IFAD’s Engagement with the Private Sector in pro-poor agricultural value chain development

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Outline

1. Background and relevant corporate-level strategies and policies
2. Instruments for supporting pro-poor VC development
3. Corporate organizational aspects
4. Specific corporate initiatives
5. Results and moving forward
Background & corporate strategies & policies
Background: APR investment portfolio as of 31 March 2019
Since 1977, IFAD has financed US$18.5 billion in grants and low-interest loans to farm and non-farm projects which benefited 464 million people.

IFAD currently is working on 212 projects in 96 countries globally.

In APR, 59 projects in 21 countries, US$2.5 billion outstanding, average project size US$43 million as of March 2019.
Background: APR trends in financing by sectors

![Graph showing trends in financing by sectors.](image-url)

- Markets and Related Infrastructure
- Natural Resource Management
- Rural Finance
- Agricultural Production
- Community Driven Development
- Management/M&E
- SMEs
- Research, Extension and Training
- Livestock/Rangelands
- Policy and institutional support
- Human Development
- Fisheries
- Irrigation
- Other

% share of total IFAD financing

- Q1-2019 current portfolio
- Q2-2009 current portfolio
Background: How IFAD is achieving its mandate

- **SO1**: Increase poor rural people's productive capacities
  - AAF/TAF
  - ABC/TAF
  - CGIAR
  - FOs
  - FFR

- **SO2**: Increase poor rural people's benefits from market participation
  - AAF/TAF
  - ABC/TAF
  - CGIAR
  - FOs
  - FFR

- **SO3**: Strengthen the environmental sustainability and climate resilience of poor rural people's economic activities
  - AAF/TAF
  - ABC/TAF
  - CGIAR
  - FOs
  - FFR
Corporate strategies and policies: relevance, vision, gaps

- Corporate strategic documents (IFAD Strategic Framework 2016-2025, IFAD 11 replenishment)
- (new!) Private-Sector Strategy and IFAD 2.0 Vision incl. Private Sector Window to crowd-in financing
- On 15 February 2019, IFAD Governing Council approved an amendment of IFAD article of agreement to authorize direct funding to the private sector
- Corporate commitments (gender, nutrition, youth, climate change) incorporated into VC development

Current vision

- VCs are seen as one way to increase poor people’s benefits from market participation
- Focus on people not only on commodities to minimise dichotomy VC/targeting
- Multiple entry points - not only at primary production - & private sector partnerships
- Approach tailored to the specific context
- Win-win opportunities to cover corporate commitments

Challenges

- Sovereign lending for public-sector financing
- Diverse views on what is a VC approach
- Need to avoid elite capture in VCD
- IFAD11 emphasis on poorest and most vulnerable people may imply some further adjustments
- Trade-offs between corporate commitments and market potential
Instruments for supporting pro-poor VC development
IFAD investments in projects as instrument for supporting pro-poor VC development

<table>
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<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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| • Active **participation of the government** in the selection of VCs and the type of interventions  
• Potential room to **influence policies** that can benefit pro-poor VC development  
• Financial resources to cover **soft investments**  
• Good set-up to develop **PPPs**  
• Opportunities to **leverage public sector capacities and investments** (research centres, extension services, and public infrastructure  
• Different inclusive VC business models:  
  - **Formal or informal contractual arrangements** (outgrower schemes, contract farming, informal supply schemes)  
  - **Cooperative-led model** of partnerships with the private sector  
  - **joint ventures** between private sector and SHs | • The decision making process can be **politically biased**  
• Limited **implementation capacity** and experience of the gov’t in VC development  
• Reluctance of governments to **borrow money for TA**  
• Reluctance of governments to engage private sector with borrowed money  
• **Sustainability** could be a challenge with government-owned initiatives  
• Higher risk of **suboptimal use of financial resources** (inefficiencies are higher in government vs. private sector projects)  
• **Less innovation** |
Financial instruments for supporting pro-poor VC development

The past and the present

### Missing financial instruments

| I.  | Direct lending mechanism for private sector |
| II. | Equity investment mechanism in private sector SME agribusinesses |
| III. | Co-financing facility |
| IV.  | Blended finance facility |

### Consequences

| I.  | Limited or no financing (few grants only) to key private sector actors |
| II. | Limited financial resources per country (performance-based allocation system only) |
| III. | Higher interest rates and transaction costs for funds targeting private sector companies |

IFAD has enhanced its business model and financial instruments

| I.  | Set-up of the YIELD Fund Uganda, Agri-Business Capital (ABC) Fund for equity and debt investments directly into private sector actors, incl. FOs and FSPs |
| II. | Changed IFAD articles of agreement to allow use of IFAD core resources for private sector funding; principles: relevance, additionality, development impact, risk/sustainability |
Technical support for pro-poor VC development

The past and the present

What IFAD currently supports

- Increase in productivity & surplus production
- Improvements in quality & standards
- Technology adoption
- Aggregation & support to Farmers’ Organizations
- Small-scale infrastructure (e.g. warehouses, storage facilities, rural roads, markets, etc.)
- Improved financial and non-financial services
- Other public goods – e.g. research, extension

The gaps in technical support

- Limited ability to do brokerage and PPPs
- Limited ability to influence pro-poor market policies
- Limited ability to train other VC partners
- Limited stand-alone TA to support VC actors

IFAD – future for technical assistance and expertise

I. Set-up of the ABC Technical Assistance Facility to provide direct support to ABC investees
II. Establish a more general TA facility to support IFAD VC project stakeholders
III. Digital Global Platform For Improved Access to Markets and Services
Corporate organizational aspects
Advisory role and thematic guidance

From centralized to decentralized regional operations

- **6 Lead/Senior Technical Specialists in HQ**
  - supporting whole project cycle (COSOP, design, supervision, implementation support, MTRs, etc.)
  - generating knowledge products (toolkits, guidelines, lessons learned, thematic publications)
  - developing IFAD strategies, VC financing mechanisms (4P), contribution to design new instruments
  - designing and managing grants and partnerships
  - collecting & analyzing database of VC projects

- **7 Lead/Senior Technical Specialists in Hubs (plus anchor at HQ)**

**Strengths**

- Regional out reach – covering all projects with VC in the region
- Knowledge-based on real regional and country experiences
- More team input, interaction and cross-learning in inter-disciplinary hub teams
- More frequent exposure

**Weaknesses**

- Never enough – demand > supply
- Knowledge generation time squeezed by operational support and travel
- Limited global / corporate perspective
Adaptability during project implementation

The present

- Depends on project design and capacity of project implementing institution
- Multi-stakeholder platforms allow actors to interact and make decisions according to VC dynamics
- Direct supervision and implementation support mostly adequate
- Mid-term reviews are key to adjust project design
- Additional corporate commitments reduce flexibility

Possible improvements

- Make project designs more flexible – e.g. choice of VCs based on rigor VC diagnostic
- Decentralized technical staff to spend more time on supervision/implementation support
- Build capacity and use local knowledge and centres of excellence in VCs
- Understand better the trade-offs between flexibility and corporate requirements
- Tracking of Business Plan indicators and private sector co-financing and leveraging
- Provide more evidence on link between VC development and poverty reduction
- Direct support enabling policy environment through national policy engagement
Knowledge tools

Sustainable inclusion of smallholders in agricultural value chains

How to do
Public-Private-Producer Partnerships (4Ps) in Agricultural Value Chains

Value chains toolkits
The toolkit on sustainable inclusion of smallholders in agricultural value chains aims to support the design of IFAD-supported Value Chain (VC) projects.

The tools developed offer valuable guidelines to help practitioners address the analysis and design of VC during the design of country strategies, and the design and implementation of projects/programmes.

These include:
• Textbox provides an overview of the issues and the challenges, benefits and opportunities in VC projects
  English | French | Spanish
• How to design commodity value chains in development projects
  English | French | Spanish
• How to do due diligence on Public-Private-Producer Partnerships (4Ps) in Agricultural Value Chains
  English
• How to do climate change risk assessments in value chains projects, provide general guidelines on the types of issues that project design teams might consider in order to manage climate risk in value chains
  English
• How to do livestock value chains analysis and project development
  English
• How to monitor progress in value chain projects
  English
• Lessons learned in designing commodity value chains development projects
  English | French | Spanish
• Scaling up note: A value chain development approach to scale up results in agricultural
  English | French | Spanish
Specific corporate initiatives
Corporate partnerships on VC Development

A few partnerships at corporate-level:

- **UN VCD network** (RBAs, ILO, ITC, UNIDO)
- MoUs with **multinationals** (e.g. Unilever, Mars)
- Through **grants**: IDS, SNV, TechnoServe, Oxfam
- At regional level, also through grants (Helvetas, Hivos)
- Ad-hoc **learning events** (WB, IFC, GIZ, BMZ, etc.)

Some results:

- Knowledge exchange and learning
- Joint research work and publications
- Piloting new approaches (e.g. brokering 4P, blended finance)
KM and SSTC on pro-poor VCD

The present

- **Global Knowledge Management events on 4P** in agricultural VCs together with technical partners (IDS-Sussex, SNV, NL)

- **South-South and Triangular Cooperation events on**
  - 4Ps organised jointly with Government of Sri Lanka and APR
  - environment and climate change in VCs in Pakistan
  - Mekong Knowledge and Learning Fairs

Gaps and possible improvements

Empirical evidence re impact of private-sector led agricultural VC approaches on smallholder producer inclusiveness, climate resilience and sustainability
Results and moving forward
Results – what has worked and where are the gaps?

Results

- VC development – a major and relevant focus area for IFAD-supported projects
- No in-depth results or impact analysis done so far

What has worked?

- Approaches that are context specific
- VC diagnostics at design are helpful
- Flexible projects (e.g. choice of VCs)
- Strong PMUs & local service providers
- Involving private sector is key for sustainability
- Working with existing FOs
- Multi-stakeholder platforms – good but room for greater effectiveness

Where are the gaps?

- Limited VC finance tools & instruments
- Innovative ICT for development applications in private sector VCs
- IFAD’s influence on market policies, rules and regulations
- IFAD’s capacity to gather and disseminate knowledge from project and private sector partnership M&Es
- Impact analysis and diagnostics
Thank you for your attention!

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