Blended Finance in Agriculture

Accountability Deficit?

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SAFIN WEBINAR

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THE RESEARCH

Accountability deficit?

Assessing the effectiveness of private finance blending in ensuring that small-scale farmers are not left behind

Why this research?

- Private sector cooperation & blending increasing in donors' aid portfolios; agriculture becoming an important sector
- To better understand rationale, scope and expected results of private finance blending and implications for agricultural development (smallholders, women, sustainability)

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THE RESEARCH

Builds on Oxfam's earlier work on PPPs, DPPs, private finance blending:

- Briefing paper (2014) - Moral Hazard: "Mega" Agricultural public-private partnerships threaten livelihoods for African farmers
- Briefing paper (2017) - Private-finance blending for development: risks and opportunities
- DPP assessment framework (2016) - Donor private partnerships: Assessing partnerships between the private sector and official providers of development assistance
- Extensive work in coalitions since 2016 to ensure the EU's External Investment Plan (EIP) is pro-poor and pro-women
- CSO reaction (2018) to EIP/EFSD 'Sustainable Agriculture, Rural Entrepreneurs and Agribusiness' investment window

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METHODOLOGY

- Desk study involving analysis of background documents and stakeholder interviews
- Analysis based on Oxfam's DPP assessment framework (2016):
  1. **Aid and development effectiveness principles** (country ownership, alignment, managing for results, transparency, accountability)
  2. **Mandatory and voluntary standards** for private sector operations (economic, social and environmental outcomes; international human rights law and voluntary standards for private sector)
  3. **Development objectives** (poverty reduction, gender equality, reducing inequality, environmental sustainability, …. and the associated theory of change behind them)
  4. **Due diligence** (ensuring that partners follow ESG standards and 'do no harm')
  5. **Additionality** (development, financial, value additionality)
  6. **Monitoring**
  7. **Evaluation** (development outcomes, effectiveness)

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DONOR PROGRAMMES ANALYSED (case studies)

1. The Netherlands
   - High Quality Rose Farming partnership in Ethiopia (DGGF)
   - MASSIF: Support to SMEs

2. The US
   - DCA: Supporting agriculture enterprises in Ghana
   - OPIC: Reducing credit risk for agriculture in East Africa

3. European Commission
   - AgriFI/EFSD
   - AgriFi-Kenya programme (NIP)

Case study:
DGGF (NL) and rose farming in Ethiopia

- Supports a Dutch horticulture trading SME (Lalibela BV)
- Loan of €1m and €1.4m in guarantees provided to the company to invest in and extend an existing horticulture farm in Ethiopia
- Assumption is that DGGF is filling a financing gap: investment would not otherwise have happened without the de-risking elements (loan/guarantee)
- Expected to lead to the creation of 450 full-time equivalent jobs mostly for women; but not much info on quality/sustainability of employment (cf. decent jobs)
- Expected to improve productive capacity in Ethiopia especially for exports
- Timeline: 2015-2020 (no evaluations available yet)

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Case study:
DCA (USA) supporting agriculture in Ghana

- Feed the Future initiative; under the management of USAID and in cooperation with the Development Credit Authority (DCA)
- $7m guarantee facility
- Purpose is to facilitate lending to agribusiness SMEs to expand operations and improve productivity
- Also involves extensive technical assistance
- Maximum loan size $1m
- The projects assumed that commercialization was the best route to increase productivity and sustainable investment to improve food security
- Timeline: 2007-2014 (as of 2018 no evaluation had been performed)

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Case study:
EU's External Investment Plan (EIP)

- Covers the EIP and its guarantee tool 'European Fund for Sustainable Development' (EFSD), established in 2016
- EIP/EFSD has a dedicated investment window for Sustainable Agriculture, Rural Entrepreneurs and Agribusiness
- Designed to invest in agricultural value chains, seeking to commercialize smallholder agriculture to unleash its potential
    - Increase agricultural production for food security and export
- Seeks to finance actions that have a clear development impact on those who would normally not be reached (smallholders with limited market orientation, vulnerable groups, women and youth, …)
- Provides direct funding for companies and indirect funding for intermediaries (DFIs, local finance institutions, …)
- Operations only starting, timescale 10-15 years (up to 2033)
- Geographic focus: mainly Africa but also EU Neighbourhood

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KEY FINDINGS

Development objectives and outcomes

- The assumption that blended finance is good for (agricultural) development is made with a lack of information and evidence; evaluations not available (DCA Ghana, DGGF)
- Strong articulation in project plans of supporting marginalized smallholders, women and underserved contexts, commitment to SDGs – good!
    - ➢ But how are results measured and demonstrated? Quantitative/qualitative indicators
- Unclear how it is ensured that financial intermediaries and local financial actors adhere to development objectives
- No sufficient recognition that blending doesn't appear suitable for difficult country contexts nor for reaching most marginalized groups
- Marginalized smallholders and women risk being left further behind

KEY FINDINGS (cont.)

Additionality and leveraging

- EU Blending Guidelines (2015) require ex-ante articulation of development and financial additionality, however, additionality is too easily assumed and was not sufficiently demonstrated in any of the cases
- Focus essentially on financial additionality and identifying bankable projects
    - ➢ What about development additionality?
- Leverage ratios are controversial and have an inverse correlation to financial additionality; but at least the EU/EIB are concerned with measuring it
- Leveraging – or displacing or crowding out commercial finance?
- Private finance blending could be spreading and increasing unnecessary risk exposure; disproportionate risks fall to the most vulnerable people

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KEY FINDINGS (cont.)

Aid and development effectiveness

- Limited commitment to country ownership or to alignment with country priorities (cf. EU's EIP/EFSD initiative)
- Limited involvement of local economic actors (cf. rose farming project in Ethiopia)
- Results Indicators are general and not agreed with national stakeholders

Transparency

- Online databases exist but project data not easily available; limited information on how projects are structured/operate (cf. FI)

M&E

- Many projects still in early stages; not much concrete evidence yet
- Existence of results frameworks, annual accountability reports, complaints mechanisms, VCA4D (EU) …
  - ➢ Tools are there, are they meaningful?

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WHAT CAN DONORS DO?

Prioritize public funding in development aid to agriculture

- Ensure that blended finance does not undermine the use of public funding in support of inclusive agricultural transformation
  - Private sector and the society at large (often) have similar needs
- Support farmer empowerment, incl. securitisation of land rights to facilitate farmers' access to credit & financial services
- Engage in policy dialogue with partner countries to allocate sufficient share of their national budgets to agriculture (cf. unattained CAADP commitments)

WHAT CAN DONORS DO?

- **Ensure that blended finance in agriculture aims for and achieves development impact** by requiring that
  - private investors share donors' development objectives
  - projects are gender-sensitive and only support agricultural practices that are ecologically sustainable
  - FPIC has been obtained for all projects involving land acquisitions

- **Promote country leadership and democratic ownership** by ensuring that
  - blending operations align with democratically decided national strategies and processes
  - partner countries, including parliaments and CS are consulted during the development of blending rules and programmes

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WHAT CAN DONORS DO?

- **Demonstrate development and financial additionality** to justify the use of blended finance in preference to other approaches
- **Increase accountability** by enabling CS to hold governments to account, enforcing compliance with legal frameworks and international standards and adopting appropriate and participatory M&E measures
- **Improve data and transparency** by publishing data to the IATI standard and agreeing on collective rules on the conclusion of PSI in OECD DAC
- **Prevent de facto tied aid** to agri-business from donor countries to the detriment of the local private sector

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THE QUESTIONS TO ASK….

- Is the tool fit for purpose in supporting smallholder agriculture and ‘leaving no one behind’?
- Whose vision and voice count?
- Who benefits the most?
- What about women?
- How to demonstrate development impact & additionality?
- …..

CLOSING REMARKS

Goal: Improve accountability for funding and the governance of those flows (how they are used)

- Increase inclusiveness of decision making; support participation and bottom-up approaches
- Continue to put women farmers at the center of the conversation
- Focus on generating evidence, data, and insights to inform policy debates and decision making; only then proceed (cf. EU MFF, aid budget planning, programming)

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