

IFAD and the private sector: building links to accelerate pro-poor rural development

Rural economies are very different now from how they were when IFAD first started operations more than three decades ago. Agricultural value chains have shortened, quality standards have improved, and new communication technologies are providing producers and buyers with more immediate access to market information. Local, national and international economies are becoming more integrated. In many developing countries, diminishing state intervention in the agriculture sector has made way for more private companies to become involved in the production, processing and marketing of agricultural commodities.

Today, agricultural growth is increasingly fuelled by the private sector, opening up income generating and employment opportunities for rural populations, and for smallholder farmers in particular. In fact, the private sector has become the engine of growth in rural economies.

Private-sector investment can contribute to pro-poor development that reduces poverty and strengthens food and nutrition security, under the right conditions. IFAD is dedicated to helping create those conditions so that small



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farms can thrive as small businesses and rural people can escape poverty.

But there are obstacles to be overcome in making this work for all parties. And there are risks, such as when small-scale operators are connected up to larger, more powerful private companies. Private markets may also exclude marginalized groups such as poor rural women and ethnic minorities.

IFAD plays a role in reducing barriers and building trust. We also help to develop an enabling business environment that both stimulates private investment and empowers small-scale producers to interact on a more level footing, for example through farmer organizations.

Our strategy for private-sector engagement is driven by the need to

accelerate the progress we are making in reducing poverty. According to a recent report issued by the Food and Agriculture Organization of the United Nations (FAO), growth generated by agriculture is five times more effective in reducing poverty in low-income countries than GDP growth in other sectors. In sub-Saharan Africa, it is eleven times more effective.

IFAD's strategy is to make sure that poor rural people derive lasting benefit – as producers, suppliers, customers, distributors or employees – from relationships with the private sector. Our operations are developing in two directions: leveraging more resources from the private sector for our target groups and building up the domestic rural private sector.



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IFAD's experience with the rural private sector

The livelihoods of almost 2 billion people in developing countries are dependent on 500 smallholder farms. Smallholder farmers themselves are the biggest investors in agriculture in sub-Saharan Africa.

IFAD's experience shows that, with the right support, rural communities can transform their existence in a sustainable way. Supporting the development and ownership of a viable private sector in rural areas plays a fundamental part. We have always supported the rural private sector, providing primarily small-scale operators with financial and technical assistance to help them improve their livelihoods.

Encouraging private companies to participate in our projects allows us to deepen the impact of what we do by bringing additional resources, better technologies and wider, more predictable market access to our target groups. We also work with the private sector to establish lasting business relationships that will continue to benefit poor rural people beyond the life of our projects.

Projects supported by IFAD forge links, for example between smallholder farmers and agroprocessors or commercial buyers, extending market access for the farmers and securing more reliable supplies for the processors and buyers. We also contribute to improving infrastructure where smallholders are unable to reach markets because of a lack of roads or transport. And we help to build better packaging and storage facilities so that producers can adjust their output to meet market demands and avoid losses.

Bolstering the private and local rural financial sector in a way that is more responsive to the needs of poor people is essential, and has become an important focus of IFAD's work. In developing countries, only about 10 per cent of rural



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areas are reached by formal financial services. Most small rural producers do not have access to these services to finance their production or marketing needs. And even small to medium-sized businesses often lack access to finance, technology and business development services to increase their outreach to small rural producers. These businesses are often perceived as too risky by commercial financial institutions and fall into the category of “the missing middle” – served neither by microfinance institutions nor by commercial banks.

IFAD is 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, project resources in the form of loans or grants for rural finance are often passed

Farmer organizations: a better way of doing business

Farmer and producer organizations are gaining strength in rural economies. When farming is practised on a small scale, it is difficult to achieve any kind of lasting development – in production, quality, scale or income. This also makes smallholders less appealing to investors, who may be reluctant to take on the risk of doing business with large numbers of dispersed, small suppliers. But if farmers and producers trade collectively, they can buy inputs such as seeds and fertilizers in bulk at lower rates, which means they can raise their productivity and the quality of what they produce. They are also better equipped to meet the demands of larger buyers and can move up the value chain to become integrated into the mainstream economy. Together, they have more bargaining power and are able to negotiate better conditions and more advantageous rates. Their rights – to land and water, for instance – are better protected.



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on by the government to commercial banks, microfinance institutions or other financial institutions. With this greater availability of dedicated wholesale capital, these financial intermediaries are then willing to lend to small farmers or entrepreneurs, a target group not previously accessible to them. This opens up new markets for these institutions, demonstrates how they can work with poor rural people, and at the same time expands their client base and revenues.

Improving the rural business environment also involves policy dialogue among stakeholders. IFAD increasingly acts as a broker, building mutual trust between rural communities, local public agencies and the private sector. In some countries, we have also contributed to the development of microfinance law, which benefits low-income households and small-scale business operators in particular, or supported the introduction of easier registration, licensing and certification for rural businesses or tax reforms that are advantageous for rural business owners.

If economic conditions are favourable, rural businesses can start to expand and diversify. They can employ more people. They also buy goods from small-scale producers and can provide them with inputs and services. They can pay taxes. The revenues and other benefits thus generated can be channelled back into rural communities and contribute to lifting more people out of poverty.

While our focus is on fostering the growth of a sustainable domestic private sector in the rural areas of developing countries, we also support links between small-scale producers and larger private companies where this can bring benefits for our target groups. In Egypt, for example, an IFAD-supported project in West Noubaria has helped farmers gain access to wider markets, selling their produce to Heinz and to large hotels in Sharm el Sheikh. And in the El Quiché



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region of northern Guatemala, farmers are now doing business with Walmart after their irrigation, packaging and storage facilities were improved and they received assistance in marketing and branding.

However, it remains true that funding provided by local private-sector partners far outweighs the amount received from foreign private-sector investors.

IFAD's strategy for private sector engagement

IFAD has a fundamental role to play in safeguarding the interests of poor rural populations. Our private sector strategy is designed to ensure that poor rural people remain central to agriculture as private sector investment, both local and international, continues to increase. Like the IFAD Strategic Framework 2011-2015, it promotes the view that farming, whatever the scale, is a business. The IFAD strategy for private sector engagement is primarily concerned with building up the domestic rural private sector in developing countries. But it maps out a route for doing this through links with local, regional, national or international private-sector operators, whichever is most appropriate to each context.

The strategy recommends managing the development of our private sector collaboration in the following way:

- Involving potential private-sector investors at an early stage, when programmes are being designed, so that we can identify potential barriers and ensure the government supports their participation
- Training IFAD staff to work constructively with the private sector by adjusting to the faster pace of business to maintain interest
- Exploring ways to improve the support we give to rural and agriculture-based small and medium-sized enterprises (SMEs)
- Scaling up or replicating successful projects by leveraging additional resources from the private sector
- Enabling women to participate more in economic activities, for example by providing them with business training and more information about their land rights



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In cooperation with FAO, the United Nations Conference on Trade and Development (UNCTAD) and the World Bank, we contributed to the development of the Principles for Responsible Agricultural Investment, which are designed to protect the rights of farmers when doing business with the private sector. We also have our own principles of engagement that govern our interaction with the private sector.

The African Agriculture Fund: investing in food security and rural development

The African Agriculture Fund (AAF) is an innovative US\$250 million private equity fund that is tackling food security challenges throughout Africa. Managed by Phatisa and financed by a pool of European donors and African development banks, the AAF supports private companies working to improve food production and distribution across the continent.

IFAD is a member of the AAF advisory board. We also raised €10 million to establish the Technical Assistance Facility, which will provide technical support to outgrower schemes run by large companies and business development services to SMEs receiving investments from the AAF.

The AAF is powerful enough to make an impact on food production and agriculture throughout Africa. More than 20,000 smallholders are expected to benefit from being linked to more predictable markets.



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Revitalizing cocoa production in Indonesia

In Central Sulawesi, Indonesia, the Mars Sustainable Cocoa Initiative is helping farmers to revitalize their fields. Old trees, poor soil conditions, pests and disease, combined with dated agriculture practices, have led to a steady decline in cocoa production worldwide. In partnership with the Indonesian Government and IFAD, the Mars company is working to reverse this trend using IFAD's Rural Empowerment and Agricultural Development Programme as an entry point to reach farmers.

In 2011, Mars established one of its cocoa development centres in Sidole, a centrally located village in Sulawesi. Since the Mars team of trainers arrived they have planted one hectare of new hybrid plants, and started teaching better cultivation techniques at the centre. The method they use – side grafting – allows them to improve existing plants while waiting to plant new trees. The centre has created a hub-and-spoke network for outreach to farmers around the province.

By investing millions of dollars each year in research, education and cocoa certification, Mars has already seen success with the small farm model on Sulawesi. In what Mars calls a best-case scenario, some farmers have raised their annual profit from US\$700 to US\$3,500. Farmers who had almost given up before the Mars project began are now attracting growers from all over the district to see their rejuvenated trees, which are bearing fruit beyond all expectations.



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LINKS

IFAD strategy for private-sector engagement
www.ifad.org/pub/policy/private/2012_e.pdf

The State of Food Insecurity in the World 2008
<ftp://ftp.fao.org/docrep/fao/011/i0291e/i0291e00.pdf>

African Agriculture Fund
www.phatisa.com/The_Fund_Manager/AAF/

Technical Assistance Facility of the African Agriculture Fund
www.aaftaf.org/Home/

IFAD in Egypt
www.ruralpovertyportal.org/fr/country/voice/tags/egypt/egypt_desert

IFAD in Guatemala
www.ruralpovertyportal.org/country/voice/tags/guatemala/guatemala_smallholders

IFAD in Indonesia
www.ifad.org/operations/projects/regions/PI/factsheets/id.pdf

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Integrating producer organizations in Central America into world markets

In Central America, smallholder farmers are now selling millions of dollars' worth of citrus fruits, vegetables and other produce to large international markets. An IFAD grant of US\$2 million to the Guatemalan Exporters' Association (AGEXPORT) has helped to integrate producer organizations from El Salvador, Guatemala, Honduras and Nicaragua into national and international value chains.

AGEXPORT's business linkages programme works with producer organizations to improve their business management and negotiation skills. It also helps them to raise their productivity levels and quality standards so that they can gain access to larger markets. The initiative has evolved as entrepreneurial skills have developed and more producers are being incorporated into the value chains, creating more dynamic rural economies and opportunities for employment and income generation.



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IFAD is an international financial institution and a specialized United Nations agency dedicated to eradicating poverty and hunger in rural areas of developing countries.

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