81 million in kind, and as an implementation partner with representation in the Project Steering Committee. Throughout the project, Mars will ensure that synergies are leveraged between SFITAL and existing and upcoming Mars sub-projects, e.g. for state-of-the-art traceability systems. As of November 2021, 519 farmers have been trained with full involvement of Mars, covering topics such as farming as a business, good agricultural practices and garden evaluation, agroforestry, climate-smart-agriculture and post-harvest handling.

36. In September 2020, IFAD signed a MoU with telecom multinational Orange Middle East and Africa. This partnership will support agricultural activities in the Economic Community of West African States (ECOWAS) area by using and leveraging ICT solutions. Through joint interventions, the parties aim to increase and scale up the impact of development projects and to promote innovations.

37. In December 2021, IFAD signed a MoU with the Italian chocolate and confectionary producer Ferrero. This partnership is supposed to mobilize private funding and investments in smallholder agriculture and rural SMEs in Azerbaijan, Turkey and Georgia, thereby expanding markets, incomes and job opportunities for IFAD’s target groups. Joint initiatives will focus on designing and implementing small-scale pilot projects on sustainable and inclusive hazelnuts value chains. Successful activities will subsequently be scaled up at national and sub-regional levels.

38. In 2022, IFAD has held several meetings with Beyti, a joint venture between Pepsico (USA) and Almarai (a Saudi-owned food conglomerate), to explore business opportunities supporting IFAD’s target groups in Egypt. A MoU is underway and will focus on designing and implementing small-scale pilot activities on inclusive dairy and crop value chains. So far, it has been agreed to integrate small dairy producers targeted by the IFAD-funded SAIL project into Beyti’s supply chain. B2B workshops have helped identifying milk producers for a contract farming scheme. In the future, the producers will receive technical and market support, which will enable them to raise their quality of production to Beyti’s premium milk standards. Furthermore, Beyti has expressed an interest for continued collaboration under the recently approved STAR project.

39. **Agribusiness Hub in Rwanda.** IFAD and the German Federal Ministry of Economic Cooperation and Development (BMZ) are investing to create employment opportunities in agribusiness for rural youth in Rwanda through an integrated hub approach. This is being done through a Rural Youth Employment Support (R-YES) project implemented in Rwanda by Kilimo Trust, in partnership with Rwanda Youth in Agribusiness Forum (RYAF), technical and vocational colleges, and a network of private agribusiness firms as centers of experiential learning and employment. The hub approach is implemented through a variety of sub-approaches, including: (i) Mechanization Sub-Model: Under Mechanization Sub-Model, Kilimo Trust Rwanda created a partnership between an accredited technical training college called Kavumu TVET (KT) School and Muvumba Rice Growers (MRG) Cooperative, to unlock training and employment for rural youth in mechanization; (ii) Milk Sub-Model: Under this sub-approach, IPRC Musanze partners with seven milk processing industries to provide technical and entrepreneurship skills to rural youth for employment in milk handling and processing. Among the 7 partnering companies is Masaka Creamery Ltd which offers employment opportunities for

youth with hearing disability; (iii) Poultry Sub-Model: Abusol Ltd., a 90 thousand birds modern poultry farm has set up a subsidiary of 10,000 birds at IPRC Gishari, a college of Rwanda Polytechnic in Eastern Rwanda. The 10,000 birds joint venture between a private poultry farm and a public training institution offers experiential learning to youth at the college and an employment opportunity in poultry farming.

40. Through these processes, it has been recognized that tracking and monitoring of private sector partnerships across IFAD is often done *ad hoc* and there is a clear need to develop more systematic processes of collaboration and data collection, particularly between ERG, SKD and PMD. Linked to this, GPR and CIT have in 2021-2022 developed a Customer Relationship Management (CRM) IT application in preparation for greater data collection and analysis of relationships with non-sovereign actors. This CRM system will be valuable to monitoring and centralizing the fragmented nature of partnerships across the organization going forward.

41. All-in-all, SOs are the bedrock of IFAD's operations and are deeply engrained in all IFAD activities in the five regions of operation. Private sector engagement through the 4P model makes communication between government, small-scale producers, and the private sector significantly more sustainable, improving the capacity for cooperation between different entities[12]. 4P ensures transparency, accountability, and fairness for more marginalized small-scale producers, making this model crucial for the sustainability of equitable and sound private sector engagement. Although the incremental contribution by private sector actors is difficult to assess on a project-by-project basis, the overall sustainability of the PS VC approach is demonstrated by the substantial increase in SO's VC component participation over the last two decades.

O2.2 - "Test and scale up new technologies and cost-effective solutions".

42. Activities to incorporate private sector innovation (new technologies and cost-effective solutions) into programmes is on the rise at IFAD, including particularly digital agricultural and inclusive financial solutions. Emerging innovations in the portfolio include climate risk management applications and Artificial Intelligence (AI)-backed field applications for increased crop yield. Examples include:

43. **IFAD support to digitize Cajas Rurales** (small rural cooperative financial institutions) has helped attract credit from private sources, as well as growing member savings accounts. IFAD support in this case was analogous to seed or venture capital funding and was critical to attracting other sources of funding.

44. **Hackathon.** IFAD devised its first hackathon in Lima, Peru, in October 2019. The competition gathered eight teams of programmers and other professionals to generate a technological solution linking small Argentinian farmers with several branches of the fast food franchise Subway. The winning team was awarded a contract worth USD 30,000 to fund the professional development of their solution. The result is a platform called "Arvest", which provides clear channels for orders and delivery of fresh produce, as well as for payment. The platform is intended to consolidate commercial relationships between producer organisations and corporate buyers (restaurants, hotels, wholesale buyers), as well as public purchases. After this promising start, the initiative took a hit by the COVID-19 pandemic and the agreement with Subway was dropped. Currently, IFAD is scoping for new opportunities to test the platform in upcoming projects in the LAC region.

45. **The Nav Tejaswini project in India**, approved in December 2020, has facilitated market linkages for vegetable growers with organized retail buyers such as the online marketplaces AgriBid and Go4Fresh (both social MSMEs). This has led to a 10-15 percent increase in sale price.

[12] IFAD - Jodie Thorpe and Mar Maestre (2015) "Brokering Development: Enabling Factors for Public-Private-Producer Partnerships in Agricultural Value Chains".

46. **Chamka App.** In Cambodia, the ASPIRE project through the Korean Supplementary Funds supported the development and rollout of the CHAMKA App (backed by Bronx Technologies) in 20 provinces of the country. The app provides digital advisory and input supply to smallholder farmers for mainly 4 value chains, chicken, rice, vegetables and fish, and aquaculture. The app has more than 50,000 farmers and 40 input supplier registered on the platform. Community Extension workers have been trained to support adoption of the app and are being incentivised to engage with farmers to use the advisory services. This app is now sustainable through the input supply transactions that are generated on the platform.

47. **PxD in Pakistan, Kenya, Nigeria.** Precision Agriculture for Development is a leading not for profit company that has been working with IFAD through a cross regional grant in Kenya, Nigeria and Pakistan. This grant was key in the enablement of delivering advisory services to farmers through information on production and markets. The project aimed to deliver personalized agricultural advice to farmers through their mobile phones, establishing a two-way information channel by which farmers can receive low-cost, customized advice to improve on-farm practices, input utilization, pest and disease management, environmental sustainability, and access to markets. The engagement with PxD has been through a one-time grant of USD 2.5 million. Overall, the grant has reached over 1.7 million farmers in the three countries with almost 1.3 million in Pakistan.

48. **E-Wallets, Jordan.** IFAD-funded REGEP project is providing grants for small-scale farmers to invest into their own farming activities. To maintain timely delivery of grants despite the lockdown, the project began transferring funds to participants via e-wallet applications. The e-wallets have been setup in collaboration with Jordan Payments & Clearing Company (JoPACC). JoPACC is further working with several payment systems, which are integrated with banks in Jordan including CliQ, Jomopay and Electronic Bill Presentment and Payment System (E-fawateer). This has been critical to the small and micro loan and related services to small farmers. E-wallet aim to minimise social interaction during the pandemic and ease the beneficiaries' access to grants. Dedicated capacity building has been offered (especially to the less tech savvy beneficiaries) to enhance their understanding of this new technology. Till 2021, 2,183 beneficiaries had been accessing grants through the e-wallet systems with almost 60% females and more than 20% youth.

49. **Regional Grant, LAC.** The Innovatech project is being implemented by the German Sparkasssenstiftung für international Cooperation, in over 6 countries of the Latin American region (Bolivia, Mexico, Honduras, Guatemala, Haiti and El Salvador). The overall goal of the project is to support smallholders to recover faster and in a more resilient manner from the impacts of COVID by improving the availability and quality of technology-based solutions that allow them to have better access to markets, financial services and non-financial services. To do this, Innovatech focuses on strengthening the ecosystem of financial and non-financial services for small holders provided by Agritech/FinTech companies (start-ups and MSMEs) in LAC. Together, all these elements by serving the unbanked and underbanked will contribute to improve food self-sufficiency, incomes, and the social-economic resilience of rural populations and small producers. Over 9,000 persons are expected to benefit from mainstreamed services, aiming at them being part of IFAD's current PoLG in the different countries. 12 innovative Agritech and Fintech companies will benefit from over 2,500,000 USD in funding, technical assistance and networking, to catalyse their innovation to small scale farmers in the LAC region.

50. **Malawi Fruits.** IFAD has been exploring opportunities for collaboration with a private sector company which provides highly advanced drip irrigation technology tailored for smallholder farmers. It has successfully linked the company with Malawi Fruits (http://malawifruits.org.uk/) after identifying synergies between the MF's

ongoing collaboration with SunDanzer via Greentech which has been piloting solar chilled storage and drying technologies in Malawi. After several meetings facilitated by IFAD, the private sector company has now agreed to share the cost of the pilot systems with IFAD support to pilot MF irrigation technology with the aim of scaling up the deployment for wider testing of the technology, including sensors/fertigation technology. The next steps are that the private sector company will travel to Malawi to determine the initial pilot scope and system sizing.

51. **KCEP-CRAL.** Together with insurance tech-company Pula Advisors, the KCEP-CRAL project started piloting an insurance policy for smallholder farmers in 2020. In early 2022, about 11,500 farmers who had purchased the insurance were awarded compensation for drought-related crop losses, for a total of over 85 million Kenyan shillings.[13]

Review of Private sector partnerships and coalitions at the corporate level.

52. IFAD partnerships work, managed by GPR, on PSS during 2019-21 consisted of priority focus on PSFP, especially developing PSFP resource mobilization partnerships and networks. This engagement included outreach with the Impact Investor community, in addition to PSFP engagement with member states and foundations. From 2020-2021, a network of around 40 impact investors and over 40 foundations were contacted and introduced to IFAD's PSFP, and invited to provide feedback; inputs were incorporated to the IFAD team and shared in a report to EMC in June 2021.

53. Meanwhile, the focus on IFAD corporate level partnerships advanced IFAD's engagement in global stakeholder platforms – e.g. World Economic Forum (WEF), Food Action Alliance (FAA), support to Coalition of Action on Decent Work Living Income, and IFAD's Food Systems Summit engagement. Concurrently, IFAD remains a co-leader of the Food Action Alliance, which provides IFAD a platform for multi-stakeholder engagement. IFAD has several ways of engaging with the private sector including formal partnerships via Memorandum of Understanding (MOU), such as with **Mars Inc.** (includes a program in APR region, shared advocacy work and knowledge sharing – e.g. Mars at IFAD Governing Council 2021). In September 2020, WCA region engaged in a MOU with France-based telecommunications operator **Orange**. A new MOU, with Italy-based multinational corporation **Ferrero**, was also initiated from an IFAD country (Turkey) and NEN-regional team (PMD).

54. Numerous multinationals approach IFAD to explore opportunities, often via the coalition relationships or around larger gatherings (e.g., Davos, UNGA). For various reasons, IFAD may wish to conduct preliminary due diligence screening for some meetings, while others are screened after initial meetings. Examples include **Bayer, Yara, Syngenta, Corteva, PepsiCo, AB InBev, International Fertlizer Association, and Rabobank**.

55. In February 2022, IFAD updated and produced an IFAD Guidance Note "Procedures for Entering into Partnership Agreements", which includes information on private sector partnerships. Meanwhile, IFAD continues to conduct Due Diligence for potential private sector partnership opportunities across the institution (Environmental, Social & Governance managed by GPR; Financial/Anti-Money Laundering compliance by FCD). The due diligence processes aims to mitigate potential risks and controversies exposed to IFAD while forming and implementing partnerships, including with the private sector. The due diligence requests from IFAD departments have been on the rise in 2022, indicating a growing interests within IFAD to private sector partnerships.

[13] https://www.ifad.org/en/web/latest/-/crop-insurance-makes-a-difference-for-kenya-s-small-scale-farmers.

Food Action Alliance (FAA) Coalition

Since 2019, IFAD has been a co-leader of the Food Action Alliance coalition, a multi-stakeholder platform working to develop and facilitate global, joint projects. With founding partners as the World Economic Forum (WEF) and Rabobank, IFAD provided resources to launch FAA and hosted a Global Coordinator until the end of 2021. Additional partners were added, including WBCSD, AGRA, CIAT, **Grow Asia**, **Cargill** and **UPL**, at global or regional levels of engagement. As a result of its leadership in FAA, IFAD has achieved high visibility at WEF events related to food systems, including those leading up to the UN Food Systems Summit. IFAD has provided technical expertise to numerous FAA projects, including in the poultry and dairy sectors in Sub-Saharan Africa. The FAA has enabled IFAD to actively engage with private sector, NGOs and industry actors in numerous flagship projects around the world. Some have led to direct IFAD collaborations, for example an IFAD indigenous farmer's quinoa programme in Peru was connected to a nearby project by Olam which also worked with farmer organizations growing and supplying superfoods like quinoa. IFAD engagement also includes FAA support for National Pathway programmes in line with IFAD's country strategies (COSOPs). Via coalitions like FAA, IFAD enables both a direct and arms-length relationships with leading players to advance the Fund's mandate while working alongside private sector initiatives.

56. **Collaboration with Rome-based Agencies (RBAs).** Besides the NSO SOAFIARY in Madagascar having the World Food Programme (WFP) as a buying client while IFAD is funding the expansion of sourcing from small produces partner, a recent private sector component SO which serves as example of RBA collaboration is the Building Resilient Commercial Smallholder Agriculture (BRECSA), which is a value chain project co-financed by GAFSP and IFAD. The WFP is one of the partners in implementation and providing technical assistance, mostly around its climate-resilient assessment tools (Consolidated Livelihood Exercise for Analyzing Resilience – CLEAR), market assessments, and school-feeding and nutrition programmes. In particular, the CLEAR diagnostics will enable climate resilient spatial and temporal planning for placing commodities in their appropriate agroecological zone, as well as for defining specific infrastructure needs as a response to anticipated climate impacts and identified commodity value chains. Nevertheless, the number of projects with the WFP or the Food and Agriculture Organization (FAO) as partners is unknown, as IFAD is currently not tracking aggregated data on PSS interventions.

Example of private sector engagement through supplementary funded programs and activities

Financing Facility for Remittances (FFR)

1. In 2021 migrants sent over USD 605 billion in remittances to their families and communities back home, of which over half went to rural areas. Through remittances and investment, migrants contribute to the fulfillment of the SDGs of their families back home, increase private consumption and investment, enhance financial and digital inclusion, and local and national economic growth.

2. Since 2019, the FFR has provided grant financing to 14 private sector stakeholders specialised in the provision of cross-border remittances and one diaspora impact investment initiative, mostly in Asia and Africa, benefitting over 740,000 beneficiaries in rural areas.

3. Through these innovative projects, the FFR (i) fosters digital and financial inclusion and sustainable income-generating activities in rural areas, (ii) provides a conduit for diaspora to invest securely their resources in rural MSMEs, and (iii) facilitates private sector innovation through market intelligence. Partners include: money transfer operators (MTO) and mobile money operators, MFIs, fintech, banks, postal operators, insurance companies, as well as impact investment funds and crowdfunding platforms.

4. The average grant allocation per project is EUR 465 thousand, having financed a total of EUR 4.4 million since 2019 and mobilized additional EUR 5.7 million as co-financing from private sector partners.

5. Furthermore, through grants to the public sector and NGOs, an additional 47 private sector entities have received technical assistance. These include: 14 FIs receiving capacity-building on inclusive customer due diligence to expand access to rural populations, women and youth; 36 savings and credit cooperatives that enabled cross-border remittances and leveraged other financial services in rural areas of Moldova and Nepal; and 3 MTOs that are now offering embedded micro-insurance services (life and health insurance) to their customers.

Examples of selected challenges to engage with private sector financial intermediaries through the PoLG

1. **Perceived risks in smallholder agricultural activities remain a strong deterrent to their financing.** The de-risking schemes put in place by IFAD projects along agricultural value chains reportedly seem to insufficiently reassure some private sector Financial Institutions (FIs), as they remain unwilling to channel financing to agriculture, notably to small producers. Some partner FIs argue that the smallholder-based financial de-risking schemes do not translate into reasonable risk-adjusted returns compared with other less risky investment alternatives available to them.

2. Smallholder producers, for reasons outside their control, can experience also delays in the delivery of inputs or insufficient rainfall that reduce expected yields or, alternatively, produce a bumper harvest that causes a drop in prices (negative income effect of overproduction in unstructured markets). These issues can cause cash flow difficulties that may lead smallholder borrowers to default on repaying their loans in accordance with the agreed plan. This was the case with PROPACOM in Côte d'Ivoire, PNPER in Togo and RFCIP-II in Sierra Leone. With the last, despite heavy support from the project (training, technical coaching and a refinancing line), partner FIs have mainly disregarded activities in agriculture. Although smallholder producers are deemed creditworthy with the support and/or guarantee provided by projects, it is likely that the returns on investment on this customer segment remain insufficient to balance its risks and high transaction costs. It is possible that partner FIs would prefer to commit their resources to other segments with less risk and better profitability.

3. **Technical assistance does not always improve the quality and bankability of investment plans prepared and submitted for financing.** In the process of preparing the investment plans to be financed, establishing a business case is essential to securing the capacity of farmers/entrepreneurs to repay their loan and develop their business activities. This preparatory analysis touches on the quality of the plan itself, but also on the adequacy of the smallholders' capacities to manage their micro projects. A smallholders' business mindset, as well as their ability to manage and develop a commercial activity, even a small one, is as important as the prospect of profitability in determining whether or not to finance the plan. All too often, FIs do not conduct a detailed review of the candidate profile to ensure that they have what it takes to fully realize their investment plan and develop their activities for optimum revenue generation. At the completion of PACER in Benin, the issue of lack of candidate profiling by FIs was identified as the hidden cause of poor achievement in the financing of SMEs' investments. The PACER project completion mission found that, despite the technical assistance provided by the project, entrepreneurs' business skills were not taken into consideration to any great extent when screening the micro projects. The weakness of the investment plans submitted may also affect the prospect of steady development in the medium-term, especially when assistance over time results in a significant standardization of microprojects.

4. The recommendation often made to resolve such constraints is to get partner FIs and their clients engaged at a very early stage through stakeholder consultation platforms for streamlining and processing of investment plans for financing. The aim of FI participation at this stage is to make sure they understand the need to assess risk profile and potential profitability.

5. **Improving partner FIs' capacities takes time and may not be IFAD's direct responsibility, given its target group of poor rural people.** Experience shows that improving partner FIs' technical and managerial capacities takes time and could explain their reluctance to engage with IFAD project beneficiaries. Despite

heavy support that is unavoidably provided to partner FIs in every project in the IFAD portfolio (training loan officers on the agriculture sector, risk management, control and supervision systems), deficiencies and weaknesses remain. This may be a challenge when it comes to developing new financial schemes tailored to poor farmers. In the case of PACER in Benin, the number of participating FIs involved in operating its financial scheme surpassed the objective of the project (seven against five at design). However, the partner FIs generally fell short of covering the financial needs of the beneficiaries, with an achievement rate of only 8 per cent of the objective despite an intensive capacity-building programme and access to a refinancing fund. With only 71 per cent of the demand approved over the course of PACER, the limiting factor was identified as partner FI inability or lack of adequate capacities to manage and expand the business activities. Again, the results could have been better if FIs were involved early in the process of assisting entrepreneurs to prepare their investment plans. However, the required skills still do not exist among the local partner FI teams.

NSO Risk Mitigation approach

Risks	*Mitigating measures in the PSS*	*Progress to date*
Risk of mission drift. IFAD may lose its focus.	The review process will ensure that each private sector intervention is relevant to IFAD's mandate, adheres to IFAD's principles of engagement, and aligns with country priorities. Final approval will rest with the Executive Board.	**1.** Relevance and alignment to IFAD's mandate (including the specific focus on smallholder farmers, rural youth and women) is one of the five Principles of Engagement set in the Framework for NSOs and evaluated during the projects' origination phase by management and subject to the arm's length Quality Assurance process and review by the Executive Board. **2.** All projects have been approved by the EB.
Reputational and ESG risk. Working with private funds/investors may entail reputational and ESG risks.	Apply IFAD's internal due diligence process for private partners. For project-specific investments, IFAD will also ensure adherence to the Social, Environmental and Climate Assessment Procedures of IFAD and alignment with rigorous ESG standards.	**1.** All private sector partners' projects have gone through a thorough due diligence process before EB approval involving key divisions and departments including RMU, FCD, LEG, ECG, OPR. **2.** Reputational risk, as well as risk of fraud, corruption, financial crime, legal risk, and fiduciary risk, are fully assessed during projects' due diligence, including Anti-Money Laundering compliance, Beneficial Ownership and Politically Exposed Persons (PEP) aspects. **3.** ESG screening is duly conducted for each project based on IFAD's SECAP. Loan disbursements to private partners are contingent on meeting environmental standards, and full compliance of the partner's ESG policies to IFAD's SECAP.
Financial risk. Engaging with the private sector could expose the Fund to the risk of potential financial losses.	Similar to other DFIs, IFAD's private sector activities will be limited to a portion of the Fund's resources, which will be determined for each replenishment period in line with IFAD's risk management	**1.** Resources used to deploy private sector funding were ring-fenced in the PSTF and limited to what has been approved by the EB and pledged by member states. **2.** Projects' financial sustainability and financial risk mitigation is ensured with (i) risk-based pricing of instruments offered to private sector

	framework. On this basis, the Fund will decide the sources of capital to be deployed to the private sector. At the project level, thorough due diligence and risk rating will be performed for each project.	partners, and (ii) thorough financial risk management, with an in-depth assessment of counterparty credit risk during the design process (including dedicated financial forecasting and foreign exchange exposure assessment), and close ongoing monitoring of deployed operations (compliance to covenants, portfolio reports and watchlists). **3.** Financial risk mitigation was structured within a "2 lines of defence" framework – 1st project originators, and 2nd the independent Office of Enterprise Risk Management (RMO) – to assure checks and balances in the process. For the specific case of NSOs, a Credit Risk Note was developed and presented for each project, and a full risk rating model for private sector counterparties has been developed.
Risk related to institutional capacity. Initially, IFAD may not have the required staff capacity, resources or processes to implement the strategy in full.	IFAD has set up an anchor unit for the PSS and will slowly build staff capacity through training and new staff that have private sector expertise. IFAD will use expert consultants until sufficient internal capacity and business volume are built. Specific guidelines, systems and processes for working with the private sector will be developed. The approach of gradual scaling up of engagement also mitigate this risk.	**1.** The Private Sector Advisory and Implementation Unit (PAI) has externally recruited experienced technical staff and consultants to operate existing and new initiatives within the PSS. For the delivery of NSOs, PAI has taken on board six dedicated investment professionals with varied experiences, and has benefited from the secondment of four officers from IFAD's Member States (Germany, Japan, Sweden, Switzerland). IFAD also expanded its value chain team, created a new ICT4D team and included requirements of specific private sector experience in selected technical roles. **2.** New private sector-specific processes were created, including specialized committees and internal validation mechanisms, and capacity trainings to IFAD-wide staff on private sector topics. **3.** Capacity building activities in key parts of the ecosystem were delivered.

	4. A gradual approach was followed, prioritizing the offer of debt instruments.

List of staff interviewed and consulted for the MTR

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