

Private Sector Engagement Stocktake

NEAR EAST, NORTH AFRICA AND EUROPE DIVISION (NEN)



Acknowledgements

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Acronyms

4Ps	public-private-producer partnerships
COSOP	Country Strategic Opportunity Programme
M&E	monitoring and evaluation
MCO	multi-country office
MSMEs	micro, small and medium enterprises
NEN	Near East, North Africa, Europe and Central Asia Division
NGO	non-governmental organization
NSO	non-sovereign operation
PoLG	programme of loans and grants
PPP	public-private partnership
PSES	Private Sector Engagement Strategy
SDG	Sustainable Development Goal
SECAP	Social, Environmental, and Climate Assessment Procedures
SMEs	small and medium-sized enterprises



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Rural Enterprise Enhancement Project
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FOREWORD

Since its inception in 1977, the International Fund for Agricultural Development (IFAD) has worked in partnership with the private sector within and beyond its sovereign operations to address poverty and to advance social, economic and environmental development goals. IFAD's interaction with the private sector has however increased over the last several years, particularly as the size of development challenges began to outstrip the public sector's capacity to respond.

Collaboration with the private sector brings about a host of opportunities for IFAD's work. In addition to unique technical capacities, creative innovation and market-driven dynamism, the private sector is a critical source of capital. Without this private capital, investments in rural infrastructure, value chain development and value chain innovation are simply not conceivable at the scale required to resolve rural poverty and climate challenges.

Given the need and potential of private sector engagement, as well as IFAD's history in working with the private sector, it is critical that the Fund continuously improves its work with the private sector. This publication is the first of its kind at IFAD aiming at providing a foundational description of ongoing private sector engagement in the Near East, North Africa, Europe and Central Asia (NEN) region, both in the sovereign and non-sovereign portfolios. The stocktake assesses the size and nature of private sector engagements and identifies opportunities for improving and expanding private sector engagement to better meet and scale IFAD's smallholder agriculture and food system development goals.

The stocktake confirms much of what we know anecdotally about private sector engagement in NEN. First, private sector partners are involved in almost all programmes. Second, they are actively engaged in most parts of IFAD programme-targeted value chains. Third, while engagement approaches vary widely, there is a consistent involvement of input suppliers, processors and manufacturers. Wholesalers and retailers are also engaged, but less so. Fourth, the focus of engagement for market access varies, with a noted emphasis on processor and aggregator contract farming and supplier input linkages. Fifth, private-public partnerships (PPPs) and private-public-producer partnerships (4Ps), are regularly employed to facilitate and complement other engagement approaches. Multi-stakeholder platforms are a useful means to identify value chain infrastructure, and policy developments to the mutual benefit of smallholder and private sector interests.

With partner financial institutions engaged in over 70 per cent of the programmes sampled for this document, leveraging private sector investment is a comparative advantage in the region. These engagements, though not without targeting challenges, spur investments in value chains and innovation. Additionally, 14 non-sovereign investment operations were considered in NEN over the last three years, with four pre-screened for investment. While only one was approved, the number of potential non-sovereign operations (NSOs) shows an interest in private sector investments in NEN. At the same time, challenges remain in originating deals meeting IFAD's additionality criteria while serving the programme beneficiaries.

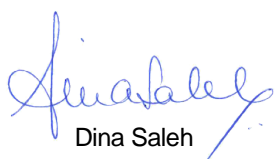
Fifty per cent of programmes with private sector participation have specified gender and youth mainstreaming outcome goals. The private sector is also engaged in addressing climate change in many programmes, often by making capital and technical assistance investments to improve smallholder and supplier climate resilience. Nutrition mainstreaming is an emerging, yet promising issue.

The stocktake shows a strong foundation of private sector engagement in the NEN region. It recommends building on this foundation by defining a strategic and structured approach to private sector engagement. It also tells us that a better understanding of context-specific good practices for private sector engagement is required in both stable and fragile economies. Improving the capacities of programme management units to engage with the private sector is also critical, as is formalizing the approach to the regional private sector engagement strategy and team. Corporate-wide guidance is also recommended, including improvements in private sector context analysis, the development of a private sector taxonomy, better monitoring and evaluation (M&E) systems, and enhanced value-for-money data capture and analysis.

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Additionally, the introduction of standardized financial and non-financial performance screening and measures is suggested. Further efforts can be made to integrate IFAD's mainstreaming goals, such as adopting simple, private sector-relevant goals linked to our Social, Environmental, and Climate Assessment Procedures (SECAP) guardrails.

This stocktake clearly shows the potential for more and intensified private sector engagement in the NEN region. The findings and lessons presented in the document provide a starting point for designing and implementing a new generation of projects that leverage private sector engagement to further improve the livelihoods of smallholder producers and spur the development of rural economies.



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EXECUTIVE SUMMARY

Since its establishment in 1977, IFAD has pursued its unique mandate of investing in the rural poor through frequent, diverse and steadily growing engagement with private sector entities. This collaboration has allowed the Fund to better achieve its objectives of benefiting smallholder households, promoting small-scale agriculture and improving food systems by leveraging the private sector's technical capacity, dynamism, innovation and capital. Given the positive results and the increasing need for such synergies in the current development context, IFAD and its partners need to continue drawing lessons from past and present experiences to improve and expand their private sector engagements.

This publication is the outcome of a stocktaking exercise conducted on 14 sample ongoing or recently closed programmes within IFAD's NEN region, each including at least one component dedicated to private sector engagement. The sample represents 41 per cent of the 34 ongoing programmes in the region since 2011 and provides a comprehensive overview of both the rich history of private sector engagement in NEN and its diverse contexts.

The objectives of the stocktake are twofold:

- identify the size and nature of ongoing private sector engagements in the NEN region, including both sovereign and non-sovereign portfolios, to identify opportunities and constraints to improve interventions and more broadly promote IFAD's goals;
- identify catalytic outcomes benefiting smallholder households, such as market expansion, job creation, private sector funding, and investment mobilization into rural micro, small, and medium-sized enterprises (MSMEs) and small-scale agriculture.

The main findings of the stocktake are as follows:

- there is a rich variety in the approaches IFAD takes in its private sector engagement across the NEN region, with NEN programmes engaging with the private sector at all points along the value chains targeted in programmes;
- private financial sector institutions provide substantial financing to smallholders and offer a model for integrating private sector engagement into IFAD sovereign programmes;
- while there is growing interest and capacity in NEN for NSOs, there are also operational challenges, a lack of incentives, and relatively scarce funding available for such investments.

Recommendations for IFAD-wide actions to develop more effective private sector programme engagement and operations include:

- improve and standardize economic and national context analysis to ensure targeted value chains and the overall market environment are fully considered, and risks are assessed;
- identify and incorporate private sector engagement and NSO opportunities into sovereign operations where possible to encourage a programmatic approach to investment;
- develop simple and standardized M&E indicators for the private sector, which must be embedded in IFAD corporate and programme M&E systems;
- consider non-monetary incentives for successful private sector engagement for project management units and IFAD country teams, such as training courses, mentorship support, and others to improve enterprise engagements.

INTRODUCTION



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Tajikistan
IFAD -supported Khatlon Livelihoods
Support Project
June 2018

1. Introduction

Social and economic inequities and poverty continue to be problematic, especially among women, youth and the rural poor. Public development institutions, with their limited financial resources, cannot overcome these challenges alone. Without substantial private sector investment, the United Nations Sustainable Development Goals (SDGs) are unlikely to be achieved by 2030, given that, by one estimate, more than US\$2.5 trillion annually is required to meet the SDGs, including poverty alleviation.¹ The *Climate Policy Initiative* reports that ensuring food security alone will require US\$350 billion annually over the next several decades to transform food systems within the context of climate change, of which an estimated 1.1 per cent currently reaches smallholder and related value chains. While only US\$500 billion of total climate-related finance currently comes from the private sector, it remains the only source able to marshal resources at the scale required to fill the funding gap. This is why the leadership role played by IFAD and other development institutions must serve as a catalyst to guide and steer public investments in ways that can catalyse private sector investment.²

Being “catalytic” has long been a central tenet of IFAD’s approach to the private sector across its portfolio of sovereign loans and grants (PoLG).³ As a result, a robust ecosystem of private sector interactions has enabled smallholder producers to strengthen their production and enterprises, benefiting from improved linkages with private sector actors. In return, these private sector actors gain greater and more dependable volumes and quality of inputs from smallholders.

The extent to which IFAD’s catalytic approach has benefitted smallholders and advanced the SDGs warrants a more systematic assessment, including a deeper examination of the smallholder ecosystem linkages with private sector players. These linkages take many forms. Some are *forward* linkages, such as, farm gate sales, technical assistance provided to and by input suppliers, or formal and informal contracting. Linkages can be *backward*, such as through technical assistance provided in processing, farm management, or marketing support. They can also be *vertical*, involving financial services that range from aggregator and warehousing loans to smallholders, to financing value chain enterprises themselves. Each of these linkages provides a point of intervention for improving smallholder livelihoods and resilience.

There are many examples of IFAD programme investments that have demonstrated substantial catalytic potential and success. Such examples include the long-term purchase contracts with price stabilization agreements; the promotion and facilitation of better marketing, whether by farmers, processors, or retailers; the development of organic and “product-origin” niche markets; and the multi-stakeholder planning forums. However, the risks and possible unintended consequences at each level of intervention require careful assessment. Systematic assessment can help ensure that well-intended interventions do not incidentally marginalize or exclude women, youth, indigenous peoples or other disadvantaged groups from market participation. Exploitative labour practices, unequal business relationships and differential access to capital or technical assistance as well as adverse environmental impact are common pitfalls that need to be avoided or identified and overcome.⁴

¹ <https://press.un.org/en/2019/dsgsm1347.doc.htm>.

² A private sector actor is defined as a for-profit private business, including companies, private and institutional investors, commercial banks, investment funds (such as private equity funds, blended finance funds and impact funds), and other financial vehicles that are majority-owned and/ or managed by private entities or interests. This definition also includes state-owned enterprises with sound financial and governance structures that comply with private sector practices. These actors can be local, regional, or global, ranging from MSMEs to large multinational and national companies. Private-sector engagement includes programmatic activities that may vary according to the type of private sector entity involved. Multinational companies are typically engaged as financial and/or technical partners, while local MSMEs are primarily the beneficiaries of interventions. Private-sector financial institutions serve as intermediaries through which IFAD channels investments and resources to smallholder and rural MSMEs.

³ Private Sector Engagement Strategy 2019 – 2024, IFAD, Rome 2019.

⁴ IFAD, 2011 Private-Sector Strategy Deepening IFAD’s engagement with the private sector.

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IFAD private sector guidance	Definition of private sector entities (*)	Enterprise size definitions
<ul style="list-style-type: none"> • <i>IFAD Private Sector Development and Partnership Strategy (2005 - 2010)</i>⁵ • <i>IFAD Private Sector Strategy (2010 - 2018)</i>⁶ • <i>IFAD Private Sector Engagement Strategy (2019 – 2024)</i> • <i>Framework for IFAD non-Sovereign Private Sector Operations (2020)</i> • <i>IFAD Inclusive Rural Finance Policy (2021)</i> • <i>IFAD Strategic Framework 2016-2025</i> 	<p>The private sector includes for-profit private business companies, private and institutional investors, commercial banks, investment funds (such as private equity funds, blended finance funds and impact funds), other financial vehicles that are majority-owned or managed by private entities or interests and state-owned enterprises with sound financial and governance structures that comply with private sector practices.</p> <p>Private sector entities can be local, regional, or global and span from micro, small, and medium sized to large national and multinational companies. They can have a variety of organizational and legal forms, including limited liability companies or partnerships, incorporated entities, cooperatives, corporate farms, social enterprise, and in some cases, non-governmental organisations (NGOs).</p> <p>(*) See IFAD Private Sector Engagement Strategy 2019-2024, page 7.</p>	<p>The definitional framework of enterprise size varies by country, though most national definitions measure size by number of employees or gross annual income. This causes international definitional comparative challenges, as enterprise size is relative to national economic contexts.</p> <p>Definitional interpretation can also be a challenge within a country. What constitutes a small company in an urban area is often functionally different in a rural area. Small firms in an urban area often have much less local economic impact than the same size of firm might have in a rural area.</p>

It is also notable that the type of programme activities most effective at catalysing private sector investments within one country may be less effective in another, depending on each country's unique conditions and business environment. This is quite apparent across the diverse countries of the NEN region, of which nine are considered fragile.

This stocktake has two goals. The first is to identify the number and nature of ongoing private sector engagements in the NEN region, including insights on efforts around originating NSOs. The second objective is to identify catalytic outcomes benefiting smallholder households, including market expansion, job creation, private funding and investments mobilization into rural MSMEs and small-scale agriculture. The stocktake does not aim to assess the effectiveness of private sector engagements. Its broader purpose is to help promote IFAD's private sector goals by identifying current private sector activities in the region, and providing an overview of opportunities and constraints to improving both sovereign and non-sovereign operations private engagement interventions⁷.

⁵ IFAD Private Sector Development and Partnership Strategy (2005 - 2010): Not available online.

⁶ .The links to these documents can be found in the List of references (Annex 4 - page 21)

⁷ The NEN stocktake methodology has two parts. The first draws a sample of sovereign loan programmes with substantial private sector activity from the universe of current NEN programmes. The sample consists of 14 programmes or 41 per cent of the 34 ongoing programmes/ projects in the region (2011 – present), and is distributed proportionally across the NEN Istanbul, Cairo, and Rome Multi-Country Offices (MCOs), relative to the number of programmes in the region. The second part defines an analytical framework for a systematic and comparable assessment of private sector activities across the sample (see annex 1).

FINDINGS OF THE STOCKTAKE



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Tunisia
Agropastoral Value Chains Project in the
Governorate of Médenine (PRODEFIL)
July 2022

2. Findings of the stocktake

IFAD has growing and diverse experience engaging the private sector to benefit rural poor households and the value chain enterprises they rely on. As a leading sovereign lender for rural development and food systems, IFAD has pursued private sector initiatives in its PoLG since its inception. Building on this experience, IFAD articulated a comprehensive Private Sector Engagement Strategy 2019-2024 (PSES) and developed a non-sovereign investment programme, to incorporate an increasing number and types of private sector activities in its inclusive rural development activities.

NEN has private sector engagement experience throughout its portfolio demonstrating how linkages between the private sector and smallholders in both formal and informal partnerships can generate significant improvements in smallholder household livelihoods and catalyse local economic development, as well as greater social cohesion.

Programmes with private sector activities align with national and IFAD policies and strategies but do not comprehensively consider private sector activities and outcomes. Although programme alignment with private sector agricultural economic context and related national policy was found to be consistently positive in programmes, *assessments of private sector market development challenges and opportunities did not adequately reflect private sector enterprise needs in design.* The contrasting exception is private sector rural finance activities where IFAD's financial sector and financial institution analysis capacity is well developed and systematized. Programmes with substantial private sector activities were also found to be well-aligned with IFAD mainstreaming themes of gender, youth, nutrition and climate policies and strategies. Mainstreaming themes related to private sector activities were not clearly defined in the programme outcomes. Additionally, the programme's theories of change concerning private sector activities were not well-articulated, if at all. This constrains programme outcome measurement and potentially limits programme impact and sustainability.

NEN engagements activity includes the full breadth of IFAD's Private Sector Engagement Strategy key operational areas. The PSES identifies four key programmatic operational areas for engaging with the private sector: value chain development, improved access to markets, infrastructure works and expansion of access to rural finance. Each area is well represented in the NEN sample, with most programmes engaging the private sector across multiple areas, most frequently combining finance and value chains (see figure 1). Similarly, private sector engagement in NEN programmes was found along the entire length of agricultural value chains, with a greater focus on processing and input supplier relationships (see figure 2). The market linkage partnerships formed between processors, suppliers, and other private actors were more often non-legally than legally binding contracts. This is notable, as informal partnerships are prone to deterioration over time, leading to selling and buying outside of partnership agreements, which can limit relationship sustainability and outcome achievements. Finally, one programme with enterprise engagement was found in the fragile context of Sudan. The programme took a similar approach to private sector engagement as in other countries in the NEN region, with no notable adaptation to the unique challenges of fragile situations.

Sample programmes were found to focus more on access to local markets rather than export markets and smaller enterprises rather than large ones. In some cases, marketplace infrastructure was a focus, typically interlinked with targeted value chain development (see figure 3). However, the majority of market access programmes primarily focused on brokering contracts between smallholders and value chain small and medium-sized enterprises (SMEs). Two programmes provided substantial and structured, technical capacity development support to lead enterprises to support producers. Overall, most private sector enterprises engaged were small or medium sized, with only one large company included in the design.⁸ Notably, 12 other large companies were engaged after design (in four or 29 per cent of programmes). Processors, manufacturers and input suppliers were the most common private sector entities, found in 93 per cent of programmes, with financial institutions in 71 per cent, and product wholesalers and retailers in 50 per cent.

⁸ Programmes seldom specifically defined and then classified enterprises engaged by size.

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Figure 1 – Programmatic private sector engagement approach

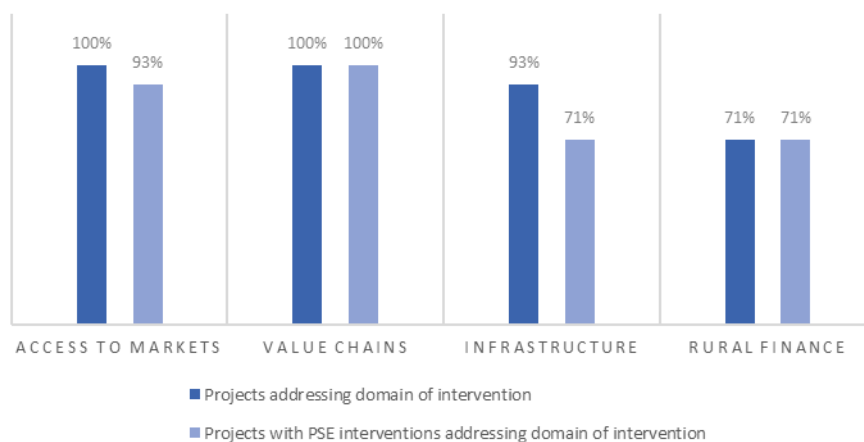
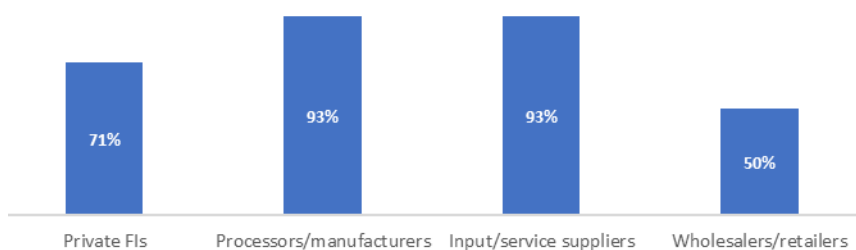


Figure 2 – Private enterprise value chain engagement

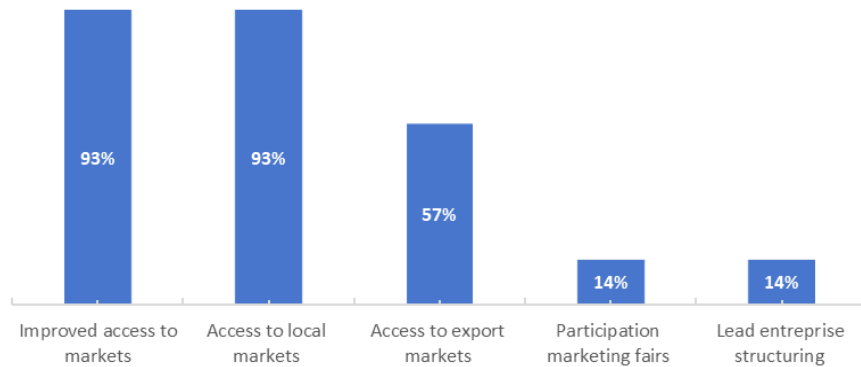


Leveraging private sector investment from rural finance was found to be a comparative advantage in the sample programmes. As demonstrated in figure 2, 71 per cent of programmes engaged private financial institutions. Financial institutions provided substantial co-financing, which was well noted in design and poorly monitored and measured during implementation.⁹ Some mix of programme lines of credit, loan guarantees mechanisms, or management, governance, product development, and market development technical assistance was used to leverage financial institution co-financing. This usually took the form of financial institutions lending from internal resources on the same or similar terms as programme loans. This was found to be the case in 50 per cent of programmes. Another 57 and 36 per cent of programmes financed SMEs in value chains and SME innovation and scaling-up respectively. In these examples, both in kind and capital co-financing investments supported programme objectives¹⁰ (figure 4).

⁹ Given a lack of co-financing measurement efficacy, the stocktake could not measure financial institution co-financing.

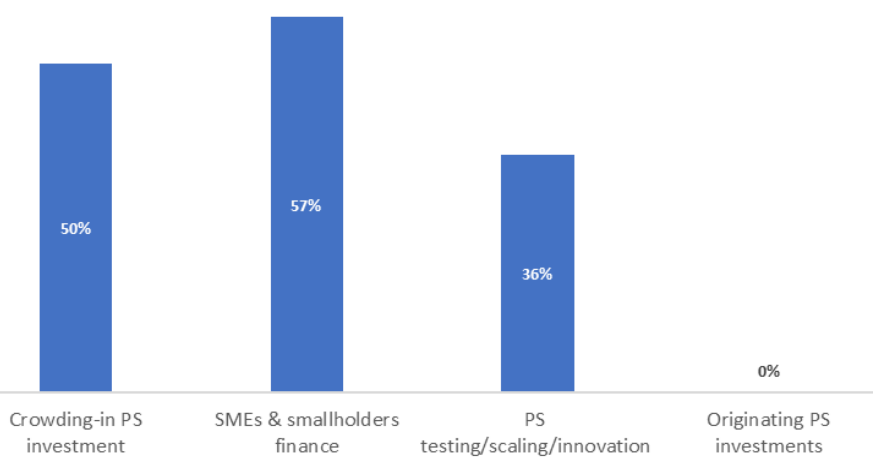
¹⁰ Like financial institution co-financing, there was no systemic and verifiable measure of partner enterprise contributions.

Figure 3 – Access to private markets



NSOs have been challenging in NEN. While considered important in the region, NSO deal sourcing was initially constrained by a lack of clarity on NSO origination processes, as well as limited institutional incentives, capacities and business experience. Additionally, IFAD NSO lending terms were not viewed by many enterprises engaged in discussion for a possible NSO as competitive to other international or national financing sources due to several reasons: i) currency risk and a policy of hard currency lending (US\$ or Euro); ii) uncompetitive interest rates; iii) length of lending approval processes; and, iv) social and environmental safeguards. After 18 months of origination efforts, NEN had investigated 14 potential deals with two advancing to the concept stage, of which one is currently approved. Country programmes also reported origination was challenged by the rapid pace and profit focus of the private sector, as well as a discouraging long and relatively complex NSO approval process.

Figure 4 – Private sector finance



<p>Focus on the Rural Economic Growth and Employment Project (REGEP), Jordan</p> <p>REGEP's partnership with Safeway Jordan is the only programme in the sample with a large chain retailer. The programme brokered a partnership with the company to display and sell the beneficiaries' fresh produce in several shops in the country.</p> <p>Established in 1987, the Safeway chain of supermarkets has ten retail and business wholesale outlets in Jordan, found in the capital city of Amman and several smaller towns. The company belongs to The Sultan Centre, which operates Safeway in three other countries (Kuwait, Oman and Bahrein), with over 60 supermarket outlets in total.</p>	<p>Focus on the Livestock Marketing and Resilience Programme (LMRP), Sudan</p> <p>LMRP has signed a Memorandum of Understanding with the DAL Group, a large Sudanese conglomerate that employs more than 5,500 smallholders.</p> <p>DAL Group mostly contracted with LMRP on livestock value chains. It supplies inputs to farmers such as livestock feeds and buys smallholder cattle to sell in both domestic and export markets. Within the terms of the agreement, DAL group commits to both supplying inputs to farmers and purchasing production.</p>
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PPPs have shifted to 4Ps and multi-stakeholder platform approaches. Programmes with private sector enterprise activities have seen a shift from PPPs to 4Ps, focused on facilitating the common interests of smallholders, rural communities, local governments and sectors. The use of farming contracts between smallholders and the private sector predominates partnership models as means to improve smallholder income, while reducing an enterprise's production improvement investment risk. Several programmes tested and attempted to scale introduction of new technologies and cost-effective solutions benefiting smallholders through private-sector collaboration. Main areas of focus were: improving smallholder access to production innovation, agricultural risk management tools, market information, extension services, and climate adaptation technologies. The multi-stakeholder platform approach has been used for building broad stakeholder participation in value chain development and was found in 43 per cent of the programmes (see figure 5). Anecdotal evidence suggests multi-stakeholder platforms work well when combining infrastructure with targeted value chain development (e.g., livestock market building, input supplier development and public policy initiatives) and also act as effective models of delivery of 4Ps. Even in fragile countries, PPPs provided market development, market access knowledge, and access to new technologies and innovations.

<p>Focus on the Agriculture Diversification and Modernization Project (ADMP), Uzbekistan</p> <p>ADMP supports lead enterprises – which can be either SMEs or farmers' organizations – in preparing strategic plans also called road maps for value chain development. The typical approach consists of restructuring the supply chain of the lead enterprise to include and empower smallholder producers as important partners.</p> <p>Strategic plans are produced by the lead enterprise with stakeholder input to focus on production quality improvements and production collection logistics. Lead enterprises can be eligible for loans or grants to implement road maps. In 2020, 26 road maps were designed by value chain stakeholders and lead enterprises, including preparation of strategic plans.</p>	<p>Focus on the Inclusive Rural Financial Programme (IRFP), Armenia</p> <p>IRFP works with an SME equity fund, which offers matching grants to enterprises to advance smallholder value chain development. The fund, FREDa, is a national agrienterprise equity fund that undertakes gender and youth inclusion impact evaluations of its investee companies.</p> <p>FREDa also considers inclusion as a part of its investment exit agreements. That is when FREDa sells its position or share of a company to a third party, while taking into consideration long-term gender and youth inclusion strategies.</p>
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IFAD mainstreaming expectations applied to private sector are weak. While all programmes had targeted outputs for women and youth, only 50 per cent had specific private sector-related interventions with associated outcome goals. The range of private sector climate activities was diverse, but crowding in private sector funding to enhance smallholder beneficiary environmental sustainability and climate resilience was most notable, with 57 per cent of programmes directly engaging the private sector or encouraging private sector investments in smallholder climate resilience or environmental sustainability. Only 36 per cent of programmes had specific nutrition related outputs and only one had specific private sector-related outcomes (figure 6). Notably, while many programmes identified output targets related to mainstreaming themes, the monitoring and measurement of defined outcome achievements concerning private enterprises were limited across the portfolio. This is despite IFAD's experience in assessing outcomes for mainstreaming themes in the context of financial service providers.

Figure 5 – Private sector dialogue and policy engagement

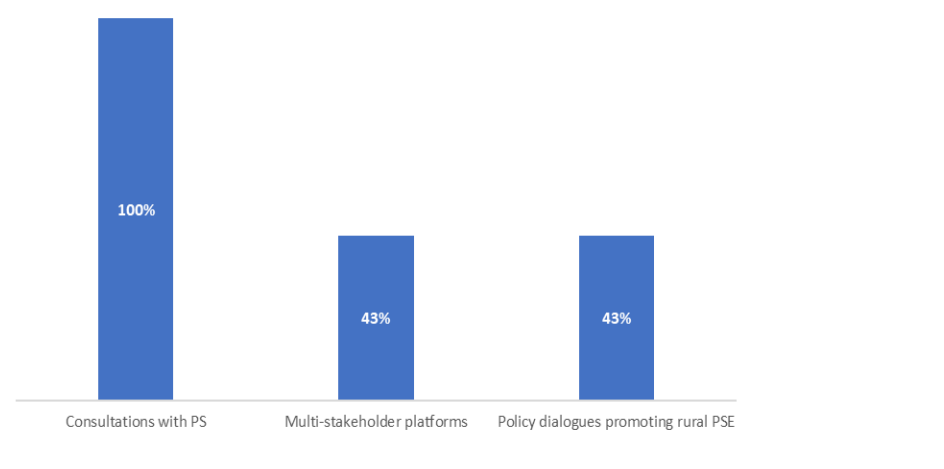
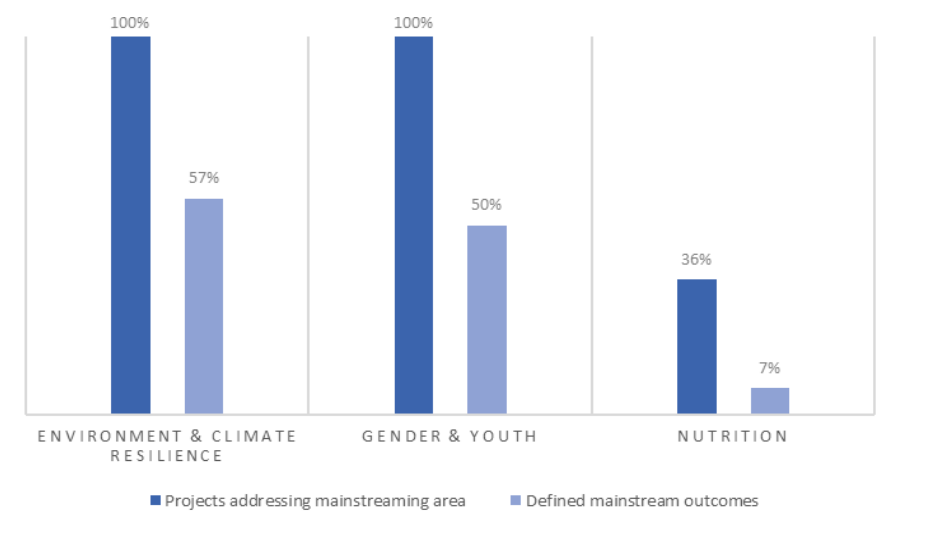


Figure 6 – Private sector and mainstreaming themes



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Public policy initiatives were found in all programmes with private sector activities. While public policy activities were found in all the sample programmes, private sector-focused policy initiatives were found in only half of the programmes. Of these, most overlapped with multi-stakeholder platforms that provide a formalized forum for identifying, facilitating and addressing key policy initiatives relevant to programme outcome achievements. Good practice governance and empowered representation from all value chain stakeholders were particularly important for such policy engagement. The extent to which IFAD was able to involve key stakeholders in an equitable and meaningful fashion was not always well monitored by programmes, with two programmes measuring the involvement of women and youth in policy platforms.

CONCLUSIONS, LESSONS LEARNED AND RECOMMENDATIONS



3. Conclusions, lessons learned and recommendations

The stocktake highlighted that there is a rich variety in the approaches IFAD takes in its private sector engagement across the NEN region. Its partnerships can vary notably by context and by value chain. The stocktake also found that IFAD's private sector activities are well-aligned with national policies, but often there is room to improve the scope of analysis that IFAD brings to bear on the design and supervision modalities of private sector engagements.

NEN programmes engage with the private sector at all points along a given value chain. IFAD support is primarily directed toward building formal relationships, albeit often the non-legally binding type. The common objective of this is to raise the quality and volume of products moving along a given value chain to the benefit of smallholder income and resilience to shocks. Greater stability, improved quality, and larger volumes help spur investment by both smallholders and larger enterprises, boosting production and sales. Partnerships aimed at strengthening market linkages tended to focus more on wholesale connections than retail, while leveraging capital, know-how, innovation, and market access. Despite programmes engaging with enterprises of all sizes, there is a greater focus on SMEs than on larger companies. However, the engagement of many larger companies during implementation suggests they are willing and desirable partners. Incorporating larger companies into programmes at the design stage could be beneficial, as their integration could expand value chain opportunities.

Private financial sector institutions provide substantial financing to smallholders and a model for integrating private sector engagement into IFAD sovereign programmes. Leveraging co-financing from partner financial institutions has been a comparative advantage for IFAD, notably so in the NEN region. While fewer programmes were targeting SME financing, this approach is also common. In contrast, large companies typically receive little direct financial support from programmes. Rather, they provide beneficiary and value chain critical SMEs production and market development assistance to expand on financing opportunities, technology development, market as well as production knowledge transfer. The systemic approach to assessing inclusive rural financial services offers a model for enterprise engagement. PPP and 4P models provide important planning platforms for broader market and community development objectives.

While there is growing interest and capacity in NEN for NSO deal-making, origination is not yet seen as a go-to option in country programmes across the region. Proactive origination is limited by a lack of incentives, relatively scarce funding available for investments and operational challenges that inhibit the integration of NSO investments in the PoLG. Deal origination is also challenged by the rapid pace and profit focus of the private sector, and the IFAD internal complex deal approval process.

While private sector engagements consistently define outputs related to mainstreaming themes, desired outcomes are not linked to programme theories of change. Climate and environment mainstreaming is embedded in broader value chain interventions, but not always linked directly to private sector outcomes. While value chain activities support mainstreaming goals, the extent to which enterprises generally - but SMEs in particular - can actively manage social and environmental externalities is limited (and not well measured). Specific gender and youth outputs are often precisely identified, but targeted outcomes are often less well-defined. This is also because systematized M&E systems for private sector outcomes are lacking and therefore are not integrated in the overall programmatic M&E system.

Recommendations for improving private sector engagement in the NEN region

- Undertake more in-depth analysis of and identify good management practices in private sector engagement and value chain development, with specific practices identified for fragile economies.
- Identify potential large company engagement in design (not to the exclusion of SMEs).
- Recruit and cultivate staff with appropriate private sector project management unit experience and provide continuous capacity development.

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- Give higher priority to private sector engagement by establishing a standing regional private sector working group.

Recommendations for IFAD-wide actions for developing more effective private sector programme engagement and operations for sovereign lending unless noted, include:

- improve and standardize economic and national context analysis to ensure that the targeted value chains and overall market environment are fully considered, and risks assessed (in Country Strategic Opportunity Programmes [COSOPs] generally and programme/project designs specifically);
- private sector engagement and NSO deals should be incorporated and properly identified at programme or project design, to ensure that the country-level programmatic engagement can be maintained. This would ensure that deals are not pursued in isolation and that they are part of a programmatic approach to investment;
- adopt a common private sector nomenclature and taxonomy for comparative and monitoring purposes;
- employ standard performance screening and performance measures to ensure partner-enterprise viability and minimize programme risks;
- develop systemic mainstreaming themes expectations, including a simple and standardized M&E system for private sector (one or two measures private enterprise can simply measure), which has to be embedded in IFAD corporate M&E systems;
- consider non-monetary incentives for successful private sector engagement for Project Management Units, Country Directors, and Country Programme Officers. Programmes could offer career-building training courses, mentorship support and other incentives to improve enterprise engagements; and
- develop common approaches to enterprise engagement within specified enterprise categories (e.g., enterprise size, type of economies).

ANNEXES



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Moldova
Country Programme – September 2011

Annex 1. Methodology

IFAD's NEN region portfolio has an abundant and rich history of private sector engagement, which, combined with its diversity of contexts, provides an excellent laboratory in which to demonstrate the breadth and value of IFAD's private sector engagements. The stocktake describes a sample of 14 programmes currently ongoing in NEN, each with at least one component dedicated to private sector engagement.¹¹ The sample has proportional representation from NEN sub-regional MCOs in Rome, Cairo, and Istanbul with more programmes in the Istanbul MCO (50 per cent) compared to Cairo (29 per cent) and Rome (21 per cent).¹² Given the relatively large size and level of private sector development of the Istanbul MCO hub compared to other hub countries, this distribution can be considered indicative of programming in the region.

NEN stocktake programme sample

Project title and number (Country – MCO)	Implementation period	Status	Period under review (*)
Infrastructure and Rural Finance Support Programme (IRFSP) 1100001690 (Armenia – MCO: Rome)	2015-2022	Closed	2014-2020
Rural Enterprises and Agricultural Development Project (READP) 2000001813 (Bosnia and Herzegovina – MCO: Istanbul)	2021-2026	Ongoing	2018-2022
Rural Competitiveness Development Programme (RCDP) 1100001728 (Bosnia and Herzegovina – MCO: Istanbul)	2017-2022	Closed	2015-2021
Promotion of Rural Income through Market Enhancement Project (PRIME) 1100001571 (Egypt – MCO: Cairo)	2012-2021	Closed	2011-2021
Dairy Modernization and Market Project (DiMMA) 2000001393 (Georgia – MCO: Istanbul)	2019-2025	Ongoing	2018-2020
Rural Economic Growth and Employment Project (REGEP) 1100001740 (Jordan – MCO: Cairo)	2015-2025	Ongoing	2014-2020
Access to Market Project (ATMP) 2000001232 (Kyrgyzstan – MCO: Istanbul)	2018-2024	Completed	2016-2020
Rural Resilience Project (RRP) 2000001156 (Moldova – MCO: Istanbul)	2017-2024	Completed	2016-2020
Integrated Agriculture and Marketing Development Project (IAMDP) 2000001517 (Sudan – MCO: Cairo)	2018-2024	Completed	2014-2021
Livestock Marketing Resilience Programme (LMRP) 1100001732 (Sudan – MCO: Cairo)	2015-2022	Closed	2017-2020
Agropastoral Value Chains Project in the Governorate of Médenine (PRODEFIL) 1100001704 (Tunisia – MCO: Rome)	2015-2023	Completed	2014-2020
Siliana Territorial Development Value Chain Promotion Project (Profits) 2000001159 (Tunisia – MCO: Rome)	2017-2025	Ongoing	2016-2021
Uplands Rural Development Programme (URDP) 2000001409 (Türkiye – MCO: Istanbul)	2018-2027	Ongoing	2017-2021
Agriculture Diversification and Modernization Project (ADMP) 2000001283 (Uzbekistan – MCO: Istanbul)	2019-2025	Ongoing	2017-2020

¹¹ The sample resulting from this process was 14 programmes or 41 per cent of the 34 ongoing programmes in the region since 2011.

¹² The division of sample by MCO allows for inter-hub comparison, providing hub teams insights to their portfolio of programmes for management purposes. Countries with at least one programme selected in the sample by MCO include Bosnia and Herzegovina, Georgia, Kyrgyzstan, Moldova, Türkiye, and Uzbekistan under the Istanbul MCO; Egypt, Jordan, and Sudan under the Cairo MCO, and Armenia and Tunisia under the Rome MCO.

NEN Private Sector Engagement Stocktake

The analytical approach of the stocktake is guided by a set of questions meant to ensure systematic comparisons of private sector engagements across programmes and countries. The questions provide both qualitative and quantitative data and consider key IFAD policies and IFAD mainstreaming goals.¹³ The range of questions is neither exhaustive nor definitive; nor is each question equally relevant to a given programme.

Some limitations to the analysis are noteworthy. While IFAD's definition of what constitutes a private sector entity is clear and instructive, analysis is constrained by a lack of common private sector engagement terms and definitions. Moreover, private sector engagement performance is seldom quantitatively assessed beyond job creation. Lacking consistent, comparable and attributable outcome data limits the analytical value of programme engagement evaluation and reporting. Consequently the stocktaking does not evaluate private sector engagement performance.

The document focused on the following three areas: i) identifying private sector engagement across the programmes; ii) assessing intervention outcomes and catalytic effects; and iii) examining private sector engagement contributions to IFAD's mainstreaming goals in gender, youth, nutrition and the climate and environment. The document finally provided conclusions and recommendations.

Stocktake analytical framework and variables addressed

<p>Alignment focal area</p> <p>1) Alignment to country context</p> <ul style="list-style-type: none">• Alignment with country rural, agriculture, private sector development strategies• Alignment with needs expressed by IFAD's concerned stakeholder• Alignment with country private sector context <p>2) Alignment to IFAD's PSES</p> <ul style="list-style-type: none">• Mobilization of private funding and investments into rural MSMEs, and small-scale agriculture• More access to local markets; more access to export markets• Increased income and job opportunities for IFAD's target groups due to stronger private sector partnerships• Deployment of financial instruments that play a catalytic role in directing private sector financing into rural MSMEs and small-scale agriculture• Use of IFAD's programmes and projects to crowd-in private sector investments• Identified investment opportunities for international and domestic private sector actors• Developed inclusive value chains with private sector partners• Systematic consultations with the private sector• Participation in policy dialogues that promote private sector engagement <p>3) Alignment to IFAD's strategy and policies</p> <ul style="list-style-type: none">• Extent to which the private sector addresses mainstreaming (environment and climate change, gender and youth, nutrition)• Logic of integration <p>Partnership building components</p> <p>1) Type of partnerships</p> <ul style="list-style-type: none">• Private sector actors are beneficiaries; private sector actors are interlocutors• Contract farming• 4P• PPP <p>2) Type of partners</p> <ul style="list-style-type: none">• MSMEs• Large companies• Private financial institutions• Processors or manufacturers• Input suppliers or service suppliers• Wholesalers and retailers• International players; national players• Animal production value chain; plant production value chain
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¹³ Documents reviewed for this stocktake include programme design, mid-term, and supervision reports. Interviews with key IFAD staff were conducted to augment and triangulate document findings.

Annex 2. Programme documents reviewed

Project name	Country	Design report	Mid-term review report	Last supervision mission report
IRFSP	Armenia	2014	2019	2020
READP	Bosnia and Herzegovina	2018		
RCDP	Bosnia and Herzegovina	2015	2020	2021
PRIME	Egypt	2011	2017	2021
DiMMA	Georgia	2018		2020
REGEP	Jordan	2014	2018	2020
ATMP	Kyrgyzstan	2016		2020
RRP	Moldova	2016	2020	2019
LMRP	Sudan	2014	2020	2021
IAMP	Sudan	2017		2020
PRODEFIL	Tunisia	2014	2018	2020
PROFITS	Tunisia	2016	2020	2021
URDP	Türkiye	2017		2021
ADMP	Uzbekistan	2017		2020

Annex 3. Key definitions

Private sector. This includes for-profit private business companies, private and institutional investors, commercial banks, investment funds (such as private equity funds, blended finance funds and impact funds), other financial vehicles that are majority-owned or managed by private entities or interests and state-owned enterprises with sound financial and governance structures that comply with private sector practices. They can be local, regional, or global and span a from MSMEs to large national and multinational companies. Private sector enterprises have a variety of organizational and legal forms, including limited liability companies or partnerships, incorporated entities, cooperatives, corporate farms, social enterprises, and, in some cases, NGOs. The nature and legal formality of each will depend on national regulatory regimes. Depending on the context and document, different nouns are used to describe private sector entities, from enterprises and organizations to companies.

Private sector enterprise size. The definition of private sector entities by size provides a challenge for a multi-country analysis. While generalized international standards defining enterprise size are available, national standards are more relevant given the relative size and nature of national economies. National definitions typically employ indicators such as number of employees or volume of annual turnover and can vary greatly from country to country. A large enterprise in one country can be a medium or small enterprise in another. This consideration is important given the varying nature of operating contexts found in the diversity of national economic and rural contexts. The stocktake does not provide a specific definition of enterprise size for this reason, relying on definitions in programme documentation to guide analysis of findings by enterprise size. The stocktake acknowledges minor enterprise-size related definitional inconsistencies when making comparative international analyses.

Private sector definitions: guides not rules. Despite the comprehensive definition of the private sector outlined above, the diversity of private sector actors encountered in NEN programmes, along with the varying national operating contexts, do not always allow for simple classification or comparison of entities and activities. The stocktake acknowledges this limitation and notes differences where necessary to account for context and diversity.

Non-sovereign private sector operation (NSO) refers to IFAD investing in a non-sovereign private sector entity without any guarantee from a sovereign entity or government. All direct investments by IFAD into the private sector are NSO activities and aim to complement the Fund's regular PoLG investments.

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**NEN Private Sector
Engagement Stocktake**



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Sudan
SUSTAIN Supporting Small-scale
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