



IFAD'S ENGAGEMENT IN PRO-POOR VALUE CHAIN DEVELOPMENT

Independent Office
of Evaluation

 **IFAD**
Investing in rural people

CORPORATE-LEVEL EVALUATION

OVERVIEW AND IFAD MANAGEMENT'S RESPONSE

Overview

Introduction

1. **Background, scope and methodology.** In December 2017, the Executive Board of IFAD approved the undertaking of a corporate-level evaluation (CLE) by the Independent Office of Evaluation of IFAD (IOE) on IFAD's engagement in pro-poor value chain development. The objectives of the CLE were to: (i) assess IFAD's performance in supporting pro-poor value chain development; (ii) examine the effects on rural poverty reduction and inclusive, sustainable rural development; and (iii) identify options for improvement.
2. The market share of large agribusinesses and retail chains has grown rapidly in most parts of the world. However, while small-scale producers are responsible for a large share of total food production worldwide, they receive a disproportionately small share of its market value. Governments and development agencies, and some large firms pressured by civil society, have engaged in supporting more sustainable and inclusive value chain development. The 2030 Agenda for Sustainable Development adds impetus to these efforts, specifically Sustainable Development Goals 8 (decent work and economic growth) and 12 (responsible consumption and production). The focus on "leaving no one behind" advocates for the inclusion of poor producers and marginalized groups.
3. IFAD's commitment to developing pro-poor value chains has grown since the mid-2000s, peaking in around 2015. An evaluation of these interventions is therefore timely. This CLE assesses to what extent the focus on value chains has contributed to furthering IFAD's mandate of rural poverty reduction, and under what conditions it has helped reach very poor areas and people. The CLE also reviews the degree to which IFAD's corporate processes and resources are conducive to value chain development.
4. The evaluation spans the period 2007 to 2018, thereby including also the IFAD 2007-2010 Strategic Framework, wherein the value chain concept emerged more clearly, and for the capturing of recent examples of value chain project designs.
5. **Sources.** The CLE collected and analysed data from: (i) IFAD official documentation (corporate strategies, country strategic opportunities programmes, project reports, and knowledge products); (ii) IFAD institutional databases on loans and grants; (iii) a review of 77 projects in 29 countries, through field visits, desk analysis and other evaluations; (iv) a Management self-assessment workshop; (v) key informant interviews with IFAD managers and staff, and representatives from governmental and non-governmental organizations, international organizations, private-sector organizations, farmers' organizations and civil society organizations; (vi) an electronic survey of IFAD staff and managers of IFAD-funded projects; and (vii) a review of relevant experience from other organizations.
6. **Operational definitions.** The CLE defined:
 - a value chain as a set of enterprises and stakeholders along the range of activities required to bring a product from the initial input supply stage, through the various phases of production, to its final market destination;
 - a pro-poor value chain development intervention as an initiative that promotes inclusiveness and empowerment of poor people in the value chain, improving their livelihoods in a sustainable manner.
7. Drawing on the literature on value chains, the CLE proposes a conceptualization of the **value chain as a multilayered system** (figure 1, main report). The first layer comprises economic functions around a commodity: from production to aggregation, storage, processing and distribution to the end-consumers. The second layer includes providers of inputs and financial and non-financial services

that are essential for the economic viability of the value chain. The third layer is value chain governance, consisting of the business linkages, relationships and power distribution among stakeholders (e.g. producers, buyers, processors, service providers and regulatory institutions). The fourth layer is the market context characterized by supply-demand dynamics and by varying degrees of competition. The fifth layer is the broader enabling environment affecting the dynamics between the concomitant flows of commodity, money and information from one end of each value chain to the other, i.e. the performance of the value chain.

Evolution of the portfolio of value chains and of corporate support

8. This CLE found that between 2007 and 2018 out of 367 projects approved, 62.1 per cent were value-chain-relevant. In terms of volume of investments, out of the total US\$10.2 billion approved, 68 per cent (US\$6.96 billion) was for value-chain-relevant projects.
9. **There was a marked increase in the proportion of value-chain-relevant projects between the Seventh Replenishment of IFAD's Resources (IFAD7) and the Tenth Replenishment of IFAD's Resources (IFAD10).** In terms of numbers of projects approved, the proportion rose from 41.5 per cent in IFAD7 (2007-2009) to 72.3 per cent in IFAD10 (2016-2018). In terms of volumes of loans, country-specific grants and Adaptation for Smallholder Agriculture Programme (ASAP) funds, the increase was from 50 per cent to 81 per cent.

Corporate strategies and processes

10. Despite the size of these investments, IFAD has no corporate policy or strategy on value chain development. Over time, the concept of value chain development has been integrated into several IFAD's policies and strategies to varying degrees. For example, the Private Sector Strategy of 2011, which aimed at deepening engagement with the sector, made provisions to strengthen the capacity and knowledge of IFAD staff, but omitted capacity-building for government staff and project staff, even though the governments are responsible for project implementation.
11. IFAD has elaborated several toolkits and knowledge products on value chain development. These are adequate for introductory briefings and only 51 per cent of project managers are aware of them (against 89 per cent of IFAD staff).

Most importantly, IFAD lacks an overarching conceptual framework for a pro-poor approach to value chain development.

12. **The growth of the value-chain-relevant portfolio has led to overstretched in-house expertise.** Until mid-2018, IFAD had three technical advisers located at its headquarters who were responsible for value chain topics, in addition to other assignments. The 2018 corporate reassignment resulted in there being one technical adviser at headquarters and one in the Peru hub, who will also have broader tasks in the design and supervision of projects. As is typical of IFAD, there will be heavy reliance on consultants. This still requires staff members with expertise in the subject to select and supervise competent consultants and ensure continuity of institutional learning.
13. With regard to the corporate procedures adopted for quality enhancement and assurance, until 2018 no specific items/questions for value chain development interventions were developed, and such interventions were treated as any other intervention. IFAD staff acknowledged that the corporate mechanisms were unable to ensure harmonized approaches and specialized quality assurance across all projects approved by the Fund.
14. **Mid-term reviews** have been an opportunity for significant revision of value chain projects, notably on targeting matters. However, the practice of holding these reviews after four or five years of project implementation leaves limited time to implement changes.

Relevance of project design

15. Typically, IFAD has adopted a step-by-step process at the country level, by focusing first on primary production, followed by access to markets, and finally value chain development. **There has been considerable "learning by doing."** Projects with better value chain analysis at design (e.g. in Rwanda, Sao Tome and Principe, and Senegal) have built on previous experience in a given area and on specific commodities through which IFAD and the government had acquired knowledge of both the area and the target groups, that could be capitalized upon through a value chain approach.
16. However, there has been no systematic analysis of the preparedness of the national and local context for a value chain approach and appropriateness of project design including the realism of the time frame. To some extent,

TABLE 1

Examples of IFAD approaches to value chain upgrading

Approach	Description
Product and process upgrading	Product upgrading is the improvement in quality and/or quantity of production (production techniques, higher-value products). Process upgrading is the improvement in efficiency of the production process, greater access to new technologies, better organization to reduce production costs, and improvements in certification, food safety or traceability.
Functional upgrading	Adding new functions and activities to the target group (e.g. producers and their associations), such as processing, storage, packaging, to capture more value.
Strengthening horizontal linkages	Improving linkages among stakeholders at the same functional level of the value chain (e.g. creation of cooperatives, federations, capacity-building of producer organizations) to improve their bargaining power to buy their inputs and/or to sell their outputs.
Strengthening vertical linkages	Improving linkages among stakeholders at different functional levels of the value chain. This may include, for example, promoting formal/stable types of contracting, access to market information, multi-stakeholder platforms, and improving physical access to markets.

Source: IFAD (2017). Stocktaking of IFAD's Value Chain Portfolio. PTA-RME Desk (Mimeo).

this may be due to the absence of a common framework for pro-poor value chains.

and information – in order to maximize their benefits in the process.

17. **Few project designs included plans for, or were informed by, a structured form of market intelligence**, such as: (i) market characteristics, opportunities and trends; (ii) price evolution over time and locations; or (iii) estimation of initial investments and costs for small-scale producers.
18. While value chain analysis at design is important, it is also essential to validate and update the analysis during project start-up and implementation, including filling gaps in the original analysis. Validating value chain analysis is particularly important where there is a substantial delay between design and implementation, as market conditions and opportunities can change rapidly. Such validation did not always take place.
19. **Projects took different approaches to value chain development**, as shown in overview table 1. Product and process upgrading and the strengthening of horizontal linkages, which were derivative of IFAD's traditional project approaches, were deployed in the vast majority of projects. This suggests that production aspects required improvement before interventions could address issues such as strengthening vertical linkages or functional upgrading, which were less frequently observed. However, this may point to a lack of clarity within IFAD as to how to facilitate access to the three value chain flows – commodity, money
20. **Market information systems** were planned in only 14 per cent of the projects reviewed, and intended results were not always achieved. A lack of market information systems undermined stakeholder access to transparent information, with negative effects on decision-making and market risk management. The main challenges concerned the time required to establish market information systems and ensuring that these systems were institutionalized and financially sustainable in order to reduce dependence on project funding. Moreover, the CLE observed few cases of innovations involving the application of information and communications technology.
21. **Mechanisms to improve value chain governance** were promoted in two thirds of the projects reviewed. Purchase agreements between producers and buyers were the most common form of governance, involving 53 per cent of projects, while 35 per cent promoted public-private-producer partnership (4Ps) and 19 per cent supported multi-stakeholder platforms.
22. Purchase agreements ranged from loose, informal agreements to fully defined contracts specifying the quantity, quality and price of goods and the terms of the transaction. Some projects facilitated agreements between producer groups and processors, for example, the rice value chain in Cambodia. Other projects enabled producer organizations to better supply clients according to precise requirements for quality and

delivery (for example, oil palm fruit bunches in Uganda; coffee, cocoa, cashew and horticulture cooperatives in El Salvador and Honduras; and coconuts and ornamental leaves in Viet Nam).

23. The 4Ps were agreements between government agencies, private-sector entrepreneurs and producer organizations. They were instrumental in motivating private-sector engagement in pro-poor value chains; for example, by facilitating access to production credit through multi-party arrangements between agribusinesses, banks and producers (e.g. Ghana, Sri Lanka and Uganda) or joint financing of seedlings by the project, local government and agribusinesses (Nepal).
24. However, **in many instances, the quality of consultation with the private sector was limited**. Apart from the Vegetable Oil Development Project in Uganda, which succeeded in involving large-scale investors over time, the majority of interventions did not address fundamental questions on the incentives for entrepreneurs to partner with small-scale producers and the requirements, such as: (i) the size of the initial investment needed (training, machinery); (ii) the expected profit margin and risks; and (iii) the size of the market and the level of competition.
25. Nineteen per cent of the projects reviewed set out to form a **multi-stakeholder platform** – a forum that brings together the stakeholders linked to a value chain (e.g. input providers, producers, processors and distributors) to improve communication, trust and mutual understanding, and establish commercial relationships. Establishing these platforms was a more advanced form of intervention on governance. It functioned well where there was a tradition of dialogue among stakeholders, such as in Niger and Senegal. However the role of projects in enabling all actors to participate actively was equally important. Where results were less satisfactory (e.g. in Cameroon and Mauritania), this was due to design gaps and implementation issues as well as contextual factors (e.g. tensions among ethnic groups, weak governance and insecurity).

Specific outcome areas

Capacity development

26. Most projects included capacity-building on production and post-harvest handling for **small-scale producers** as part of product and process upgrading, an approach derived of IFAD's traditional production focus. A weak area was **the absence of functional literacy and numeracy** courses for small-scale producers, with few exceptions (e.g. in Morocco), despite literacy, numeracy and financial literacy are a key factor for poor producers to engage in value chains. IFAD's gender policy also includes literacy among the tools needed to increase self-confidence.
27. **For producer organizations**, capacity-building consisted of training on: management of warehouse stock and finance; marketing; and business plan development. Effectiveness was uneven. A key factor contributing to positive results was the duration of the support provided to the producer organizations, in particular when the basic competencies and skills at project start-up were low and illiteracy rates high. Producer organizations supported for two (or more) project cycles (i.e. a time horizon of 10-15 years), showed significantly better capacity to run their businesses (e.g. in El Salvador and Rwanda).
28. **Capacity-building of project staff was not addressed systematically**. Value chain or marketing specialists were only occasionally foreseen in project management units, joining late when hired, and with unclear terms of reference. Most project managers had limited familiarity with value chain development. Value chain specialists recruited as members of supervision missions provided some support to project staff, albeit of short duration. In some cases, IFAD's country programme managers (CPMs) facilitated collaboration with bilateral technical assistance (e.g. Belgian cooperation and the United Kingdom's Department for International Development [DFID] in Viet Nam; the German Corporation for International Cooperation [GIZ] and the United States Agency for International Development [USAID] in Ghana). Moreover, in a few cases, regional grants (e.g. to the Netherlands Development Organisation [SNV] and Helvetas) paved the way for more systematic initiatives. Overall, there was no capacity-building strategy through which technical support opportunities were defined in a coordinated manner and synchronized with project activities.

Financial services

29. Overall, projects were effective in providing basic financial services to producers through community-level informal groups and some microfinance institutions. However, assessed projects typically **offered conventional rural finance services**, rather than instruments specific to value chain financing. The most common instruments were: (i) linkage facilitation between formal and informal financial institutions;

(ii) credit provided by rural finance institutions to small-scale producers, generally short-term finance for purchasing inputs; (iii) matching grants for small-scale producers to reduce the total amount borrowed; and (iv) grants to aggregators, processors and wholesalers to offset costs and incentivize partnerships with small-scale producers and their associations.

30. The experience in financing small and medium-sized enterprises, and cooperatives and producer organizations was mixed at best. In turn, these organizations could not offer prompt cash payment to their members, thus creating incentives for side-selling and sometimes making it difficult to fulfil purchase agreements with buyers. Part of the problem was the banks' low familiarity with the specific agribusiness finance systems; hence, the risk aversion in dealing with agricultural credit. From the borrower's side, cooperatives and producer organizations faced small profit margins and could not afford the prevailing interest rates.
31. IFAD is now testing new instruments to serve the lower-middle tier of value chain stakeholders directly (for example, through non-sovereign lending and equity investment funds). These initiatives are at an early stage and breakeven is still to be demonstrated.

Changes in value chain governance

32. Many of the value chains supported by IFAD-funded projects can be characterized as **buyer-driven value chains**. In these, suppliers work to the parameters set by market demand, which include strict requirements for quality, quantity, and delivery timelines, as well as compliance with sanitary and phytosanitary standards. These agreements brought benefits to small-scale producers in terms of access to knowledge and resources, more secure markets and income. However, they did not substantially alter the way the chain was governed, as producers continued to have a weak bargaining position relative to agribusinesses.
33. **More far-reaching results** in terms of changes in governance were found in the projects where **multi-stakeholder platforms had been established and worked well** (e.g. in Nepal, Niger, Senegal and, in part, Ghana and Uganda). The platforms opened up space for dialogue and coordination around issues such as input supply, market infrastructure, price level, market information and dispute resolution. This represented a shift from market-based governance to more relational governance.

34. Evidence on the **distribution of value** within value chains was fragmented but the distribution appeared to be more stable and equitable where: (i) efforts were invested in developing dialogue and trust between stakeholders; (ii) producer organizations were empowered to negotiate exchange conditions; (iii) competition among buyers was high; (iv) the focus was on niche markets; and (v) buyers were committed to fair terms of trade.

Managing risks

35. Projects sought to help small-scale producers and other value chain stakeholders manage **production-related risks** through training on improved agronomic practices and control of pests and diseases. Logistical and infrastructure-related risks were addressed by constructing or rehabilitating rural roads and bridges.
36. Most projects had **little focus on market and price risks**. The raspberry value chain in Bosnia and Herzegovina exemplifies the failure to use market intelligence to anticipate a price crash due to oversupply. In Mozambique, a disregarded risk was the low commitment of entrepreneurs to engage with the projects and with producer organizations through fair contractual relations.
37. **Policy and enabling environment issues and risks were addressed by a minority of projects**. A positive example was in Sudan (under the Revitalizing the Sudan Gum Arabic Production and Marketing Project [Gum Arabic]), where cofinancing with the World Bank helped turn a national purchasing board authority, which was depressing farm-gate prices, into a regulatory authority and opened the market to private traders, which, reportedly, led to farm-gate price increases. In Kenya, two projects worked on the regulation of the horticulture subsector and on policies for the dairy subsector. Attention to regulatory services such as veterinary and phytosanitary control was not common. Regulation on and verification of product standards, labelling, and food safety are likely to become a priority in the future, including for domestic markets in developing countries.

Targeting and outreach

38. The CLE analysed the strategies used to reach target groups. Geographical targeting strategies typically focused on less-developed or food-insecure regions or districts. This can be problematic as value chains are not bound by administrative borders. For example, in Viet Nam shrimp farmers in the Ben Tre Province could

not be linked to processors because the latter were located in a province outside the project area. Recent projects have switched to a **cluster approach**, grouping poor municipalities with wealthier ones in geographical areas offering comparative advantages in markets. When used in combination with strategies to identify poor producers, this is a sensible strategy.

39. A targeting strategy unique to value chain projects was the **selection of value chains on the basis of the likely benefits to poorer producers** and other target populations. In some cases, this was linked to analysis of the land, livestock or capital required for production, such as in Bosnia and Herzegovina where the raspberry and gherkin value chains were selected as these crops can be produced on very small plots of land. In other cases, for example, Senegal and Viet Nam, it was done through a participatory selection process.
40. Most projects allowed for **the inclusion of rural populations with different levels of poverty**, such as very poor, poor and better-off rural households. Provided that it did not create a systematic anti-poverty bias, this was a reasonable choice in that value chain development entails working with diverse stakeholders that have different skills and roles. However, evidence indicates that some 24 per cent of the projects reviewed were not effective in reaching poor and very poor households, and 36 per cent were effective, while for the remaining 40 per cent the information was inconclusive or it was too early to tell.
41. In general, **factors contributing to effective outreach to poorer small-scale producers** included: (i) selecting commodities requiring little land or capital investment and involving intensive, unskilled labour inputs; (ii) enforcing pro-poor requirements for agribusinesses as a condition for obtaining IFAD project support; (iii) community-based groundwork and mobilization of producer groups combined with other activities; and (iv) previous work in the same area establishing the productive base and local knowledge, and a participatory approach to design and implementation.
42. **Weak targeting often occurred where private operators were left to select the small-scale producers** who would receive project benefits, and there was no clear linkage with other project components such as community development and production enhancement. There were also **assumptions about trickle-down effects** to poorer groups from supporting more entrepreneurial farmers and agribusinesses.
- Such effects were more likely when there was: (i) a sizeable increase in the demand for smallholders' products and a significant increase in farm-gate prices (e.g. coconut processing in Viet Nam); and/or (ii) sizeable effects on the demand for unskilled or semi-skilled labour (e.g. in El Salvador, Honduras and Rwanda). However, in most cases, assumptions about trickle-down effects had not been verified.
43. Most projects planned a **gender-mainstreaming approach, but many did not set out concrete measures**. Leadership and capacity on gender within project management teams were sometimes weak. Better results were achieved in projects where value chains involving large numbers of women as producers or processors (e.g. food crops, small ruminants, artisanal products, agroprocessing) were selected as a way to channel benefits to women. It was also useful when projects applied **affirmative action**, such as quotas for women's participation in producer organizations and engagement with value chain stakeholders to facilitate inclusion. However, most projects did not adequately deal with the structural causes of gender inequalities, including social norms and the distribution of economic resources at all levels of the value chain.
44. **Engagement with youth** emerged as a focus area in more recent projects. An effective strategy for reaching large numbers of young people was to select value chains in which youth were already engaged and mainstream youth inclusion across all project activities. In other cases, lack of access to land and other assets was a barrier to young people's involvement. In general, there was **little investment in vocational training linked to value chain requirements**. In Viet Nam, for example, there was a shortage of skills in the expanding agrifood industry, but vocational training centres did not offer the right type of training. Yet, available studies suggest that most future work opportunities for underemployed rural workers will occur in manufacturing or service industries affiliated with agriculture (e.g. food and agro-industrial processing, agrologistics, and food distribution services). For IFAD, this is a strategic long-term opportunity in several countries.
45. In spite of major variations between countries and projects, the CLE found many examples of improvements in productivity combined with better access to markets and timing of marketing,

Changes in incomes, assets and food security for the poor

higher farm-gate prices, and diversification of marketed products. These helped drive an increase in revenues of small-scale producers, although the size of the increase was variable and precise data were often missing.

46. **The mechanisms through which value chain participation benefited the poor included:** (i) improvements in the characteristics of products (e.g. larger size and improved appearance of fruit in Morocco) or a shift to higher-value products (e.g. vegetable crops or fruits, as in China) that were expected to lead to profit increases for farmers; (ii) price mechanisms, such as **ex ante agreement on a fixed price** to reduce risks of price fluctuation for producers; and **price premiums** linked to product characteristics (e.g. organically grown coconuts in Viet Nam); (iii) improvements in producers' capacity to negotiate output prices, and increased economies of scale for producers thanks to horizontal linkages (e.g. in El Salvador and Honduras); (iv) capturing value added through functional upgrading (e.g. through processing, and reducing the role of intermediaries); and (v) employment generation - for which evidence was generally limited, but in some value chains, such as coffee, horticulture and dairy (e.g. in Bosnia and Herzegovina, El Salvador, Honduras and Rwanda) the CLE observed increased waged labour in producer organizations and agribusinesses as a result of IFAD-supported projects.
47. Linkages with food security are more complex to trace. Projects that developed value chains for staple crops and for fisheries products for local and national markets led to food security improvements, either through increased incomes, or through reduction of post-harvest losses.
48. **Prospects for sustainability varied widely.** Economic and financial sustainability was higher

where value chains had been selected through sound market analysis, and where producers and processors had access to affordable financial services. Institutional sustainability benefited from commitment and leadership at the senior policymaking level and from intensive and long-term capacity-building efforts for cooperatives and producer organizations. Social sustainability was enhanced by well-functioning multi-stakeholder platforms and a commitment to corporate social responsibility and to fair distribution of benefits.

Mapping of the main findings: an overview

49. The CLE was able to map two thirds of the 77 projects analysed by using two main outcome indicators: (i) the level of development of value chains (incipient, intermediate or advanced); and (ii) the degree to which value chains were generating pro-poor outcomes (low, medium or high). Overview table 2 shows the result of the classification. With regard to value chain development, 35 per cent of cases were incipient, 41 per cent intermediate and 23 per cent advanced. In terms of pro-poor outcomes, 33 per cent were low, 44 per cent medium, and 22 per cent high.
50. In 20 per cent of the projects, value chains were found to be incipient and with low pro-poor outcomes in the absence of a clearly articulated value chain design and where implementation did not go beyond supporting production. At the same time, a small but significant percentage of projects (10 per cent) achieved advanced value chain development with high pro-poor outcomes. In these cases, a common trait was that IFAD had long experience in the project area and had supported multi-stakeholder platforms and interprofessional associations.

TABLE 2

Mapping of projects and value chains by level of development and by pro-poor outcomes

Value chain development	Pro-poor outcomes (percentage of observations)		
	Low	Medium	High
Advanced	3	10	10
Intermediate	10	19	12
Incipient	20	15	0

Source: CLE (2019).

Conclusions

51. **IFAD's investment in value chain development had come to dominate the portfolio by IFAD10.** However, this remarkable transition occurred without a shared conceptual framework, and its intrinsic complexity was not fully appreciated. Value chain interventions need a deeper level of analysis at design and the capacity to respond and adapt during implementation through a swift feedback loop. There was no coherent corporate or regional initiative to partner with international technical agencies or other sources of expertise.
52. **The challenge of limited skills and capacity to work on value chains within and outside IFAD received little attention.** IFAD's technical capacity was stretched to support a rapidly growing value chain portfolio. Insufficient attention was given to IFAD staff and project managers' capacity development needs, and to the presence of relevant skills and competencies within project implementation teams.
53. **Project design has evolved notably but analytical gaps remain.** Few designs were supported by market intelligence to guide the choice of both the commodities and the steps within the value chain that had to be prioritized if pro-poor outcomes were to be achieved. Few projects focused on market information systems and those that tried to establish them did not effectively address implementation challenges. There was little emphasis on information and communications technology that could reduce transaction costs, enhance transparency, and help small-scale producers follow market trends and make decisions accordingly.
54. **Projects typically developed conventional rural finance instruments rather than financial products specifically for value chains that could have leveraged financial resources and had multiplier effects to reach the rural poor.** This led to limited success in effectively supporting poor stakeholders in participating in the value chains.
55. Overall, the evidence gathered suggests that **it is possible to reach out to poor and very poor households and groups through value chain approaches** but that this requires specific attention. A focus on poorer groups was not always maintained, largely due to insufficient attention given to the entry barriers for poorer producers.
56. **Long-term IFAD support and attention to governance issues were associated with**

stronger performance. Most of the value chains were classified as being at the "intermediate in terms of development stage" and as "medium" in terms of pro-poor performance outcomes. The combination of advanced value chains and high pro-poor outcomes occurred where IFAD had prior intervention experience and when projects had enabled multi-stakeholder platforms and interprofessional associations.

Recommendations

Recommendation 1

57. **Prepare a corporate strategy for IFAD's support to value chain development.** The strategy should be harmonized with other relevant operational policies of IFAD, lay out a conceptual framework for pro-poor value chain development and clarify IFAD's overall objectives, principles of engagement and the resources required.

Recommendation 2

58. **Adopt a programmatic approach to value chain development.** Value chain development requires long-term engagement and multiple-phase support. Project designs should systematically assess the degree of preparedness for value chain support, taking into account the local context and previous experience of the government, IFAD and other partners. Based on this, project designs should focus priorities and approaches for value chain strengthening.

Recommendation 3

59. **Promote outreach to poor and very poor groups and gender equality.** Project designs should lay out a theory of change explaining how benefits will reach very poor groups (including through wage employment generation), and identify the major barriers and how to overcome them.
60. Project designs need gender analysis for the proposed value chains, specifying the strategies and measures for promoting gender equality and affirmative action to enable women to take on new roles.

Recommendation 4

61. **Promote inclusive value chain governance and an inclusive policy and regulatory environment** by establishing or strengthening multi-stakeholder platforms and interprofessional associations that provide small-scale producers and other value chain stakeholders with: (i) information on prices and markets; (ii) a venue for dispute resolution; and (iii) a voice in discussing the policy and regulatory system.

Recommendation 5

62. **Strengthen partnerships to enhance market intelligence throughout the project cycle.** IFAD should collaborate systematically with organizations that have strong value chain expertise to ensure that projects are based on thorough analysis of commodity market structure, demand and supply, price level and volatility, and barriers facing small-scale producers.

Recommendation 6

63. **Sharpen approaches to value chain financing.** IFAD needs to collaborate with organizations and impact investors with a proven record in this area. A specific action plan on value chain financing could be based on a review of experiences in both borrowing and non-borrowing Member States.

Recommendation 7

64. **Develop the capacity of project management teams and IFAD staff through:** (i) capacity-building partnerships with specialized international agencies and service providers; (ii) institutionalized peer-mentoring between project management teams; (iii) a web-based knowledge platform to exchange information and establish a reference pool of expertise; and (iv) adjusting the requirements for project management teams, as well as for certain IFAD operational or technical staff.

IFAD Management's response¹

1. Management welcomes the comprehensive, well-researched and well-written report on value chain development, which is central to IFAD's operations. Management is pleased to see that the results and outcomes from IFAD's work in the area of value chain development are mostly satisfactory, confirmed also by the largely positive e-survey findings. The findings are also reassuring in terms of IFAD's technical support to value chain development and the usefulness of the technical toolkits and guidance documents developed on this theme. Management believes that the learning generated from this important evaluation will help to further strengthen IFAD's substantial work in this area.
2. While, overall, the analysis in the evaluation was robust and followed careful diagnostics, Management would like to highlight the fact that there is an inherent complexity in categorizing and aggregating projects that vary in the intensity of applying a value chain development approach. Similarly, the conclusions and findings may depend largely on the changing market dynamics and the specific country and project context. Moreover, many of the issues raised by the CLE are common to other development organizations working in the area of value chain development. For example, the tension between reaching out to the poorest groups, while ensuring the marketability and feasibility of the intervention is a common challenge for all stakeholders involved in value chain development projects.

Recommendations

3. Management takes note of the seven recommendations and, overall, is in partial or full agreement with most recommendations, with the exception of the first. Many of the recommendations are being taken into account through ongoing initiatives, strategies, and a number of actions that Management has already initiated. Management's detailed response to each recommendation is as follows:
4. **Recommendation 1.** Prepare a corporate strategy for IFAD's support to value chain development. The strategy should harmonize with other relevant operational policies of IFAD, lay out a conceptual framework for pro-poor value chain development and clarify IFAD's overall objectives and principles of engagement as well as the resources required.
5. **Disagree.** Management believes that this recommendation is not entirely supported by the findings and conclusions of the CLE, and especially not by the positive results from the e-survey. The conclusions and findings of the report do not seem to present a substantial justification for the preparation of such a strategy, nor indicate a gap that this specific proposed strategy would fill. However, some of the gaps identified by this CLE are addressed by other interlinked ongoing activities. These activities include the preparation of a private-sector engagement strategy, a partnership framework, updating the targeting guidelines and an ICT for development strategy (which will be submitted to the Executive Board in 2019). For example, Recommendation 6 is partially addressed through the revised Private Sector Engagement Strategy and the Agri-Business Capital Fund). Value chain development is a cross-cutting technical theme that needs technical and operational guidance as per the toolkit that IFAD has already prepared. IFAD needs to continue the dissemination of these documents and technically support operational staff in the field, which is currently being done through the out-posting of staff from the Sustainable Production, Markets and Institutions Division of IFAD (PMI) with relevant expertise in the regional hubs. It is also important to note that no other international financial institution or multilateral development

¹ The Operational Policy and Results Division sent the final Management response to the Independent Office of Evaluation of IFAD on 25 April 2019.

bank has developed a value chain development strategy, but only guidance or lessons learned/evaluation documents, similar to the IFAD toolkit and the CLE evaluation report. Moreover, a conceptual framework for pro-poor value chain development will be largely constrained as it would have to take into account each country context, commodity specificities, and changing market dynamics. Management is of the view that, in the light of the conclusions and analysis of the report, resources would be best used in improving implementation of existing strategies/policies at the operational level and with the IFAD country offices rather than in preparing new corporate strategies.

6. **Recommendation 2. Adopt a programmatic approach to value chain development.**

Value chain development requires long-term engagement and multiple-phase support. Project designs should systematically assess the degree of preparedness for value chain support, taking into account the local context and previous experience of the government, IFAD and other partners. Based on this, project designs should focus priorities and approaches for value chain strengthening.

7. **Partially agree.** Management agrees that the approach to value chain development is context-specific and believes this would require differentiated support at the country and regional level. While overall Management is adopting a programmatic approach at the country level in line with the transition framework approved by the Executive Board, Management believes that this may not necessarily be the case for specific value chain development interventions. In certain countries, the value chain development approach has become a familiar topic in project implementation and the capacity already exists to do more in this area. Therefore, a multiple-phased approach may not be needed in these contexts. In other countries, where capacity is still weak and the value chain development approach is still not very well understood or there are many constraints in implementation, a phased approach may be more appropriate, but will again need to be context-specific. With IFAD's striving to diversify its instruments to contribute more effectively to SDGs 1 and 2, it would seem more relevant to focus, for example, on tailored packages of policy-based or results-based lending, loans and/or grants to governments and NGOs, and direct support to value chain actors through new financial products targeting the private sector, rather than on traditional multiphased approaches that take a long time to come to fruition.

8. **Recommendation 3. Promote outreach to poor and very poor groups and gender equality.**

Project designs should lay out a theory of change explaining how benefits will reach very poor groups (including through wage employment generation), and identify the major barriers and how to overcome them.

9. Project designs need gender analysis for the proposed value chains, specifying the strategies and measures for promoting gender equality, and affirmative action to enable women to take on new roles.

10. **Agree.** A theory of change is now a requirement for all IFAD-funded projects. Management also agrees that it is important that projects describe how specific activities and value chain development interventions will reach each category of poor groups, including women and youth. However, it should be noted that there may be tension between reaching the poorest groups and having a feasible and sustainable value chain development intervention, which depends on reaching a certain level of market standards and good access to infrastructure. In fact, a value chain development intervention is not always the most appropriate or relevant intervention for reaching the poorest groups. In such cases, project design teams should be able to do the analysis and focus accordingly on other activities to reach the poorest (community development, capacity-building and training, nutrition and livelihood improvements, etc.). At the same time, IFAD's quality review mechanisms (such as the Operational Strategy and Policy Guidance Committee, Design Review Meeting and Quality Assurance Group) also play a role in reviewing project designs and making sure that targeting aspects are appropriately covered in all projects.

11. **Recommendation 4. Promote inclusive value chain governance and an inclusive policy and regulatory environment,**

by establishing or strengthening multi-stakeholder platforms and interprofessional associations that provide small-scale producers and other value chain stakeholders with: (i) information on prices and markets; (ii) a venue for dispute resolution; and (iii) a voice in discussing the policy and regulatory system.

12. **Agree.** Management fully supports this recommendation as it has also observed that multi-stakeholder platforms have played a major role in promoting inclusive value chains and are a great venue for brokering partnerships with the private sector and other value chain stakeholders.

Almost all new IFAD-funded projects with a substantial value chain development component support the establishment or strengthening of multi-stakeholder platforms where appropriate. Project design teams and IFAD's quality review process will ensure that this continues to be the case for future value chain development projects.

13. **Recommendation 5. Strengthen partnerships to enhance market intelligence throughout the project cycle.** IFAD should collaborate systematically with organizations that have strong value chain expertise to ensure that projects are based on thorough analysis of commodity market structure, demand and supply, price level and volatility, and barriers facing small producers.
14. **Agree.** Management agrees with this recommendation. However, there could be certain limitations to this in practice as: (i) expert value chain development organizations and partners are not available in all countries where IFAD works, and one may need to call on international experts to transfer the expertise to these countries; and (ii) partnering with expert organizations often means hiring them as service providers or as grant recipients, and resources are not always available to implement these partnerships. Therefore, while Management agrees with strengthening their partnerships, it is important to note that there would be resource constraints.
15. **Recommendation 6. Sharpen approaches to value chain financing.** IFAD needs to collaborate with organizations and impact investors with proven record in this area. A specific action plan on value chain financing could be based on a review of experiences in both borrowing and non-borrowing member countries.
16. **Partially agree.** One major reason why real value chain finance instruments have been limited is because these instruments are mostly in the realm of the private sector, and governments are reluctant to use project resources to finance value chain actors, while IFAD has so far not been able to finance the private sector directly. This is the reason why the Agri-Business Capital Fund was created to fill this "missing middle" financial gap. IFAD's Private Sector Engagement Strategy envisages more collaboration with impact investors, financial intermediaries and other development partners that can support value chain financing. This collaboration will be based on a review of the supply and demand for value chain financing in the markets where the collaboration will take place. A specific action plan for value chain financing across various countries would be too general a document and would be easily become outdated as market trends and financial dynamics change very quickly. This analysis is much better placed at the country level, where it is done on a time-specific basis in the context of specific projects and initiatives.
17. **Recommendation 7. Develop the capacity of project management teams and of IFAD staff** through: (i) capacity-building partnerships with specialized international agencies and service providers, including training programmes for project managers and IFAD staff; (ii) institutionalized peer-mentoring between project management teams; (iii) a web-based knowledge platform to exchange information and establish a reference pool of expertise; and (iv) adjusting the requirements for the recruitment of project management teams, as well as for certain IFAD operational or technical staff.
18. **Agree.** Management agrees with the finding that capacity-building (including through training, peer-mentoring, online learning platforms, etc.) of IFAD and project management teams is very useful and should be pursued bearing in mind resource constraints. For IFAD staff, the Operations Academy could be expanded to include a module on value chain development, which would be more cost-effective. It is equally or even more important that project implementation units include staff with prior value chain and private-sector expertise. Country teams and government counterparts are being made aware during project design and implementation on the need for this in order to have successful value chain development projects.



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