Private-Sector | STRATEGY

Deepening IFAD's engagement with the private sector

Enabling poor rural people to overcome poverty

IFAD

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Cover photo: IFAD supports rural business development in Moldova: Women prepare croissants for baking at the Finetia company in Sturzovca village.
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Abbreviations and acronyms

AAF	African Agriculture Fund
CBOs	community-based organizations
DFIs	development finance institutions
IFC	International Finance Corporation
MDBs	multilateral development banks
PPPs	public-private partnerships

Executive summary

This strategy was prepared in response to the recommendations made in the Report of the Consultation on the Eighth Replenishment of IFAD's Resources. It builds upon IFAD's 2005 Private-Sector Development and Partnership Strategy and the corporate-level evaluation of that strategy completed by the Independent Office of Evaluation of IFAD in May 2011. It also incorporates feedback received from Executive Board members at the informal seminar held on 13 September 2011.

Global and rural landscapes have changed considerably since 2005, when the previous strategy was prepared. The structural rise in agricultural commodity prices, the ever-increasing role of the private sector in rural economies, the renewed interest of both private and public investors in the agricultural sector, and the growing global awareness about the need for sustainable agriculture have all contributed to creating new opportunities – but also risks – for smallholder farmers and poor rural populations in general.

This new IFAD strategy responds to these global developments and calls for IFAD to be more systematic and proactive in engaging with the private sector. The new strategy specifies how IFAD intends to deepen its engagement with the private sector (be it small, medium, or large; domestic, regional, or international companies) with the aim of creating markets for its target groups;[1] improving their access to inputs, services, knowledge and technology; and increasing income-generating or job-creating opportunities for its target populations.

The strategy proposes that IFAD continue to replicate and scale up some of its successful achievements in the area of private-sector development and partnership. It also addresses the major recommendations made by the corporate-level evaluation to improve IFAD's impact in this area. More specifically, the strategy proposes the following three broad themes to deepen engagement with the private sector:

(a) Strengthen IFAD's existing instruments, such as country strategic opportunities programmes (COSOPs), project loans and grants, partnerships, and policy dialogue as related to rural pro-poor private-sector development;
(b) Further build the capacity and knowledge of IFAD and its staff in engaging with the private sector and establishing partnerships;
(c) Explore further and in a gradual manner the options for IFAD to better support the growth of rural small- and medium-sized enterprises (SMEs) in developing countries, in line with its mandate.

1 IFAD's target groups include poor rural men and women who derive their incomes from producing agricultural or other goods and services in rural areas (e.g. small-scale farmers, rural wage earners, livestock herders, microentrepreneurs, peddlers/small traders, etc.).

Introduction

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Background

In 2005, as part of a growing series of policies and strategies related to its mandate, and in response to a request by its Executive Board, IFAD produced a Private-sector Development and Partnership (PSDP) Strategy. After five years of strategy implementation (2005-2010), and in line with the decision taken by the Executive Board when approving the strategy, the Independent Office of Evaluation (IOE) of IFAD produced an evaluation of the 2005 PSDP strategy in May 2011. The evaluation also built on the recommendations from a 2008 paper prepared for the Consultation on the Eighth Replenishment of IFAD's Resources, entitled "IFAD's response to the emerging role of the private sector."

This revised strategy builds on the lessons learned from the previous 2005 strategy, IFAD's growing experience in this area of work, rapidly changing rural and global landscapes in developing countries, the recommendations made in the Report of the Consultation on the Eighth Replenishment of IFAD's Resources, as well as the recommendations presented in IOE's evaluation report of May 2011 and the related Management response. Valuable comments received at an informal Executive Board seminar in September 2011 have been incorporated. The new strategy is also in line with other IFAD policies and strategies – in particular, the overarching IFAD Strategic Framework 2011-2015.

In preparing the revised strategy, and as recommended by the IOE report and the Executive Board, an extensive consultation process took place with both internal and external stakeholders. An internal policy reference group composed of 18 IFAD staff members from 11 different divisions was responsible for shaping the strategy, ensuring wide regional and thematic perspectives as well as in-house ownership. Consultations were held throughout the preparation process with other international financial institutions (IFIs), United Nations organizations, bilateral organizations, private and donor-supported funds, NGOs, networks, associations and private-sector companies.

Definition of the private sector and public-private partnerships

There are many participants in the rural private sector, covering the entire spectrum from the small-scale farmer and trader to large international businesses. IFAD has been working all along with the smaller end of the private sector – small farmers, microentrepreneurs, small traders and farmers' groups – and has devised several policies relevant to these groups: on targeting, engagement with indigenous peoples, rural enterprise and rural finance. This new strategy will focus on how IFAD intends to engage with the "corporate private sector," defined as for-profit businesses or companies that are not owned or operated by government.

The corporate private sector in rural areas includes various types of companies with various levels of formality, revenues, size and outreach. Figure 1 below shows the spectrum of companies that exist in rural areas, with which IFAD target groups may interact to buy inputs, obtain services, sell produce, access markets or to seek employment. These businesses in turn face various opportunities and challenges when working with IFAD's target groups. Small- and medium-sized companies may not have the financing needed to expand their business and reach out to a greater number of small rural producers, while bigger companies may find the transaction costs of working with IFAD's target group too high. Intermediation is sometimes needed to build these relationships and arrive at win-win situations for both the private company and IFAD's target groups, or to make the relationship more equitable for the poor rural people involved. With its global mandate on rural poverty reduction, its role as a good integrator of public and private initiatives in rural development, and its knowledge of local rural economies, IFAD will continue to have an important role to play in making these market-based relationships work for the rural poor.

For the purpose of this strategy, public-private partnerships (PPPs) will be defined as voluntary and collaborative relationships between public and private actors that agree to work together to achieve a common goal or undertake specific tasks. It usually implies that partners share the risks, responsibilities, resources and benefits. PPP models vary considerably and may serve various purposes, including advancing a cause, implementing normative standards or codes of conduct, or sharing and coordinating resources and expertise. In most cases, PPPs supported by IFAD will involve project-level partnerships. Examples of IFAD-supported PPPs are discussed later in the paper.

FIGURE 1 Spectrum of private-sector entities in rural areas: a heterogeneity of actors

Degree of formality and revenues generated →

IFAD's target group	Domestic/small- to medium-sized corporate private sector	Domestic or international/large corporate private sector
• small farmers • rural wage earners • livestock herders • microentrepreneurs • peddlers/small traders • savings & credit associations • farmer groups	• Input suppliers • Local traders • Commodity brokers • Agro-processors • Storage/warehouses • MFIs, NBFIs, insurance and leasing companies, equity funds	• Input manufacturing and trading • Large commodity traders • Agribusiness companies • Beverage companies • Supermarkets • Commercial banks, investment funds

The changing role of the private sector in rural areas

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The private sector has become the engine of growth in rural economies. With the growing trend since the late 1980s towards public-sector retrenchment and greater reliance on market forces for most productive activities, it is now a well-established fact that the private sector has become the engine of growth in developing economies. An estimated 9 out of 10 jobs in the developing world are in the private sector. And according to a study by McKinsey & Company and the International Finance Corporation (IFC), formal micro-, small- and medium-sized enterprises provide approximately 45 per cent of employment and 33 per cent of GDP in developing countries.[2] These trends are equally true in rural areas as rural and urban economies become more integrated. The rural private sector has increasingly become the main source of investment and finance; job creation; linking farmers to markets; and providing technology, services, innovation and knowledge. The public sector, on the other hand, has a crucial role to play in providing the appropriate policy environment and the infrastructure needed for private-sector businesses to thrive and for economies to grow.

Growing private investment in agriculture is changing the global and rural landscape. At the same time, higher food prices since 2008 have attracted increased private investment in the agricultural sector. According to the Food and Agriculture Organization of the United Nations (FAO), "Despite the prevailing view that agriculture is risky, investment in agriculture is experiencing noted growth due both to improved profitability projections and the interest of development agencies and governments to increase investment in the sector to achieve food security."[3]
In sub-Saharan Africa alone, there are now over 40 equity funds investing in the agricultural sector, 17 of which are devoted solely to agriculture. It is also a fact that private capital flows now far outweigh the amount of official development assistance (ODA) flowing from developed to developing countries.[4] Therefore, leveraging these financial flows to complement development assistance and achieve greater impact on poverty reduction has become a key ingredient in the strategies of most development agencies.

Striving for sustainable agriculture is part of the new landscape. Agribusiness companies are also looking to expand their supply sources and improve their social and environmental standards. In fact, more and more agribusiness companies are seeking to include the poor in their supply chains, either as customers or as suppliers. This objective was clearly spelled out in the 2010 World Economic Forum's publication "Realizing a New Vision for Agriculture: A roadmap for stakeholders." The emerging interest of private companies in sustainable development is not only aimed at fulfilling the companies' corporate social responsibility, but has become part of their core business strategies – such as sustainable access to raw materials and supplies, product and market diversification, and expansion of outreach to poorer consumers. This allows the

2 "Two trillion and counting – Assessing the credit gap for micro, small, and medium-size enterprises in the developing world." McKinsey & Company and IFC, October 2010.

3 "Agricultural Investment Funds for Developing Countries," FAO, Rome, 2010.

4 According to a study prepared for the Working Party on Aid Effectiveness hosted by the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC), in 2009 private capital flows totalled US$380 billion, about three times ODA flows. Source: "The Role of the Private Sector in the Context of Aid Effectiveness." Consultative Findings Document – Final Report, 2 February 2011.

companies to increase their competitive edge and market share and overall long-term growth in global markets. Under this new paradigm, commercial objectives are aligning themselves with social and development objectives. For certain agricultural products, this can lead to a unique product offer or allow the company to advertise its products as equitable or eco-friendly, or market them under the Fair Trade label, which fetches higher consumer prices and company margins.

There are potential opportunities, but also risks for small farmers and poor rural people. Accompanying these emerging opportunities, there are of course some risks and challenges facing small farmers and other rural poor people. These include the possible exclusion of small farmers from access to commercial markets, either because it is too costly for larger private-sector companies to deal with a multitude of smallholders or because small farmers lack the capacity to supply products in a consistent and timely manner. The potentially unequal relationship between small rural producers and the more powerful corporate private sector can result in exploitative and unfair business practices. Private markets may also exclude marginalized groups such as poor rural women and ethnic minorities.

IFAD's interest in working with the private sector

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To be more effective at enabling poor rural people to improve their food security, raise their incomes and strengthen their resilience, IFAD needs to adapt to the changing global and rural landscapes and deepen its engagement with the private sector.

As stated in IFAD's Strategic Framework 2011-2015, "As local and international private companies increasingly invest in agriculture, IFAD will partner with them to build mutually beneficial relations between small-scale producers and larger enterprises." For IFAD to continue to be effective in supporting the achievement of the first Millennium Development Goal (MDG1), it needs to adapt its strategies and instruments to the changing environment in which rural poor people live. In particular, IFAD has a crucial role to play in ensuring that growing private-sector investments are pro-poor and socially optimal.

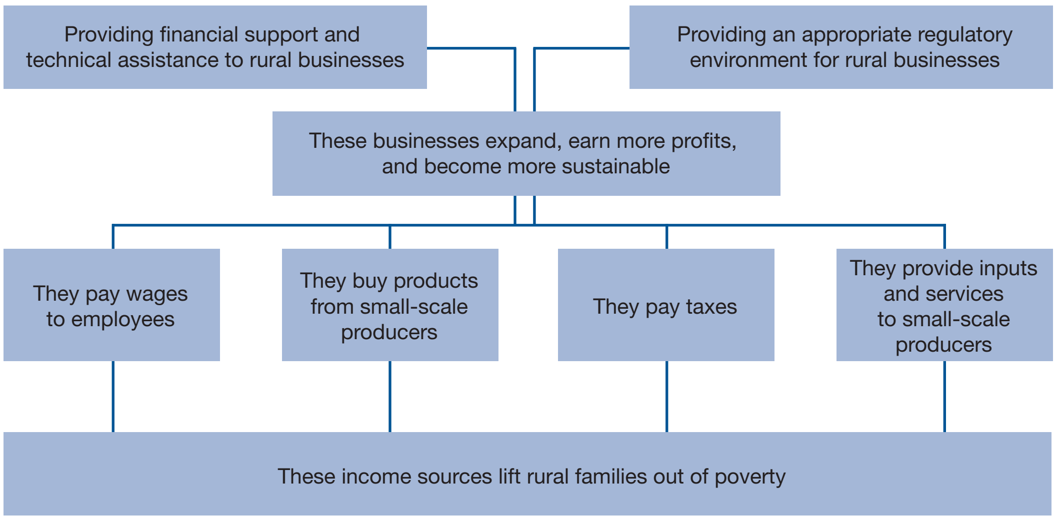
IFAD's interest in working with the private sector is driven by its knowledge and field experience, which show that this can help reduce rural poverty. Working with private companies can bring additional financial resources, technology and access to markets for IFAD target groups. While larger companies may have internal technical capacity and easy access to commercial sources of capital, they usually have difficulty working with small rural producers because of higher transaction costs and lack of knowledge about rural communities. Or they may face a hostile regulatory environment that discourages them from investing in the rural areas of developing countries. Through its projects and programmes, IFAD can play a role to reduce these transaction costs – for example, by organizing farmers into groups and building their capacity to negotiate with private companies, by building trust among the various partners, and by supporting a better business environment where such partnerships can flourish. Increasingly, international private companies and other donors are looking to IFAD to play the role of interlocutor or intermediary to connect with the local private sector, rural entrepreneurs and small-scale producers.

On the other hand, smaller or medium-sized private businesses serving agriculture often lack access to finance, technology and business development services needed to grow and/or expand their outreach to small rural producers. Small producers 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.

The figure below shows the conceptual framework behind supporting rural businesses and the linkages to poverty reduction. Evidence shows that financial and technical assistance to rural businesses has a positive impact on poverty reduction, in terms of employment generation for unskilled or low-skilled individuals; increased benefits to small-scale producers/suppliers and customers; and, through payment of local taxes, contributions to overall community development and rural economic growth.

Therefore, irrespective of the size of the private company, IFAD's interest in deepening its engagement with the private sector is driven by the need to catalyse additional investments, resources, knowledge, technology, services and market access to the rural poor.

FIGURE 2 Supporting rural businesses reduces poverty



IFAD's experience to date

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In preparation for this strategy, a stock-taking exercise of ongoing projects (loans or grants) where IFAD has been working with the private sector was undertaken. The exercise revealed that in the past five or six years IFAD's engagement with the private sector has been steadily increasing, especially in the areas of pro-poor value-chain development, supporting the emergence of a private rural financial sector that is more responsive to the needs of poor rural people, establishing government-backed equity funds that invest in rural businesses, supporting an enabling rural business environment, changing its grant policy and procedures to include the private sector as a potential beneficiary, and contributing to multi-donor trust funds that support rural businesses in Africa.

IFAD is increasingly playing a role as a facilitator and honest broker in value chains. According to a recent thematic study conducted by IFAD,[5] IFAD-financed value-chain projects and projects with value-chain components increased from 3.3 per cent in 1999 to 45.5 per cent in 2009. Since 1999, IFAD has financed 78 of these projects, 68 of which were presented to IFAD's Executive Board between 2004 and 2009. Preliminary results from the IFAD thematic study, which analysed 22 case studies from both within and outside IFAD, suggest that the organization of farmers into groups was central to increasing farmgate prices and hence improving the returns and incomes of small farmers within value chains. IFAD's promotion and support to farmers' organizations – and its role in facilitating linkages between farmers and the private sector, and building trust among the various players within the chain – has often led to IFAD being called an honest broker in forging these inclusive market-based relationships.

While many agribusiness chains may prefer to buy from a limited number of large producers that appear to offer more reliable quantity and quality, they are willing to source from small farmers if transaction costs and risks are reduced. This is where IFAD has been playing an important role. IFAD projects have supported a variety of activities, such as: (a) facilitating linkages between small farmers and agroprocessors or commercial buyers; (b) providing technical assistance for small farmers to increase their productivity and improve the quality of their produce to meet market standards; (c) helping organize farmers into groups or associations, which improves their interaction and negotiation with the private sector; (d) helping integrate women and ethnic minorities into the supply chain to increase their incomes;
(e) supporting contract farming agreements between small farmers and private agribusiness companies; and (f) building mutual trust between the communities, local public agencies and the private sector.

5 IFAD. Policy and Technical Advisory Division. 2011. Thematic Study - Pro-poor Rural Value-Chain Development; by V. Raswant and R. Khanna, with the assistance of T. Nicodeme.

One example of IFAD's work in this area is Uganda's Vegetable Oil Development Project. This IFAD-supported project leveraged US$120 million from a private company to produce vegetable oil domestically. The partnership helped create a factory, plantation jobs and livelihoods for about 3,000 smallholder producers. The mutual dependency between the palm oil mill and the participating smallholders constitutes the basis of this intervention, providing a secure market for smallholder producers and guaranteeing a supply of raw material for primary processing to the palm oil mill. Other examples from Sri Lanka and Central America are presented in boxes 1 and 2 below.

IFAD is supporting the emergence of a private and local rural financial sector that is more responsive to the needs of poor rural people. IFAD is also helping to build a local and private rural financial sector that can expand its outreach to IFAD's target groups. In agreement with borrowing governments, IFAD project resources in the form of loans or grants allocated to rural finance are often passed on by the government to commercial banks, microfinance institutions or other participating financial institutions, on a competitive basis. With a greater availability of dedicated wholesale capital, these financial intermediaries are then willing to onlend to small farmers or entrepreneurs, a target group not previously accessible to them. The financial intermediaries also usually add in or cofinance the loans using their own resources. IFAD interventions are therefore a good vehicle for financial intermediaries to learn about working with the rural poor, to penetrate markets that may not have been perceived as profitable, and to expand their client base and revenues. See box 3 for an example of such types of interventions in Central and Eastern Europe.

IFAD is establishing government-backed equity funds or matching grants that finance private rural businesses. Through its projects and programmes, IFAD is establishing government-backed equity funds or matching grants to support private rural businesses. Box 4 shows examples of these equity funds set up recently in Armenia and Yemen. The main objective of these funds or matching grants is to invest or support private agroprocessing SMEs and rural finance institutions that can either provide employment opportunities to the rural poor, procure their supplies from small-scale farmers, or provide diversified financial services to small rural producers. The process of selecting businesses to support is usually demand-driven and competitive, based on specific eligibility criteria.

IFAD is supporting an enabling rural business environment that can serve its target group. Providing an appropriate business environment where rural private companies can thrive and engage IFAD's target group in their businesses (through supply chains, job creation or service provision) is an area of increasing focus for IFAD. For example, during the design of the new Yemen 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. The process brought out the barriers faced by the private sector in doing business, and put pressure on the Government to address the issues raised. Another area where IFAD has been active is in promoting the Principles for Responsible Agricultural Investment, in partnership with FAO, the United Nations Conference on Trade and Development (UNCTAD) and the World Bank. These principles were developed to help protect the land and other rights of farmers and farmers' associations when dealing with private-sector companies. IFAD is also increasingly being approached by

BOX 1 The National Agribusiness Development Programme (NADP) in Sri Lanka

The NADP was approved by IFAD's Executive Board in 2009 for US$32.94 million. The project will leverage cofinancing both from the public and local private sector to assist small producers, women, landless workers and young people in increasing their incomes. The programme pursues a two-pronged strategy to develop pro-poor agricultural value chains, fostering joint ventures of the target group both with private companies and with community-based organizations (CBOs). The approach is to encourage private companies/CBOs to work in partnership with small producers, whether in the form of a partnership in the entire chain or part of the chain (i.e. primary processing centres) or through contract farming. While the companies/CBOs are free to choose their preferred form of partnership, the programme gives priority to financing business plans that encourage the partial ownership of the target group in the whole or part of the chain. The programme provides long-term finance, both equity and long-term loans, in support of the programme. The response for the first request for proposals issued in March 2011 was overwhelming, some US$60 million against an allocation of US$23.9 million from a total of 30 proposals (16 from private companies and 14 from CBOs). While a number of these will probably be rejected, the response does indicate that the availability of finance through suitable instruments can trigger substantial interest from the private sector.

BOX 2 Engaging smallholder farmers in regionally integrated markets in Central America

Agricultural produce markets are changing at national, regional and global levels, experiencing an ever greater integration, often with growing centralization of control by a relatively small number of firms. While this trend offers opportunities for agricultural producers in general, smallholders from poor countries remain by and large disadvantaged because of high transaction costs, entry barriers and large power asymmetries. IFAD has long recognized these challenges and emphasized, inter alia, the importance of collective action and producers' organizations as a means to enhance smallholders' access to markets.

The IFAD grant-funded support to a Guatemalan Exporters' Association (AGEXPORT) aims to integrate producers' organizations from four Central American countries into national and international value chains by establishing business linkages among producer organizations and buyers at the national and international levels. This entails improving the technical and business management capacities of producers' organizations to facilitate their transformation into associative micro-, small- and medium-sized enterprises. The experience with AGEXPORT shows that once the challenge of achieving significant volume, meeting quality standards and fulfilling conditions to access international markets is overcome, smallholder producers may even sell to some of the biggest retailers in the world, such as Walmart.

BOX 3 Refinancing attracts private banks to rural areas in transition economies

Starting in 2000, IFAD introduced refinancing facilities as part of its rural finance programmes in Moldova, Macedonia and Armenia to spur commercial bank lending in rural areas. A refinancing unit was established in each country, typically under the Ministry of Finance, to manage the scheme. Upon receiving a loan request from a rural client, each eligible financial institution could then seek refinancing from the unit as a funding source for the transaction. These refinancing facilities provided much-needed capital for rural investment in all three countries, encouraging financing institutions to expand their commitment to rural finance. Such refinancing facilities being fully funded by IFAD do not put any burden on state budgets, but remain dependent upon the governments' willingness to pass on part of the proceeds of an IFAD loan to private financial institutions rather than to public-sector entities.

international and local private-sector companies for guidance on appropriate price policies and how to work with and engage small rural producers in a socially and environmentally responsible manner (see box 5 for an example in Sao Tomé and Principe).

IFAD has revised its grant policy to include private companies or multi-donor trust funds targeted to the private sector. In 2009, IFAD revised its grant policy. The new policy allows IFAD to provide direct grant support to private-sector entities or to contribute to multi-donor trust funds that provide financing to private companies. The grant policy stipulates that the resources should be used to finance activities such as market-based surveys, feasibility studies, capacity-building and pilot activities aimed at developing new markets or products that can reach out to the rural poor. The policy requires grants to private companies to be matched by the private companies' own resources, and all private-sector grants have to be approved by the Executive Board, regardless of size. The related grant procedures also specify eligibility criteria and due diligence requirements to help IFAD in reviewing and selecting grant projects to the private sector. Since the policy and the relevant procedures (issued in early 2011) are still quite recent, it is too early to determine the impact or lessons learned. However, more grant resources are expected to flow from IFAD to private companies under this new policy.

IFAD is participating in multi-donor funds to support rural businesses in Africa. Through supplementary funds and its own grant resources, IFAD has been able to participate in two main funds that are financing the development of the agricultural business sector in Africa. The first is the Africa Enterprise Challenge Fund (AECF),

BOX 4 Examples of government-backed equity funds

Part of an IFAD loan to Armenia (US$6 million) was used to create the Fund for Rural Economic Development in Armenia (FREDA). FREDA invests equity in agrobusiness companies. One of the major criteria for these investments is their developmental and poverty reduction impact. So far, about eight investments have been made or are about to be completed, including in fish farming, poultry production and canning. For example, the investment in the canning factory will create an additional 23 new jobs; in 2010, the firm procured 45 tons of fruit from 250 household farms, 2.4 times more than in 2009. The number of farmer suppliers is expected to increase to 750 as the investment matures.

The new Yemen country programme will be managed by a new institution – the Economic Opportunities Fund – which is being established as a PPP working to improve the economic status of poor women and men in rural areas. The fund will purchase equity in pro-poor microfinance institutions to enable them to expand operations to rural areas and to develop and offer diversified and adapted financial products for the target groups. It will also invest in specific pro-poor value chains (including coffee, honey, horticulture and fish products) in which Yemen has a comparative advantage and which have significant market growth potential. Venture capital and equity financing will be offered to those SMEs with growth potential which have strong backward linkages with small producers and which create employment opportunities for the rural unemployed. The fund will also invest in field-level public-private partnerships, such as in the development of fisheries infrastructure consisting of public assets such as landing facilities and productive assets such as cold storage facilities.

a US$50-100 million challenge fund established in 2008 and financed by several donor agencies. In 2011, IFAD contributed a grant of US$1 million to AECF, which provides grants and interest-free loans to private companies to promote innovative business models that expand market opportunities for the rural poor. It is expected to run for six years and to stimulate over US$200 million in private-sector investments. The second fund being supported by IFAD is the African Agriculture Fund (AAF), a US$300 million private equity fund financed by several European donors and African development banks. AAF seeks to invest in commercial farming operations with expansion potential, and to bring modern management skills to those operations in order to improve the continent's food security. While IFAD was not able to contribute financially to AAF (as it legally cannot invest in private equity funds), it sits on the AAF advisory board as a permanent observer. IFAD was also able to raise 10 million euros from the European Union and other donors to establish a facility that will provide complementary technical assistance to targeted AAF investments. The technical assistance facility will focus on three main areas: creating outgrower schemes that connect smallholders with AAF investee companies, improving the business operations of SMEs invested in by the AAF SME subfund and promoting pro-poor financial services in rural areas.

BOX 5 Turning around the social and economic development of rural communities in Sao Tomé and Principe through the use of organic and fair-trade certification

The Participatory Smallholder Agriculture and Artisanal Fisheries Development Programme (PAPAFPA) in Sao Tomé and Principe is a PPP between IFAD, the Agence Française de Développement, the Government of Sao Tomé and Principe, and five European private-sector partners (Kaoka, CaféDirect, Hom & Ter, Malongo and Société Générale Equipment Finance). One of the main activities of this PPP initiated in 2003 is to enhance returns on investments in traditional agricultural value chains (cocoa, coffee, pepper and other spices) through the use of organic and fair trade certification and establishment of PPPs with European buyers. Therefore, all production is done according to environmentally sustainable principles and social/ethical certification (either organic or fair-trade or both). The main benefits to producers have been: (i) up to fourfold product price increases; (ii) availability of resources to invest in the development of their associations/communities; (iii) increase in the ownership of their activities; (iv) upgrading of their technical and managerial skills/knowledge; and (v) overall development of the communities they belong to, with a decrease of rural-urban migration flows and revitalization of the rural economy.

A new Global Environment Facility intervention is also planned in new geographic areas surrounding the Obo National Park. This will further enhance positive environmental effects so far accrued by PAPAFPA as it will allow the production of cocoa and coffee under shade, which in turn will increase surface coverage thanks to expanded use of trees and decreased logging and, hopefully, limit park invasion and endangering of biodiversity.

5

Lessons learned

The above IFAD experiences point to a number of achievements and success stories. However, there are important lessons learned that IFAD needs to incorporate in its revised strategy in order to improve its performance and impact in this field. Some of these lessons were also identified by the IOE corporate-level evaluation.

- IFAD engagement with the private sector needs to become more systematic, with clear principles of engagement as to which types of private-sector companies it will partner with or support, and under what circumstances.
- IFAD needs to partner with others to leverage knowledge, resources and economies of scale. Other multilateral and bilateral development finance institutions (DFIs) and private funds are working with the private sector, and IFAD needs to link better to these existing initiatives.
- Targeting is an important issue when working with private companies, funds or large DFIs. There is often a strong bias to work with larger commercial farmers or to invest in large-scale agricultural businesses. IFAD's role is key to reduce this bias and provide incentives for partners to work with small-scale farmers and invest in smaller rural enterprises.
- Private businesses may be reluctant to work in direct partnership with government institutions, fearing undue interference and bureaucratic complications. IFAD plays an important role in building trust between governments, local communities and the private sector.
- IFAD's project design and approval processes may be too lengthy to keep private-sector entities interested in collaboration. Private businesses tend to work at a much faster pace and with fewer approval procedures. Adjusting to the pace of private-sector decision-making will be key.
- The capacity of IFAD and its staff in the area of private-sector development and partnerships needs to be strengthened with useful up-to-date tools, skills and best practices.
- The stocktaking exercise undertaken by IFAD indicated that there is demand for financial, technical and business development support (either directly or through intermediaries) by agribusiness SMEs along pro-poor value chains – to expand their outreach, link farmers to markets and improve rural livelihoods.

The strategy

Goal, purpose and principles of engagement. The goal of IFAD's new strategy is to reduce rural poverty by deepening its engagement with the private sector. The specific purpose of the strategy is to lay out how IFAD intends to work with the private sector (be it small, medium, or large; domestic, regional, or international companies) with the aim of creating markets for its target groups; improving their access to inputs, services, knowledge and technology; and increasing income-generating or job-creating opportunities for its target populations. IFAD will follow basic principles of engagement in selecting the private-sector companies it will work with. These principles of engagement are summarized in box 6.

Scope. The revised strategy will focus on three main themes:

(a) Strengthening IFAD's existing instruments;

(b) Building the capacity of IFAD and its staff to deepen its engagement with the private sector; and

(c) Exploring under a gradual and phased approach the best way for IFAD to directly support rural and agricultural-based SMEs.

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BOX 6 Principles of engagement for IFAD's private-sector partnerships

The private-sector companies that IFAD will be working with cannot be selected in advance and will depend on the context, companies present in rural areas, opportunities that may arise, and the interest of the companies themselves in building relationships with IFAD's target groups. In some projects, this may mean working with a large urban supermarket; in others, with a rural-based milling factory. The selection criteria will, however, follow basic principles of engagement:

- The support or partnership should be driven first and foremost by the interests and needs of small farmers and poor rural producers in the countries where IFAD operates; more specifically, poor rural men and women should benefit from this engagement as producers, suppliers, customers, distributors or employees;
- To the extent relevant, there should be evidence of country ownership and support for private-sector partnerships (as stipulated in the COSOP or the project design or grant document);
- Particularly where large and international companies are involved, the companies must comply with social and environmental standards (assessed through due diligence during project preparation, at a minimum based on the 2009 Guidelines on Cooperation between the United Nations and the Business Sector);
- The impact of the engagement should be sustainable after IFAD's contribution to the partnership has ended; and
- Partnerships should ensure transparency; the integrity, independence and neutrality of IFAD; and clear and agreed responsibilities and accountability by all partners.

Strengthening IFAD's existing instruments

Use COSOPs more systematically. IFAD will use COSOPs more systematically as the main tool to consult with private-sector stakeholders. The current COSOP preparation process provides the appropriate forum for more systematic engagement with the private sector. Through the internal COSOP review process, IFAD will ensure that, to the extent possible, all COSOPs include consultations with the relevant private sector in a more systematic fashion. COSOP consultations should provide an ideal platform for policy dialogue on a supportive business environment, to build partnerships, and identify needs and gaps for pro-poor rural private-sector development. For example, in October 2011, in preparing its new COSOP for Viet Nam, IFAD organized a discussion forum in Hanoi focusing on building partnerships and sharing innovative ideas for working with the private sector. During the forum, in which several of the multilateral and bilateral development organizations operating in Viet Nam participated, lessons learned and best practices in supporting private-sector engagement were discussed, and innovative financial tools and implementation arrangements were presented and debated. (See also the following sections on enhancing policy dialogue and building IFAD's capacity through partnerships.)

Increase use of IFAD projects as a tool to engage with the private sector. Successful project experiences that involve the private sector, such as the ones outlined earlier in this paper, will be replicated and scaled up elsewhere. Partnerships with the private sector along value chains offer the most promise, and IFAD is gaining experience in this growth area. Lessons learned from the existing projects will be incorporated in the design of new ones. PPPs can be a valuable tool to attract additional investment in the agricultural sector. IFAD will continue playing a role as an honest broker in these PPPs, to better integrate poor rural men and women into such partnerships, and to ensure that social and environmental standards are maintained. IFAD will also continue supporting the development of a private rural financial sector that better serves the needs of the rural poor. Some recent IFAD-funded projects, such as the one supporting the Fund for Rural Economic Development in Armenia, are pushing the frontier in using existing sovereign loans and grants with willing governments to establish equity funds that invest in small- and medium-sized agribusiness companies.

Much will be learned from the above project-based partnerships as they go forward. These experiences will be documented and can be replicated and scaled up in other projects and countries. A priori, research by the United Nations Global Compact Office (UNGCO) shows that successful partnerships between the United Nations and the private sector are characterized by: (a) common purpose by all partners involved with shared risks, responsibilities, resources, and benefits; (b) a complementarity of competencies between the parties so there are no overlapping functions; (c) specific targets that aim to achieve increased knowledge, resources or market access for poor people; and (d) long-term sustainability of the interventions. One of the main benefits of partnering with a private company is that projects initially cofinanced by donors can continue operating when donor funds have dried up, as the private-sector company mainstreams the initiative into its operations. Private companies are also a great conduit to scale up initiatives that prove to be successful at the development stage.

Increase use of grants. IFAD will also increase the use of its own grants resources and supplementary funds to strengthen the relationships between the private sector and poor rural men and women. Given the perceived risks related to agriculture, public institutions such as IFAD can use their resources to catalyse additional investments from private investors who might otherwise not be willing to invest in the sector. Grants are particularly useful for technical assistance and advisory services to strengthen the capacity of smaller private-sector entities in developing countries. For example, a grant received from a group of medium- to large-scale European retailers known as Coopernic was used by IFAD to introduce micro-irrigation to 30,000 households in Guatemala, India and Madagascar. Such innovation to address the issues of climate change, water scarcity and food security was accompanied by linking the small farmers to local service providers (for equipment and after-sale services) and to local output markets for vegetable sales. The use of the grant has also catalysed additional investments and benefits for smallholders and local private-sector actors along the value chain.

IFAD's recent contributions to multi-donor funds such as AECF and AAF are also paving the way for IFAD to do more through its grant and supplementary sources to support the rural private sector and bring complementary benefits to its target groups. The grant pipeline is expected increasingly to include private-sector companies and trust funds as grant recipients, thereby expanding the use of this instrument to support the private sector in bringing benefits to IFAD's target groups. Furthermore, while the 2009 grant policy still limits IFAD's grant financing to the private sector to certain specific activities (for example, an IFAD grant cannot finance operating budgets or equity), IFAD will consider an expansion of its grant policy to ensure a broader engagement with the private sector. However, this expansion will be considered in a few years, after enough knowledge and experience have been accumulated in this area of work and a careful review of the implementation of the 2009 grant policy is undertaken.

Enhance policy dialogue for a better rural business environment. IFAD will enhance its policy dialogue agenda to support a better rural business environment at both national and global levels. At the national level, through its projects and programmes, including COSOPs, IFAD can support a better policy environment for rural businesses to thrive and engage IFAD's target group in their businesses (through supply chains, job creation or service provision). This may include supporting easier registration, licensing, and certification processes for rural businesses; supporting the enforcement of commercial contracts between small farmers and private companies; and reforming the agricultural/rural taxation system to attract private-sector investment. While IFAD may not have the leverage or expertise to support a better business environment at the macro level, it can partner with other organizations that have the resources and mandate to do so, such as the World Bank or bilaterals such as the United States Agency for International Development (USAID) and the German Agency for International Cooperation. It can also deal with more locally-based or rural-based regulations that have direct relevance to its projects and programmes.

For example, IFAD has helped some countries in the establishment of a microfinance law and a change in value-added tax law in conjunction with restructuring the ownership of rural businesses.

At the global level, IFAD will continue to advocate for additional public and private investment in smallholder agriculture, and for a better policy environment in the agricultural and rural sectors to attract such investment. IFAD will also heighten its visibility in promoting sustainable environmental and social policies (as outlined in its existing policies on targeting, land tenure security, environment and natural resource management, etc.), including the Principles for Responsible Agricultural Investment, which would help protect its target groups from potentially risky private-sector investment. IFAD will also continue to advocate for gender equity in private-sector development (see box 7). In partnership with the World Bank and IFC, IFAD has also been asked to contribute to developing agribusiness indicators for the annual *Doing Business* report. IFAD's on-the-ground experience with the agribusiness sector and agricultural value-chain development would be a valuable contribution to this initiative.

Building the capacity of IFAD and its staff

Building IFAD's capacity through partnerships. Partnerships with other development institutions (other IFIs, multilateral development banks, bilateral organizations and United Nations agencies), NGOs, and private-sector companies that can complement the work of IFAD in interacting with the private sector, will be actively pursued. These partnerships will be sought not for only for additional sources of finance, but also for knowledge and policy dialogue. IFAD has already started partnership discussions with the IFC, and concrete measures are currently being discussed to operationalize this partnership both at corporate and country level. IFAD is also partnering with the Agence Française de Développement, the Spanish Agency for International Development Cooperation,

BOX 7 Gender and private-sector development

The role of women in creating, running and growing businesses is recognized as fundamental for growth and poverty reduction. Women own between 13 and 38 per cent of enterprises worldwide. In Latin America, among both microenterprises and SMEs, between one quarter and one third are women-owned. In Egypt, Jordan, Saudi Arabia and the West Bank and Gaza, the share of female-owned firms that have recently increased their workforce exceeds the share of male-owned firms. However, women entrepreneurs tend to face disproportionately greater obstacles in accessing credit, training, networks and information, in addition to barriers in the legal and policy framework. As a result, they may not achieve the same level of performance as their male counterparts.

IFAD has long recognized the importance of women in agriculture and taken a leadership role in promoting women's empowerment and gender equality both in its field operations and at the corporate level.
The IFAD Strategic Framework 2011-2015 and the upcoming Policy on Gender Equality and Women's Empowerment bear witness to this commitment – with a special focus on wealth creation among poor rural women to ensure their integration as economic and entrepreneurial actors within the rural economy. This principle will also be enshrined in this new strategy.

AfDB and other African banks in the African Agricultural Fund. It is working with the United Nations Industrial Development Organization (UNIDO) and FAO to sponsor regional agro-industry forums to facilitate information exchange and dialogue on strategies and practical actions to enhance the contribution of agro-industry to food security, employment generation and sustainable economic development. It is working as well with the International Labour Organization to promote the Decent Work Agenda for wage earners in rural enterprises, especially women.
IFAD will also organize regional development forums with the focus on building partnerships with the private sector and enhancing the capacity of IFAD projects to develop and maintain these partnerships. The development forums would address concrete actions to solve existing challenges to engaging the private sector, and would invite partners other than private-sector companies, such as policymakers, other IFIs and research institutions. Furthermore, IFAD is 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. IFAD will also explore corporate partnerships with international companies interested in improving their supply chains with small farmers.

Building IFAD's knowledge management capacity. IFAD's knowledge management capacity in the area of private-sector development and partnerships will be beefed up. This will be done by: (a) organizing workshops and seminars on the topic and inviting knowledgeable outside speakers, including from the private sector; (b) sharing knowledge and lessons learned about our growing experience in this area through our existing networks, publications and discussion forums; (c) linking to other knowledge forum and discussion groups on private-sector development and partnerships, such as the Donor Committee for Enterprise Development and the United Nations Global Compact Office annual focal point meetings; (d) participating in the United Nations working group on value-chain development, which includes other United Nations organizations such as UNIDO, FAO and the United Nations Development Programme; and (e) related to the section on building partnerships outlined above, establishing knowledge partnerships with other institutions as opportunities arise, at both country and global levels.

Building IFAD's staff capacity. IFAD has recently appointed a senior technical adviser on private-sector development in the Policy and Technical Advisory Division (PTA) and is planning to hire another staff member in 2012 to work on markets and enterprise development. These staff members will act as focal points for providing critical technical advisory and quality enhancement reviews to expand the role of the private sector in serving IFAD's target groups. In addition, the Partnership Unit will include a major focus in its work on partnerships with the private sector and foundations.

Additional resources will also be allocated to strengthen the capacity of IFAD staff, especially 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 PPPs (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. Conceptual and practical toolkits for engaging with the private sector will be developed and disseminated to staff. Training programmes may also be tailored to the specific needs of the staff, taking into consideration the country context in which they work.

Exploring how rural SMEs can be better supported

In response to the IOE recommendation for IFAD to establish a private-sector facility that would provide direct financial support to rural SMEs, IFAD completed a pre-feasibility study to further assess this recommendation. The study was conducted by a specialized private-sector consulting firm and analysed five specific issues: (i) the gap between supply and demand for financial and technical support to rural businesses: (ii) IFAD's comparative advantage in providing these services; (iii) the potential for IFAD to partner with other existing funds; (iv) whether it makes sense for IFAD to pursue this idea further; and (v) the steps needed to conduct a full assessment of an IFAD-supported private-sector financing facility.

The pre-feasibility study shows that while most other DFIs (bilateral and multilateral) have a private-sector arm or operations department (and these have grown both in volume and in value through the years), their investments have focused on the energy, financial and infrastructure sectors and much less on investing in the agribusiness sector. And even with the renewed interest of these institutions to invest in the agricultural sector, their focus and comparative advantage remains in large-scale investments rather than the types of projects and investments that are of direct relevance to IFAD's target groups. This is equally true for commercial banks and the donor-backed and private equity investment funds that are increasingly investing in the agriculture sector. Except for a few banks and funds, these institutions remain largely concentrated on large-scale businesses. And even for those few banks and funds that finance and invest in SMEs, their outreach remains largely urban-based. As a result, there is still a large unmet demand for financing and technical assistance support to rural SMEs.

In addition to the above findings, the feasibility study also noted that there is limited research and coordination on how best to support directly rural SME growth (rather than indirectly through government loans and grants). The actions of development organizations in agriculture finance have been fragmented, and the knowledge gained from their initiatives is not often shared. As such there is a need for coordination and further evaluation of ongoing interventions so as to ensure greater efficiency and effectiveness. The study concludes that supporting rural SME growth will strengthen rural livelihoods, and by partnering and intervening selectively IFAD can have an impact that is directly aligned with its mandate.

While acting as a direct funder of rural SMEs was not recommended for IFAD at this point in time (for both financial and capacity reasons), the study recommended that IFAD continue to explore alternative options to support rural SME growth. Options include, among others: (a) funding through intermediaries, where IFAD could act or partner with other funds, credit guarantee schemes, or grant-making initiatives for the development of innovative instruments; and (b) acting as a convenor/broker and global standard bearer for increasing rural SME finance as it leverages IFAD's unique knowledge and experience.

On this basis, IFAD proposes to continue to explore options to support rural SMEs in the next two years. In 2012/13, IFAD will conduct a full assessment that would include a more in-depth look at the rural SME market, an investigation of potential partners and instruments, and an exploration of implementation considerations. In 2013, the results of the assessment would be shared with the Executive Board through an informal seminar. At that point, a decision would be made as to how best to go forward to support rural SME growth in developing countries, in line with IFAD's mandate.

Implementing the strategy, measuring results and managing risks

7

In order to implement the strategy as laid out above, IFAD will undertake the following specific activities starting in 2012:

Strengthening IFAD's existing instruments

- Through its internal review process, IFAD will require that all new RB-COSOPs include the private sector as stakeholders for consultation and/or potential partnerships at country level.
- IFAD will increase the number of loan projects and grants that include the private sector as a partner or recipient. In 2015, based on the lessons learned from the increasing number of grants that will go to the private sector, the IFAD Policy for Grant Financing will be reviewed, and if necessary expanded to ensure broader engagement with the private sector.
- IFAD will increasingly engage in policy dialogue to improve the rural business environment related to its projects, programmes and COSOPs.

In addition, IFAD will increasingly play the role of interlocutor or intermediary between foreign and local investors and the public sector, to facilitate pro-poor policy dialogue and catalyse additional investments in the agricultural sector.

Building the capacity of IFAD and its staff

- IFAD will partner with at least 10 other development institutions, United Nations organizations and NGOs to deepen its work with the private sector – for policy dialogue, knowledge management or cofinancing purposes.
- IFAD will organize and participate in various workshops, forums and networks related to private-sector development and PPPs.
- IFAD will train its relevant staff (mostly country programme managers and country programme officers) in value-chain analysis, PPPs and best practices in private-sector development.

Exploring how rural SMEs can be better supported

- IFAD will conduct a full assessment in 2012/13 to analyse alternative options for IFAD to support rural SMEs in developing countries (direct financing of SMEs would be excluded).
- In 2013, IFAD will present the assessment findings to the Executive Board. Based on the deliberations of the Board, IFAD will then decide on the way forward to provide additional support to rural SME growth, beyond that which can be provided through existing IFAD instruments.

Measuring results. The results and impact of the above activities will be monitored and managed according to the Results Management Framework presented below.

Managing risks. The potential risks related to this strategy include:

(a) An additional management burden to coordinate and manage PPPs;
(b) The poorest countries could be placed at a disadvantage as private-sector companies tend to be more vibrant in middle-income countries;
(c) Reputational risk for IFAD when engaging with private-sector companies, especially multinationals, which may not be perceived as having acceptable environmental and social practices;
(d) Private companies may not always maintain their pro-poor focus during the implementation of a PPP, despite stated intentions;
(e) Private companies may not be interested in working with IFAD because of different institutional cultures and motivations.

These risks will be mitigated by:

(a) Allocating the appropriate resources and staff to support PPPs and private-sector development projects. IFAD is already committed to strengthening its work with the private sector, as evidenced by its creation of technical staff positions to deal with its evolving private-sector work. These technical staff will also benefit from the reorganization of the Resource Mobilization and Partnership Office now being implemented, to enhance its focus on private-sector partnerships and non-profit foundations;
(b) Balancing projects and potential PPPs to cover a range of countries – in fact, current IFAD projects that work with the private sector are spread throughout the portfolio and are not confined to middle-income countries;
(c) When working with large-scale companies or multinationals, IFAD will adopt, inter alia, the United Nations due diligence procedures for private-sector partnership spearheaded by the United Nations Global Compact Office, as well as the 2009 *Guidelines on Cooperation between the United Nations and the Business Sector;*
(d) IFAD will be diligent in following its own Principles of Engagement for partnering with the private sector (see box 6), to maintain the pro-poor focus of all PPPs; and
(e) IFAD will target its efforts to those companies that show interest and commitment in working with the rural poor.

As mentioned above, in 2013 IFAD will present the assessment findings to the Executive Board in order to determine the options available to IFAD in better supporting rural SMEs in developing countries. These findings may entail a revision of the current strategy, in which case the revised strategy would be resubmitted to the Board for approval.

Results Management Framework

Goal: Reduce rural poverty by deepening IFAD's engagement with the private sector.
Purpose: Create markets; improve access to inputs, services, knowledge and technology; and increase income-generating or job-creating opportunities for the rural poor.

Strategic themes	Indicators
1. Strengthening IFAD's existing instruments	
• Use COSOPs more systematically to engage with private-sector stakeholders	All new RB-COSOPs systematically include private sector as stakeholders for consultation and/or potential partnership
• Increase use of loans and grants in support of public-private partnerships	20 per cent of all new loan projects or grants include the private sector as a partner or recipient
	2009 grant policy is reviewed and expanded to ensure broader engagement with private sector
• Support a better rural business environment	50 per cent of IFAD projects, programmes, or RB-COSOPs with a significant private sector component include policy dialogue for a better rural business environment related to the IFAD intervention
2. Building the capacity of IFAD and its staff	
• Build IFAD's capacity through partnerships	IFAD will partner with at least 10 other development institutions, UN organizations, and NGOs, to deepen its work with the private sector – for policy dialogue, knowledge or cofinancing purposes
• Build IFAD's knowledge management capacity	IFAD will organize and participate in workshops, forums, and networks related to private-sector development and PPPs
• Build IFAD's staff capacity	30 CPMs/CPOs are trained in value-chain analysis, PPPs, private sector financing tools, etc.
3. Exploring further support to rural SMEs	
• Conduct full feasibility study to explore alternative options to support rural SMEs	Full feasibility study report
• Decide with the EB on the way forward to support rural SME growth	EB Informal Seminar

Means of verification	Milestones/timeframe
All new RB-COSOPs	2012 and onward
Annual Portfolio Performance Review	2013 and onward
Revised IFAD Grant Policy	2015 and onward
Annual Portfolio Performance Review	2013 and onward
Results-based Management Plans and CMRs	2012 and onward
Results-based Management Plans and CMRs; IFAD's website	Ongoing
Results-based Management Plans and CMRs, Staff Performance Evaluation System	By 2014
Consultants' report	2012
IFAD Governing Bodies	2013

Annex

Other development finance institutions and the private sector

Like IFAD, most development finance institutions (DFIs) (including multilateral development banks (MDBs) or bilateral agencies), were initially established with a clear public-sector focus. These institutions, however, gradually recognized the changing environment in which they operated, in particular the growing role of the private sector and its interaction with their own developmental and poverty reduction mandates. In some cases, separate entities were created, operating in parallel with the original institutions to provide dedicated support to the corporate private sector in developing countries. This includes, among others, the International Finance Corporation (IFC), the Inter-American Investment Corporation and a number of bilateral agencies (e.g. the German Investment and Development Company [DEG], Promotion et Participation pour la Coopération Economique [PROPARCO] of France, the Capital for Development Group of the United Kingdom, the Entrepreneurial Development Bank of the Netherlands [FMO], the Belgian Investment Company for Developing Countries [BIO] and the Finnfund, Norfund, and Swedfund of Finland, Norway and Sweden respectively). In other cases, the rules of engagement of the original institution were modified post-establishment to accommodate private-sector operations through specially-designed windows (e.g. the African Development Bank, Asian Development Bank [AsDB], Inter-American Development Bank [IDB], and OPEC Fund for International Development [OFID]). Finally, the European Bank for Reconstruction and Development (EBRD) was established to deal with beneficiaries in both the public and private sectors.

The financing of the private sector by these institutions can be characterized by the following trends:

Increasing direct financing of private sector. Within the past decade, there has been a dramatic increase in direct financing of the private sector by the DFIs. From 1990 to 2010, the major DFIs' total financial operations in support of private firms in developing countries increased from less than US$4 billion to more than US$40 billion per year. Private-sector finance has become a major part of the overall portfolio of MDBs that provide both public and private financing (e.g. AfDB, AsDB, IDB, etc.), accounting on average for about a third of their overall financing. The bulk of these operations are loans, followed by equity and guarantees. Most DFIs also offer advisory services/technical assistance and policy support towards a better investment and business climate.

Less attention to agriculture. By and large, the private-sector activities of MDBs have focused on capital intensive sectors with large funding requirements, such as the financial, infrastructure, and energy sectors. For example, a sector review of MDBs' financial support to private firms in developing countries shows a particular concentration on firms in the financial services sector that have received more than 40 per cent of loans and equity investments. The agriculture and fisheries sector averaged around 5 per cent.

Less attention to low-income countries. While most MDBs explicitly propose to focus their direct support on private firms in poorer countries and regions, an analysis of their operations shows their private operations actually concentrate on middle-income countries: 80 per cent on average during 2003-2009. Low-income countries' participation was relatively stable between 2003 and 2008 (between 11 and 15 per cent), but fell to 7 per cent in 2009. In per capita terms, upper-middle-income countries have received a much larger and increasingly higher support. Bilaterals, on the other hand, in general tend to have a more concentrated low-income country focus (e.g. low-income and lower-middle-income countries in sub-Saharan Africa and South Asia for the Commonwealth Development Corporation and low-income countries for Swedfund).

Less attention to SMEs and mostly through financial intermediaries. Nearly every large DFI has launched SME support programmes over the past few decades, focusing their interventions in three key areas: (i) improving business environments; (ii) improving access to start-up, expansion, and development capital, but mostly through financial intermediaries (e.g. through local commercial banks); and (iii) providing related advisory services to assist the SMEs directly or through financial intermediaries. In general, the support to this area is estimated to average close to 15 per cent, on a slightly increasing trend, though with large differences among individual DFIs. However, again, most of these SMEs are not in the agricultural sector, and they tend to be on the larger end of the SME scale. Therefore, the ability of large DFIs to address the needs of agribusiness SMEs with average financing needs between US$10,000 to US$1 million has remained limited because of scale and risk considerations. This leaves a significant niche of unmet assistance needs for IFAD to explore further. It also presents IFAD with opportunities to partner with these agencies on a broader basis and stimulate greater attention to rural areas within the DFI community.

More focus on commercial rather than social or environmental returns. According to a study on multilateral financing to the private sector, MDBs' private-sector projects have tended to prioritise commercial rather than social or environmental returns.[6] The study notes that rather than driving investment towards businesses or sectors that have the greatest benefit for sustainable development, MDBs tend to finance the same companies/projects that private investors would invest in, thereby providing no additionality. On the other hand, DFIs are most effective from a development perspective when targeting their investments in low-income countries where private capital is often scarce; when providing capital in countercyclical fashion (i.e. when there are downturns in the global financial markets) or to sectors/segments that are less attractive to private investors (such as domestic agribusiness firms or smaller companies); and through their contribution to knowledge generation, standards setting, mitigating risk, leveraging partnerships, and supporting a better investment climate. In fact, many governments that fund DFIs are increasingly putting pressure on these DFIs to improve their development impact.[7]

Increasing public-private partnerships. In addition to financing the private sector, most DFIs and many United Nations agencies increasingly foster public-private partnerships, harnessing the private-sector's ability to enhance developmental impact. Usually the private-sector partner is a large international or multinational company which provides a contribution along the following lines: (i) coordination, (ii) funding, (iii) product development, and/or (iv) delivery. In this context, USAID, for example has entered into partnerships with companies such as Starbucks and Coca-Cola to promote pro-poor agricultural value chains; WFP found its natural business counterpart in TNT to improve the efficiency of its logistical assistance; and UNDP is working with Nestlé in Pakistan to train rural women in livestock management.

6 *Bottom lines, better lives – rethinking multilateral financing to the private sector in developing countries.* By Actionaid, Bretton Woods Project, Christian Aid, Eurodad, *Campagna per la riforma della Banca Mondiale,* and Third World Network, March 2010.

7 *International Financial Institutions and Development Through the Private Sector.* A joint report of 31 multilateral and bilateral development finance institutions. International Finance Corporation, 2011.

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