



ACCOUNTABILITY DEFICIT?

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

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To boost agricultural development in developing countries, donors are increasingly resorting to blended finance – the practice of combining public development funds with private resources. While blended finance may open opportunities to inject more resources into the food and agriculture sector, the assumption that blended finance is inherently beneficial for agricultural development, and that it is an efficient way to finance smallholder agriculture, are not supported by the evidence currently available. Until donors can demonstrate the merits of blending using evidence-based results, in particular the added value of blending for development impact, this approach should be used with caution in rural development. This is especially important given the obligations of donors to make progress on the reduction of social, economic and gender inequalities. The increasing focus on private finance should not obscure the vital role of public finance in promoting inclusive agricultural transformation that benefits small-scale farmers.

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For further information on the issues raised in this paper please email advocacy@oxfaminternational.org

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Cover photo: Oxfam's Climate Resilient Agriculture and Food System (CRAFS) programme in Ghana takes a holistic approach to support families to fight poverty on multiple levels, and includes targeted measures to empower women farmers. Photo: Nana Kofi Acquah/Oxfam, Ghana 2017

1 INTRODUCTION

Massive investment in agriculture is desperately needed to help fix the broken food system. In response, and as a partial solution to plugging the considerable gaps in financing needed to achieve the Sustainable Development Goals (SDGs), many donors have turned to private finance blending or the use of public funds (e.g. official development assistance (ODA), to de-risk or incentivize private investment. Private investment has the potential to make a positive impact in agriculture, in particular when smallholder producers are put at the heart of such strategies. Smallholder producers are private sector actors in the sense that virtually all of them are, to a greater or lesser extent, engaged in market operations. Collectively, they are also the biggest investors in agriculture in the developing world.

It is a positive sign that donors are at last stepping up to stimulate investment in agriculture as limited access to finance for smallholders is seen as a fundamental barrier to transforming agriculture. In this context, deploying private finance blending in agricultural development programmes may play an important role in unlocking finance that is otherwise unavailable to producers and agricultural businesses, strengthening local livelihoods and driving innovation in value chains. However, there are risks related to this type of financing, and therefore the right conditions and safeguards must be in place to ensure it benefits farmers and delivers development impact.

Donor presumption about the value of blending is likely to lead to an increase in the use of ODA and other public funds to mobilize private investment in agriculture. However, hard evidence on the effectiveness of private finance blending activities in agriculture, and the results these achieve, is still limited. In other words, the narrative at the policy level is more advanced than the research and evidence dictates. Donors are quick to assume that using ODA to incentivize or align with private sector partners ('private sector' here meaning external or corporate partners, as distinct from smallholder producers) will create a value addition of increased finance and impact in scale and reach beyond that offered by other potential development partners. Yet donor assumptions are not always borne out by the available evidence. Partnering with the private sector should be a preferred option only when it can demonstrably serve the public good and create additionality. Past experience of public–private partnerships (PPPs) in agriculture shows that they often have questionable outcomes.¹

Rural economies in developing countries are made up of many different segments of producers; smallholders are a heterogeneous group across countries and regions, and they are involved in many different types of market. Globally, more than 80% of smallholders operate in local and domestic food markets;² the majority act outside of formal 'modern' markets and cannot readily participate (or do not want to) in formal value chains. Efforts to bring small-scale producers into 'inclusive' trade relationships with private sector actors must therefore be accompanied by a recognition of the different layers of the rural world and the diverse needs and aspirations of small-scale producers.³

Nevertheless, acknowledging that private investment – if it is done right and with strong safeguards in place – may have the potential to contribute to inclusive agricultural transformation, Oxfam has carried out research to identify the policies and systems needed to ensure that private finance blending at the least does no harm and in practice plays a positive role for small-scale producers. The desk research undertaken for this study analyses the use of private finance blending by three major donors – the European Union (EU), the Netherlands and the United States – in programmes that target smallholder agriculture. It

involved analysing various information materials, reports, evaluations, statistics and other background documents and also conducting interviews with experts and civil servants from donor agencies, development finance institutions (DFIs) and other relevant organizations.⁴. This paper summarizes the outcomes of the research and, based on these outcomes, puts forward some critical recommendations.

The research used an analytical framework which has been developed by Oxfam to assess donor–private partnerships. In particular, the research considered the performance of blended finance programmes against development objectives; demonstrations of development and financial additionality created; aid and development effectiveness principles; international legal and voluntary standards and due diligence processes. The sections that follow summarize the phenomenon of private finance blending and its use and assess its effectiveness in agricultural programmes.

2 MEETING FINANCE NEEDS IN SMALL-SCALE AGRICULTURAL DEVELOPMENT

At current levels of investment (both public and private) in SDG-relevant sectors, developing countries face an annual funding gap of \$2.5 trillion. In agriculture and food security, the investment gap for 2015–30 is estimated to be \$260bn annually.⁵ Much more needs to be done to fill this gap, and there is a role for both private and public investment from partner country governments and donors. Many parts of the world are facing a situation of food crisis,⁶ the number of food-insecure people is growing,⁷ and rural poverty remains endemic. Yet history shows that investing in agriculture has consistently provided a crucial ‘growth spark’ in the take-off of successful developing economies.⁸ Targeting investment at smallholder agriculture, if done properly, will build resilience to tackle vulnerabilities, boost incomes to help rural people escape poverty and increase food availability in hunger hotspots. Agricultural investment that is sensitive to gender inequalities is especially important, since women comprise on average 43% of the agricultural labour force in developing countries and up to 50% in parts of East and Southeast Asia and sub-Saharan Africa.⁹ One potential benefit of blended finance is that donors should encourage (at a minimum) or require (at a maximum) private investments to include gender equality goals and to be gender-responsive. However, this would require donors to have strong policies on gender, as well as the capacity and will to monitor how private sector actors incorporate gender into their programming.

According to the OECD Development Assistance Committee (DAC), over the past 10 years no more than \$5bn in ODA has been spent in any one year on agriculture and fisheries – or to put it another way, just 5–7% of total global ODA each year.¹⁰ This contrasts with the 1980s, when both the absolute amounts and the share of ODA going to agriculture were larger.¹¹ Oxfam research into EU support for smallholder agriculture between 2007 and 2015 has found that less than one-quarter of aid for agriculture explicitly targets small-scale producers and that they were the principal objective in just 20% of agriculture-focused EU development projects, while only 2–3% of EU funding promotes gender equality in agriculture.¹² This is despite the facts that gender equality is a longstanding commitment of the EU and that smallholders are at the core of its policy framework on food security.¹³ Another analysis from five countries found that governments and donors are failing to provide women farmers with relevant and adequate support for farming and for adapting to climate change.¹⁴ Governments in many developing countries have also systematically under-invested in agriculture. For example, in 2013 governments in sub-Saharan Africa spent on average 5% of their national budgets on the agriculture sector (though with large variations between them): this was just half of the 10% share that governments had committed to spend at the African Union (AU) summit in Maputo in 2003, and which they re-committed to at the Malabo summit in 2014.¹⁵ The increased focus on private finance blending must therefore be seen in a context in which the full potential and benefits of public funding for agriculture and food security are a long way from being attained.

WHAT IS PRIVATE FINANCE BLENDING AND HOW IS IT USED?

In its broadest sense, blended finance can be defined as the use of public or philanthropic funds to attract additional investments from private sector actors to development projects.¹⁶ However, this paper is interested more specifically in the use of public resources – in particular ODA – to incentivize private investment in agriculture. In this sense, private finance blending can be defined as public subsidies used to incentivize private investment in partner countries. According to the OECD DAC, blended finance is ‘the strategic use of development finance for the mobilisation of additional finance towards the SDGs in developing countries’.¹⁷ Private finance blending is intended to attract additional financing and to create additional development impacts from private sector actors who would not have invested without the incentive of public subsidy.¹⁸ Generally, the terms on which public and private inputs are provided are different from one another, with concessional public inputs acting as a kind of subsidy to commercial private investment.

The essential feature and requirement of private finance blending is ‘additionality’. In the context of development, ‘additionality’ assumes that mobilizing private finance facilitates faster, larger or better development impacts than either the public or private sector would be able to achieve working alone.¹⁹ Donors need also to demonstrate financial additionality, which refers to when a public resource (e.g. ODA) is transferred to an entity that cannot ‘obtain finance from local or international private capital markets with similar terms or quantities without official support, or if it mobilises investment from the private sector that would not have been otherwise invested’.²⁰

Additionality is a contentious concept in terms of both financing and development impact, and measuring it is challenging. Without counterfactuals, it is difficult to demonstrate that without the public sector incentive, projects would not have happened at all, or to the same scale, or within the same timescale or with the same degree of impact. There is currently no agreed common methodology and no criteria to evaluate with a sufficient degree of certainty whether public inputs are unnecessarily subsidizing the private sector and, by doing so, displacing other actors who could have provided the finance needed. However, it is important that donors find a way to demonstrate additionality, as a strong evidence base is needed to better understand any comparative advantage that blended finance might have over other forms of development financing. Without demonstrating additionality, ODA incentives risk acting as a market-distorting subsidy, ‘crowding out’ local private and public investors and skewing local markets. This could be particularly detrimental to local micro-, small and medium-sized enterprises (MSMEs) if blended finance is used to subsidize larger companies, either local or international.

THE SCALE AND SCOPE OF PRIVATE FINANCE BLENDING IN AGRICULTURE

Currently, due to the poor quality and limited availability of data, it is unclear how much ODA is being used to support private finance blending, and where it is being used. Much of the data that does exist is not publicly available or is not easily comparable. Current figures suggest that private finance blending might account for as little as 1% of total ODA.²¹

Private investment leveraged by blended finance accounts for less than 1% of financial flows to developing countries – far less than is provided through other channels such as commercial debt, foreign direct investment (FDI), remittances and ODA. According to the

limited data available, the amount of private investment in agriculture, forestry and fishing leveraged through blended finance is currently modest, amounting to an estimated total of around \$1.5bn between 2012 and 2014. The USA accounted for almost half of this amount – \$700m of \$1,5bn.²²

Calculating exact amounts of aid and private investment leveraged is challenging due to the lack of comprehensive, usable data on partnerships between donors and the private sector. Inconsistent and ambiguous definitions of blending across the donor community are a further problem. In addition, the current DAC rules defining the ODA eligibility of 'private sector instruments' (PSIs) are broad and lack clear criteria and safeguards to ensure that market-like operations are not counted as ODA, which provides a great deal of latitude for donors to interpret what can be counted as ODA.

However, the amounts channelled to private finance blending are likely to keep rising. For example, in the European Union's next Multiannual Financial Framework (MFF) for 2021–27,²³ the European Commission proposes to significantly increase cooperation with the private sector in development aid, including blending. EU guarantees and blending facilities (not all of them private finance blending) account for €4.1bn under the current MFF (2014–20) and there are indications that this may increase to as much as €15bn in the next MFF. It is unclear how much of the budget will be allocated for private finance blending specifically.

In the Netherlands, €406m of ODA was budgeted for the PSI budget line in 2018.²⁴ According to the Minister for Foreign Trade and Development Cooperation, about half of these funds (€190m) have been allocated to the Dutch private sector – both small and medium enterprises (SMEs) and multinationals.²⁵ This support includes loans, export credits, mezzanine finance and subsidies. The Dutch PSI programme, which is presented as part of the development cooperation budget, rose from 4% of the total in 2010 to about 11% in 2017.²⁶ Although the exact figure is not known, a large part of these funds has been made available through the blending of ODA with private finance. The Dutch Good Growth Fund (DGGF) is a prominent example of such a blending facility.²⁷

Poor data on ODA spending on private finance blending makes it difficult to ascertain whether this involves an opportunity cost – and if so, how high – for other spending priorities in agriculture, education, health, human rights or good governance. If donors are not increasing their overall aid budgets at least at the rate that they are increasing ODA to mobilize blended finance, there is likely to be a net loss of ODA spending elsewhere. Moreover, the figures show that private finance is used more in middle-income countries (MICs) than in least developed countries (LDCs), which, if the trend continues, will divert further concessional public finance away from the poorest nations. Between 2012 and 2015, 77% of the funds mobilized were for projects in upper- and lower-middle-income countries.²⁸ Blended finance investments that combine ODA with private finance are typically structured using the PSIs outlined in Table 1.

Table 1: Private sector instruments combining ODA with private finance

Private sector instrument	How it uses ODA	Examples in the agriculture sector
<i>Investment grant</i>	A grant is used to reduce the overall cost of the project and total investment required from other actors. Investment grants increase the financial viability of the project and make external financing more likely. Investment grants usually pay for discrete goods linked to the project.	The FoodTrade Eastern and Southern Africa (ESA) programme, funded by the UK government, aims to catalyse innovative private sector investment to improve and develop regional markets for staple foods by providing grants funding of up to 49% of approved investments that companies make within the region. ²⁹
<i>Interest rate subsidies (blended loans)</i>	A grant is used to cover part of the interest payments: the project beneficiary thus receives a subsidized loan at a below-market interest rate. The interest rate subsidy is generally provided in relation to loans from third parties (e.g. a DFI).	The AgriFI-Kenya programme funded by the EU is an example of this type of instrument. Value chain actors are financed on the basis of approved business plans, whereby European Development Fund (EDF) grant support targets the provision of services and capacity building to enable smallholder investment in farms and to reduce financial risks by way of interest subsidies or collateralization through a blending facility. ³⁰
<i>Technical assistance</i>	A technical assistance grant is provided to a company to strengthen the design of its project and increase the chances of accessing finance. It can also be used after finance has been granted to improve the chances of success. It is often combined with other forms of finance.	Most of the case studies in this paper involve technical assistance to help de-risk investments; the private investment and technical assistance usually go hand in hand. This can, for example, involve grants for infrastructure, reconstruction or training, or helping to build the sustainability of a project and helping to de-risk investment.
<i>Loan guarantee</i>	A grant is used to cover the lender's losses in case of default so that it agrees to finance the project or to do so on better terms.	In 2007–14, USAID provided a 50% guarantee to a local financial institution in Ghana to de-risk lending to agricultural enterprises in the northern region, which has higher levels of poverty than the national average.
<i>Structured finance – first loss</i>	Donors offer finance with a lower priority for repayment than debt issued by other financiers. In the case of default, donors absorb the losses first. Mezzanine loans are a form of structured finance.	Agronomika is an agri-finance company that focuses on providing loans to smallholder cocoa farmers in the Philippines. Supported by Dutch development bank FMO, the blended farmer finance facility provides micro-loans to farmers for long-term investments in cocoa farms. ³¹
<i>Equity investment</i>	A grant is used as a direct capital contribution to a company or investment fund, usually to send a signal to other investors and attract additional capital.	CDC, the UK's development finance institution, has provided \$8m of equity financing while social investor AgDevCo (which is backed by the UK government) has provided \$3.5m structured as debt and preference shares to help agribusiness Jacoma expand farming operations at its Tropha Estates in Northern Malawi, where it produces high-value macadamia nuts, chili and paprika. The investment is intended to enable local farmers to reach export markets and to benefit from a company scheme that provides yield-boosting seeds and other agricultural inputs. ³²

Source: Adapted from J. Pereira (2016).³³

3 PRIVATE FINANCE BLENDING IN AGRICULTURE

Despite the huge potential of small-scale agriculture to contribute to poverty eradication,³⁴ in Africa, less than 1% of commercial lending goes to the agriculture sector.³⁵ Donors see private finance blending as the most innovative way of using ODA to incentivize private investors to capitalize and commercialize agricultural value chains, notably by reducing the risks faced by private investors.

RISKS ASSOCIATED WITH SMALL-SCALE AGRICULTURE

Financial institutions are reluctant to accept the risks attached to smallholder agriculture, such as drought, floods, pests and diseases, the quantity and quality of produce, price volatility or the transaction costs of covering large geographical areas and dealing with a large number of small producers. Smallholders are constrained by limited access to financial services, insurance and markets. They also bear the associated risks of limited technological and innovative capacities, and market inefficiencies and disruptions.³⁶ Lack of secure land tenure means that smallholders are less incentivized and capable to make long-term investments; and lack of formalized land titles hinders them from accessing credit. The barriers are even greater for women smallholders because of gender norms that dictate their access to public spaces and education. This limits their control over resources, and access to information, financial services, insurance and markets. This can mean that financial institutions are even less likely to invest in women smallholder farmers, further widening the gender gap in agricultural productivity.

Traditional banks and financial institutions also lack the appropriate experience, knowledge and tools to provide relevant financial services to the sector. Unstable environments, characterized by political instability, weak infrastructure, a poor regulatory environment or climatic fragility, also deter investors. Through blended finance, donors and DFIs – and other partners and stakeholders – can provide some cover against the high levels of risk by shouldering a bigger share of the burden. Donors can provide guarantees (and other blended finance mechanisms) to de-risk investments or they can provide technical assistance programmes to mitigate risks and seek to unblock regulatory and other obstacles to investment.

The theory goes that, as long as returns are sustained, investors will be ‘crowded in’ and the guarantees provided by donors or DFIs can eventually be scaled down or withdrawn. Investors and credit providers will then adapt their business models and approaches to support smallholder agriculture.

However, while blended finance may help to reduce risk for the private sector, the risk does not disappear: instead most or all of it is shifted to the public sphere, and this creates the risk of losses being socialized while gains remain private. Not all public resources aimed at de-risking private investment are first loss instruments, and even those may put the private partner at risk if a project fails. Regardless, donors need to look not only at how private finance blending reduces risk for private investors, but they should also analyse and minimize the risks that smallholders and marginalized population groups may be exposed to in blended finance operations, for example by increasing their debt burden when they invest resources and time in a project.

Strong governance and policy frameworks are therefore required to ensure the fair sharing of risks and benefits between the parties involved and with other stakeholders in society. Otherwise it is the weakest in the investment chain who are hit hardest by exposure to market shocks. This can give rise to 'moral hazard', a situation where investors are willing to take risks in the knowledge that any negative consequences will be felt by someone else, such as taxpayers or local communities. Women smallholder farmers in particular are vulnerable to risks due to their already disadvantaged status in many societies. In addition, incentives for the private sector to ensure that the rights and well-being of smallholders are protected, or even expanded, are generally low, which could lead to actors prioritizing their own financial health over the lives of agricultural producers.

DRIVERS OF GROWTH IN PRIVATE FINANCE BLENDING IN AGRICULTURE

Donor-backed private investment does have potential merits. Donors frequently refer to the SDG funding gap when justifying the use of private finance blending. There is no shortage of capital worldwide, capital has never been cheaper than it is now, and in many cases 'green yields' (returns from sustainable or social projects) are as good as any other yield. However, the perceived risks of the agricultural sector and the lack of risk-adjusted returns constrain commercial investors from investing. By deploying development funding to improve the risk-return profile of individual investments in developing countries, this type of finance can attract commercial private financing and help to demonstrate project viability and to create additional development impacts, donors argue.

Blended finance is also used to build markets that, in theory, are then able to attract further commercial capital for development. DFIs, for example, sanctioned by their public development mandate, may be in a position to make investments that have potentially lower profit margins and higher risks but also a higher social return. The tendency of investors, however, has been to follow market trends and opt for safe investment.³⁷

Moreover, donors use blending to support private companies from their own countries to expand their operations in developing countries. This risks creating market distortions and tied aid, which goes against principles of aid and development effectiveness. Some blending programmes, such as those of the DGGF in the Netherlands and the Overseas Private Investment Corporation (OPIC) in the USA, explicitly and formally target some (DGGF) or all (OPIC) of their programmes to companies from their home countries.³⁸ Such practices prioritize donors' commercial objectives over development impact, tend to be more costly and risk reducing the quality of goods and services provided as they may be less suitable for local contexts. Tying aid also means hampering the development of the local economy, as it prevents the possibility of local procurement. This problem also arises when donors focus on partnering with transnational firms from other countries rather than with local companies, as seen in USAID's alliance with a Heineken subsidiary in Haiti.³⁹ It is therefore important that donors commit to untying all aid, including in their blended operations, and to work to support local enterprises.

4 ASSESSING PRIVATE FINANCE BLENDING IN SMALLHOLDER AGRICULTURE

Oxfam has conducted this research to develop a deeper understanding of private finance blending activities in smallholder agriculture. It sought to provide an unbiased reflection to identify whether, and where, private finance blending can play a positive role in agricultural development, especially in terms of creating benefits for small-scale producers and (if used) where it could be improved and how – for example, through the observance of robust principles and standards. Oxfam has developed an assessment framework⁴⁰ to examine the risks and merits of donor–private partnerships (DPPs) more broadly; the current research applies this framework to a specific type of DPP (private finance blending) in a specific sector (agriculture).

OXFAM ASSESSMENT FRAMEWORK TO EVALUATE BLENDING IN AGRICULTURE

This research focuses on three major donors which use blending activities in programmes that target or affect smallholder agriculture: the EU, the Netherlands and the USA. It includes a brief description of each of the main components and sub-components of their programmes and the type of evidence and analysis used to examine their partnerships at programme and partnership levels (Box 1).

Box 1: The components of the Oxfam assessment framework⁴¹

- **Development objectives:** This component of the framework examines the extent to which the programme and partnership are clearly linked to development objectives such as the reduction of poverty and inequality, gender equality, environmental sustainability and/or the realization of other specific internationally agreed development goals (e.g. achieving the SDGs of eliminating hunger, gender equality, sustainable production and consumption, climate action or life on land by involving the private sector and its financial and technological capacities).
- **Additionality:** Since a prominent feature of – and donor justification for – private finance blending is to create development and financial additionality, the assessment includes more detailed questions to elicit evidence on the links between blending and additionality.
- **Aid and development effectiveness principles:** The use of ODA should be guided by principles of aid and development effectiveness. Key principles that are of particular relevance to private finance blending include country ownership, alignment, managing for results (which incorporates sustainability concerns), and transparency and accountability.
- **Mandatory and voluntary standards for private sector operations:** Legal and voluntary standards have been established around the impact of private sector operations on economic, social and environmental outcomes. This component includes respect of international development principles and standards as well as of international human rights law.
- **Due diligence:** Due diligence in private sector partnerships is a critical issue in the provision of public money to the private sector, particularly in ensuring that partners follow environmental, social and governance (ESG) standards and take care to ‘do no harm’ in development.

- **Monitoring and evaluation (M&E):** This component of the framework focuses on the provisions for monitoring that are set out at the programme level and on actual evidence of monitoring at the partnership level.

While aiming to be as comprehensive as possible, the assessment framework has a number of limitations. For example, the lack of information on individual partnerships hampers its utility, and the details of how ODA providers operationalize the principles and policies that inform blending programmes (and DPPs generally) are not always publicly available.⁴²

DONOR CASE STUDIES

Three donor case studies have been compiled with the aim of understanding the intention and objectives, structure and governance, and scope and scale of private finance blending programmes in agriculture. The donors selected – the EU, the Netherlands and the USA – are among the main providers of blended finance, use such programmes in smallholder agriculture and in the coming years are expected to further increase their ODA allocations to blended finance mechanisms. For each donor, two partnerships (donor–private finance provider) or partnership programmes were selected.⁴³

European Union

Blending has become an increasingly important tool in the EU's external cooperation activities since it was introduced in 2007, and its use is likely to expand significantly under the EU's next long-term budgetary framework, the Multiannual Financial Framework, which starts in 2021. The European Commission (EC) communications *Agenda for Change* (2011) and *A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries* (2014) outlined the EU's ambition to strategically engage with the private sector in development cooperation.⁴⁴ The new Africa-Europe Alliance for Sustainable Investment and Jobs, proposed by the European Commission in 2018, is characterized by its focus on economic investment, job creation and trade, and 'represents a radical shift in the way we [the EU and the AU] work as partners towards a logic focussed on Africa's economic potential and the mobilisation of the private sector'.⁴⁵

In the current MFF, blending represents funding worth approximately €4.1bn: this includes not only private finance blending but also pooled public finance, which forms the bulk of EU blending operations. Specific annual totals are unavailable. About 60% of the EU grant funding allocated to blending projects has supported energy and transport infrastructure initiatives; 26% has been invested in social infrastructure – relating, for example, to access to clean water, housing and health services.⁴⁶ To date, only a very small amount of EU aid (€130m) has been allocated to private finance blending in agriculture; however, this is due mainly to a lack of suitable projects to fund rather than a lack of interest.⁴⁷

In 2016 the EU launched its External Investment Plan (EIP), a flagship blending initiative, which includes agricultural programmes that form the EU's Agriculture Financing Initiative (AgriFI). The EIP supports investments in African and neighbouring countries in a number of sectors; it aims to mobilize private investments through a guarantee mechanism and a blending facility, with investments targeted towards social and economic infrastructure and supporting MSMEs, microfinance and job creation projects. The EIP also includes a technical assistance pillar for local authorities and companies to support project development, and a dedicated pillar on policy dialogue to enhance the enabling environment for business and

private investment in partner countries. Oxfam’s EU case study assesses two initiatives: an AgriFI programme under the ‘Sustainable Agriculture, Rural Entrepreneurs and Agribusiness’ investment window of the European Fund for Sustainable Development (EFSD) Guarantee (part of the EIP); and an AgriFI programme under a National Indicative Programme (NIP) of the EDF that is being implemented in Kenya in partnership with the European Investment Bank (EIB) and other partners. Since AgriFI is a new initiative, the blended finance programme partnerships it covers are at the very early stages of implementation. This profile, however, aims to assess provisions under EU blending facilities and the AgriFI initiative.

Table 2

Summary – Agriculture Financing Initiative (AgriFI)/EFSD (European Investment Plan)	
Donor, programme	EU: European Investment Plan (EIP) and its European Fund for Sustainable Development (EFSD) – Investment Window for Sustainable Agriculture, Rural Entrepreneurs and Agribusiness
Total budget	€39m
Timeline	Timescale 10–15 years (up to 2033)
Partners	FMO (lead) and other European Development Finance Institutions (EDFI), AgriFI Fund Management Company. Private partners include SMEs, financial intermediaries (banks, pension funds), impact investors and local finance institutions
Geographic focus	Mainly Africa but also the EU Neighbourhood
Description	<p>AgriFI is designed to invest in agricultural value chains, seeking to commercialize smallholder agriculture to unleash its potential to increase agricultural production for food security and for export. It aims to target investment interventions along the agricultural value chain, from initial primary agricultural production to end use (‘from farm to fork’), for both domestic and export markets. AgriFI/EFSD aims to target finance gaps in two ways: by providing direct funding for companies and indirect funding for intermediaries like development banks, local finance institutions and microfinance networks, which will distribute money along the value chain.</p> <p>It is expected that lending institutions are able to make returns on investments, which are protected to a degree by guarantees, while private sector partners are able to access finance to help capitalization. The range of blending mechanisms to be used includes investment grants, technical assistance, loan guarantees, structured finance, ‘first loss’ capital and equity investments. AgriFI/EFSD will use impact analysis to ensure that added value is distributed efficiently and inclusively along the value chain. This will be done through a dedicated Value Chain Analysis for Development tool (VCA4D). The technical assistance component of AgriFI uses funds to improve agricultural practices or to build infrastructure to give farmers better access to markets. AgriFI aims to finance actions that have a clear development impact on those who would normally not be reached. This includes smallholders with limited market orientation, vulnerable groups, women and youth, and farmers and entrepreneurs.</p>

Table 3

Summary – AgriFI-Kenya programme of the EU	
Donor	EU
Total budget	€53m, of which €50m is from the EDF under the Africa Investment Facility (AfIF), an EU regional blending facility set up in 2015
Timeline	2016–20
Partners	EIB (lead financial institution), Agence française de développement (AFD), German Development Cooperation (GIZ), Kenya Agriculture and Livestock Research Organisation (KALRO), Kenyan financing institutions (microfinance institutions, commercial banks, savings and credit cooperatives) and private sector investors in value chains (including MSMEs, agribusinesses, cooperatives), producer groups, Ministry of Agriculture
Geographic focus	Kenya
Description	<p>AgriFI-Kenya is the first of the AgriFI-branded EU blending programmes in agriculture to reach the implementation phase. One of its main objectives is to generate investment funds for the private sector through its integration into the agricultural value chain. The assumption is that this will commercialize the value chain and will increase productivity and investment from all stakeholders, particularly the banks. Commercial investors (banks, microfinance investors, businesses) are expected to receive satisfactory and sustainable returns on investments, with sufficient guarantees and technical assistance provided by development finance to de-risk their investments. However, stated medium risks for smallholders in terms of price fluctuation, insolvency, drought and other climate shocks are not fully addressed.</p> <p>The primary targets of the programme are smallholder farmers, pastoralists and producer groups who are occasional market players but have the potential to become full players in specific value chains. The agri-business partners enable the integration of smallholders into commercial farming within their specific value chains. This however risks increasing farmers' reliance on costly external inputs. The EDF grant support covers subsidies to those businesses that would not otherwise be considered for commercial financing, as well as the provision of services and capacity building to enable smallholder investment on farms. It is unclear how women benefit from the value chain approach as no affirmative action is foreseen.</p> <p>Private finance for capital investment to smallholders and MSMEs in the value chain is provided by local commercial banks. The EIB has established the Kenya Agriculture Value Chain Facility for the purpose of supporting local commercial banks, which provide loan finance (administered by the EIB under the AfIF). The AfIF provides grants and risk capital to the EIB. The EIB provides local currency loan finance to facilitate the provision of complementary finance by commercial banks, providing security on loans and therefore de-risking the banks' investment. Loans aim to improve productivity and value addition in processing and scaling up, as well as adherence to standards.</p>

The Netherlands

The Netherlands is a substantial and established provider of private finance blending, primarily through the Netherlands Enterprise Agency (RVO) and the Netherlands Development Finance Company (FMO). The Netherlands does not have a stand-alone blended finance programme supporting agriculture, but its private sector portfolio of programmes includes agricultural projects. The case study and partnership assessments cover programmes in the agriculture sector focused on the private sector. One assessment covers the Dutch Good Growth Fund (DGGF), a partially tied private sector programme under the Ministry of Foreign Affairs, and one a partnership led by the FMO under its Micro and Small Enterprise Fund (MASSIF). Blended finance is likely to become increasingly important to the Netherlands as it aims to support banks and funds that often cannot finance the first phase of programmes because of concerns about risk.

Table 4

Summary – High Quality Rose Farming Partnership in Ethiopia, supported by the Netherlands	
Donor, programme	The Netherlands, DGGF blending facility
Total budget	Loan of €1m and €1.4m in guarantees
Timeline	2015–2020
Partners	RVO, Lalibela BV (Dutch private sector partner), Rabobank Leiden-Katwijk of the Netherlands and Zemen Bank of Ethiopia
Geographic focus	Ethiopia
Description	<p>The High Quality Rose Farming Partnership under the DGGF supports Lalibela BV, a Dutch horticulture trading SME, in Ethiopia. Lalibela BV has received a loan of €1m and €1.4m in guarantees under the DGGF SME window to support its efforts to grow high-quality roses. The company has bought an existing horticulture farm and plans to refurbish and extend it, investing in 14 hectares of greenhouses with support from the DGGF. The investment is expected to lead to the creation of 450 full-time equivalent (FTE) jobs, most of which will go to women, plus the transfer of horticultural knowledge and administrative and sales skills. It is expected to improve productive capacity in Ethiopia, especially for exports, which will benefit the country's balance of trade and tax revenues. The private finance element comes from Rabobank Leiden-Katwijk of the Netherlands and Zemen Bank of Ethiopia.</p> <p>There is no information available on whether the private sector partner Lalibela BV shares the development objectives of the DGGF, but it can be assumed that the company is motivated by access to capital to carry out its investment plans in Ethiopia, while RVO is investing in the project as it supports a Dutch SME (a key goal of the DGGF). Lalibela BV will be motivated by access to land and labour for its flower production for large export markets across all regions of the world, all year round.</p> <p>Foreign investment in land to produce flowers has been a controversial issue in Ethiopia: the government has expropriated land for foreign investment, and critics have claimed that this has been done without following correct legal processes. In 2016, protestors attacked seven foreign-owned flower farms, including the Dutch-owned Esmeralda Farms. The company said that its entire \$11.2m investment, including machinery and greenhouses, was destroyed.⁴⁸</p> <p>Indicators for the development additionality of the rose farming project have not been specified or disclosed; however, ex ante reports are said to have been done through an International Corporate Social Responsibility check. The assumption is that the DGGF is filling a financing gap for Dutch and local SMEs that are considered by banks to be too high-risk, and therefore the investment would not otherwise have happened without de-risking by means of the loan and guarantee.</p>

Table 5

Summary – MASSIF: Dedicated support to SMEs by the Netherlands	
Donor, programme	The Netherlands, Micro and Small Enterprise Fund (MASSIF)
Total budget	Total committed portfolio of €562m
Timeline	Ongoing since 2006 (budgeted until 2023)
Partners	FMO, financial intermediaries in developing countries
Geographic focus	LICs and fragile countries
Description	<p>MASSIF – started in 2006 – extends risk capital and medium- and long-term debt in local and hard currency to financial intermediaries in developing countries. These institutions in turn serve the final target groups: micro-entrepreneurs, SMEs and lower income households. MASSIF offers an array of financial services including saving products, business lending, guarantees, leasing, and insurance. In 2017, the Dutch government contributed €336m and FMO contributed €8m.</p> <p>MASSIF has four strategic focus areas: agricultural and rural livelihoods, women-owned MSMEs, innovations in inclusive business and capacity development. In agriculture, it supports access to finance for MSMEs in rural areas and in support of agricultural production and value chains. Different intermediaries are targeted by the Fund. These include: Supply Chain Managers (SCM) and cooperatives, agri-dedicated microfinance institutions, rurally-based financial institutions, agri-focused private equity funds, and fintech (financial technology) companies. These intermediaries not only provide access to finance, but often access to markets, inputs, and employment as well.</p> <p>MASSIF projects are characterized by their high risk and high development impact. MASSIF takes higher risks than other market parties, for example, by being the first foreign investor in an organization. MASSIF is supposed to play an important catalyzing role for FMO and other investors. The Fund has a revolving nature – i.e. at any moment, fund capital is equal to or exceeds the initially contributed amount. It targets the least financially penetrated countries and fragile states. For each investment theme, MASSIF seeks to select the most appropriate distribution channels and partnerships to provide tailored financing and capacity development benefitting the target groups.</p>

The USA

The United States is the largest donor globally to the agricultural sector and the leading bilateral provider of blended development finance.⁴⁹ The main US blended finance vehicle for agriculture has been the Development Credit Authority (DCA),⁵⁰ a partial loan guarantee scheme implemented by the US Agency for International Development (USAID). From its inception in 1999 up until 2017, DCA guaranteed \$5.4bn in private sector loans. One-third of this went to agriculture, more than any other sector.⁵¹ Feed the Future is the US government's main mechanism for delivering its Global Food Security Strategy.⁵² This initiative often embeds DCA agricultural loan guarantees into its country plans, in order to improve access to finance for agricultural SMEs by working with local financial institutions. The guarantees typically cover 50% of the loans, and DCA usually combines them with complementary programmes such as technical assistance. As DCA is an integral part of USAID, it is covered by general USAID policies, including those related to aid effectiveness. Because its guarantees do not result in a financial flow unless a default occurs, DCA programming does not count as ODA.⁵³

The US DFI, the Overseas Private Investment Corporation (OPIC), has provided loans, guarantees and political risk insurance to US companies that invest in developing countries.

Between fiscal years 2009 and 2018,⁵⁴ OPIC committed approximately \$1bn to the agriculture sector, accounting for just under 3% of all new commitments.⁵⁵ None of OPIC's activity is considered ODA; most is reported to the OECD DAC Creditor Reporting System (CRS) as other official flows (OOF).⁵⁶ DCA and OPIC do not account for all US government engagement with the private sector aimed at advancing international development, but these two mechanisms are the principal channels for such engagement.

In 2018, new US legislation created the US International Development Finance Corporation (DFC), which will subsume both DCA and OPIC; the new entity will have a higher level of capitalization and authority to make equity investments. The legislation also removes OPIC's mandate to include US companies in projects, although DFC will operate with a 'preference' for US firms. The new DFI is expected to come into existence in late 2019.⁵⁷ DFC will retain OPIC's environmental and social safeguards and will have a stronger focus on women's economic empowerment. The recent legislation also increases transparency requirements.⁵⁸

The case study assesses a DCA loan guarantee that forms an integral part of the Northern Ghana Feed the Future project and OPIC's recently established East Africa Loan Guarantee Facility.

Table 6

Summary – DCA (USA): Supporting agriculture enterprises in Ghana	
Donor, programme	USA: US Agency for International Development (USAID), Development Credit Authority (DCA)
Total budget	\$7m guarantee facility
Timeline	2007–2014
Partners	Feed the Future Northern Ghana, a US inter-agency initiative to support agriculture, food security and nutrition, managed by USAID Ghana; unnamed Ghanaian financial institution
Geographic focus	Northern Ghana
Description	<p>The purpose was to facilitate lending to agribusiness SMEs. The maximum loan size was \$1m, with DCA providing a 50% guarantee. The loans permitted agricultural enterprises to expand their operations and improve their productivity. USAID also offered extensive technical assistance. USAID Ghana worked with the Ghanaian financial institution to develop a plan for lending to the Feed the Future value chains (maize, rice and soya). The project assumed that no other private or public source of finance was readily available, and that commercialization was the best route to increase productivity and sustainable investment to improve food security. Oxfam research in six of Feed the Future's 19 original focus countries found that USAID programming is generally driven by this assumption about the value of commercial agriculture.⁵⁹</p> <p>Financial additionality was a key aspect of the guarantee facility, which aimed only to support financial institutions to lend to markets that they would otherwise not lend to, owing to high levels of risk. USAID's Feed the Future multi-annual strategy for Ghana demonstrated alignment with the country's own medium-term investment plan; Oxfam US research on Feed the Future in Northern Ghana confirmed that this was the case.⁶⁰ However, USAID's project documentation did not explain how local producers were involved in planning, implementation or evaluation. There was no easily available information on project oversight or on any complaint mechanism, nor was there a public risk mitigation strategy and, at the time of writing, no evaluation had been performed.</p>

Table 7

Summary – OPIC (USA): Reducing credit risk for agriculture in East Africa	
Donor, programme	USA: Overseas Private Investment Corporation (OPIC)
Total budget	\$35m guarantee facility
Timeline	Six years beginning in 2015
Partners	Global Communities (US-headquartered NGO); unnamed financial institutions in the target countries
Geographic focus	Kenya, Malawi and Tanzania
Description	<p>The project facilitates loans to agribusinesses, seeking to address extreme risk aversion and a general lack of capacity to assess or manage SME credit risk for agriculture in East Africa. OPIC’s guarantee covers at least 60% of loan principal (up to 70% for businesses owned by women), plus six months of accrued interest on qualifying loans to agribusinesses. Global Communities provides technical assistance and training to the participating financial institutions, to assist them in assessing the creditworthiness of agribusinesses applying for loans.</p> <p>OPIC’s public project summary discusses the project’s intended development and financial outputs and outcomes, including technical assistance to boost SME credit, the launch of new financial products, job creation, and improved market linkages for the target SMEs. The degree of development and financial additionality is not entirely clear in the summary, however, as some or all of these results might have occurred in the absence of an OPIC role. OPIC does not publicly specify its risk mitigation strategy for this project, nor does it explain how the project is linked to national priorities in the participating countries. More generally, OPIC does not explicitly reference aid and development effectiveness principles on its website (www.opic.gov).</p> <p>Nevertheless, OPIC staff have indicated to Oxfam that ‘alignment with specific host country development initiatives is systematically assessed in every project as part of its sector impact metric’. In this way, OPIC projects conform to the principle of country ownership.⁶¹ The project summary does spell out due diligence processes. OPIC’s Office of Investment Policy (OIP) conducts an ex ante impact assessment of each project with respect to the US economy and the development reach in target countries, job creation and human capacity building, macro-economic or financial effects, demonstration effects (including technology transfer, the project’s impact on regulatory and legal reform and the adoption of internationally recognized quality or performance standards) and community and environmental effects. OPIC screens partners on criteria of human rights and workers’ rights, as well as their compliance with ESG performance standards. Moreover, the workers’ rights protections spelled out in the US law governing OPIC, and carried over into the DFC legislation, are drawn from the International Labour Organization’s core standards. OPIC explains on its website how to access its complaints mechanism, which is managed by its independent Office of Accountability. OPIC makes public summary reports on complaints resolution.</p>

4 KEY FINDINGS FROM THE ASSESSMENTS AND IMPLICATIONS

Overall, Oxfam's analysis shows that donors' institutional policies are not always explicitly translated into their programmes and partnerships with private investors. Their preconditions, as set out in Oxfam's assessment framework, are more likely to be available than any evidence of how these have been applied. A key impediment to the review is significant information gaps, particularly regarding financial intermediaries and private sector engagement. These gaps include data on overall financial allocations to implementing partners, specific information on programmes in terms of how they are structured and how they operate, and detailed information on partnerships, particularly on funding passing through financial intermediaries.

At present, judgements on the usefulness of blended finance in development are severely hampered by the poor quality and lack of consistency of the data available on such investments, including on how investment is being used and what its impacts are. Much of the data that does exist is not publicly available or is not easily comparable. There is, for example, no common standard for timely, comparable, accessible and disaggregated data to use for tracking private finance blending. Donors and private partners do not systematically report on the results of blending programmes. This includes a lack of evaluations of how smallholders benefit from such schemes and what impacts they have on poverty reduction, environmental sustainability and gender equality. Oxfam could not find any ex post evaluation of the DCA guarantee scheme in Ghana, although the project concluded several years ago. Finally, for this report, a number of the case studies reviewed were only at the concept stage or early stages of implementation, which did not allow for an in-depth evaluation.

DEVELOPMENT OBJECTIVES AND OUTCOMES

The review showed that programmes and partnerships do include an articulation of development objectives. All the blending programmes focus on helping to capitalize SMEs or smallholder farmers with private finance and by building capacity in the agricultural value chain. Overall, the primary aim is to commercialize value chains to promote food security or support private sector development and growth. However, the review raises questions about the extent to which development objectives are defined in terms of final impacts on poverty reduction, food security, inequality, gender equality and environmental sustainability. For example, all programmes and partnerships look at the number of jobs created, the number of farmers accessing credit and so forth (quantitative data), without however looking at development impacts in terms of poverty reduction, gender or inequality (qualitative data). The DGGF and OPIC target support to the business development of SMEs from their own countries (risk of tied aid), rather than working to end hunger and food insecurity, and OPIC also works with larger firms that are either US-owned or have strong US involvement.

The most commercially viable smallholders – those who operate with fewer financial, environmental or other risks, who have better access to capital, information, markets and infrastructure and who can benefit from a supportive regulatory environment and strong governance – are more likely to attract investment and succeed with new investments. These 'richest of the poor', who can more easily 'step up' to formal and coordinated markets, are

estimated to represent just 2–10% of producers in developing countries.⁶² Those operating on the margins are considered to be too high-risk and are therefore less likely to attract private investors, even with ODA or other public de-risking incentives. These marginalized smallholders, more often women than men, are likely to be left further behind, which potentially increases inequality in rural communities and between genders.

Nevertheless, it is positive that, in most of the programmes reviewed, essential private investment is being mobilized to target poorly capitalized value chains, particularly in contexts where the availability of capital is limited. For example, the local bank (financial intermediary) involved in the DCA guarantee supporting the Ghanaian agriculture programme engaged initially because sufficient guarantees and technical assistance were provided to de-risk the project. This local bank was unusual in that it was also keen to look at innovative investment locally. DCA highlighted this project as a success story because the bank has learned and adapted to investing in high-risk smallholder agriculture. It achieved sufficiently sustainable and predictable returns and has committed to a second phase of more ambitious investment.

This experience, however, is not typical. The donor representatives interviewed reported the critical challenge of identifying 'bankable' projects in agriculture (a project is considered bankable if investors are willing to finance it⁶³). Donors are allocating more of their budgets to DFIs, but even with the de-risking incentives private investors still consider the sector too high-risk. For example, the EU's EIP scheme had foreseen 'Sustainable Agriculture, Rural Entrepreneurs and Agribusiness' to be one of the main investment windows under this scheme. However, in the first round of EIP proposals in 2018, the EU identified only one sufficiently viable agricultural programme it could develop further, and as of February 2019, only one agriculture investment programme has been approved, despite funding being available to support several others. While donors may be willing to take the risk of losing their investment, many DFIs and financial intermediaries – particularly the local commercial banks that donors are increasingly targeting to leverage capital for agriculture – are too wary of the high associated risk. If they do invest, there is a threat that their commitment will be short-term and unreliable.

Furthermore, the mobilization of private investment is not necessarily driven by the needs of smallholder agriculture communities or markets. Donors are keen to provide opportunities to private partners who are demand-driven in terms of private sector priorities, and not necessarily the priorities or needs of farmer communities. This is an important consideration, especially for women smallholders, who are at a disadvantage and who are struggling to be heard. For example, the DGGF's rose farming project in Ethiopia responds to the investment and export opportunity identified by the Dutch SME involved, rather than being necessarily an investment needed by rural Ethiopians.⁶⁴ The demand-side need among smallholders all too frequently is for finance and credit, control over land and natural resources, and access to infrastructure, and there is insufficient clarity from donors on matching their supply-driven approach with these needs. The DCA guarantees, however, appear to be more responsive to local needs, since the blending approach is embedded in programmes that are designed by national teams and delegations in collaboration with national institutions, and which are aligned more with country priorities.

In 2016 the EU conducted an evaluation of its blending operations (analysing both public and private finance blending, though not sector-specific). The study concluded that blending added significant value to the EU's grant-based development cooperation but also stated that it did not address as fully as it could have the development challenges of lower-income countries. The report concluded that 'the potential for poverty alleviation [was] not optimised', that 'blending projects aimed at macro-economic development rather than direct poverty alleviation' and that 'gender was rarely targeted'.⁶⁵

Overall, there is limited information available on the theory of change behind blending programme partnerships. Combined with the lack of information on results reporting, the limited evidence of evaluations of private sector programmes and partnerships leads to an overall information gap in terms of understanding the impacts of blended finance. The extent to which it contributes to development outcomes in agriculture, the benefits it brings to smallholders and local communities, how often it does this and its specific impacts on women are questions that cannot be assessed at the aggregate level. The assumption that blended finance is inherently good for agricultural development and is an efficient way to achieve development results is not in reality borne out by the evidence that is currently available.

THE QUESTION OF ADDITIONALITY AND LEVERAGING

At the rhetorical level, donors emphasize the importance of additionality in blended finance. However, a number of evaluations by others suggest that additionality is too easily assumed by donors.⁶⁶ Oxfam's review showed that, in practice, few programmes clearly articulate their approach to development or financial additionality. The guidelines on EU blending operations⁶⁷ do define additionality, and the EFSD Regulation (2017)⁶⁸ requires that operations provide additionality and that the Commission reports on this on an annual basis. DCA only supports financial institutions to lend to markets that they otherwise would not lend to because of high risk. Nevertheless, the review indicates that donors do not require their partners to demonstrate it: none of the programmes reviewed demonstrates *how* it is additional, although DCA does refer to measuring additionality and publishes additionality outcomes (financial and development) in its country evaluations.

It is essential that both development and financial additionality are demonstrated to justify the use of blended finance in preference to other approaches. Financial additionality is about ensuring that public finance does not compete unnecessarily with the private sector or unnecessarily subsidize private partners who could otherwise access financing on their own. Demonstrating additionality is relevant to the question of the opportunity costs of donors choosing to use blending in preference to other aid modalities and forms of public financing. Where blended finance is a complementary modality, integrated into a decentralized agricultural development programme (e.g. DCA in Ghana and AgriFI-Kenya), it is implied that donors have to an extent made a more informed choice on the most effective type of intervention to meet the programme's financing needs. The DCA project, for example, does demonstrate that loans to risky smallholder agriculture are unlikely to materialize without the help of a guarantee facility. What is less obvious in all the programmes reviewed is the counter-factual: what other options could have been pursued, and are those options more or less desirable than blended finance mechanisms mobilizing private investment?

Donors' interest in private finance blending is often motivated by their assumption that ODA can leverage non-ODA flows to developing countries to contribute to filling gaps in the financing of sustainable development. Leverage ratios – the relationship between the amount of finance mobilized and the amount of public finance that has been injected – are, however, controversial. There are several different leverage ratios in every private finance blending project, depending on the numbers compared and which donor is running the facility.⁶⁹ Of the donors reviewed, only the EU, and the EIB as a programme partner, were explicitly concerned with measuring leverage ratios. However, such ratios only make sense when some form of additionality can be demonstrated, and they cannot therefore be used as an indicator of financial additionality without this proof, even though donors often do so. For the most part, there is an inverse correlation between leverage ratios and financial additionality.

A high leverage ratio (e.g. 1:50) means that the blending element is heavily diluted, and the more diluted it is, the less likely it is to influence the project to a significant extent. At present, donor claims that using ODA to leverage additional funds is a good use of ODA are not supported by evidence.

The final concern relating to additionality is that of risk. All the programmes reviewed have incentivized private investment in agriculture by de-risking against losses. The guarantees against risk were a factor in engaging private investors (DCA/Ghanaian bank; MASSIF/AFC; DGGF/Lalibela BV). Notwithstanding the difficulties in demonstrating additionality, there are questions related to the sustainability of guaranteeing against risk (for how long, and whose risk?). Actors involved in the agricultural value chain need assurances on the provision of predictable and sustainable long-term investment. If investors are cautious and liable to withdraw their investment if there is too much risk or volatility, this will have harmful impacts on everyone in the value chain. Value chain actors, including impoverished producers, may also take on risky loans to invest in production. While donors may take the first hit in the case of defaults, debt financing can substantially increase the risk to farmers who lack a safety net or other financial mechanisms to protect them from difficulty in repaying loans. They may also be more liable to lose their credit status with other lenders. There is a real concern that disproportionate risks fall to the people who are the most impoverished or in the most vulnerable situations, threatening to increase their vulnerability and leave them further behind.

The other concern is that, overall, private finance blending programmes could be spreading and increasing unnecessary risk exposure to all actors in the chain, particularly if they are expanded substantially without sufficient complementary interventions to reduce risk. Such interventions could, for example, include technical assistance, enabling environment support and the provision of safety nets and insurance.

ENSURING AID AND DEVELOPMENT EFFECTIVENESS IN BLENDED FINANCE PROGRAMMES

The findings from the assessments suggest that donors do not sufficiently integrate globally agreed aid and development effectiveness principles into their blending programmes.⁷⁰ Significantly, the review found that there is limited commitment to the principle of country ownership or to alignment with country priorities, including consultation with affected communities. This is less the case when a blending programme is embedded within donors' country-led integrated support programmes, as appears to be the case with the DCA's Ghanaian agriculture project. DCA guarantees are often embedded in and integrated into USAID smallholder agriculture programmes like Feed the Future. This implies that country-based decisions are made on whether a guarantee is the most appropriate mechanism for the need. The trend, however, is for donors to increasingly channel budgets through DFIs or to build centrally led blending initiatives (e.g. the EU's AgriFI-EFSD), from which funds are overseen by third party fund management institutions, generally operating separately from national state structures. By contrast, the OECD DAC Blended Finance Principles state that blended finance should 'support local development priorities' (Principle 3a).⁷¹

DFIs have individual legislated mandates, strategies and operating procedures and a collective set of common principles⁷² for successful cooperation with the private sector: for example, crowding in and mobilizing private sector resources, reinforcing markets by addressing market failures and promoting commercial sustainability by contributing towards the commercial viability of their clients. These are different approaches from those that involve cooperating with the state and state institutions, and they do not overlap with aid and

development effectiveness principles.⁷³ However, investors and providers of blended finance realize that if the supply of bankable projects is to increase, donors and DFIs will need to collaborate with partner country governments and state institutions. Blended finance is likely to be more sustainable and transformative where accountable state institutions, adequate infrastructure and stable regulatory environments are in place and where local communities (particularly women), producer organizations and civil society organizations (CSOs) co-design projects' vision, aims and means of implementation, and also where private investment is complementary to public investment. These aspects provide the enabling framework for any private or public investment to be sustainable, and highlight the need for donors to continue to allocate development aid funding in interventions that advance them.

MANAGING FOR RESULTS

The review showed that, at the institutional level, it is common for donors to have results-based frameworks in place and some standardized reporting. However, in terms of reporting on the results of individual blending programme partnerships, information is not consistently available. There is limited information on results indicators – which do not consistently align with development objectives – and often reporting refers to the completion of activities, rather than development impacts. Even where results indicators are available, there appears to be limited reporting on actual results, progress to date and the evaluation of partnerships, which makes it difficult to assess the extent to which private finance blending creates positive impacts for impoverished and marginalized people, or for women. To better analyse its value chain approach, the EU (via DG DEVCO) has developed a tool called Value Chain Analysis for Development (VCA4D), which aims to evaluate the sustainability and inclusiveness of agricultural value chains and respond to the need for quantitative data and evidence-based indicators to inform decision making.⁷⁴ The tool appraises the economic, social and environmental perspectives of the value chain. However, it has not yet been applied to the EU's blending operations in the agriculture sector as projects are still in the early stages of implementation.

TRANSPARENCY

Transparency and access to information are at the core of good governance, informed participation in decision making and public accountability. As DFIs increasingly lend through financial intermediaries (instead of lending directly), there is a serious risk of neglecting the principles and standards they have put in place, which may lead to the transparency and accountability of their operations being compromised.⁷⁵ The present analysis shows that, although the donors reviewed have transparency policy frameworks, these do not appear to consistently translate into high levels of transparency in terms of programmes and individual blending programme partnerships. The review shows that donors are inconsistent in making information on partnerships available. The lack of basic information on financial intermediaries is problematic, particularly when a transfer of public resources takes place. In addition, the lack of information on partnership criteria for some programmes means that transparency is limited on how donors select implementing and private partners in the first place, and makes it impossible to independently assess partnerships against donors' own criteria. Moreover, donors provide varying degrees of information on their due diligence systems for selecting partners.

DUE DILIGENCE AND ACCOUNTABILITY

It is difficult to fully assess the extent to which blending programmes are subject to due diligence procedures that ensure that no harm is done. On the one hand, some of the programmes examined included information on due diligence. They showed that systems for monitoring compliance with international legal and voluntary standards and frameworks exist and include practices such as assessing partners, developing action plans and monitoring implementation. For example, the EIB provides information on its due diligence system and outlines its due diligence processes, from project selection through to monitoring. Human rights and workers' rights criteria are assessed as part of OPIC's due diligence process.

On the other hand, programmes did not consistently make community consultation a requirement. ESG is the general standards benchmark, and other provisions related to risk exist. However, provisions are not necessarily benchmarked against acknowledged legal and voluntary standards, particularly in the case of donor country ministries and bilateral agencies in charge of development cooperation. In addition, very few of the blending project partnerships assessed provided any information that demonstrated how they had undertaken due diligence processes, including risk assessment, or described the provisions put in place to respond to the outcomes of due diligence procedures. Where this information was provided at programme level, there was no description of how private sector partners meet the due diligence or partnership criteria, and no explicit provision for disclosing this. This does not necessarily imply that due diligence has not been done; however, the information is not publicly available and, in practice, it is difficult to meaningfully assess the translation of due diligence provisions into blending programmes. Third party contractors and suppliers (in this case financial institutions) are generally not explicitly required to observe, and are not held to account on, typical due diligence and risk management standards in the public finance or aid supply chain – for example, the International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability.⁷⁶ However, OPIC is an exception to this and does use the IFC standards.

Usually DFIs, including FMO, the EIB and OPIC, have clearly stated complaints mechanisms, which are often framed as being independent. The Netherlands' evaluation protocol ensures that all of its DPP programmes are regularly evaluated. The EU's AgriFI programme also includes many of the provisions required to promote good practice, and the EIB provides information on its due diligence system and outlines how due diligence processes take place, from project selection through to monitoring.

However, at the programme level, donors generally provide little information on public consultation, oversight or complaints mechanisms associated with their programmes (although OPIC is relatively transparent on how to access its complaints mechanism and on the outcome of complaints). While DFIs often have in place institutional policies for complaints and oversight, programme websites do not necessarily provide links to, or information on, these policies. It is not necessarily a problem if donors use their existing systems for accountability, but information should be clearly set out and linked to programme information. At the level of partnerships with third parties, there is even less information available on accountability provisions and it is clear that consultation with affected communities is not common practice, at least not in the projects assessed for this review.

5 CONCLUSION

Despite limitations in the quality and availability of data, the lack of results-based evidence and the fact that some of the programmes analysed have not yet been fully implemented, it has been possible through this research to gain a more thorough understanding of the relevance and effectiveness of private finance blending programmes in agriculture. Its findings show that donors are attempting to find new ways to generate private investment and private sector engagement to address complex sustainable development challenges. It has revealed a potentially positive role for private finance in agriculture, and examples of good practice. It has also brought up risks and questions of whether blended finance is a relevant and impactful tool for poverty eradication and, in particular, reduction of inequalities.

There is limited information available on the theory of change behind private finance blending in agriculture. Donors appear to base their preference for this mode of financing on assumptions: for example, that it offers cost-effective, market-based solutions to development challenges and enhances projects' development outcomes. Yet these assumptions are not convincingly supported by evidence.

While private finance blending activities do include an articulation of development objectives in the planning stage, the extent to which such objectives are defined in terms of final impacts on reducing poverty and inequality and promoting gender equality and environmental sustainability is questionable. Combined with the lack of information on results, the extent to which blending programmes contribute to development outcomes cannot be assessed at the aggregate level. The findings also suggest that private finance blending is a rather blunt tool that prevents specialized interventions, such as targeting women entrepreneurs or producers. Questions are also raised as to whether private investment clearly demonstrates development and financial additionality (were private investment and development outcomes achieved only because of the incentive provided by the ODA subsidy?). The public sector plays a critical function in setting appropriate policies to regulate investment such that it does no harm. Public investment, if done right, can be one of the most effective ways of crowding in the right kind of private sector participation, which is committed to corporate social responsibility, creates decent and sustainable jobs, pays its share of taxes and respects the environment.

Blending also creates a risk of donors supporting their own commercial interests, rather than local smallholders. Two of the programmes examined (DGGF and OPIC) included explicitly tied elements, and in general donors are keen to provide opportunities to private partners who are demand-driven based on private sector priorities or supply-driven in terms of DFIs seeking out investment opportunities, rather than designing blending programmes with a bottom-up approach. With a few exceptions, donors appear to be more concerned with enticing private sector actors to participate in development than ensuring that partnerships are aligned with the interests of partner countries or target communities.

While donors have taken steps at an institutional level and in many of their private sector programme portfolios to include provisions to ensure due diligence and to safeguard against harmful impacts, there is limited evidence (because of poor transparency) that donors always ensure that third party contractors (i.e. private partners) are also accountable for ensuring donor standards. Private finance blending comes with a set of risks; in particular risks related to exacerbating social, economic and gender inequalities and further marginalizing impoverished people. Therefore, it must be combined with a set of strong safeguards. Similarly, donors, and in particular DFIs, demonstrate limited regard for aid and development

effectiveness principles. Yet aligning and coordinating private investment plans with the priorities of the local government and actors in the value chain; working with governments to improve mutual accountability and transparency and ensure fair regulatory environments in agriculture; and monitoring and evaluating for results all are essential factors to consider when ensuring that blended finance approaches are more effective, bring benefits for smallholders and have a positive impact on reducing poverty and inequality.

Given these findings, it seems that donors have more work to do to ensure that private finance blending is an effective tool for financing smallholder agriculture and promoting inclusive and sustainable transformation in the sector. Until donors can demonstrate the merits of blending using evidence-based results, this approach should be used with caution in rural development, particularly as donors are expected to make progress on 'leaving no one behind'.

Using development aid to support private investors can be a poor match with the realities on the ground for both the target populations and investors themselves. Blended finance might help to tip the balance at the micro level and attract commercial investment to marginally profitable risky projects, but it cannot alter the fundamental economics of a whole industry. Private finance blending may bring positive development results in specific 'better-off' contexts (i.e. in lower- to middle-income countries where there is a certain level of rule of law, lower levels of corruption and more stable public institutions) and when cooperating with more commercially viable small-scale producers who have better access to knowledge and resources, including access to banking services, financial markets and information and who have stronger land and property rights. This is because they are more likely to involve less risk for investors. Most often such producers are men rather than women, as women are often culturally and structurally discriminated against.

Donors should acknowledge that private finance blending does not appear to be a suitable tool for targeting the most difficult regions or the most marginalized population segments – yet supporting these regions and people is supposed to be the primary aim of international development aid. This creates an opportunity cost, as scarce ODA funds can only be used once. The additional funds leveraged through blending are unlikely to be reallocated to the most marginalized people or regions. Private sector blending may therefore risk increasing inequalities between better-off population segments, who are able to benefit more, and the most marginalized, who risk being left further behind.

Donors should also acknowledge the apparent mismatch between supply and demand of blended finance in the agricultural sector. There are huge funding needs at local levels, yet donors encounter difficulties in finding suitable bankable projects to fund. Donors are allocating more of their budgets to DFIs, but even with the de-risking incentives, private investors still consider the sector too high-risk.

Blended finance does not address the fundamental drivers of poverty, exclusion and inequality. It is therefore crucial to ensure that the increasing focus it is now receiving does not distract attention from the essential role of public aid funding in reforming and strengthening state institutions, promoting good governance, and leveraging more public resources for agricultural development, including through supporting tax justice and domestic revenue mobilization (DRM). Donors and national governments should revitalize public investment in agriculture, targeted at the needs of small-scale producers, especially women. This should entail providing more support to pro-poor agricultural R&D and extension services, marketing boards to support trade in rural areas, and helping to create an enabling environment for small-scale producers to thrive, including by supporting their land rights and empowerment. These measures, supported by public finances, have already proved powerful

in reducing poverty and inequalities, whereas too much focus on mobilizing private finance risks distracting attention away from these priorities.

Despite the shortcomings and risks related to private finance blending, donors are increasingly using it in their portfolios. Oxfam makes the following recommendations to ensure that, if donors do decide to use blending in agricultural programmes, it is done in a way that strengthens local agriculture and food sectors and works for rural communities and economies.

RECOMMENDATIONS

1. Prioritizing public funding in development aid to agriculture

- Donors should ensure that the increasing focus on blended finance does not undermine the use of public funding in support of inclusive agricultural transformation that reduces poverty and inequality, protects the natural resource base on which agriculture depends, and empowers small-scale producers. Securing and formalizing land rights is key to facilitate communities' and farmers' access to credit and financial services.
- Donors should engage in policy dialogue with partner country governments to support them in allocating a sufficient share of their national budgets to the agriculture sector in support of smallholder resilience and domestic food and nutrition security, for example by providing public goods such as infrastructure, agricultural research and extension services that are tailored to the needs of small-scale producers. In Africa, this should include support for attaining budget allocation targets under the Comprehensive Africa Agricultural Development Programme (CAADP) of the African Union.

2. Ensuring that blended finance in agriculture aims for and achieves development impact

- Donors should require in partnership criteria ex ante forecasts which provide a theory of change that is public, and which explains how the private investor is best placed to realize specific development results in the planned project.
- Donors should use blended finance in agriculture only when they can demonstrate that private investors share their development objectives, based on development and sustainability criteria (for example, creating inclusive agricultural value chains that strengthen local food systems, delivering a measurable impact, and adopting social, environmental and fiscal standards linked to broader results frameworks, such as the SDGs).
- Donors need to ensure that projects are gender-sensitive and support women producers and entrepreneurs. Project designers and implementers must pay attention to not exacerbating economic or social inequalities between men and women. Without targeted measures, it is less likely that women producers and entrepreneurs will benefit from blended finance.
- Donors should ensure that blended finance only supports agricultural practices that are ecologically sustainable and do not exacerbate climate change or put biodiversity at risk. Blended finance should only be used in ways – for example agroecological practices – that protect the environment and biodiversity and support farmers to adapt to climate change.
- Where projects involve land acquisition, or the transfer of rights related to land tenure or access, donors and project implementers should ensure that the free, prior and informed consent (FPIC) of affected people and rights holders is obtained.
- Donors should ensure benefits are fairly shared between the parties involved and with other stakeholders in society. The de-risking element of blended finance should include minimizing the risks for small-scale producers, not only for private investors; for example by ensuring that the use of blended finance does not worsen their debt distress.

3. Promoting country leadership and democratic ownership

- Blending programme partnership criteria should require that partner governments verify that the blending operations align with and complement the national agricultural

development strategy and budgetary processes, and that such programmes have been planned, formulated and discussed by parliamentarians and civil society (including producer and farmer organizations that represent women farmers as well as men) in these countries.

- Donors should consult with partner country governments and CSOs when developing rules and guidelines around blended finance to ensure that such investments serve the interests of developing countries and their citizens first. Particular attention should be paid to ensuring that women are able to participate in decision making at all levels.
- Local communities, producer and farmer organizations, rural women's organizations and other relevant civil society actors should be involved when designing a project's vision, aims and means of implementation to ensure that a project responds to their needs, supports the local food system and fits the local context.

4. Demonstrating additionality

- Donor partnership criteria for private finance partners should be disclosed and should include provisions for ex ante forecasts of development and financial additionality, and additionality assessments should include estimations of and justification for the opportunity cost of using blended finance.
- Indicators that estimate development and financial additionality should be clearly defined and included in the partnership results framework.

5. Ensuring accountability and translating principles into practice

- Donors and national governments should make adequate provisions for representative civil society and national parliaments to hold governments to account on private finance blending projects in agriculture.
- Implementing or private partners should be selected only on the basis that they satisfy strict partnership criteria that include due diligence procedures and risk management provisions, including evidence of social and environmental assessments, details of public consultation information and the existence of a complaints mechanism.
- Donors should enforce compliance with legal frameworks and international standards in partnerships and contracts with supply chain actors, including penalties and sanctions where breaches occur (e.g. violations of human rights or workers' rights frameworks, gender discrimination, environmental damage or corruption). This should be an essential provision for the due diligence assessment.
- Donors should adopt appropriate monitoring and evaluation (M&E) measures and should involve local authorities, parliaments, civil society (including farmers' and women's organizations) and target communities, and not only donors, central government and private sector partners in M&E activities.
- Donors should adopt results indicators being amenable to disaggregation in order to measure impacts on income groups, gender, age, etc., to ensure that they benefit from a project and that no one is left behind.
- To avoid subsidizing private actors who engage in tax avoidance, donors and DFIs should never invest in companies and funds unless they are willing to report their financial accounts on a country-by-country basis. As an intermediate step, donors should forward country-by-country reports to all relevant tax authorities, including local ones, and eventually this information should be placed in the public domain where all stakeholders can access it.

6. Improving data and transparency

- At a minimum, all actors involved in blending activities, including donors but also implementing and private partners, should be required to publish data to the International Aid Transparency Initiative (IATI) Standard.⁷⁷
- DAC donors must urgently agree on collective rules regarding the inclusion of private sector instruments – of which blended finance is a modality – in ODA. They must also improve the quality and transparency of their reporting on private sector instruments to the OECD DAC Creditor Reporting System (CRS). Comprehensive reporting is critical to allow meaningful public scrutiny of how ODA is spent in blended finance.
- DFIs should work towards full transparency across their portfolios to ensure proper accountability. This includes presumption of public disclosure of donor–partner contracts, unless confidentiality is requested by a party who can establish that it is necessary to protect business secrets or proprietary information. Transparency is especially important in the case of lending through financial intermediaries.

7. Preventing de facto tied aid

- Donors engaging in blended finance should pay close attention to the risk of opening the door for more aid to be 'tied' (both formally and informally) to agri-businesses from donor countries to the detriment of the local private sector, particularly SMESs, and in contravention of aid and development effectiveness principles.
- Donors should ensure that the use of blended finance does not further advance concentration within the food and agriculture sector globally, but strengthens and diversifies local rural economies and opens opportunities for local MSMEs operating in this sector.

NOTES

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