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Enabling poor rural people
to overcome poverty

Comments of the Independent Office of Evaluation of IFAD on the Private-Sector Strategy

Note to Evaluation Committee members

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For: Review

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Note to Executive Board representatives

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Rome, 12-14 December 2011

For: Review

Comments of the Independent Office of Evaluation of IFAD on the Private-Sector Strategy

1. **Background.** Upon approving IFAD's Private-Sector Development and Partnership Strategy in 2005, the Executive Board requested the Independent Office of Evaluation of IFAD (IOE) to undertake a subsequent evaluation. The corporate-level evaluation (CLE) of the 2005 strategy was undertaken during 2010 and presented to the Evaluation Committee and thereafter to the Board in May 2011. IFAD Management agreed with the CLE's suggestion that this was an appropriate time to develop a new strategy to deepen IFAD's engagement with the private sector, taking into consideration the CLE's conclusions and recommendations. The new strategy is presented to the December 2011 Board for approval.
2. IOE welcomes the IFAD Private-Sector Strategy: Deepening IFAD's engagement with the private sector, and supports the broad directions proposed in the document. The strategy is in line with most of the CLE recommendations. IOE agrees with the new strategy's commitment to promoting further engagement with the private sector as a means to achieving better results in reducing rural poverty for the IFAD target group, rather than as an objective per se.
3. **Definition of the private sector.** The CLE recommended that IFAD define more sharply the term private sector in the context of its operations. The new strategy adopts a clearer IFAD-specific definition of the private sector. The strategy recognizes that the private sector is a heterogeneous group of actors with different capabilities and requirements. It distinguishes between the smaller end of the private sector (IFAD's target groups) and a corporate business sector. IOE agrees with the strategy's focus on IFAD's mode of engagement with the corporate business sector – small, medium or large for-profit companies at the domestic, regional or international level – for the benefit of its target groups.
4. **Risk analysis.** The CLE concluded that although recently designed projects were becoming more oriented to private-sector engagement through market linkages and value chains, they had not sufficiently analysed the risks associated with such approaches. In calling for deeper engagement with the corporate business sector, the new strategy rightly stresses that IFAD must be mindful of its mandate, target population and strategic focus. However, the strategy does not sufficiently address the risks to small rural producers and other rural poor people as a result of stronger linkages to the private sector, and it does not make sufficient provision for strengthening IFAD's capacity to better identify and mitigate these risks. The strategy would benefit from an annex devoted exclusively to risk assessment, management and mitigation at the corporate and programme levels (see also paragraph 5).
5. The principles of engagement for IFAD's private-sector partnerships provided in box 6 are a useful addition. However, given the potential risks to the rural poor alluded to in paragraph 4 above, the strategy should have extended these principles to cover other areas of risk, for example, social and environmental standards acceptable to IFAD with which private-sector companies should comply; responsive agricultural investments promoted by a number of United Nations organizations (including IFAD) that should be observed in engagement with the private sector.
6. The new strategy stresses that IFAD will continue playing the role of "honest broker" in private-public partnerships (PPPs) to better integrate poor rural men and women into these partnerships and ensure that social and environmental standards are maintained. However, the strategy does not elaborate on such standards (see paragraph 5 above); their implications for the rural poor who cannot take advantage of opportunities offered by the private sector; or how the specific

interests of poor rural women will be safeguarded in the context of deepening engagement with the private sector.

7. **Government commitment.** The CLE concluded that: (a) government commitment and support to private-sector development are key to IFAD's ability to design effective investment operations in agricultural and rural development; and (b) a large number of IFAD's partner governments and loan recipients do not wish, for various reasons, to see IFAD resources being used to support further engagement with the private sector. This is a major challenge facing IFAD in implementing its new private-sector strategy. The CLE also concluded that to date IFAD's role in encouraging in-country dialogue on private-sector engagement for poverty reduction had been limited. It is therefore surprising that the consultation process that took place during the preparation of the new strategy (Private-Sector Strategy, paragraph 3) did not include country events such as regional and/or subregional workshops. Such events would have been invaluable to discuss the main premises of the strategy, incorporate views of borrowing Member States, dispel scepticism and prepare the ground for the new generation country strategic opportunities programme (COSOP). Governments' institutions in IFAD partner Member States should be made fully aware of IFAD's new strategic directions in private-sector engagement and should be given ample space to express and discuss their views. To address this lacuna, future COSOP consultation processes must be used to explicitly discuss and disseminate the new IFAD strategy among governments, non-governmental organizations, private-sector entities and others. This would serve to clarify the strategic premise for deepening IFAD's private-sector involvement and bring reluctant partners on board for this new IFAD strategic thrust.
8. **Disconnect between strategy development and implementation.** One of the CLE findings, which has frequently emerged in country programme evaluations and other corporate-level evaluations, is that IFAD devotes due attention to the development of new corporate policies and strategies but does not follow through adequately in terms of making the needed adjustments to ensure effective implementation (e.g. to corporate processes and guidelines). This also seems to be the case for the new private-sector strategy. The document dedicates a short section to strategy implementation, and this adheres only partially to the related CLE recommendations. The strategy lacks a solid implementation framework and well-defined measures for internalization and compliance with the desired deepening of IFAD's private-sector engagement (see also paragraphs 9 to 12 below).
9. **Internal processes and guidelines.** The CLE noted that the concept of partnering with the private sector and broader support for private-sector development had not been sufficiently embedded in IFAD's quality enhancement and quality assurance internal guidelines and other operational guidelines and that consequently these guidelines did little to ensure compliance with the strategy (for example, there is no explicit reference to private-sector engagement in the six key success factors in the maturity assessment template for assessing new COSOPs). The new private-sector strategy, like that of 2005, does not stipulate that these internal guidelines would be revised to ensure compliance. The strategy should have included such revision as an important implementation measure.
10. **IFAD's potential leadership role.** The CLE noted that the rural private sector had assumed increasing importance for poverty reduction in IFAD strategy and operations since 2009, most prominently in IFAD's Strategic Framework 2011-2015. It concluded that IFAD was uniquely positioned to take on a leadership role globally and at country level in engaging the private sector to the benefit of the rural poor, and should develop implementation capacity to this end. To fully realize this role, the CLE recommended, inter alia, that IFAD strengthen its existing instruments and create new mechanisms to deepen private-sector engagement; build staff's first-hand knowledge, experience, and training in private-sector operations with the appropriate accountability framework; develop an

organizational architecture capable of leading and assuming responsibility for IFAD's work in private-sector development; and disseminate knowledge and guidance on these topics to staff and consultants.

11. The new strategy addressed some of these recommendations adequately, but others have not received sufficient follow-up, for example:
 - (i) the recommended assessment of IFAD's organizational architecture and human resource capabilities for promoting private-sector development, including mobilization of resources from the private sector, has not been taken up by the strategy;
 - (ii) as a consequence, it is not clear on what basis the Programme Management Department (PMD) will design the intended staff training programme or produce the promised toolkits;
 - (iii) the strategy does not provide convincing justification for installing two staff members in the Policy and Technical Advisory Division (one through lateral transfer from another PMD division and another to be appointed in 2012) to act as focal points for private-sector engagement rather than the more structural option recommended by the CLE;
 - (iv) the strategy does not provide convincing arguments for its scepticism about establishing a private-sector development financing facility (see also paragraph 14 below); and
 - (v) the strategy does not provide a road map on how PMD intends to communicate and disseminate this strategy internally to IFAD staff and externally to its multiple partners.
12. The CLE underlined the need for IFAD to make specific efforts to ensure that a proportion of new professional staff hired – especially in PMD – have experience of working in the private sector, i.e. as private-sector operators or business men and women familiar with the particular requirements of the private sector and with the appropriate mindset and understanding of time and associated risks. IOE believes that it is essential for IFAD to have a balanced workforce that has intimate knowledge and experience of what private-sector entities expect in their partnership with an organization such as IFAD in terms of capacity-building, financing, and risks analysis. The new strategy does not, however, clarify how IFAD will accomplish this important staffing objective.
13. The strategy stipulates the undertaking of a full feasibility study in 2012 (Private-Sector Strategy, paragraph 42). IFAD should consider including the assessment mentioned above (paragraph 11(i)) in the terms of reference of the planned feasibility study. The assessment should also lead to the definition of an appropriate incentives and accountability framework for IFAD's work with the private sector, an element currently missing in the strategy.
14. **Private-sector development financing facility.** The CLE recommended the establishment of a private-sector development financing facility in IFAD, fully recognizing that direct lending would have significant implications for IFAD's legal, financial and supervision systems, and that such a decision would require the Executive Board's concurrence and full support. The new strategy adopts a very cautious approach in this regard, reporting that a pre-feasibility study concluded that acting as a direct funder of rural small and medium-sized enterprises was not recommended for IFAD at this point in time (for both financial and capacity reasons). The issue was not further elaborated upon. The CLE gave a full analysis of the importance of creating a new instrument in IFAD for strengthening its engagement with the private sector, as had been the case in many other multilateral development organizations. It is hoped that the full feasibility study planned for 2012 will examine in depth the option of establishing a private-sector development financing facility and will provide the Board with a comprehensive analysis of the pros and cons of such option.

15. **Country presence and private-sector engagement.** The CLE concluded that increasing decentralization and expansion of country presence are among the most important positive developments for enhanced private-sector development and partnerships. While the objective of country presence is not specifically to support private-sector development, the impact has been disproportionately felt in private-sector oriented projects, which depend to a much greater extent on local knowledge. However, the CLE also noted that there are concerns with country presence, especially with regard to the seniority of staff in country offices and their experience, knowledge and competencies in terms of the private sector. The new strategy does not address the issue of how to strengthen the country presence instrument to enhance private-sector engagement, for example by undertaking policy dialogue to promote a more conducive space for public-private partnerships.
16. **The results framework for the strategy** needs to be strengthened. It does not contain easily measurable key performance indicators (over and above the number of COSOPs or projects dealing with the private sector); lacks baseline values or targets against which progress could be reported; and does not link explicitly with performance indicators of other internal systems for monitoring performance such as the Results and Impact Management System (RIMS). The strategy does not call for the systematic collection of data on performance in the area of private-sector engagement. It fails to address the issue of revising the RIMS and other monitoring and self-assessment mechanisms mentioned by the CLE to explicitly incorporate a wider set of indicators to measure IFAD's performance in terms of private-sector engagement for rural poverty reduction.