

Document: EC 2011/S6/W.P.2/Add.1
Agenda: 3
Date: 4 May 2011
Distribution: Public
Original: English

E



Enabling poor rural people
to overcome poverty

Management's response to the Corporate-level evaluation on IFAD's Private-Sector Development and Partnership Strategy

Note to Evaluation Committee members

Focal points:

Technical questions:

Kevin Cleaver
Associate Vice President
Tel.: +39 06 5459 2419
e-mail: k.cleaver@ifad.org

Mylene Kherallah
Private Sector Development Specialist
Tel.: +39 06 5459 2569
e-mail: m.kherallah@ifad.org

Shyam Khadka
Senior Portfolio Manager
Tel.: +39 06 5459 2388
e-mail: s.khadka@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Governing Bodies Officer
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

Evaluation Committee — Sixth Special Session
Rome, 9 May 2011

For: Review

Contents

| | | |
|-------------|---|----------|
| I. | Introduction | 1 |
| II. | Overall assessment of the findings | 1 |
| III. | Way forward | 2 |

Management's response to the Corporate-level evaluation on IFAD's Private-Sector Development and Partnership Strategy

I. Introduction

1. IFAD Management welcomes the Corporate-level evaluation on IFAD's Private-Sector Development and Partnership Strategy (EB 2011/102/R.8), which was undertaken by the IFAD Office of Evaluation (IOE) in line with the decision taken by the Executive Board when approving the strategy. Management appreciates the effort made by IOE in expanding the scope of this corporate-level evaluation (CLE) to include the performance of IFAD's portfolio of investment projects and the instruments being used and the experiences gained by other development organizations.
2. IFAD agrees with IOE's overarching suggestion that this is the right time to consider a new strategy for engaging with the private sector for poverty reduction. It also considers valid the suggestion that the recommendations made and the information contained in the CLE be treated as inputs to the development of a new strategy as appropriate. It will accordingly also use these when developing the new strategy, which it plans to submit for the consideration of the Executive Board in December 2011.
3. In light of the above, this document provides a summary of IFAD Management's views on the conclusions and recommendations of the CLE and an indication of how it will incorporate the specific recommendations in developing the proposed policy.

II. Overall assessment of the findings

4. IFAD Management broadly concurs with the conclusions of the CLE, and, in particular, with the following outcomes that are noted in the report:
 - (a) Projects designed in recent years as compared with those designed earlier have made wider provision for private-sector development, especially through greater attention to rural microenterprises and small businesses, commodity value chains, market linkages and enhanced agricultural productivity;
 - (b) IFAD has met or surpassed selected key performance indicators related to investment operations defined in the results framework of the strategy;
 - (c) The targets set in the strategy's results framework for mobilizing resources from the private sector for IFAD-funded projects have been surpassed; the establishment of the remittances financing facility was an important initiative to further partnership with the private sector in ensuring more efficient and timely transfer of resources to rural areas; and
 - (d) On undertaking policy dialogue, about half the new-generation country strategic opportunities programmes (COSOPs) include attention to policy dialogue on the private sector as well as due consultation with private-sector entities in the preparation of the corresponding country strategies.
5. IFAD Management is particularly pleased to note that the results of projects approved after the adoption in 2005 of IFAD's Private-Sector Development and Partnership Strategy reveal better overall performance as compared with similar projects approved before 2005, since the ultimate aim of IFAD-supported projects, as noted in the CLE, is to promote private-sector engagement as a means to achieving better results on reducing rural poverty on the ground, rather than supporting the development and engagement of the private sector as an objective per se.

6. IFAD Management, however, also recognizes the need for deepening its engagement with the private sector in order to better serve its primary target group, rural poor people. In this respect, it also agrees with the following conclusions of the CLE, which will help chart the future course of action with respect to the management of IFAD's portfolio:
 - (a) There is a room for improvement in IFAD's work to promote a favourable policy and institutional environment for private-sector engagement at the country level.
 - (b) IFAD-funded projects could have put more emphasis on the role of the private sector in research and extension. More could have been done to analyse the potential risks associated with the value chain approach. More use of information and communication technology to promote access to markets could have been made.
 - (c) The results of projects financed under the Financing Facility for Remittances have yet to be adequately internalized into IFAD's investment operations.
 - (d) There are only some concrete examples of partnerships to leverage investments from private foundations or philanthropic organizations.
 - (e) IFAD still lacks specific knowledge partnerships that would enable it to draw on the technical expertise of the private sector.
7. Management, by and large, concurs with the finding that IFAD has not yet leveraged various instruments for private-sector development. In obtaining the Board's approval for the new IFAD Policy for Grant Financing (2009), however, Management successfully argued for IFAD to provide direct financing to the private sector. Further, it agrees with the CLE's conclusion that there are merits in considering an expansion of the grants policy to ensure a wider engagement of the private sector.
8. In terms of global policy dialogue, while IFAD Management considers the creation of a favourable international and regional trade environment to be an important factor for engaging the private sector for rural poverty reduction, it also realizes that IFAD has very limited resources for participating in such dialogue in terms both of specialist knowledge and of the power to negotiate a more conducive trade regime for the benefit of rural poor people.

III. Way forward

9. In line with the CLE recommendation, IFAD Management, as stated, will develop a strategy for engaging the private sector for poverty reduction, for the consideration of the Executive Board in December 2011. The recommendations made by the CLE for developing such a strategy (paragraph 269) are indeed valuable.
10. As recommended by the CLE, in preparing a new strategy, Management will follow a consultative process to obtain the views and feedback of both internal and external stakeholders. In fact, it has already created the Policy Reference Group, composed of 18 IFAD staff members from 11 different divisions, to shape the new strategy, and bring in the various regional and thematic perspectives, as well as the internal ownership needed to successfully implement the new strategy following its approval. Consultations have also started and will continue throughout the preparation process with other international financial institutions (IFIs) (e.g. the African Development Bank – AfDB, the International Finance Corporation – IFC, the World Bank), United Nations organizations (e.g. the Food and Agriculture Organization of the United Nations, the United Nations Development Programme, the United Nations Global Compact, the World Food Programme), bilateral organizations (e.g. Agence Française de Développement – AFD, the United Kingdom's Department for International Development, KfW Entwicklungsbank/Deutsche Investitions-und Entwicklungsgesellschaft, the United

States Agency for International Development), farmers' organizations, NGOs and civil society (e.g. ACDI-VOCA, Oxfam, Technoserve) and private-sector companies (e.g. ALTIMA Partners, Coca-Cola, Société Générale, Unilever and others yet to be identified).

11. In terms of the contents, the elements outlined in the following paragraphs will be taken on board in the revised strategy.
12. **A clearer and more focused definition of the private sector.** There are many participants in the private sector: from the small-scale farmer and trader right through to large international businesses. IFAD has been working all along with the smaller end of the private sector, such as small farmers, small and medium enterprises, small traders and microfinance institutions, and has devised several relevant strategies and policies, for example the IFAD Policy on Targeting, its Policy on Engagement with Indigenous Peoples, its Rural Enterprise Policy and its Rural Finance Policy. The new strategy will focus instead on how IFAD intends to engage with the "corporate business sector", defined as medium or large domestic, regional, or international for-profit companies. In engaging with the corporate business sector, however, IFAD will be mindful of its mandate, target population and strategic focus. It will collaborate with these businesses with the aim of creating markets for its target groups, improving their access to knowledge and technology, stimulating rural economies in general and increasing job opportunities for the target population.
13. **Strengthening of existing instruments to support private-sector development.** Some recent IFAD-funded projects are already pushing the frontier in using existing sovereign loans and grants with willing Governments to establish equity funds that invest in medium-sized agribusiness companies. These experiences can be documented and, if proven successful, can be replicated in other projects and other countries. Other forms of public-private partnerships (PPPs) are also being forged between IFAD-funded projects and private businesses, especially in the area of value chain development and rural finance. For example, in Yemen, during the design of its new country programme, IFAD co-hosted a round table in Sana'a with the Government, in which both government officials and private-sector chief executive officers participated. This process brought out the various barriers faced by the private sector and put pressure on the Government to address the issues raised. It also offered the private sector the opportunity to understand more fully the value of keeping the Government involved. It is expected that more and more of these PPPs will be established in the coming years. Furthermore, under the new grants policy, grants can be used to extend grant resources to private-sector companies or multi-donor trust funds that invest in private-sector companies (such as the Africa Enterprise Challenge Fund), if consistent with IFAD target and policy objectives. As a result, it is foreseen that the grant pipeline will increasingly include private-sector companies and trust funds as grant recipients, thereby expanding the use of this instrument to support the private business sector in supporting IFAD's target group.
14. With regard to using the **COSOPs as a platform for more systematic engagement with the private sector**, the aim will be to bring all new COSOPs to this improved level of engagement with the private sector at various levels (for investments, knowledge management and policy dialogue). The COSOP consultation process should include the private sector. Currently IFAD is conducting a review of all of its COSOPs to determine, among other things, how adequate the existing COSOP platform is at engaging with the local private sector. This review will be used to strengthen the new set of COSOPs with regard to financial or knowledge partnerships with the private business sector, and for policy dialogue in support of private-sector development in rural areas.

15. **Partnerships** with other institutions, NGOs, and private-sector companies that can complement the work of IFAD in interacting with the private sector will also be pursued more actively. These partnerships will be sought not only for additional sources of financing, but also for knowledge and policy dialogue. IFAD has already started partnership discussions with IFC and is currently discussing concrete measures with the Corporation to operationalize this partnership both at corporate and country level. IFAD is also partnering with AfD, AfDB and other African banks in the Africa Agriculture Equity Fund. There will be a lot to learn from these partnerships as they go forward, and new ones will be established as opportunities arise. IFAD is also working with NGOs such as Oxfam and Technoserve to tap into their technical assistance services and their knowledge of the corporate business sector in agriculture. It will also explore corporate partnerships with other international companies interested in improving their supply chains with small farmers.
16. Regarding the recommendation to create a **separate private-sector development financing facility**, IFAD Management is in favour of establishing such a facility. It had already proposed doing so in 2008 during the Consultation on the Eighth Replenishment of IFAD's Resources (see document REPL.VIII/4/R, IFAD's response to the emerging role of the private sector). IFAD Management recognizes that the current context, in which IFAD can only engage with the private sector indirectly, at country level and when Governments are willing to use their loan and grant resources to such ends, limits the Fund's ability to engage directly with the private business sector to countries where such engagement is entirely promoted by the Government. The private sector is the engine of growth in most economies, and the greatest source of jobs, markets, knowledge, investments, innovation and technology. Dealing directly with private-sector enterprises, facilitated by the proposed facility, would allow IFAD to engage productively with the private sector in all countries in which it operates.
17. Most IFIs have now established a private-sector arm or operations department, and these have grown both in volume and in value through the years. This includes, AFD (through Proparco), AfDB, the Asian Development Bank, the European Bank for Reconstruction and Development, the Islamic Development Bank, the World Bank (in the form of IFC) and many others. However, most of these IFIs have focused on the energy, financial and infrastructure sectors and much less on investing in the agribusiness sector (usually in very large companies). In addition, sustainability of their investments is not always apparent when the longer-term risk profile of these investments are taken into consideration. Since IFAD's core objectives include improving the productivity of small farmers, making markets work for the poor, and generating rural employment, a facility that would allow IFAD to directly support private business companies that can provide markets (both inputs and outputs), services, technologies or jobs to IFAD's target groups would be an excellent complement to its sovereign lending instruments.
18. In developing countries, medium-sized private businesses serving agriculture often lack the access to finance, technology and business development services needed to grow and/or expand their outreach to small rural producers. These are often perceived as "too risky" by commercial financial institutions and often fall into the category of "the missing middle" as they are served neither by microfinance institutions nor by commercial banks. There is therefore a niche that IFAD could fill by providing financing, technical assistance and business development services to these types of medium-sized private businesses that provide crucial backward and forward linkages to IFAD's target groups. In supporting these medium-sized private-sector organizations, IFAD could work also with in-country intermediaries and thereby leverage IFAD's assistance to benefit a greater number of beneficiaries in a cost-effective manner.

19. Such a facility could be funded separately from IFAD's core resources, through supplementary funds or voluntary contributions from Member States, foundations and philanthropic organizations, and private-sector companies (following a thorough due-diligence procedure). If encouraged by the Executive Board to follow up the recommendation, IFAD Management would: (i) undertake a feasibility study of such a facility; (ii) analyse IFAD's constitutional documents and relevant legal provisions and, based on this analysis, recommend an appropriate institutional form (an IFAD subsidiary, a ring-fenced fund within the existing IFAD organizational structure, a partnership-based arrangement, etc.); and (iii) study which types of non-sovereign instruments and services this facility might offer in terms of their appropriateness for the targeted companies and the level of risk that IFAD is willing to bear. These could include equity funds, venture capital, debt financing, guarantees and technical assistance, among others. Considerable study and consultation would be required (including analyses of the sources of funding, risk provisioning of such lending and the terms of such lending) before the facility could be established. It is worth noting that the legal basis chosen for establishing such funds will have a bearing on the type of instruments IFAD can use in achieving its objective of partnering with the private sector for rural poverty reduction.
20. Establishing such a facility would entail, as the CLE has pointed out, a review of IFAD's organizational structure and the human resources needed to appropriately manage the facility. It would also imply setting up a new set of legal documents, financial procedures, due diligence processes, and supervision and monitoring and evaluation frameworks that would report separately from IFAD's core operations to Senior Management and the Executive Board. Such a review would be undertaken if and when IFAD's Executive Board agrees **in principle** with the establishment of the facility. In deciding the actual amount of resources to be invested, Management will consider the following factors:
- (a) Competing demands for human and financial resources by various thematic areas such as microfinance, gender, indigenous peoples, in many cases recommended by IOE; and the relative merits of each of these thematic areas;
 - (b) The evolution of various instruments that support private-sector development, in particular of the financing facility, and the relative costs and benefits.
21. The pace at which new instruments such as the proposed financing facility will evolve in IFAD will determine the level of resources allocated for enhancing IFAD's partnership with the private sector for reducing rural poverty. However, Management is committed to strengthening its work with the private sector as evidenced by its creation of staff positions to deal with its evolving private-sector work. The positions will act as focal points for providing critical technical advisory and quality enhancement review services in order to increase the relevance and expand the role of our contacts with the private sector in serving IFAD's target group. These staff focal points would also benefit from the reorganization of the Partnerships and Resource Mobilization Unit now being considered, to enhance its focus on private-sector and non-profit foundations.
22. Similarly, additional resources would be required to **strengthen the capacity of IFAD staff**, especially of country programme managers and country programme officers, in engaging with the private business sector. This will be especially relevant in the areas of value chain analysis and implementation, various forms of private-public partnerships (including knowledge partnerships), various instruments that can be used to engage with the private sector through sovereign loans and grants, and policy dialogue for private-sector development (for example, through the Doing Business Index and other agricultural-specific indices currently being developed by IFC). Training programmes may also be tailored to the specific needs of the staff, taking into consideration the country context in which they work.