Blended Finance in Agriculture

Accountability Deficit?

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SAFIN WEBINAR

OXFAM
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)
THE RESEARCH

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

- 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
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)
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)
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)
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
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.
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?
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
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
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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