Finance for Food

10 key issues that tackle food & nutrition security

ADVANCING PUBLIC AND PUBLIC-PRIVATE INVESTMENTS IN TANDEM

IFAD
Investing in rural people
10 key issues

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that tackle food & nutrition security in Sub-Saharan Africa

F4F : A distinctive programme

The UNCDF global programme on Food Security, also referred to as Finance for Food (F4F), aims to increase food security in least developed countries by enabling increased public and public-private investments in Local Food Systems (LFS). The programme is focused on, in tandem, unblocking the Public Expenditure System and stimulating the domestic financial system.

Numerous investment actors are constrained by their particular mandates to operate only within the public sector or only among the private sector. Accordingly, experiences of financing both publically and privately in tandem are gained by few organisations under operational settings. Doing so is a distinctive feature of F4F, as UNCDF invests capital and technical assistance to test out new ways of public and private financing for local development, backed by its seed capital to leverage further capital flows. While numerous other private sector and PPP investors in Africa leverage capital among donor nations, it is also a distinctive feature of F4F to leverage local capital.

While some interventions target safety net approaches to food and nutrition security, F4F is set to spur productive and equitable growth, and to provide sustainable means of increasing food production that strengthen the food security system. To this end, and to ensure that UNCDF’s actions in agriculture are linked to impact, UNCDF recognises that there are social protection and safety net approaches to FSN that target the most vulnerable, and that there are also value chain approaches, among others, including high-value crops into export markets. The challenge for UNCDF in the cutting-edge area of how countries can, within the decentralised space that is UNCDF’s niche, combine public and public-private finance in tandem.

This Overview summarises a series of 10 Notes on key issues associated with UNCDF’s advancement in tandem public and public-private investments that tackle food and nutrition security in Sub-Saharan Africa.
## Development context of Financing Food in Africa

**This Note sets out the development context of financing food in Africa through three high-level messages. That development context establishes that UNCDF’s efforts are of very high strategic relevance to impact, has a distinctive operating space of both public and public-private finance and yet must strive to move forward amid some unknowns identified by leading development partners if it is to finance effectively.**

A stock-take of the overarching development situation reveals three high-level messages that set the context for UNCDF’s efforts to finance agriculture and food.

1. **To make progress on tackling the Food and Nutrition Security crisis currently affecting a quarter of Africans, action is needed on both inclusive economic growth and on social protection**
   - In sub-Saharan Africa, one in every four people are hungry (23.2 percent of the population).
   - A key factor of success in reducing undernourishment is economic growth, but (as exemplified in Africa’s prevailing National Growth and Poverty Reduction Strategies) only when that growth is inclusive.
   - 70 percent of the world’s population lack access to some form of social security, meaning that considerably expanded coverage of social protections programmes is needed to eradicate hunger among the most vulnerable.

2. **Boosted public finance still encounters structural barriers ... and private finance has become the largest finance source**
   - The response to global food crises until now has mainly supported the demand for food in poorer countries and focused on public sector stakeholders.
   - There exists a fundamental problem in the structures of financial sectors for effectively serving agriculture and the rural poor. This is a mis-match between those with the assets – the large, usually international or regional commercial banks – and the institutions with the effective outreach channels and services for agriculture and the rural poor.
   - African Governments have demonstrated their leadership, commitment and ownership through allocation of at least 10% of national budgets to agriculture ...and the private sector is by far the largest investor in agriculture.

3. **Finance of agriculture and food is a policy orphan. There is an as yet underdeveloped case for a mix of public and private finance. And for private finance where the public sector has a role to play.**
   - On the mix of public and private investment: “Effective agricultural growth strategies are likely to require simultaneous and complementary public and private investments. Whilst there is a clear consensus that complementary public/private investments are needed, the precise mix is governed by different country contexts, regions, crops, smallholder types and regional characteristics, suggesting a suite of policies and programmes”
   - So, what are the particular contexts, crops, types and characteristics - of policies and programmes - that influence the nature of the mix of public and private investments.
   - On public investment: Should interventions such as the delivery of certain services or public infrastructure be delivered by local governments, by deconcentrated structures of central government ministries or by semi-autonomous agencies? There is no single “best” assignment of expenditure responsibilities among different government levels.
   - So, since that assessment was made over ten years ago, what lessons have been learned about how service delivery and infrastructure by public investment can be (if not the best, then at least) effective in poverty reduction and food security?
   - On private investment: “Under the right conditions, private-sector investment can contribute to pro-poor development that raises incomes and strengthens food security. The establishment of business models that link smallholder farmers to private-sector investors is not without challenges and difficulties”
   - So, what are the right conditions for success in order that opportunities can be taken, what are the models and what are the risks and challenges that need to be mitigated?
Different pathways to Food Security and Agricultural Development

This Note sets out a series of building blocks for unlocking different pathways to Food Security and Agricultural Development. Those Building Blocks focus on Governments’ targeting of poverty-reducing economic growth, on the array of social and economic aspirations from agricultural development, on IFPRI's different strategies for food security, on IFAD's different beneficiary models and on UNCDF’s preliminary framework of eight pathways towards food security. The note concludes with three recommendations on evolving that framework, based on lessons to be learned as F4F progresses.

Building Block A: Targeting of Poverty-Reducing Economic Growth through Three Pillars

In generalised terms, Africa's prevailing National Growth and Poverty Reduction Strategies target poverty-reducing economic growth through three pillars. First, on unlocking growth potential within the productive sectors. Second, on social well-being, including safety nets. Third, by advancements in governance and human capital. UNCDF's efforts on F4 at country-level will need to reflect the differential details on their framing of agriculture and food security within their National Visions and Growth and Poverty Reduction Strategies.

Building Block B: African countries frame an array of social and economic aspirations from agriculture

African countries have framed a wide array of social and economic aspirations from agriculture, all of which are socio-economic, but some of which are more dominantly economic impacts and others social impacts. In some many countries, resource constraints (such as land and water, or finance, or capacity) place constraints on political aspirations of agricultural development. Not all of the aspired social and economic goals of agriculture may even be attainable in the long-term. So, food and agricultural strategy is political, and F4F must work within that political spaces at country-level.

Building Block C: IFPRI's Different Food Security Strategies

There are important distinctions between National Food Security/Sovereignty and Household Food (and Nutrition) Security. IFPRI has set out three ‘general strategies’ for national aggregate food security, namely:

- Domestic production
- Commercial imports (whereby cash crop production generates the foreign exchange needed for commercial food purchase)
- Food Aid imports

A fourth and growing strategy is that of directly sourcing food requirements by acquiring land and water resources overseas. Each food security strategy (which each operates within its own frame of political economy, incentive/disincentives, financing and institutional framework), imparts different aspirations, pathways and management implications onto local food security and agricultural development.

Building Block D: IFAD’s different beneficiary models mean differentiated pathways

It is very well known that there are many different types of farming and farmers, such that IFAD, and others, are increasingly recognising that differentiated beneficiary models need to be brought to bear, backed by different approaches, as illustrated in the above Box for IFAD’s future irrigation investments, for example.

Across its whole portfolio, ongoing IFAD investment projects have adopted different pathways to tackle food insecurity. IFAD has an ongoing portfolio of approx 300 projects in nearly 100 countries, valued at approx 13m US$. Portfolio analysis reveals different pathways within agricultural development including, inter alia:

1. Improved local food availability (volumes and seasonality of staples) for self-consumers, primarily through NRM (and environmental restoration), through access to (new and rehabilitated) assets, inputs
2. Upgrading basic services - health and hygiene, including drinking water and sanitation,
3. Improving food availability by boosting capabilities to purchase food, through income generation, off-farm labour, staples and local markets,
4. Value chains into national markets
5. Value chains into sub-regional or international export markets
6. Building social capital.

Building Block E: UNCDF’s preliminary Framework of eight pathways towards food security

UNCDF has developed a preliminary Framework that connects seven pathways towards food security with the four established dimensions of Food Security, namely Availability, Access, Use and Stability.
Recommendations arising for evolving its framework under F4F

Three main recommendations for UNCDF’s moving forward on this issue under F4F are proposed:

- First, at country level, any future UNCDF generic framework will need to be discussed and adapted to reflect, and be contextualised by, the shape of the national strategic thrust towards poverty-reducing economic growth (under Building Block A), and how food and agricultural development has been framed by that thrust. And also to reflect connectivity of UNCDF’s intended impact to (and across) the array of political aspirations from agricultural development (under Building Block B), as contributions amid wider national efforts.

- Second, it is proposed that the current preliminary UNCDF Framework (Building Block E) be progressively evolved from its current status to reflect different food strategies (as indicated under Building Block C), in particular the flows of food into and from UNCDF’s focused localities. This is key, as UNCDF’s target has often been on particular Provinces or sub-regions of a country, with implications across national food and agricultural strategies. For one example, where agricultural development is focused on marketing of non-food products in a locality, thereby improving food purchasing power, then the sources and mechanisms for availability of purchased food within that locality need to be set out. As a second example, that markets for food production may not be within the local vicinity, and may extend beyond the locality of UNCDF’s intervention - so local production may not be targeting food security in the locality itself. As a third, how taxation on local commercial production may underpin local safety nets. As a fourth, to what extent do food aid imports undercut the economic viability of local value chains. Such evolutions of the framework will be most effectively conducted if linked to the notion of different beneficiary models, as set out under Building Block D. Notably what each beneficiary model is contributing to local food security and by what means is their own food security improved.

- Third, it is proposed that only once the above evolutions are followed through, and are tested by application at country level, can UNCDF achieve the essential step of connecting its Framework of pathways with public and public-private finance channels. As highlighted by Note 1, that mix of finance is needed, UNCDF’s current framework is not easily ‘finance-compatible’ as the connections between the critical mix of different financing opportunities and different pathways to food security have not yet been matched.

Advancing the Financing of Food

With F4F set to deliver social impacts and economic impacts into Food and Nutrition Security, and with a mix of private and public-private finance being required in tandem, this Note sets out the distinctive contribution that F4F is making in advancing the financing of food, and summarises the domains of the two main programmatic approaches - Local Development Finance and Local Finance Initiative - by which UNCDF will (by their deployment in tandem) be implementing F4F.

Based on the clear messages from Notes 1 and 2, the F4F Challenge is to advance Finance within the domain of Food and Nutrition Security in order to enable countries to achieve impact. In the impact sphere, it has already been established that in Sub-Saharan Africa and among LDCs, pathways are needed that are economic (with an emphasis on inclusion) and pathways are needed that offer social protection.

In the financing sphere, it has already been established that a mix of public and public-private funds are required, unblocking public expenditure channels and ensuring safeguards whereby private investment is pro-poor.

It is important to state that public-private finance is not limited only to Public-Private Partnerships, which are but one part a much wider story. Public-private finance is as much about how public institutions can enable private finance channels as a complement to public financing. This can mean:

- Finding the appropriate mix of public and private investments, according to circumstances.
- How to get most impact from public finance alongside private channels (as not infrastructure, goods and services have to be delivered by the public sector)
- Private finances models that can be enabled by public institutions models and what are the risks and challenges that need to be mitigated?

At this interface there are opportunities for mutually supportive relationships between public and public-private finance as well as risks, around:

- How public finance into public goods can provide the infrastructure foundation for private investment into private goods
- Whether existing public sector infrastructure assets are transferred to private sector
- Transfer to the private sector of services that have been traditionally performed by the public sector, such as extension and revenue collection
- PPPs as discrete partnerships for specific services with tight agreement on mutualities and conditions (such as contract farming)
- Public finance into risk mitigation enabling the private sector to engage under lower risk conditions
- Local government bonds being financed by private capital
• Public investment (as subsidy) into inputs, supply chains, pre-feasibility/feasibility studies and price subsidy backed by (state or parastatal) purchase of commodities
• Payment/Returns (local taxes, revenues) due from private sector activities to public agencies, (ideally at a level that would local development funds to be revolving)
• Private sector economic actions that catalyse local social enhancements and safety nets
• Risks that private sector engagement on economic terms may be undermined by equivalent subsidised public sector actions

While F4F has adopted a preliminary framework of pathways for food security, Note 2 has highlighted that the critical mix of different financing opportunities and different pathways to food security have not yet been matched. So, the eight pathways - at the aggregate level at which they have currently been framed - cannot yet be readily matched to public and public-private finance. What is obvious is that some investment priorities e.g. small irrigation, small hydropower, abattoirs etc occur in different social AND economic pathways and that such infrastructure can be amenable to both public AND private finance. A small irrigation development - say 10 hectares - for social impact financed by public channels can look very different indeed from small irrigation for economic impact financed by private channels.

In this situation, with different mixes and models not yet well established, UNCDF has deployed both its LDP Programme and its Local Finance Initiative Programme. Both the LDFP and the LFI Programmes are summarised below. As F4F progresses, UNCDF will learn how the two finance channels work together in tandem to support the different food security pathways. By doing so, UNCDF will make major advances in the Financing of Food. Almost uniquely, F4F UNCDF will do so through territorial approaches aiming at local development. F4F will seek to invest seed capital into hard infrastructure but by advancing the enabling environment of local institutions by stimulating local financial capital, and local value chains.

Thus, F4F is distinctively positioned relative to other Financing of Agriculture with seemingly similar goals, but:
• its focus is on small infrastructure (rather than the large, regional infrastructure of say the Program on Infrastructure Development in Africa)
• its focus will be on investments below the larger thresholds of say the GFASP and IFC
• its focus in on mobilising local financial capital rather than the external capital of other programs such as AgDevCo
• its focus is on enabling public sector rather than supporting intermediaries such as NGOs or setting up separate Project Management Units

This Note clarifies how the Public Sector is not a single entity, and performs an array of functions into classes of public infrastructure (that will differ by country) through different structures of institution (depending on how different countries have progressed with decentralisation), leading to a diverse array of public financing channels.

A) ‘Public Sector’ is not a single entity. It is clear that the ‘Public Sector’ is no single entity, especially within the domain of Food and Nutrition Security. FAQ/OECD has set out some broad categories of Public Sector entities, namely:
• Central government
• Line Ministries
• Decentralized government
• State banks and rural finance corporations
• State-owned enterprises
• Research institutions, universities
• Marketing boards
• Development partners

Each country possesses a different set of entities with institutions and mandates according to particular national circumstances

B) Main roles of the Public Sector.

Again, the Public Sector within each country will perform a different set of functions in respect of Food Security and Agricultural Development, with some countries more driven by food imports and others by export situations, some more by a dependence on safety nets and food aid and others attuned to commercialization. Unlocking channels of Public Finance can only be achieved when that finance is associated with the core functions of the Public Sector in that country - which could be around:
• Agricultural development policies (employment, poverty reduction etc)
• Public Expenditure and taxation in the food and agricultural sector
• Agricultural goods and services
• Construction, rehabilitation and maintenance of agricultural infrastructure (notably irrigation and drainage) and other rural infrastructure
• Agricultural markets
• Rural credit and finance
• Subsidies to inputs and outputs, and price controls
• Agricultural research and extension
• Land administration
• Veterinary services
• Progressive decentralization

C) Certain classes of rural infrastructure are often considered as Public Goods:

African countries have often designated which classes of infrastructure are considered as Public Goods, such that the construction, maintenance, rehabilitation (and revenue collection) would fall under Public Expenditure, and may (variably) include (but not be limited to) infrastructure services such as education and health centres, the infrastructure of food aid distribution, drinking water, irrigation and drainage, rural roads, energy (generation, transmission and distribution), markets, warehouses and slaughterhouses.
D) Main institutional channels of (fiscal) decentralisation:

Broadly speaking, there are three main channels of decentralisation (of roles and responsibilities), as were elaborated by UNDP in 2005, being principally
- local governments,
- deconcentrated structures of central government ministries and
demi-autonomous agencies.

in addition to various off-budget channels (such as bilateral projects, PMU channeling and occasionally fund routing through NGOs with the express intent of by-passing Government).

E) An ensuing plethora of Institutional Arrangements for Food Security and Agricultural Development

Part of the ensuing variety has been captured by IFAD in their assessment of institutional effictiveness. The first part established a generic framework between the ‘Borrower’ (of IFAD loans, namely Government) and Beneficiaries, termed the ‘Borrower to Beneficiary’ Chain (B2B)

Within that generic Framework, with common elements such as a Project Unit, Implementation agents, Beneficiary Organisations and Beneficiary Modality, it is clear from the two examples below that each role within the chain can be performed by quite different types of institution - some private-sector oriented and others that are community-sector oriented.

Withint the domain of water, IFAD has expanded these notions to distinguish ‘economic-type’ B2B chains that service investments that dominantly have economic impact as distinctively different (in terms of the actors within the B2B) compared with ‘social-type’ B2B chains that service investments that dominantly have social impact. Indeed, within the water domain, such a differentiation has appeared to be key in unlocking impact in terms of impact at scale.

F) Public Finance channeled through different institutions into different services

Consequently, Maputo commitments and Public Expenditure Reviews (IFPRI) on agricultural finance highlight how finance is channelled through different institutions and into different services. With the variations attributable to the factors above, it is understandable why efforts at inter-country comparison by IFPRI reveals significantly different patterns between countries.

G) Consequently an array of finance disbursement modalities arises, including this set by IFAD among its water interventions
Infrastructure Development Facility

For example, community infrastructure activities contracted out to the Social Fund for Development (SFD). SFD paid a management fee and responsible for identification and implementation. Development Initiatives Account at central bank, replenishable by IFAD to finance drinking water supply schemes for highland communities, under community contracting procedures.

Yemen

[Competitive] Community Grants

Sometimes PMU-managed, sometimes outsourced. For example Social Development Fund, Social Fund for Development, Watershed Development Fund, Community Investment Fund, Poverty Alleviation Fund (in some cases responding to plans in place eg Village Development Plans, Community Investment Plans). Variable levels of community contributions. Variable social or productive infrastructure connected to value-chains. Accessible by individuals and/or groups.

Benin, Brazil, DR Congo, Gambia, Georgia, Haiti, India, Mali, Mauritania, Nepal, Ugan- da, Venezuela, Viet Nam

Block (Community) Grants

Provision of community grants, in response to proposals submitted by the villages. Expected that local communities will use the block grants for investment in public goods. Eg Allocation 750 000 US$ in Togo for Community Grants: 100% net of taxes and net of Beneficiaries contribution.

Indonesia, Sierra Leone, Togo

Matching Grants

Matching grants for productive infrastructure. Procurement to adopt local contracting modalities that fully involve communities.

Sudan

BSF Grants

Investment in social activities identified as part of the PRA/CAP process (eg supply of safe household water).

Eq Kenya

Onlending through qualified local financial institutions

Lending to private village participants by institutions that manage onlending (from loan appraisal to recovery) on the basis of Village Development Plans (signed by participants, organisations and private entrepreneurs). Participating financing institutions (PFIs) assume the credit risk. Investment proposals/business plan set out accounting, deposits, water/land rights and rights of way, business licences or other government permits.

Moldova

Onlending by commercial banks

In Syria, Cooperative Agricultural Bank (CAB) extend credits to groups or families owning licensed wells to procure and install on-farm drip irrigation. The Bank manages, on behalf of the Government, credit for irrigation investment and working capital for revised cropping patterns. In Turkey, investments funded from community contributions and partly from a community and cooperative initiatives fund, CCIR, once-in-a-lifetime injection of seed capital, as a loan at positive interest rates, to capitalize cooperatives. In Zambia, commercial banks onlend funds for eligible for smallholder-based contracted production activities. Items eligible for financing will include production inputs and small investment items.

Syria, Turkey, Zambia

Equipment (co-) financing

Purchase of large (eg earth-moving) equipment that cannot be contracted from the private sector.

Chad, Rwanda

Supply chain contracts

Contracts for equipment supplied backed by local repairers, spare parts shops and after-sales services by private suppliers.

Uganda

Pre-Investment Financing

Project finance to studies (identification, land tenure, environmental and social impact), technical studies, pre- and feasibility studies, works and works schedules, institutions for infrastructure management and cost recovery, awareness and community mobilisation, business plans for credit purposes, including incentives for contracting needed services in the open market (including assuming the costs of such services).

Cote d’Ivoire, DR Congo, Morocco, Nicaragua

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Uncdf’s past and ongoing Local Development Fund experiences in local Food and Nutrition Security in Africa

This Note summarises UNCDF’s Local Development Fund experiences in local Food and Nutrition Security. The pool of evidence is from 15 past and ongoing UNCDF country-level interventions in sub-Saharan Africa. Under F4F, UNCDF should invest in more strategic level diagnosis within UNCDF in order to unlock the fulcrum of public and private finance, of social and economic impacts, and of Local Economic Development and Local Food Security. From the information currently available, five main lessons are drawn, including some implications for UNCDF’s support to countries under F4F:

- generally low levels of public revenues mean a lack of a virtuous financing cycle
- public finance to decentralised Local Development
- UNCDF’s support to fiscal decentralisation through LDFP

The pool of evidence of 15 country-level programmes has contributed very substantively to a framing of key issues associated with finance around UNCDF’s Local Development Fund. It is unlikely that the general frame will change substantially by analysing further UNCDF studies. However, while the overall framework is likely to be robust because it is largely common across UNCDF’s approach the evidence base of detail ‘spreads thinly’ across issues, meaning that evidence on specific issues is often limited to just two or three country experiences, and where UNCDF consolidate further evidence in the future (in line with recommendations set out in the ‘Stocktake’).

Furthermore, F4F should invest in more strategic level diagnosis within UNCDF in order to unlock the fulcrum of public and private finance, of social and economic impacts, and of Local Economic Development and Local Food Security. The 5 main lessons arising from the stock-take of UNCDF’s experiences are, in summary form,

LESSON 1: UNCDF’s impacts upon farmer/processor livelihoods across different food security pathways has met with varying degrees of success

LESSON 2: Generally low levels of public revenues mean a lack of a virtuous financing cycle

LESSON 3: Public finance to decentralised local development is needed

LESSON 4: There have been common characteristics among UNCDF’s support to fiscal decentralisation through LDFP

LESSON 5: There are implications for enabling increased public and public-private investments in local food security under UNCDF’s F4F programme
LESSON 1: UNCDF’S IMPACTS UPON FARMER/PROCESSOR LIVELIHOODS ACROSS DIFFERENT FOOD SECURITY PATHWAYS HAS MET WITH VARYING DEGREES OF SUCCESS

Where particular projects have been completed and evaluated, evidence indicates that UNCDF efforts to impact upon food security through its interventions in LDCs in Sub-Saharan Africa have met with varying degrees of success, with impact being often variable at best, and commonly low.

Increasingly, for example in Mali and in Benin, UNCDF has demonstrated alignment of its efforts with the four dimensions of food security, namely availability, use, access and stability. The evidence of the impact of UNCDF’s interventions is more revealing when broken down into the principal pathways that are at the root of tackling the four dimensions food insecurity.

UNCDF has had some success in strengthening value chains for agricultural production (Axe 2 of UNCDF’s Food Security pathways), for example in staple and higher-value commodities, from its support through interventions in infrastructure, natural resource development (access to water) processing (such as rice threshing, hulling and milling) marketing facilities and services (such as livestock vaccination).

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LESSON 2. GENERALLY LOW LEVELS OF PUBLIC REVENUES MEAN A LACK OF A VIRTUOUS FINANCING CYCLE

UNCDF’s approach has been founded on stimulating local finances in a way that grows the local capacity for investment and services, creating a dynamic local economy from which a virtuous financing cycle can emerge in which there are revenue returns that allow re-investment of those returns for other beneficiaries. Such a cycle is essential if UNCDF’s engagement is to be more than short- or medium-term subsidy of public goods and services by an international financier. Low levels of public revenues, meaning that an essential link in the intended virtuous financing cycle has largely been absent among UNCDF’s interventions in Sub-Saharan Africa.

Levels and rates of revenue returns The limited evidence across UNCDF interventions in LDCs suggests that low rates of revenue returns are prevalent. Across all the UNCDF-supported projects in the two target Districts of River Cess County in Liberia – interventions that have supported pineapple, cassava and rice - the total returns would have been well under US$5,000 annually. Such quantified analyses are rare, but are reflective of the more generalised evidence from UNCDF programmes in Uganda and Ethiopia that local revenues contribute less than 5% and 15% of local government budgets respectively.

Importance of revenue returns to a virtuous financing cycle Consequently, despite the importance of sustainable local revenue to decentralisation, it is clear across several of UNCDF’s programmes that weaknesses in revenue collection have not stimulated the virtuous financing cycle that is intended to be at the root of future financing.

Lessons: Importing revenue returns to a virtuous financing cycle is essential if UNCDF’s engagement is to be more than short- or medium-term subsidy of public goods and services by an international financier. Low levels of public revenues, meaning that an essential link in the intended virtuous financing cycle has largely been absent among UNCDF’s interventions in Sub-Saharan Africa.

Root causes In analysing the root causes for low revenue collection, evidence suggests that the following aspects have been identified among UNCDF-backed interventions:

• Low revenue generation despite high revenue potential, signalling the need to increase the regional tax base through linking revenue generation to the strategic planning process and increasing capacity of the local revenue authority.
• Certain sources of revenue generation have been identified as remaining unexploited, namely irrigation, livestock markets and tourism.
• Revenue enhancement may target low income traders rather than promoting production or targeting middle income property owners.
• Proliferation of a number of providers of similar services, expected to be a principal source of revenue, in the absence of a local economic boom.
• Even where initial revenues may be high, contributions may level off with time.
• Even where all the necessary various ‘best practice’ measures to boost local revenue generation have been deployed, they “remain insufficient to boost local revenue generation”.

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• Revenue enhancement may target low income traders rather than promoting production or targeting middle income property owners.
• Proliferation of a number of providers of similar services, expected to be a principal source of revenue, in the absence of a local economic boom.
• Even where initial revenues may be high, contributions may level off with time.
• Even where all the necessary various ‘best practice’ measures to boost local revenue generation have been deployed, they “remain insufficient to boost local revenue generation”.
Actions to mobilise of returns within such circumstances, UNCDF has taken intentional steps within its programming to aim to boost local revenues, and has demonstrated some success, including in Guinea. Key examples of successful measures within UNCDF interventions have included:

- In Mali, application of the 'System of Financial and Institutional Analysis of Local Collectives'
- In Burkina Faso, round-table dialogues at Commune level encouraged recovery of taxes and fees outsourcing revenue collection to the private sector, meeting with mixed results, but working well in certain circumstances
- A more civic-minded culture of paying tax, and a new tax-gathering capability - founded on a 'positive perception of the relationship between paying tax and the provision of facilities that benefit the community'
- 'Growth Centres' stimulating cost-sharing between several Local Administrations

O&M - sustainability Alongside revenue returns to Local Administrations, a key dimension - and one whose frequent inattention has led to a cycle of build-neglect-rehabilitate among rural infrastructure - is the arrangements for Operation and Maintenance. These arrangements are partly financial, and address operating costs and reinvestment into maintenance of infrastructure after initial capital investment. Recent UNCDF’s programmes have indicated positive signs on O&M of rural infrastructure in Rwanda, Guinea and Benin.

LESSON 3: PUBLIC FINANCE TO DECENTRALISED LOCAL DEVELOPMENT IS NEEDED

UNCDF has been supporting LDCs amid a continuing context of public finance in which, with low levels of local revenue being returned, there is a continuing dependence upon fiscal transfers from central Government. Those transfers are backed by development partners that have been increasingly pursuing basket-financing under Direct Budget Support - seeking predictability and accountability through Government systems without direct finance to particular territories. That shift has, among other drivers, led to UNCDF supporting partner Governments in fiscal reform. These contexts have placed greater demands on UNCDF’s niche in supporting decentralised financing, where this channel is appropriate amid other means of local development financing, such as deconcentrated development.

Public Finance - an entrenched dependence by local development upon fiscal transfers: UNCDF is not mandated with responsibilities across the full domain of Public Finance. Yet, UNCDF operates within that domain, and so its strategies and operations happen within, and are influenced by, the contexts of Public Finance of its Partner countries. Certain countries of UNCDF’s recent operations illustrate well the wider truisms of public finance in LDCs, namely the contexts that:

- The capability to mobilise local finance for local development are insufficient. So, local development is dependent upon State transfers, often backed by development partners.
- Yet, despite that dependence, financial resources transferred are not commensurate with the development responsibilities vested in local Government.
- Consequently, there is a lack of public investment into social services.
- Central Governments have the principal tax raising powers and, with that, are obliged to ensure equitable access to basic services through redistribution. But, with low levels of central resources, Governments face the risk of spreading resources too thinly.
- Accordingly, concerns arise over efficiency and effectiveness of public finance
- Amid efforts to boost finance and fill gaps through resource mobilization, local access to finance can be informed by studies of Public Expenditure channels and information on finance available to local administrations.
- UNCDF has detected a particular deficit of local financing mechanisms for Food Security

Implications of the shift by development partners to financing through Direct Budget Support: With UNCDF’s interventions primarily based on seed capital, and in the context of their leverage of additional finance by central Government being backed by development partners, so UNCDF’s country-level programming has been influenced by the shift by development partners to Direct Budget Support.

Although financial flows into rural development have fallen well-short of needs - leading to Africa’s substantial infrastructure gap - nonetheless levels of financing have been significant. As a consequence, particular financing instruments that UNCDF works through or alongside, such as the Community Development Fund in Rwanda, have become highly dependent upon external finance from development partners.

The shift to Direct Budget Support by development Partners has brought the benefit of a more predictable liquidity into Public Treasury finance, but on the flipside has created difficulties for Treasury procedures. Yet, paradoxically, UNCDF has experienced that while many development partners have increased their use of Direct Budget Support, they have at the same time sought to retain national interests in particular financing instruments and in attributing impact to their own bilateral contributions.

The shift to a greater contribution to Direct Budgetary Support has implications for a shift away from the preferential targeting of individual territories. While emphasising equity and redistribution in development financing, the financial allocation system needs to work under DBS if territories are to access finance. This has led UNCDF to place emphasis on reform to Governments Budgeting processes, and to the financing of decentralised development, while deconcentrated development also remains as an open track.

Budgetary reform: UNCDF’s experiences on support to Government budgeting have been progressed - probably most substantially within Mali, where UNCDF has ‘accompanied the government in the implementation of fiscal reform’. There, the principal reform has been towards granting a much greater autonomy into the management of the financing envelopes for decentralised services. In doing so, this reform highlighted the importance of alignment between the procedures of Treasury and those of Mali’s development partners, brought together through the ‘National Mechanism for Financing of Investments’ (ANICT). It is an experience of high significance to UNCDF’s F4F Initiative that in Mali UNCDF found it necessary for a distinctive support to adapt that National Mechanism for Financing of Investments for the particular needs of Food Security.
Decentralisation: UNCDF has faced a variety of conditions and circumstances that have set different contexts for their support to decentralised finance. In some countries, such circumstances have not been attuned to being supportive of financing through fiscal decentralisation. At the same time such circumstances have offered UNCDF the opportunity to strengthen such enabling conditions. Such circumstances among countries include

- despite a central government commitment to a deeper financial devolution under the Fiscal Decentralisation Strategy, most central government transfers were remaining largely inaccessible to lower local governments.
- a strong demand for a better articulation of the bottom-up, decentralised processes for budgeting and planning of local economic development.
- significant potential for decentralisation through partnership opportunities, but weak complementarities at national level between programs - particularly in terms of Local Economic Development - with no framework for harmonisation or mechanism for sharing information about best practices.
- desire by government and by financial partners to progress towards decentralization, with provisions made in the Local Authorities Act, but a principal barrier in the effective transfer of a portion of State resources to local authorities, with further reform needed.

In other circumstances, UNCDF has been highly influential in instigating a new institutional approach, for example,

- In Liberia, two funding mechanisms for basic public infrastructure, reform in Fund transfer procedures, and procedures of emerging financing and policy for future local government.
- In Benin, a new institutional approach with decentralization founded on development policies at the communal level, with investments channelled through a communal Implementing Agency.
- In Ethiopia, coordination mechanisms set up around the UNCDF-supported programme would serve as a coordination framework for any international development partner assisting the four regional Governments. Federal government was making efforts to supplement the region’s own allocations through other complementary mechanisms, such as increasing State funding above their entitlements under the block grant system, channelling support through centrally-managed sector programmes, by routing international agencies through humanitarian channels, by mobilising bespoke stand-alone bilateral and multilateral programs, by activating the Commune Strategy to relocate isolated communities and by efforts to lease land to attract commercial agricultural investments.

Deconcentration of basic services continues as an approach to local development: Deconcentrated services persist in LDCs, such that UNCDF has been advised that in certain countries the UNCDF approach has potential to achieve breakthroughs, yet there are other country circumstances in which UNCDF may encounter conditions that are not amenable to decentralised approaches. Those conditions may persist, for example, where basic services remain within the roles and responsibilities of deconcentrated or devolved institutions. Exerting influence on a shift from deconcentrated to decentralised approaches means that UNCDF also needs to work at the higher levels of political and administrative systems, in addition to the local level at which it operates its local development funds and programmes. What is clear is that the circumstances amenable for UNCDF’s impact through decentralised programmes were defined by conditions of government ownership, improved governance, strengthening of different types of capacity, development outcomes and poverty reduction.

LESSON 4: THERE HAVE BEEN COMMON CHARACTERISTICS OF UNCDF’S SUPPORT TO FISCAL DECENTRALISATION THROUGH LDFP

Intervening through LDFP, UNCDF’s Local Development Finance Programme: Where it has been assessed that it can be effective in supporting fiscal decentralisation in LDCs - notably where Local Administrations have been enabled and empowered - then UNCDF has engaged through its Local Development Finance Programme (LDFP). LDFP has aimed at introducing innovative ways of providing increased access to basic services and local infrastructure. At the core of the LDFP is that local level institutions play a key role in improving and accelerating access to public goods (health and education, water and energy utilities and to necessities such as food), with UNCDF intervening to support central government policies for increased access to basic services at the local level, and the promotion of decentralisation and citizen empowerment. Under LDFP, UNCDF works with local governments and promotes financial and fiscal accountability of the local state to the local citizen. In terms of financial instruments, under LDFP UNCDF has supported Local Development Funds, performance-based grant systems, revenues, local procurement and associated accountable planning, budgeting and decision making. UNCDF’s LDFP is based on deploying its internationally-sourced seed capital for strengthened local governance and national policy changes.

UNCDF’s shift to catalysing Local Economic Development (LED): UNCDF’s engagement in local development finance has undergone an evolution over the past ten years. From 2005 UNCDF evolved its Local Development Programmes and Funds in new directions, including some micro-economic aspects such as performance budgeting, minimum conditions for flows of local development funding from central to local governments, top-up and thematic grants with pull-funding mechanisms (eg climate adaptation through LoCAL), and cross-border financial mechanisms for local authorities. But a principal evolution has concerned how LDPs and LDF can stimulate LED by addressing weaknesses in local economies that prevented them from participating fully in economic growth: eg strategic investments that had backwards and forwards linkages with local impact along the value chain and/or leveraging investment in the public sector with private sector support. This has involved UNCDF in building an enabling environment for LED at the regulatory level and supported strategic individual investments, including under PPPs.
Many of the past engagements by UNCDF that provide the evidence base of experiences in relation to food security took place during this evolution. Having observed overlap between development of the PPP and private financial sector, access to basic services and economic development, UNCDF now sees its Local Finance Initiative (LFI) as a global programme for in harmony with ongoing LDFPs, to test ways of unlocking (preferably domestic) private finance for infrastructure as part of LED, but to-date has only been launched in Uganda and Tanzania. So, at the time of past interventions, Local Economic Development (LED) was primarily underpinned by UNCDF’s LDFP approach.

As well captured by the LDLD Programme intervention in Liberia, the foundation of LED has been to not solely focus on basic public socio-economic infrastructure and services, but also to promote productive activity in the rural areas, to catalyze local economic development, to raise household incomes and welfare and also to develop the local tax base to finance public goods and services.

Yet, despite UNCDF’s major historic efforts in support of public goods and services, Liberia raised an unexpected paradox that “for some odd reason” the enabling of public goods and services (such as rural roads and tracks, simple markets, water and agricultural extension) - which all evidence shows are critical for agriculture and local economic development - have somehow risked being framed as outside of Local Economic Development, and somehow ‘as something distinct’.

Some key directions for UNCDF to achieve a shift towards Local Economic Development, some of which have been actively pursued under UNCDF interventions (albeit not always successfully) have been viewed as:

- improvements by which enterprises contribute to local wealth
- resource redeployment to enable Districts to improve Local Economic Development by economic infrastructure that yields direct support to households
- actions that convert community-based income generating activities into SMEs that can strengthen the local economy, with activities that will deliver a regular and sustainable income, with an attractive and dynamic business environment with marketing and supply channels, backed by technical and technological support
- notwithstanding concerns that the direct public funding of private enterprise or private firms requires ‘great care’ and right technical partners
- promoting the revenue-generating sectors and achieving the potential of niche markets, in a way that targets village-based groups, building contractors, artisans, and semi-skilled and unskilled workers
- unlocking local value chain opportunities, but without local market saturation
- the most obvious and cost-effective’ avenue of focusing on improved delivery of basic public enabling goods (roads, water, markets, extension), being services that largely fall under the remit of future local government.

Key strategic factors in attaining that shift towards LED have been viewed as:

- the role of public investment expenditure to catalyse local economic enterprise
- the catalytic nature of impact, whereby support to direct beneficiaries triggers benefits to others as indirect beneficiaries
- supporting local private enterprises while at the same time supporting income generating activities that take a communal approach
- risks of inequity if small numbers of private sector actors are seen to preferentially benefit, especially in the absence of transparency
- identifying within any particular locality the markets that are potentially lucrative, and can underpin entrepreneurial activity
- upstream decisions whether targeted territories are selected because they are economically effective (alongside UNCDF's historical tendency to target isolated and vulnerable communities)
- core issues of access that determine whether beneficiaries are pre-disposed or pre-indisposed, including access to land (or to water, for example)
- the need for UNCDF to create stronger institutional ties with Ministries responsible for the productive sectors and for small business development

Key operational factors in attaining that shift towards LED - as summarised in the assessment of Guinea’s PDLG - can be categorised generally as:

- Planning alignments, such as strategic links within national decentralisation frameworks between RDCs and rural towns for effective local development, benefitting demand for products and technical service mobilization
- Technical support and Information that build capacity, including economic and commercial data that inform decision taking and underpin assessments for enhancing the value of local resources, access to lucrative commercial outlets and opportunities that enable artisans, small-scale and local operators, local business groups and micro- and small enterprises to provide services into the marketing and supply channels of an attractive local business environment (where necessary by public/private partnerships for small service providers)
- Capacity and Networking, including steps to enable a local labour force of young and unskilled people, building economic skills of local stakeholders with training in entrepreneurship, particularly women’s group to transfer from subsistence level activities into dynamic micro-enterprises, including by tackling illiteracy among women
- Stronger Economic Partnerships, particularly strengthened relations (amid environments damaged by resource exploitation) for more integrated environmental, social and economic investments.
• Securing financing autonomy at the local level, notably by strengthening RDC contributions, by mobilising state funds, by harmonizing financing procedures among different partners, by mitigating risks within the local political economy, by raising loans for ventures of a commercial orientation, and by criteria-based grants for local economic development. Ensuring that financial products are suited to the needs of clients and SMEs, which may entail establishing economic commissions alongside the technical commissions within local administrations.

Establishment of Local Development Funds: Through many of its country-level programme interventions, UNCDF has instigated grant support through a Local Development Fund, or some variation thereof. In Guinea-Bissau and Senegal, LDFs were scale at approx 1.5-2US$ and 3US$ per inhabitant respectively. Variations included working through the Community Development Fund in Rwanda, a Permanent Fund for the Development of Territorial Collectives in Burkina Faso and a Food Security Fund in Mali exclusively for tackling food security. Although UNCDF support to Government may be grant, Local Government may provide access to those funds through repayable loans to beneficiaries, for example in Tanzania.

Internal Structuring of Local Development Funds: In instituting the LDF mechanisms, an overall approach around Local Development Funds has been common, but has necessarily found different forms of internal structuring within different country circumstances. That structuring has included:

- In Mali, the ‘Fonds d’Appui à la Sécurité Alimentaire – FSA) was structured around three windows, namely Type I (basic communal infrastructure services and access to drinking water), Type II being projects to boost agricultural production (which could be communal or inter-communal) and to exploit water resources and Type III being investments of an inter-communal nature.
- In Guinea, a Local Development Fund was structured into three windows, namely a Local Investment Fund (for RDC’s internal investments, which absorbed 70% of finance), an Inter-RDC Investment Fund (that took up 18% of LDF resources) and the Village Investment Fund for income generating activities that took 7% of funds.
- In Ethiopia, support for social and livelihood programmes was structured by 70% to higher potential corridors or underdeveloped river basins, and 30% to more vulnerable areas that are clearly not of high potential.
- In Liberia, a decision by Government oriented UNCDF LDF funds to the more distinct niche of financing agricultural productive investments, through ‘group-managed’ channels.
- In Senegal, at least 50% of the LDF was to support a ‘Fund for Local Economic Development’, as budget support to Local Collectives.
- In Guinea-Bissau, LDF was set up with two windows. Under the ‘Local’ window, 75% of finance was to construction, renovation and repair of socio-collective infrastructure, and 25% to promotion of the local economy. Under the ‘Regional’ window, 75% of finance was to socio-collective infrastructure of a regional nature, and 25% to actions to protect the environment.

Access and performance conditions: The principal factor determining Fund access has been the level of contributions. Access to the Village Investment Fund was in Guinea was based on a 30% contribution by the Income Generating Groups. Co-financing at a rate of 25%, reduced to 15% at mid-term, with further pressures seeking reduction to 10%, as that initial rate of 25% had reportedly over-estimated the ability of RDCs to contribute, and reflected a disparity with access conditions by other financing partners, such as the World Bank. The lower rate triggered greater drawdown for more expensive commercial infrastructures, especially when linked to the new ‘Growth Centre’ approach. In Tanzania, a co-financing level by Districts of 20% proved a successful level and an important instrument to secure ownership and active involvement.

In Mali, drawing rights on the Food Security Fund by the Territorial Collectives was based on their satisfying minimum conditions. In Mauritania, a separate performance-based allocation was proposed (but not implemented) – intended to be disbursed as a bonus to performing Local Collectives - alongside the main Local Development Fund, but representing some 25% of overall financial support. In Guinea, allocations to RDCs would be indexed against criteria including performance in terms of generating income, economic initiatives and project leadership.

Challenges encountered in instituting LDFP approaches: There have been characteristics at the root of the LDF approach. UNCDF’s value-added contribution is founded on the principle that it can bring innovative financing solutions to local level food security challenges. At the root of UNCDF’s LDFPs approach has been access to credit, especially by community organisations with access to finance enabled and routed through local administrations, with accompanying efforts to removes the constraints that block the collection of tax revenues. UNCDF’s seed capital into the Local Development Funds has seen good ownership assured by contributions for approximately 20%.

But across many of its country-level support programmes, UNCDF has encountered challenges of a financial character in instituting its Local Development Fund approaches. As some examples inter alia, the LDF model was not sufficiently pursued in Rwanda - meaning financial innovation was not fully developed, and that deeper reflection was still needed on integrating LED, natural resource management and food security within its LDFP approach. In Mauritania, implementation of the investment funds was chaotic and lacked full transparency and clear procedures failing to forge any significant contribution to impact. In Benin, major delays were faced in the Local Development Fund investment cycle. Introducing the LDF approach in Uganda, UNCDF encountered planning fatigue among village communities stemming from projects of a pilot nature that were too small, too frequent and too repetitive. Furthermore, the Fiscal Decentralisation Strategy had been held back by the lack of any serious devolution of sector budgets to lower level governments.
In simple terms, the modalities exist but the money did not flow. In Tanzania, the expectation that other donors would provide funds to the UNCDF-backed SLEM proved unrealistic as other donors had committed their funds to a Local Government Reform Programme of which SLEM was not part. In Guinea, low rates of disbursement characterised initial take-up until access conditions (based on contribution levels) were amended.

Financing aspects of different institutional channels - a mix of public and private: A key recognition for UNCDF in Somalia was that future institutional arrangements that improve service delivery will be a mix of government, private and non-state actors. Increasingly that would require Local Administrations to either provide services directly or through public-private partnerships. That division of labour is understood to mean sector agencies and private sector that deliver goods and services and local government and communities that manage and main assets. Different institutional arrangements each carry different financing implications and, as identified in Liberia, this requires UNCDF to conduct ‘proper upfront analysis of the institutions with which it is proposed to work’ and of the funding mechanisms that may require reform.

At the root of UNCDF’s approach is enhanced participation, underpinned by the notion that “the causes and effects of poverty are influenced by participation in decision making and control and equitable distribution of resources”, creating UNCDF’s distinctive institutional niche among other actors within the UN system. Participation is key to several dimensions of UNCDF’s approach, including ownership of the outcomes and implementation of UNCDFs support, the opportunity to better connect UNCDF’s support with local and sectoral planning (including with annual investment plans by locally representative institutions), promotion of equity in disbursement and impact (and the mitigation of risk of inequity), with UNCDF recognising that capacitation of participation has had to be a key feature of its support.

Engaging through public institutions, UNCDF has encountered particular financing aspects associated with Local Administrations and with Territorial Collectives. Local Administrations, given the absence of a virtuous local financing cycle, are heavily dependent upon Government transfers. Such transfers typically cover only the administrations’ own operating costs, creating dependence for any capital investment upon external finance. Not all Local Administrations are viable (particularly under conditions of post-conflict recovery), sometimes lacking the capacities to plan, manage and operate infrastructure, and often with only nascent efforts to establish legal and regulatory frameworks that enable financing and cost-recovery of local services. Under some circumstances, this can raise concerns over ‘an inappropriate local governance system that is overly bureaucratic and expensive to operate’ - especially when impacts are low. Clearly, there are incentives operating within Local Administrations - including aspects of selection and remuneration.

Across West and Central Africa UNCDF has consistently sought to channel significant levels of finance through Local Collectives, but in doing so, has encountered the financial weakness of such Collectives, their difficulties in mobilising new sources of revenue and an absence of political will to transfer financial resources to such Collectives. Indeed, the problem of transferring resources to Local Collectives had been identified as the principal obstacle to making decentralisation work in Senegal. As a consequence, with an absence of any significant resources of their own and with a low operational financial turnover, the autonomy of such Collectives remains fragile. The prevalence of such circumstances mean that it is necessary for UNCDF to engage in strategic-level reflection on the role of communes in the Local Economic Development as part of considering opportunities for communal investments. Particularly where certain Local Collectives are shifting towards becoming more commercial enterprises. Clearly, where UNCDF is working through such Local Collectives then steps need to be taken to develop institutional mechanisms that strengthen the Collectives as channels for delivering local projects, and that reinforce their financial autonomy. One such route has been towards their stronger association with micro-finance institutions.

UNCDF has encountered the weak financial capacity of enterprises at the root of poor level of execution of investments. This was deemed by UNCDF in Burkina Faso to be to the extent that the problem of weak performance of enterprises in the achievement of communal investments was so recurrent that an appropriate solution needs to be found.

UNCDF’s engagement with producer groups, enterprises and the private sector have similarly yielded a set of particular experiences of a financial character. One underpinning rationale (in Liberia) was that it would prove problematic - in policy and philosophical terms - to provide subsidized investments directly to private individual farmers - but doing so via a group would make such investment more acceptable. But in doing so, the Liberian experience encountered a long-standing issue associated with group-farming, namely that it has proven to be ‘inherently very problematic’ across a number of African countries. Reasons appear to be associated with lack of incentives and a creation of dependence upon public sector support. Financial access under (producer) group models has posed particular difficulties to the extent that had limited the strategic relevance of UNCDF’s loans as catalytic factors for Local Economic Development and Value Chain development.

UNCDF has encountered an absence of private sector firms that could support programme delivery, notably weaknesses among agro-processing and manufacturing that could support value-chain development. Potential firms that could perform such roles - linking producers to markets - needed to be actively engaged, and opportunities opened up for private sector businesses and investors.
One means by which UNCDF has tackled this challenge has been specific efforts to engage local contractors in construction work, enabled by support to preparing tender documents, such that the large majority of contract value was awarded to companies registered within the prefecture.

While small-scale private operators have generally struggled within the decentralised model of LED, at the same time large-scale private operators can often move into operations in the same regions, as among irrigators in Ethiopia for example, often enabled by channels that bypass local decision-making.

Given weaknesses that are prominent and prevalent on both the public and private sides, UNCDF has engaged with PPP arrangements based on public funds, principally in Tanzania and in Somalia. In Tanzania, where grant finance to the private sector runs counter to Government policy, UNCDF’s SLEM programme encountered a newly introduced public-private mechanism that was well-owned and institutionalised at the local level. Its role in respect of Local Economic Development related to policy dialogue within the District Forum for Local Economy, to Business Development Service Shops, and to introducing some new technologies (such as power tillers, fruit and flower processors) among farmers on public assets. Public-private partnerships have become well-advanced in Somalia - including in the water supply and solid waste management sub-sectors, particularly where municipal councils have structured the water supply service into PPPs by procuring NGOs to provide this service on term contracts, with cost-sharing and fee-for-service arrangements and taxation (a key source of local revenues, as discussed elsewhere) supporting equity in access to these key services.

LESSON 5: THERE ARE IMPLICATIONS FOR ENABLING INCREASED PUBLIC AND PUBLIC-PRIVATE INVESTMENTS IN LOCAL FOOD SECURITY UNDER UNCDF’S F4F PROGRAMME

Public and Public-Private Finance in tandem: Under its F4F global programme, UNCDF is aiming to enable increased public and public-private investments in local Food Security. Accordingly, F4F aims at both unblocking the treasury transfer mechanism of the Public Expenditure System and at stimulating the domestic financial system under Structured Project Finance. These aims are also backed by so-called Government to Person payment (G2P) mechanisms to finance small-scale investments for the most vulnerable, poorest communities. A key foundation of F4F is also the bringing together of the different, relevant actors in Local Food Systems. So, F4F is very much about enabling both public and public-private finance, about institutions moving forward together, and about integrating different approaches.

An unequivocal case for complementary but differentiated channels for UNCDF’s seed capital: Under F4F, UNCDF will use seed capital to stimulate local financing - through different financing instruments, including grants, loans, guarantees, equity, and/or quasi equity. This menu of finance instruments will enable UNCDF to customise its interventions to specific situations and conditions, so as to maximise its impact. UNCDF’s experiences of investing its seed capital into the financing food security has been dominantly through UNCDF’s Local Development Fund instrument and is now being increasingly deployed towards Local Economic Development. But, in terms of overall impact, that deployment has met with varying degrees of success - and broadly speaking (with one or two exceptions) with low success within the domain of Local Food Security and agricultural development.

UNCDF’s experiences tap a rich vein of detail concerning some financing approaches, norms and processes across 15 countries. But the varying country circumstances mean that many of the differences are due to variations in political, administrative and institutional factors. Accordingly, there are few, if any, experiences at this stage that enable lessons to be drawn on the relative merits of one particular performance-based grant scheme relative to a another variation of a similar scheme.

Identification of UNCDF’s experiences has adopted a wider frame on financing - on revenue returns, on public expenditure, on UNCDF’s promotion of decentralised pathways relative to other deconcentrated and off-budget channels, and particular on Local Development Funds. That lens has been adopted because UNCDF’s impact has generally been low upon food security. That lens has revealed that it has not been minor variations within the financing instruments that have been at the root of UNCDF’s experiences on impact upon food security - such that if a particular performance criterion had been set one way or another then 2,000 rather than 200 beneficiaries may have been impacted.
Instead, UNCDF’s experiences around food security show that UNCDF has encountered challenges of a strategic nature across the wider financing challenge, and it is these challenges that are closer to the roots of UNCDF’s generally low impact across its Food Security portfolio. So, rather than lessons emerging on the specifics of particular financing instruments, a different narrative has emerged on the challenges that UNCDF has encountered in pursuing public and public-private investment in local food security in tandem - an intended integration that is at the core of F4F’s future. This is because UNCDF has, in almost all country cases, ended up structuring its disbursement of the Local Development Fund into separate ‘social’ and ‘economic’ windows. So, experiences strongly suggest that it will be at this fulcrum - of ‘social’ and ‘economic’ impact, and of public and public-private investment - that F4F will face its greater challenge in laying the foundation for impacting upon food security at scale.

Tackling Upstream Challenges at entry: In pursuit of its efforts to exert impact, it is clear that UNCDF encountered fundamental challenges at entry in respect of a series of different framings and positioning:

a) Different Outlooks on the challenge represented by Food Security. UNCDF has encountered the absence of a shared understanding of food security, facing perceptions only of famine or food shortage, and where cereal-based food-banks are viewed as the key intervention. UNCDF has encountered divergence of appreciation of the means to tackle food insecurity, with roots in lack of consensus over terms and disagreements on strategies. So, targeting of beneficiaries and certain types of investment were not founded on a good understanding of the root causes of food insecurity, local dynamics nor the potential and constraints of Local Economic Development. It has been a characteristic of several UNCDF interventions tackling Local Economic Development that FSN has been one target, but not the principal target.

b) Weaknesses within the upstream enabling environment, including weak inter-program complementarities for Local Economic Development, with “no harmonization framework or information shared regarding best practice”, few initial links to Ministries responsible for the productive sectors, absence of any systematic effort for up-stream policy development and replication, and weak internalisation of local development strategies within Senegal. Accordingly, increased cooperation is a key recommendation.

c) UNCDF’s dilemma of targeting vulnerable groups and economic territories whereby its mandate that may lead it to programmes in localities of vulnerable and isolated communities, with many potential beneficiaries amid the ‘most marginalised’ may not always be compatible with UNCDF’s territorial targeting under Local Economic Development, where there are orientations towards localities that are pre-disposed to economic opportunity. Notwithstanding that there are risks of inequity and elite capture through poor targeting.

d) Scale issues beyond localities: With its primary focus on ‘local development’ UNCDF has also encountered challenges to impact within local food systems associated with issues whose scales lie beyond the project areas, such as drivers from the national-level governance of food security, of market scales (which may be regulated by international demand and where wider regional markets may be essential for trade), the benefits from concentration across Local Administrations within Growth Centres and the economies of scale from inter-communal actions with benefits from other forms of inter-connectivity between localities, such as roads, transhumance corridors and pastoral water points.

e) UNCDF’s comparative advantage, which while assessed as the agency ‘best placed to support local development, with strong comparative advantage across a range of fronts’ and adding value through its approach, UNCDF has more to do to build its track record in providing ‘equitable and inclusive economic development through support to agricultural production.

Missing synergies in public and private, social and economic integration to tackle FSN: engaging under such initial conditions will undoubtedly have hindered UNCDF’s operations from the start, it is through UNCDF’s efforts to address impact through its interventions that arguably the holds the biggest lesson. Namely that there has been a tendency for the opportunities for synergy between public and private channels to have been viewed in somewhat narrow terms, for example, of targeting local contractors, of PPP opportunities, and of outsourcing some public sector functions to the private sector (eg on revenue collection). While at the same time UNCDF’s primary approach under its main instrument, the Local Development Fund, has been to separate social and economic outcomes into different windows.

As a consequence, the over-riding message from numerous of the evaluations are not about the critical success factors for PPPPs, or of performance criteria for the private sector. Rather, the over-riding message concerns the void of strategic-level relationships between social and economic investments, between public and private finance, and between Local Economic Development and FSN. So, there is a risk for UNCDF moving forward under F4F if UNCDF considers that a fine-tuning of its financial instruments is key to achieving impact. With integration, partnerships, bringing together, and moving forward together being at the forefront of F4F, the main challenge faced by UNCDF moving forward is that it has not yet attained such integration in the past in ways that attain impact. So, the route to do so successfully in the future on the basis of past experience is not yet clear.
UNCDF has a strong base of experience on public expenditure on social infrastructure, namely that “(there is) ample evidence that the most cost-effective role for public expenditure is to focus on genuine public enabling goods which for agriculture are primarily the rural road and track network, rural markets, the rural water supply (and, where appropriate, irrigation & drainage), crop protection, adaptive research and extension.” In Mali, UNCDF’s intervention identified two clusters of community investment that would improve food security and nutrition, namely infrastructure services such as education, health, sanitation, food banks, infrastructure and equipment that relieved domestic burdens and processed local products, and especially infrastructure that improved access by populations to potable water. Rather than list categories of infrastructure, in Benin, UNCDF set out the contribution, for example, that by enhancing access to drinking water and health services and by assuring improved road access to the communes, such investments would play a positive role in improving food security. Socio-economic infrastructure (markets, warehouses, roads, slaughterhouses, dairy-plants) would play a key role in generating new opportunities. But generally, the societal contribution, or more specifically the food security contribution has not yet been fully developed for different types of infrastructure, goods and services. What is clear, however, is that such public goods should not be exclusive and should benefit significant number of beneficiaries, notably the excluded (eg women). Also, it has increasingly become a feature of UNCDF Local Development interventions that, with local institutions short on revenues, public expenditure should be into areas that yield revenue returns to local Government.

Similarly, UNCDF also has a base of evidence on local economic development. UNCDF’s support in Mali usefully set out a different type of project to those socio-economic Type I projects, namely setting out Type II investments. Type II investments are those that enable an increase in local agricultural (and livestock) production to improve local food availability. Such infrastructure relates to livestock management, inputs, livestock feed, shops, agro-processing for local products, milk, horticultural products. Other such investments include the exploitation (and protection) of water and those that will increase production in such a way that income from sales will generate household incomes to acquire other food products.

What begins to present challenges in this domain for UNCDF when trying to generalise approaches is that certain interventions - such as dairy, for example - may be considered as a public/social intervention one country (such as Benin) while being considered as a revenue-generating activity in others (such as Mali). Similarly, other infrastructure interventions, such as irrigation, can be considered as an intervention for both social and economic outcomes even within the same territory.

UNCDF’s experiences, for example from Beni, particularly emphasise that economic interventions need to be founded upon markets and value chains, upon assessments of costs, feasibility and profitability, and upon impact, including job creation and employment.

However, to a very large degree, the viability of such economic interventions will be determined very heavily by the publically-funded enabling environment of goods and services. If certain goods and services are not provided by local administrations, then such services would need to be purchased from commercial operators. The publically-funded enabling environment determines rates of repayment on loans, and thus dividends on equity. It also determines the granting of, and rates of charging for, access rights to land and water, the extent of available- and often cross-subsidised - reticulated energy services (and thus whether economic interveners are dependent on self-generation). It also determines the state of public roads that enable access to markets, or create a dependence on middle-men ‘buyers’. It determines the rates of charging of taxes and levies and obligations on developers for cost-sharing within O&M, which may be on a full cost recovery basis. It may set prices, and operate price control mechanisms. It may introduce potential competition from state-subsidised development corridors that can supply into the same market. It may enable competition from large-scale economic and commercial operators in or around the locality, such as large-scale irrigators who may be exploiting water under national FDI arrangements, themselves benefitting from added tax relief. Public policy will determine scope for retention of profit within (and along) the value chain, or whether (under UNCDF’s approach) there is necessity to create conditions that enable the lives of others indirectly. So, ultimately, under its decentralised arrangements UNCDF may identify viable economic activities, but find that commercial viability is at risk of being undermined by the same activity by others, financed under different arrangements, such as deconcentrated Line Ministry interventions, or straightforward off-budget donor-financed and NGO implemented actions.

So, with F4F pursuing both public and public-private approaches, it is vital that UNCDF do not fall into a simplistic trap of associating public finance with social outcomes and private finance with economic outcomes. For these reasons, F4F cannot be about financial sources, mechanisms and instruments in isolation - but how they work together, and not against each other. For UNCDF to tackle food insecurity, given that food insecurity it is about both social and economic outcomes, F4F has to be about public and private finance working in combination.
The strategic gap that has emerged: However, UNCDF has a low base of evidence on the financing synergies between public and public-private finance for tackling FSN. Partly because social and economic outcomes have been pursued under separate windows of Local Development Funds, with assessment against intermediate outputs without their cumulative contributions to FSN impact being evaluated. That is why several of UNCDF’s have concluded that there is a real strategic void. That gap has been identified as constituting:

• a lack of strategic clarity in the relationships between communal investments, catalysing local economic development and food security - leading to an approach to targeting beneficiaries that is seemingly incompatible with engagement with economic actors
• Economic and social approaches to food security that need better clarification
• Institutional approaches between microcredit and local economic development that require clarification
• A planning and evaluation framework that has suffered a lack of strategic clarity that has driven a confusion in the definition of targets, investment windows within Local Development Funds, and in the organisation of monitoring
• Economic activities have to be prioritised on the basis of their contribution to food security. The way that communes support such Local Economic Development have to be built into the planning processes.
• questions over the role of public expenditure generally in promoting agricultural development, and of expenditure by sub-national governments in particular
• that it is unequivocal that boosting agricultural productivity is absolutely critical for equitable and inclusive economic development, but clarity is lacking on how public funding should be provided to best support agriculture and related productive activities
• disconnections between funding of agriculture sector investments and the District-level public expenditure cycle
• the nature of the support role of different UN agencies, including UNCDF

So, key areas for UNCDF’s strategic reflection will be around:

• Different pathways to tackling FSN - some economic, some social
• The social and economic dimensions of LED, and the tendency to have excluded the vital role of public goods, particularly where public finance is both towards social outcomes and stimulating local economic development
• Impacts that are catalytic and equitable
• Use of state and private assets in agriculture
• Deploying finance most effectively through public and private channels (between financers and beneficiaries), while making the most of opportunities for mutuality such as leveraging and de-risking
• The roles of state and non-state actors within UNCDF’s decentralisation approach

With such gaps at the strategic level of integrating finance, local economic development and security, and with financing for different windows being separated between social and economic tracks, it is a consequence that the implementation arrangements that would better enable UNCDF’s operational application in other country-settings have not yet emerged.

Until that strategic void is redressed, UNCDF can anticipate continuity of impact-level deficiencies and operational difficulties if attempting to integrate public and private, social and economic investments.
Third, how can patient capital be deployed to ensure not only that investment in commercial agriculture is stimulated, but also that smallholder farmers are major beneficiaries and that the potential poverty reduction impact is realised in practice? It argues that commitments of patient capital can be used to ensure that growth of commercial agriculture directly benefits smallholder farmers, and is pro-poor.

**FAO** has conducted an appraisal of PPPs in agriculture, drawing from 70 cases in 15 countries across three regions, including Sub-Saharan Africa. They have proposed an adopted definition for agricultural PPPs, with conditions on public benefits, risk sharing and an active engagement in the PPP lifecycle. FAO has presented a preliminary Agri-PPP typology, with four types of PPP Financing Structure identified. They have characterised the main categories of partners on the public and private sides, with the key roles that each cluster would play under a PPP. The appraisal has also identified the principal management tools for PPP agreements. In 2008, FAO had issued a ‘Checklist for PPPs for infrastructure for market-oriented agricultural development’

Although operating above a higher investment threshold than UNCDF, the experiences of GFASP/IFC Private Sector window are relevant to F4F. The approach to financing has been based on Investment Services make investments that allow for riskier financings in small and medium-size companies along the agribusiness supply chain, in frontier regions or countries that would otherwise not attract investment capital. This approach is enabled through the availability of investment funding under concessional terms. Funding at concessional terms, is used on eligible projects along with IFC’s own funding as well as other private sector funding to provide the necessary “blended finance” solutions. Deploying and blending concessional funds alongside effect is significant, or where cost barriers are prohibitive, but can be expected to decline over time. IFC’s established approach is around the use of blended finance including the principle of minimum concessionality and a time-bound approach in the support of projects that lead to long-term sustainability. Structuring of Concessional Funds is based on risk sharing products on below-market terms, provision of debt financing (with differences in rate, tenor, security or rank) and equity investments with ex-ante expectations of below-market returns

The Public-Private Infrastructure Advisory Facility (PPIAF) has progressively consolidated international experiences of PPI, including types of PPI and sources of funding, as well as infrastructure-based consolidations relating to roads, agricultural storage, rural electrification, health and education, with an equivalent on irrigation and drainage by the World Bank.

Although outside of Africa, EBRD’s experiences on Private Sector engagement in Agriculture are relevant to F4F, notably in the way they have conducted up-stream diagnoses and emphasised partnerships and alliances (including among multilateral finance institutions and the UN) within the enabling environment as key to their programmatic support.

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1. DFID Assessment of “Agriculture and private sector”: Agriculture and Growth Evidence Paper Series (June 2014)

Having conducted a review of prevailing theory, literature and empirical studies, the four main findings are that:

a) Direct state interventions in agricultural input and output markets, in particular public control of markets, is likely to produce inefficient and inequitable outcomes – Theory asserts the state cannot allocate resources as efficiently as well-functioning markets and that state control over production and marketing is prone to elite capture. The secondary literature suggests a degree of consensus that public interventions can crowd out private sector investment but few empirical studies verify this assertion.

b) Private sector investment alone is not enough to stimulate agricultural growth – Theory and strong empirical evidence indicates both public and private interventions and investments are needed to create sustained agricultural growth. The extent to which the state should provide more than public goods and a conducive policy environment is contested.

c) Effective agricultural growth strategies are likely to require simultaneous and complementary public and private investments that support segments of value chains in an integrated way – Both theory and a moderate evidence base suggests the right sequencing of public and private sector investment is critical to unlocking the potential of agricultural markets. This approach aims to mitigate both state and market failures by providing checks and incentives for the state and private sector to work together in mutually beneficial and effective partnerships. Whilst there is a clear consensus that complementary public/private investments are needed, the precise mix is governed by different country contexts, regions, crops, smallholder types and regional characteristics, suggesting a suite of policies and programmes.

d) The commercialisation of agriculture provides opportunities for the growth of agro-industries but equitable outcomes for smallholders are not guaranteed – Both producer organisations and contract farming can facilitate smallholder market access and commercialisation. A strong evidence base suggests smallholder participants in contracting schemes are from the wealthiest strata of rural communities and that the poorest smallholders tend to be excluded. The available empirical evidence suggests contract participants enjoy significantly higher incomes than non-participants but further research is required. Theory and a moderate evidence base support the contention that contract-farming arrangements are usually entered into by large firms which supply export markets and supermarkets in urban centres.
2. IFAD PPP experiences in Africa (IFAD and public-private partnerships: Selected project experiences, 2014)

IFAD has drawn key messages from its experiences in building PPPs in country programmes, including from 10 across Africa, namely that:

- Since 2008 the private sector has become the main engine of growth for rural economies and private investment in agriculture is now greater than official development assistance.
- Under the right conditions, private-sector investment can contribute to pro-poor development that raises incomes and strengthens food security.
- But there are also risks and challenges. Smallholder farmers, especially women and other disadvantaged groups, risk being excluded and marginalized, being exploited, or finding themselves in unequal relationships with a more powerful corporate private sector.

So, IFAD has an important role to play in creating the right conditions for mutually beneficial public-private partnerships (PPPs). Although IFAD does partner with multinationals and big private corporations, in the majority of cases IFAD works with the local private sector. Buyers, supermarkets, input suppliers, commodity brokers, warehouses, MFI and commercial banks – of smaller or greater size – are all actors in interacting on behalf of farmers with the private sector, and keeping the benefits of both parties in mind, is crucial to maintaining the goodwill of the private sector. The timing and bureaucratic processes of development initiatives are not always compatible with private-sector requirements and working rhythms. Delays and the poor coordination of project delivery can affect supply levels to processors and traders and thereby threaten the sustainability of the partnership.

An essential principle for IFAD in promoting PPPs is to keep the interests of poor rural people to the fore, and ensure that marginalized groups such as poor rural women and ethnic minorities also benefit. So, IFAD has empowered small-scale producers by helping them build strong organizations that are able to engage with the private sector.

IFAD has forges partnerships between private companies and groups of small-scale producers along specific value chains. In these projects, IFAD has supported three basic types of PPP models:

1. Formal contractual arrangements. In this model, private-sector companies work with small-scale producers according to a variety of contractual arrangements – such as outgrower schemes or contract farming – and form a long-term commercial relationship with them.
2. Delegation of a particular function of the value chain to producers' organizations. In this model, private-sector companies delegate the management of producer-owned primary processing centres to small producers' organizations.
3. Joint ventures between private companies and producers' groups. In this model, a new enterprise is set up in which small-scale producers and the private-sector company co-own the business along part of (e.g. at the processing stage) or the whole value chain.

A key lesson learned is that the establishment of business models that link smallholder farmers to private-sector investors is not without challenges and difficulties. As IFAD has gained experience in supporting PPPs, various issues and lessons have come to the fore. In general, developing a relationship of trust in interacting on behalf of farmers with the private sector, and keeping the benefits of both parties in mind, is crucial to maintaining the goodwill of the private sector. The timing and bureaucratic processes of development initiatives are not always compatible with private-sector requirements and working rhythms. Delays and the poor coordination of project delivery can affect supply levels to processors and traders and thereby threaten the sustainability of the partnership.

Other issues and key lessons arising from our PPP experience:

- For private investors, the provision of public infrastructure – such as roads, storage facilities and basic public services – is often the incentive needed to invest in rural areas.
- Price negotiations and the search for a balance satisfactory to both smallholder farmers and private partners is often a challenge.
- It is important that roles, responsibilities, reporting structures and ownership titles for every aspect of the partnership are clearly defined from the outset in order to understand and work with the motivations of the private-sector partner and to avoid fostering unreasonable expectations in both parties.
- IFAD need to engage with private-sector partners that can provide knowledge and experience relevant to the value chain targeted and specific to the locality and that can offer guaranteed and sustainable market access, as well as commitment to a long-term relationship with smallholder farmers.
- Beyond the commercial success of the venture, it is important to ensure that the interests of smallholder farmers are kept to the fore, that cooperatives and farmers are not exploited, that they can rely on adequate support services and that the partnership remains truly equitable. In order to achieve this, careful monitoring and evaluation is needed, as well as a clear understanding of the target group and expected benefits of the partnership. Ideally, the success of the PPP is measured by indicators that capture improvements – or lack thereof – in livelihoods.

Pursuit of partnerships between private investors and smallholder farmers has brought up the sensitive issues of land tenure security and the social sustainability of this kind of collaboration. IFAD’s approach has been to encourage and facilitate mutually beneficial partnerships between smallholder farmers and private investors, seeking where possible to promote partnerships that do not require a major transfer of land rights to investors. Rights to land need to be recognized, including legitimate occupation and formal legal rights. In engagement with the private sector, IFAD seek to demonstrate how land issues influence the setting up of these business models and how they can be addressed in favour of smallholder farmers.

The way forward and future prospects More than ever, IFAD views it is as important to work with the private sector to achieve sustainable development solutions that can be easily scaled up. It is IFAD’s intention to continue to play a role of “honest broker” in building mutual trust between the private sector and small-scale rural producers. IFAD's aim is to establish PPPs that are equitable, fair and transparent, and that create win-win situations for both the companies and the smallholder farmers or rural poor people. IFAD is well equipped to play this role because of its well-established and recognized mandate, its credibility with governments and its strong and close relationships with the rural poor and their organizations at country level.
While IFAD have gained some experience in partnering with the private sector, IFAD assesses that it still has more to learn in terms of:

- matching the needs of private companies with those of smallholder farmers and poor rural producers – especially women and more marginalized groups;
- appropriate incentives for private companies to build long-term partnerships with IFAD’s target groups;
- engaging in policy dialogue with governments to provide a more enabling environment for private-sector development and business-oriented solutions for rural poverty reduction; and
- improving IFAD systems to better monitor, evaluate and measure the results and impact of our interventions in this area.

The selection of the private companies with which to work is also important. IFAD will continue to fine-tune the selection criteria and due diligence mechanisms with which we screen the companies we engage with, ensuring that the vision and long-term commitments of the private-sector partners are aligned with those of IFAD. IFAD believe that this will allow allocation of its public funds in a more transparent, effective and efficient manner.

3. Agricultural growth and poverty reduction in Africa (AgDevCo, 2010)

AgDevCo’s approach in Africa are founded on the foundations that:

- Many parts of Africa have major agricultural potential; however, this potential remains largely unrealised. The major reason that there has been so little private investment in greenfield agriculture is the lack of sufficient profitable investment opportunities. Unit costs in the early stage of development are high and therefore margins and returns on the capital employed are low. However, none of the cost disadvantages that result in low profitability need be permanent. The cause of low profitability and high risk is the greenfield state of development. The agricultural platform available to international competitors – infrastructure, strong input and output supply chains, information and extension services and agricultural credit facilities – simply does not exist in most of Africa. The solution is to overcome the barriers to entry and kick-start development so that the benefits of economies of scale and scope and ‘learning by doing’ can be realised, resulting in a sustainable, prosperous sector over time.
- Patient capital is the most effective means of kick-starting sustainable commercial agriculture in Africa and delivering major benefits for smallholder farmers. It helps overcome the barriers to entry into commercial agriculture. It provides one-off support leaving a sustainable agribusiness sector that requires no further patient capital. It ‘levers-in’ large amounts of private capital into commercial farming and into infrastructure service provision. It is by far the most cost-effective way of providing major benefits for smallholder farmers and the rural communities in which they live.
- It is well known that growth originating in agriculture has a much greater impact on poverty reduction than growth in any other sector. The power of agriculture to reduce poverty comes not only from its direct poverty-reduction effect but also from its strong growth linkage effects on the rest of the economy. So the missed opportunity to develop commercial agriculture in Africa has also been a missed opportunity to reduce poverty. Instead over the last 25 years poverty has increased in much of Africa – the only continent where this has been the case.

Three questions are posed:

1. First, why, despite the evident potential, has there been so little commercial investment in agriculture in Africa? It shows that there are high barriers to entry that deter commercial investment and keep poor people poor.
2. Second, how can the barriers to entry be overcome and a much higher level of investment in commercial agriculture be induced? It argues the case for patient capital from the international community as a highly effective means of ‘levering-in’ large amounts of private capital into the sector, thereby kick-starting sustainable agricultural investment.
3. Third, how can patient capital be deployed to ensure not only that investment in commercial agriculture is stimulated, but also that smallholder farmers are major beneficiaries and that the potential poverty reduction impact is realised in practice? It argues that commitments of patient capital can be used to ensure that growth of commercial agriculture directly benefits smallholder farmers, and is pro-poor.


An appraisal has been conducted of PPPs, drawing from 70 cases in 15 countries across three regions, including Sub-Saharan Africa. The appraisal focused on cases involving an agribusiness enterprise where there had been a formal collaborative relationship with more than 2 years of operation and/or US$100,000 invested. The appraisal focused on increasing investment, profitability or reducing risk, positive societal impacts and the role in governance and implementation for all partners. PPPs involving only transfers, concessions or guarantees were excluded with selection of cases showing a preference for non-donor PPPs.

The adopted definition of an Agri-PPP was “Formalized partnerships between public institutions and private partners designed to address sustainable agricultural development objectives:

- where the public benefits anticipated from the partnership are clearly defined,
- investment contributions and risk are shared,
- active roles exist for all partners at various stages throughout the PPP project lifecycle”
A preliminary Agri-PPP typology emerged of:

- Value chain development 57% (meso & micro)
- Innovation & technology transfer 23%
- Business development/advisory services 11%
- Market infrastructure & logistics 9%

Four types of PPP Financing Structure identified were:

- National PPP Programme
- Co-equity investment
- Grant/concession for the private sector
- Development projects

Partners on the Public side were identified as:

- Central and decentralized government
- State banks and rural finance corporations
- State-owned enterprises
- Research institutions, universities, marketing boards
- Donors

Partners on the Private side were identified as:

- Global and domestic food companies
- Input supply and agro-processing companies
- Financial institutions
- SMEs and producer associations*
- Civil society (NGOs)
- 3rd party contractors

The key roles on the public side were identified to:

- Define ‘public good’
- Design program objectives
- Conduct/commission feasibility studies
- Screen potential partners
- Monitor and evaluate implementation
- Create enabling environment
- Provide finance and technical assistance

Key roles on the private side were identified to:

- Comply with programme design
- Lead implementation
- Secure markets and financing
- Introduce technology innovations
- Provide technical assistance
- Deliver results

NGO/Intermediaries can perform roles to:

- Ensure inclusion
- Organize producers and provide technical support
- Producers perform dual roles as beneficiaries and/or private partners

Management tools in Agri-PPP agreements were identified as:

- Contracts & MoUs
- Fixed design, well-defined Formal PPP agreements procedures & criteria
- Demanding bidding and vetting process
- Feasibility analysis
- Business plans
- M&E systems
- Contract farming

Although not recent, in 2008 FAO issued a checklist for PPPs for infrastructure for market-oriented agriculture. The foundation of the checklist is five building blocks of PPPs, namely:

- strategic planning (Which strategic infrastructure choices would most enhance agricultural development in relation to the intended development outcomes (productivity, diversity, employment, etc.) and specified markets (local, urban, export)?)
- commercial viability and value for money
- division of risk
- contractual arrangements, and institutional support mechanisms

The checklist provides an overview of issues relating to the four infrastructure areas of ‘farm-to-market’ roads, water for irrigation, wholesale markets and trading centres, agro-processing facilities and ICT.

Key among the private sector factors are which of the strategic choices might be attractive to the private sector because they offer satisfaction of a variety of conditions around commercial potential, scale, finance and risk.

Public sector roles (by domestic Government, donor or agency) that are needed (and are sufficient) for participation by the private sector are around procurement, subsidy competition, project development, contracts, incentives, demand management, inter-agency coordination, subsidies, financing, risk management, regulatory reform, international arbitration and engineering capabilities. Public sector finance roles (by Government or donor) relate to:

1. share of equity (type of shareholding);
2. concessional loans – low interest rates, risk adjustments on spreads accurately assessed
3. longer-term maturing debt
4. sufficient grace period
5. quasi-equity, e.g. subordinated debt, other mezzanine debt
6. credit risk guarantees, e.g. for domestic commercial banks, or arrangement of third-party guarantees
7. sovereign guarantees, whereby government (or donors) stand behind defaults on purchase agreements or other principal revenue flows, e.g. user fees
8. export credit guarantees for foreign companies
9. managed exchange rate risks, e.g. through hedging
10. a short-term debt facility to cover shortfalls in cash flow.
5. Global Agriculture and Food Security Program (GAFSP/IFC) ‘Private Sector Window’

a) Summary

The Global Agriculture and Food Security Program (GAFSP) is a multilateral mechanism to assist in the implementation of pledges made by the G20. GAFSP established a private sector window to provide long- and short-term loans, credit guarantees, equity and advisory services to support private sector activities for improving agricultural development and food security. The Program has focused on increasing commercial potential of smallholder agriculture in poor countries, funded by Canada, Japan, Netherlands, UK, and US. The private sector window is managed by the International Finance Corporation (IFC) with the annual investment plans submitted to and endorsed by the steering committee of the GAFSP public sector window.

Every $1 of GAFSP Private Sector Window investment leverages $8 in additional financing.

- 667,000 farmers reached
- $72.7 million invested
- 16 investments in 12 countries
- 21 advisory projects in 17 countries

b) Objectives

- Innovative financing aimed at increasing the commercial potential of small and medium-sized agribusiness companies and farmers by bringing them into the local, national and global value chains
- Increase productivity, improve market access, support innovation and development of new ideas in financing and technology, reduce information asymmetries between small and large users of capital and financial institutions, and reduce risks associated with financing small holders/companies in the agribusiness sector
- Foster research, development and innovations through entities operating in the ‘last mile’ and projects that can demonstrate higher productivity, lower use of water resources and inputs such as fertilizers

IFC delivers on the program objectives via a combination of investment and advisory services. As of May 31st, 2014, IFC had GAFSP donor contributions of $285.2 million for investments and $23.5 million for advisory services.

c) Approach to Financing under GAFSP

IFC’s Investment Services make investments that allow for riskier financings in small and medium-size companies along the agribusiness supply chain in frontier regions or countries that would otherwise not attract investment capital.

This approach is enabled through the availability of investment funding under concessional terms.

Funding at concessional terms, is used on eligible projects along with IFC’s own funding as well as other private sector funding to provide the necessary “blended finance” solutions.

Deploying and blending concessional funds alongside effect is significant, or where cost barriers are prohibitive, but expected to decline over time.

IFC follows its established approach around the use of blended finance including the principle of minimum concessionality and a time-bound approach in the support of projects that lead to long-term sustainability.

d) Structuring of Concessional Funds: Concessional funds can be structured through:

- Risk sharing products on below-market terms
- Provision of debt financing with differences in rate, tenor, security or rank
- Equity investments with ex-ante expectations of below-market returns

IFC has assessed Innovative Agricultural SME Finance Models, recognising the fundamental point that approaches (“models”) have different saliences in different countries and for different commodities, drawing extensively from case studies: “A banker in Malawi faces fundamentally different challenges from a banker in Mexico, and therefore different models might be more useful for her. At the same time, a banker in Ghana has quite different challenges in financing cocoa rather than maize,” with the innovative models helping bankers to finance agriculture by: (i) replacing traditional collateral with new types of security (“financing” models); (ii) mitigating risks more effectively (“risk mitigation” models); or (iii) lowering transaction costs (“distribution” models).

The approach is founded on segmentation of the smallholder farmer sector, and three country categories, Environment I, II and III. For example, in Environment I: (characterised by weak business environment and low agricultural productivity): most finance activities are donor driven, unless there is a tight Value-Chain. Proposed Finance Models for SMEs are attuned to the three Environment cases.

6. Public-Private Infrastructure Advisory Facility (PPIAF)

The Public-Private Infrastructure Advisory Facility has been supported by a multi-donor Trust Fund and up to 14 development partners since 1999, deploying small TA grants to explore PPI and sub-national borrowing. Its lesson learning has been based, in part, on a database of other 4,000 PPI projects across 141 countries, in the water and sanitation, energy, transport and communication sectors, including management and lease contracts, concessions, greenfield projects and divestitures. Up to 2007, the majority of PPI investment in Sub-Saharan Africa has been in the telecoms sector.

PPIAF has generated a number of experiential, evidence syntheses on PPI, including (but not limited to):

- PPI in developing countries
- Different types of PPI
- Sources of funding for infrastructure projects with private participation
- PPIAF Toolkit for PPI in Roads and Highways
- PPP in Agricultural Storage
- PPP in Rural Electrification
- PPPs in Health and Education

World Bank also issued a 2007 Discussion Paper on ‘Emerging PPPs in Irrigation Development and Management’
7. European Bank for Reconstruction and Development (EBRD) - ‘Private Sector for Food Security Initiative’

Although targeting the EBRD investment region, the messages on the means that EBRD has needed to deploy in order to engage the private sector for food security are pertinent, namely

a) Worldwide Food security: Ensuring worldwide food security is becoming more and more challenging. Following the dramatic price rises and volatility witnessed in food markets in 2007-08 and the unprecedented peak reached in 2010-11, high and volatile prices can no longer be viewed as a temporary phenomenon. Demand for animal protein and biofuel is rising, global food stocks are at alarmingly low levels, resources used for food production, particularly water, are under pressure and climate change has induced more uncertainty on food availability. Global food trade remains constrained by inefficiencies along the logistics chain and unpredictable government intervention – leading in turn to substantial food losses from producers to consumers. To feed the world under these difficult circumstances, global agricultural production needs to increase by 70 per cent over the next 40 years.

b) Promoting private sector investments: The EBRD Initiative aims to promote private sector investment in the food production sector. EBRD has done so by enabling the implementation of technical assistance, policy dialogue and provision of new financing. EBRD also helps to set incentives and create the right environment to encourage the necessary private sector support.

c) Engaging in focused policy dialogue: The Bank has leveraged its investor position to facilitate a predictable investment environment through its interaction with local authorities. It has developed a long-term cooperation agreement with the Food and Agriculture Organization (FAO), sharing research and establishing a network for agribusiness stakeholders under the EastAgri umbrella. It also co-leads the international coordination through the multilateral development banks (MDBs) working group (WG) on food and water security and has spoken on behalf of the private sector in its contribution to the food security discussions led by the G-20 in 2011. Crucially, by focusing on alternative approaches with the private sector at the centre, the Initiative is complementary to existing food security activities led by other MDBs.

d) Scaling up and applying untapped approaches to food security: The response to the global food crises until now has mainly supported the demand for food in poorer countries and focused on public sector stakeholders. The EBRD Initiative focuses on the supply and production of food and on private sector involvement. In order to match the rising demand for food it is essential to boost global food productivity. The biggest mileage is to be gained by improving productivity and trade among the big food exporters as well as decreasing losses for food importers and better targeting the vulnerable.

e) Fostering public-private dialogue to unlock investment bottlenecks: The EBRD can effectively promote public-private sector discussions in its countries of operations in order to achieve predictable policies and investments in food security. The EBRD’s expertise in investing along the whole food value chain, especially improved agricultural trade logistics and better financial and risk management instruments, is particularly relevant in the food security context. These areas are crucial to smoothing the flow of products and to reducing food price volatility.

f) Food production is closely tied to both water and energy usage. Building on the success of its energy efficiency programme, the EBRD focuses on activities that aim for more efficient utilisation of water, so as to produce “more food per drop” of water and fertiliser.

In response, six key elements of the EBRD Private Sector for Food Security Initiative are:

1. Direct financing and technical cooperation (TC) for risk management, insurance, hedging, analytics and policy dialogue, introducing pre- and post-harvest financing mechanisms (such as crop receipts and warehouse receipts systems) and improved trade logistics for importers and exporters. TC programmes focus on improving efficiency, the transfer of know-how, quality control, financial reporting and corporate governance standards, as well as developing linkages at every stage of the food chain.

2. Private-public sector platforms with a focus on improving the supply response by the private sector, in coordination with other international financial institutions (IFIs). This programme will entail strengthened public-private policy dialogue in countries such as Ukraine and other current and new countries of operations, with particular emphasis on food security in the grain and dairy sectors.

3. Global supply-to-demand food chain: match food export and food import countries more effectively. The programme will match the huge potential for food exports from the existing EBRD countries of operations with the extensive import needs of the southern and eastern Mediterranean (SEMED) region, which is the biggest importer of cereals in the world. It will also enable an exchange of lessons learned between the current EBRD countries of operations and the SEMED region on how to build an effective private-sector financed and specialised storage and transportation system.

4. Resource efficiency: introduce support to increase water efficiency in food production through water audits. Building on the success of energy efficiency audits for private sector enterprises along the whole food value chain, the Initiative will support the introduction of water audits as well as policy dialogue to promote efficient water use in food production. This has been advanced through the MDB Working Group on Food and Water Security co-chaired by the EBRD and the Asian Development Bank. (The joint action plan has four key components: Financing investments and promoting policies to improve agricultural productivity; Supporting food access for poor and vulnerable people faced with increased food price volatility through improved sustainable social protection measures; Addressing food market volatility to help poor countries cope with abnormally large international food price spikes through trade facilitation measures and assistance in the improvement of value chains; Helping the private and the public sector to use water productively throughout the value chain).

5. Improved IFI coordination through the Multilateral Development Banks Working Group on Food and Water Security, drawing on the collective strength of the MDB WG in joint projects for strengthening social safety nets, addressing food market volatility, promoting agriculture and food security investment and improving access to water.

6. Scale up the successful EBRD-United Nations Food and Agriculture Organization (FAO) framework collaboration on food security, including the expansion of the EastAgri network of IFIs and private banks investing in agriculture/agribusiness to SEMED region, MedAgri.
Towards a mixed Financing Framework for F4F

F4F is set to advance public and public-private finance in tandem, and in the absence of mature models of how to mix and complement the two strands, will need to evolve its own Financing Framework. Different Public and Public-Private finance - under UNCDF’s LDF and LFI Programmes - will need to come together under F4F if UNCDF is to achieve its overarching purposes of unblocking Public Expenditure and mobilise local private capital. This Note proposes 4 Building Blocks towards a mixed Financing Framework.

This Note proposes that a key to unlocking that F4F’s contribution may lie with a mixed Financing Framework that connects the array of (public and private) goods and services that will enable and underpin progress on FSN with the principal disbursement channels of Public and Private institutions.

This Framework would need to worked through, collaboratively with national partners, in any given country for each of the eight pathways to FSN. The principal starting point to give focus would be the main opportunities for Impact in Food Security within the territorial area, then working backwards through the goods and services, the (public and private) disbursement channels, and how LDF and LFI would support such an investment structure. The Financing Framework would also be underpinned by the principle of virtuous financing cycles.

Accordingly, there are four Building Blocks to the (provisional) mixed Financing Framework, namely

a) A Virtuous Financing Cycle
b) Financing of FSN pathways that leads to returns on investment
c) Towards disbursement channels for Goods and Services
d) Six possible Investment Windows

This Building Block establishes that there are three essential flows at the core of the virtuous financing cycle under F4F.

1. That Public Finance invested into the pathways for food security should yield returns to public institutions. Any ‘leakage’ from this cycle - investments not yielding return to local Government - must be in line with Government subsidy and safety net policies.
2. That the state and farmers themselves will contribute through non-financing means, yielding returns to farmer and agribusiness livelihoods. Of course, farmers will invest their own capital and assets into their farming enterprise. There will be ‘leakage’ to FSN beyond the particular target territory (eg food availability) as trade off for food accessibility.
3. Private finance must see returns to equity and to borrowing

The underpinning logic of this Building Block is that F4F will see Local Government and Private Institutional actors (probably SPVs) disbursing finance into the Goods and Services that will enable each of the eight pathways for FSN. F4F needs to determine

a) the Goods and Services underpinning each pathway
b) the mix of disbursement channels for Goods and Service

Again, the Goods and Services will be different for each FSN Pathway, so the mix and proportionality of disbursement channels for those Goods and Services will vary. The disbursement channels and the Goods and Services to a farmer can be expected to be very different if a farmer is engaged in agricultural water management for safety net impact or in irrigation for value chain exports.

b) Building Block 2 Financing of FSN pathways that lead to returns on investment.

Either side of F4F’s pathways for Food and Nutrition Security are, on one side different Finance channels and on the other side, different returns on investments. Each of F4F’s different pathways will attract a different mix of Finance Channels, and will yield a different set of returns on investments. This Building Block needs to be ‘populated’ for each of the seven pathways under particular country and territorial situations.

The six principal Finance Channels are:

- Off-budge Public Finance
- Deconcentrated Public Finance
- Delegated Public Finance
- Decentralised Public Finance
- Local Public-Private Finance
- International Private Finance

The principal returns on investment are

- an acceptance that there will be no direct financial recovery, being justified by safety net and social protection policies and safeguards
- Recovery to public finance, both locally and to central Government taxation
- to the operating costs of businesses/households, of a recurrent nature to keep an enterprise running
- Consumed food, qualified by nutritional value
- Household food purchases
- Household purchases of non-food goods that lift households out of poverty, including payment into basis services, including education, health, drinking water and sanitation and electricity
- Recovery to private finance, including debt servicing, loan capital repayment, shareholder dividends/profits

What F4F needs to focus on, within its target territory, is the conversion of Public Finance and Local Private Finance to the suite of returns. That conversion will differ (which returns, and the proportionality) across F4F’s different FSB pathways. At the root of that conversion will be the Goods and Services among each of UNCDF’s eight pathways to FSN.

c) Building Block 3: Towards disbursement channels for Goods and Services

The six principal Finance Channels are:

- Off-budge Public Finance
- Deconcentrated Public Finance
- Delegated Public Finance
- Decentralised Public Finance
- Local Public-Private Finance
- International Private Finance

Decentralised Public Finance and Local Public-Private Finance represent UNCDF’s ‘immediate’ space for F4F. But, of course, UNCDF can only offer effective support to Government in the context of other similar (or competing) finance within the same locality targeting the same FSN impact.

The principal returns on investment are

- an acceptance that there will be no direct financial recovery, being justified by safety net and social protection policies and safeguards
- Recovery to public finance, both locally and to central Government taxation
- to the operating costs of businesses/households, of a recurrent nature to keep an enterprise running
- Consumed food, qualified by nutritional value
- Household food purchases
- Household purchases of non-food goods that lift households out of poverty, including payment into basis services, including education, health, drinking water and sanitation and electricity
- Recovery to private finance, including debt servicing, loan capital repayment, shareholder dividends/profits

What F4F needs to focus on, within its target territory, is the conversion of Public Finance and Local Private Finance to the suite of returns. That conversion will differ (which returns, and the proportionality) across F4F’s different FSB pathways. At the root of that conversion will be the Goods and Services among each of UNCDF’s eight pathways to FSN.
Local Government (through institutions depending on the distinctive architecture relating to FSN in any particular territory) will, in general terms, disburse through channels of

- recurrent salaries
- recurrent goods and services, and
- capital Expenditure

Depending on PPP arrangements that may be in place, Local Government may disburse into PPP services and PPP goods. Local Government may also disburse into schemes that offer investment incentives to private sector. Private actors will, in general terms, disburse through channels of

- PPP services and PPP goods
- Enterprise Capital (which may be de-risked) and
- Enterprise Operating costs, including salaries

The roots of the disbursement channels lie to the left-hand side of the Building Block, with on the side of Public/Government Finance

- the origins of finance being dependent on Government income (from national revenues, direct budget support, loans from International Finance Institutions, or debt)
- expenditure being determined by budget approval and finance streams to sectors and/or to territories
- intergovernmental transfers, which in the case of F4F are to be enabled by the LDFP approach, backed by allocation formulae, an LDF fund (with minimum- and performance based conditions) and other top-up grants
- Sub-national borrowing by Local Government, which may be from Government, from the private sector, from IFIs, through sub-sovereign loans or municipal credit (e.g. debt, or bonds) on the Private side, local capital, from local Banks, Pension Funds and/or remittances, through LFI under F4F.

**d) Building Block 4: Six possible ‘Investment Windows’**

It is proposed that, emerging from the preceding building blocks, there are provisionally six Windows, namely:

- **Window 1:** Public sector Goods and Services (supported under LDFP)
- **Window 2:** PPPs and SMEs on basic service delivery that support food security (extension, advisory services etc) (enabled under LDFP)
- **Window 3:** PPPs and SMEs on basic small infrastructure that support food security (roads, energy, health, drinking water, transport) (enabled under LDFP and possibly through structured finance under LFI)*
- **Window 4:** PPPs and SMEs on agricultural production for local and local urban markets (e.g. inputs, supply chains, management of public assets) (enabled under LDFP and possibly through structured finance under LFI)*
- **Window 5:** Private sector value chains and agribusiness - local/national markets (mostly through structured project finance under LFI)
- **Window 6:** Private sector value chains and agribusiness - export markets (mostly structured project finance under LFI)

If F4F is to truly advance Public and Public-Private Finance in tandem then the challenge for F4F is (through these Windows) to connect the finance channels from the Finance Framework with the investments into the 8 pathways to Food and Nutrition Security.

This Note proposes a (provisional) F4F Approach to be adopted in its engagement at country-level. The Approach responds to lessons (some strategic and some operational) and builds in flexibility to allow for F4F’s distinctive characteristic, namely its mixes (of FSN pathways, of social and economic impacts, of both LDF and LFI Programmes and of Public and Public-Private finance). That in-built flexibility is essential if the F4F Approach is to maintain relevance in light of the wide variety of local and territorial circumstances that F4F can be anticipated to encounter.

The Approach is founded on two Stages. Stage 1 targets the critical Strategic Pre-Investment actions. It embraces progressive actions at global, country and territorial level, leading to a Territorial FSN Strategy and Investment Plan, and a Public Call for Proposals within F4F Investment Windows. Level 2 within the approach embraces the already established steps for operational implementation of both LDFP and LFI which will respond to the FSN Strategy and Investment Plan and Proposals received through the Public Call.

**STAGE 1: STRATEGIC PRE-INVESTMENT**

1. **A Global Level (Aim: to select pilot countries for F4F, based on demand and conjunction of both LDF and LFI Programmes)**
2. **B Country-Level (Aim: Agreement in Principle to proceed with F4F implementation)**
3. **C Territory-Level (Aim: enabling environment for F4F to be effective within targeted territory, and to set prior conditions for Call to local Proposers via public media)**

**1.A Global Level (within UNCDF)**

Three key strands are seen as key at the Global level (within UNCDF)

- **Aim: to identify pilot countries for F4F), based on internal decisions to pursue LDFP and LFI in conjunction at country level (as per BRU workshop). For example, country cases where ongoing engagement under LDF enables introduction of a complementary LFI, such that improvements through the LFD Programme have supported the public infrastructure, goods and service that would enable new economic activity, including through private investment**
• Aim: Financial sustainability of F4F, by at the international level, building the case of F4F’s distinctive niche among Financing of Food, in line with messages under Note 3, for example, by means that enable UNCDF to attract inward development partner support that capitalises its own resources for onward investment as seed capital at country-level, and for building a strong internal executive environment within the F4F programme.

• Maintaining its own knowledge platform, informed by experiences - international and from within UNCDF (for example, building on material within Notes 4-7, and much other relevant source material) that present UNCDF as a centre of excellence within its own domain, and as an organisation that actively engages in learning, and the evidence that UNCDF demonstrably responds to its lessons learned. The knowledge platform would include the suite of tools that UNCDF may subsequently deploy at country- or territorial level.

1. B Country-level

The initial aim at country-level would be to secure an ‘Agreement in Principle’ that would enable UNCDF to proceed towards F4F implementation. By doing so, this would begin to create the enabling environment that F4F would to be effective within its targeted territory. Initial steps would be for UNCDF’s country team to:

• Promote F4F among key national players, for example drawing on Notes 1-3 to promote the opportunity of the distinctive niche offered by F4F
• Inform key actors across the public sector of the opportunity and benefits of launching an F4F program
• Identify and diagnose a territory that may be the target of a future F4F programme
• Stress relationships with an ongoing LDF programme, and emphasise evolution and continuity
• Identify potential anchor institutions that accord with the decentralised modality of UNCDF
• If possible, secure a Country-level ‘agreement in principle’ from among some key actors that would then enable the UNCDF Country Team to begin to scope F4F, albeit without any commitment to proceed being made
• Sound out any potential financing partners active within the food security programme who may be co-financers of F4F at country level
• Make aware other financers of F4F opportunities, especially if active within the same territory

1.C Territory-Level

The Aims at Territory Level would be to trigger preparation of Territorial FSN Strategy and Investment Plans that would set the prior conditions for Call to local Proposers via public media:

• apply UNCDF’s diagnostic tools such as MAP, LoOKING, PETS etc.
• Prepare Territorial FSN Strategy (based on FSN pathways, and on Pathway synoptics)
• Prepare Territorial FSN Investment Plan (based on Mixed Financing Framework) within each of six F4F Financing Windows, determining the locally appropriate balance/mix between public and public private finance, emphasising local capital.
• Local Administration issues call (via public media) for delivery of FSN Impact through portfolio of (mutually supportive) Finance Windows, guided by boundary condition and eligibility criteria for applicants that emerge from the FSN Strategy and Investment Plan.

STAGE 2: LDFP OPERATIONAL IMPLEMENTATION

• Institutional roles and responsibilities for effective delivery, backed by finance needs assessment and performance accountability
• Securing of public finance partner to complement UNCDF seed capital, complementary to existing state/basket finance channels, and ideally mobilising local capital sources
• Refined fiscal decentralisation channels to enable financial disbursement in line with delivery, in tandem with capacity needs
• Implementation of public services and public small infrastructure, of PPPs and of functions that enable private sector

STAGE 2: LFIP OPERATIONAL IMPLEMENTATION

• Opportunity Assessment - Potentially Investible Projects Aim: Identification of projects with potential, based on screening of responses to the Call, using selection criteria appropriate for each F4F Finance Window. Conduct of initial due diligence to confirm the opportunity of potentially investible projects.
• Project Development (Aim: Pipeline of Investible Projects) Assessment of ‘potentially investible projects’ by:
  - Financial models/financial structuring … eg debt/equity balance
  - (Financial) Performance criteria
  - Investment package, and interface with investment agencies (commercial banks)
  - FSN Impact Performance (within Territorial FSN Strategy)
  - Advanced due diligence (safeguards)
• Process flow/methodology - uniform approach for dealing with Project Pipeline, based on LFIP’s Tier 1, Tier 2 and Tier 3 hierarchy Special Purpose Vehicle (SPV) constructs
• Investment/Implementation of Investible Pipeline, backed by M&E contextualised by the Territorial FSN Strategy.
Some Issues pertinent to Pre-Investment stage at Territorial level

This Note raises some issues pertinent to the Pre-Investment stage at Territorial level, namely the importance of triggering a process to stimulate an investible pipeline for both public and public-private finance, leads to a Call for Proposals that is open, and as pre-cursor to that Call is underpinned by a Territorial Food Security Strategy and Investment Plan, which take account of (inter alia) issues raised under this note.

A. Importance of triggering a process at Territorial level to create an investible pipeline for both public and public-private finance

- UNCDF’s Finance for Food Programme (F4F) is set establish itself in Sub-Saharan Africa
- A key step within the F4F programme will be to trigger a process that will create an investible pipeline for both public and public-private finance. UNCDF intends to invest initial seed capital in support of country efforts under F4F, being capital of public origin from its status within the United Nations.
- Currently, with F4F as a new programme, there is no guidance on the issues for consideration at the Pre-Investment stage at Territorial level.
- Having reached this stage within the F4F approach, it is assumed that progress has already been made at Global level within F4F, and that an agreement in-principle has been reached at country-level. That country-level engagement will already have identified a Territory based on some economic potential for public-private finance to lever local capital, alongside ongoing LDFP programming support to decentralised Local Administrations.

B. An open Call for Proposals

There is an over-riding import for a Call for Proposals to be open so that the process
- provides equity of opportunity for bidders
- with UNCDF’s limited seed capital available, shifts burden of responsibility on developers/proposers

Options on leadership of the Call may vary depending on where reform of public services has been weak, has been significant but are currently ‘static’ (meaning enabling conditions are unlikely to change substantially), or where public infrastructure is bring upgraded with public finance, for example under an ongoing LDF. Options may include, leadership (or anchoring)

- by UNCDF
- led by Local Administration or by Local Commerical Bank ... in accord with a loose protocol to agreed in advance with UNCDF
- by Line Ministry - again in accord with UNCDF protocol for F4F especially in conjunction with renewable energy programme, or expansion of publically-owned or transferred irrigation schemes (if UNCDF were to ‘ally’ with deconcentrated local development)
- in association with off-budget area-based interventions (eg IFAD, AfDB, IsDB etc) ... through PMU/PCUs (if UNCDF were to ‘ally’ with delegated local development)

C. Pre-cursor to the Call for Proposals - a Territorial FSN Strategy

A pre-cursor Territorial FSN Strategy would set out the landscape of tackling FSN within the target territory, in order to bear influence upon the scope within which a Call for Proposals would be made. Some issues for consideration within a Territorial FSN Strategy would be

- Geographical scope for Call - the rationale for F4F being implemented within a particular territory
- Targetting based on vulnerable communities or economic potential?
- Local food security impact ... intended pathways, and number of beneficiaries
- Beneficiaries ... focus on both direct and indirect under different pathways. Need to avoid seed capital to profit-internalising elite, especially a small number. Impact intended to be catalytic, so indirect beneficiaries (in FSN terms) are as important
- Emphasis on ‘Local’ ... supply chains etc, but do markets within value chains really have to be local? Retain as much ‘locality benefit’ as possible, but ‘external’ (ie non-local) demand may be critical to unlocking economic outcomes
- Returns to local administration (fees and taxes) triggered. Payment/collection process.
- Access rights - to land and water.
- Infrastructure, goods and services - contribution to different FSN pathways
- Association with national planning (eg National Visions and National PRSPs (Growth and Poverty Reduction Strategies), CAADP Compacts, National FSN strategies, local development plans (eg at District/community level), and association with M&E systems ... .
- Association with area programming ... what other investment activities are ongoing in the locality ... that could provide synergy or competition (natural resources, economic viability)
- F4F’s Operating Space, relative to other financiers and actors (eg above F4F’s threshold or microfinance)
- If being conducted with local reforms and/or new public infrastructure, projection of the future/ upgraded public infrastructure, goods and services within which private investment will be taking place
- Environmental goals - consider necessity to introduce, because several are surrounded by uncertainty (mainly due to policy/science divergences). Interventions set up to ‘attract’ explicit climate finance may not have same goals under FSN. Risk of dual purpose (economic and environmental) undermining FSN attainment for communities. Nonetheless, need to be cautious against overt degradation of environments by developers/proposers.

D. Pre-Cursor to Call for Proposals - A Territorial FSN Investment Plan

The purpose of the Investment Plan is to set out how public and public-private finance will be mixed to deliver the Territorial FSN Strategy. The purpose of the Investment Plan is to maximise synergy between private and public finance; minimise risk of private interventions being undercut and of them undercutting other public pipelines

- Note 8 has set out a provisional Mixed Financing Framework for F4F
- The mixed Financing Framework is intended to connect LDFP - decentralised public finance (LDF) through local administrations and LFI, leveraging private equity, through special purpose vehicles - in tandem with F4F’s impact upon Food and Nutrition Security.
## Future Candidate F4F Knowledge Management products

This Note proposes some potential candidates for future F4F KM products.

<table>
<thead>
<tr>
<th>Title (indicative)</th>
<th>Purpose</th>
<th>Relevant Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key issues in financing agriculture</td>
<td>Establish and maintain UNCDF and F4F’s profile and niche within the community of agricultural financiers. Opportunity to interest development partners as UNCDF financiers, in light of their own assessments of existing blockages and barriers.</td>
<td>1, 3</td>
</tr>
<tr>
<td>Public Finance pathways that support FSN</td>
<td>Four pathways: 1. Decentralised (LAs); 2. Deconcentrated (Line Ministries); 3. Delegated (Semi-autonomous agencies); 4. Off-budget (PMUs etc). UNCDF has mostly operated in decentralised space. But far from all FSN is driven in decentralised LA space. Need to better contextualise. UNCDF’s LFI interventions won’t interact with goods and services under decentralised pathways only. Others pathways also create enabling environment, but have different finance pathways (eg much deconcentrated is through IFIs eg WB, AfDB, IsDB etc - much off-budget is through eg IFAD, bilaterals, esp USAID). Purpose - to build F4F’s niche with country-level partners</td>
<td>4, 6</td>
</tr>
<tr>
<td>UNCDF’s operating space (in respect of FSN)</td>
<td>relative to others: ‘LFI is playing in the middle field above microfinance and below big investments that IFC and governments can do’. Can make more explicit the differences between F4F and other private finance mechanisms in agriculture eg AgDevCo, GAFSP Private Sector window - eg financing thresholds (small infrastructure), LDFCs, that F4F aims to mobilise domestic finance/local equity, rather than donor finance/foreign equity</td>
<td>6</td>
</tr>
<tr>
<td>Intro to F4F</td>
<td>Glossy brochure, to stimulate country-level interest in F4F</td>
<td>Overall Narrative</td>
</tr>
<tr>
<td>F4F intended impact</td>
<td>What would the impact of a successful F4F intervention look like? How can UNCDF assist a country to align F4F Impact with a country’s own stated High-level aspirations for agriculture and poverty-reducing economic growth</td>
<td>2</td>
</tr>
<tr>
<td>What is meant by an ‘Investible Pipeline’ under mixed finance</td>
<td>How are public and public-private finance mutually supportive, and avoid sapping, of an investible pipeline under F4F’s mixed finance. What are the real world case studies of public infrastructure, good and services having supported private investment. What case studies show the risks - eg of public channels undermining private opportunities</td>
<td>Can be built from 3(a)</td>
</tr>
<tr>
<td>LFI experiences</td>
<td>Achievements of LFI in Tanzania and Uganda</td>
<td></td>
</tr>
<tr>
<td>LDF experiences in the wider context of LED</td>
<td>What foundation of public goods and services have been created by past UNCDF interventions in F4F target countries. What positive outcomes are there in Local Economic Development (beyond Food Security), Food Security achievements beyond Sub-Saharan Africa.</td>
<td>5</td>
</tr>
<tr>
<td>Business line and Beneficiary models</td>
<td>Eg a) Households, b) Scheme based (eg irrigation scheme or RE mini-grid), c) Producer associations, d) Communes e) Districts f) Enterprises - how different beneficiary models access finance channels/instruments, and how they are linked to F4F’s 8 pathways</td>
<td></td>
</tr>
<tr>
<td>Small infrastructure FSN contributions</td>
<td>Case studies of how small infrastructure have impacted FSN - among the 8 pathways to FSN</td>
<td></td>
</tr>
<tr>
<td>Returns from infrastructure</td>
<td>How different types of infrastructure generate returns to LG (fees, taxes etc), at what level. Means for collection.</td>
<td></td>
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<tr>
<td>Support services to infrastructure</td>
<td>Necessary supporting public goods and services for different small infrastructure (ag access to land, water, agricultural extension, etc)</td>
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<tr>
<td>Budget sheets for interventions</td>
<td>Profitability analysis - unit costs, returns etc for different small infrastructures. Advice on how to conduct a financial analysis.</td>
<td></td>
</tr>
<tr>
<td>UNCDF tools</td>
<td>What are UNCDF’s existing tools and how can they be deployed in support of F4F</td>
<td></td>
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</table>
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