SMART POLICY INSTRUMENTS for CAADP

Using the Instrument-Based Approach to Develop and Implement Agriculture Investment Plans

FOREWORD

Over the nearly two decades of implementation of the Comprehensive Africa Agriculture Development Programme (CAADP), applying the appropriate policy has been seen to be key for African countries in order to formulate and implement their National Agriculture Investment Plans (NAIP). While much success has been recorded in the uptake of CAADP, with a total of 49 countries having fully embraced the CAADP by signing the Compact and/or initiating their national stakeholder engagement, and 46 equipped with fully developed NAIPs, implementation has not always lived up to expectations. Thus, the hope for impacts and results generated by the transformation of Agriculture, adopted by African Head of States through the Malabo Declaration in 2014, have not systematically been achieved.

Further investigation under the "Sustaining the CAADP Momentum" exercise concluded that providing policymakers with policy implementation instruments and tools to avail a full-fledged CAADP implementation toolkit was a top priority to address these shortcomings and respond to repeated calls for assistance. We understand that appropriate instruments of this kind could assist countries and regions in planning and implementing well-crafted National Agriculture Investment Plans)NAIPs) and Regional Agriculture Investment Plans (RAIPs) as part of the domestication of the Malabo Declaration process.

Indeed, following the adoption of the Malabo Declaration, the African Union Development Agency (AUDA-NEPAD) and the United Nations Food and Agriculture Organization (FAO) have been exploring ways of supporting more effective and efficient formulation of (NAIPs. It was therefore natural that, back in 2017, AUDA-NEPAD and FAO agreed to work together under a Technical Cooperation Project (TCP) to deliver results on the above. The main objective of the project was to mainstream policy implementation instruments into CAADP and its ultimate result, a portal on the AUDA website, where the users will find a menu of CAADP policy implementation instruments that member states can customize to their specific context. We also anticipated that we would engage and work with all major Regional Economic Communities (RECs) of the African Union in supporting Member States to customize this menu of policy implementation instruments.

Today, we take pride to report that these results have been achieved and we have our new guidance document titled "*SMART POLICY IMPLEMENTATION INSTRUMENTS for CAADP: Using the Instrument-Based Approach to Develop and Implement National Agriculture Investment Plans (NAIPs)*". Indeed, we now have a new set of fully developed guidelines, which complements the existing ones: (i) the Implementation Strategy and Roadmap to Achieve the 2025 Vision on CAADP, (ii) the Country CAADP Implementation Guidelines under the Malabo Declaration Guidelines, and (iii) the AU NAIP Toolkit for Malabo Domestication. These new guidelines provide practical instruments for supporting the implementation of appropriate agricultural policies and investments.

An "Instrument-Based Approach" (IBA) is a systematic approach to investment planning that provides the governments of member countries with a step-by-step process for formulating and implementing their NAIP. The IBA has four key components, including: (i) Strategic Axes, (ii)

Investment Areas, (iii) Policy Implementation Instruments, and (iv) the profiling of individual policy implementation instruments.

As part of the value proposition of this partnership, we made it a point to apply the main lessons learned over the years and fully embrace an approach that brings a great deal of precision by compelling to adopt a logical sequencing in defining what should stand as a policy instrument. In doing so, the IBA helps to remove the vagueness that has been a consistent feature in policy setting in our environment. Here, we have a more effective and innovative way to support evidence-based policy making and formulating NAIPs. In a nutshell, the IBA seeks to simplify, practicalise, systematize, and deliver fit-for-purpose and tailored solutions.

As we look forward to avoid policy reversals, similar to instances witnessed over the past decades, which were mostly due to Structural Adjustments Programmes, it is our genuine hope that in applying the rigorous thought process contained in this *Menu of Smart Policy Implementation Instruments,* its users will deliver the value and impact they are looking forward to receiving.

AUDA-NEPAD and FAO are determined to continue working together and bringing more value to key constituencies in Africa towards the transformation of agriculture.

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INTRODUCTION

What is CAADP?

The Comprehensive Africa Agriculture Development Programme (CAADP) is a policy framework for agricultural transformation, wealth creation, food security and nutrition, economic growth and prosperity for all of Africa. It was established by the African Union (AU) Summit in Maputo, Mozambique, in 2003 as an integral part of the New Partnership for Africa's Development (NEPAD).

As a pan-African framework, CAADP provides a set of principles and broadly defined strategies to help countries to:

- review and analyse the context of agriculture and rural development in their countries;
- identify and prioritise investments that will have the best impacts that will transform the agricultural sector.

The CAADP Framework had set two broad targets up to the year 2015:

- the allocation of at least 10 per cent of public expenditures to the agricultural sector;
- and 6 per cent annual growth in agricultural GDP.

In 2014, after a decade of CAADP implementation, the Heads of State and Government of the African Union, at the Twenty Third Ordinary Session of the AU Assembly in Malabo, Equatorial Guinea, recommitted to "Transforming Africa's Agriculture for Shared Prosperity and Improved Livelihoods through Harnessing Opportunities for Inclusive Growth and Sustainable Development" through the Malabo Declaration and reaffirmed their commitments to the Maputo Targets set at the Maputo Summit (see this link for details of the Malabo Declaration).

The CAADP Process

CAADP also defines a planning process that makes use of knowledge and evidence about agriculture to design appropriate interventions. It also aims to enhance human resources and partnership in the sector to achieve common goals. Aligning diverse stakeholder interests to develop integrated programmes that are adapted at the local and national context is also central to CAADP.

The CAADP process has four components namely:

- Domestication of the Malabo Commitments;
- Appraisal and Formulation of National Agriculture Investment Plans (NAIPs);
- NAIP Implementation;
- Mutual Accountability.

What is a CAADP National Agriculture Investment Plan (NAIP)?

A CAADP National Agriculture Investment Programme (NAIP) is a plan developed through the CAADP process by African countries to guide public expenditure in their agricultural sectors. The NAIPs aim to generate results on three levels (see CAADP Results-Framework).

Level 1 – Agriculture's Contribution to Economic Growth and Inclusive Development

Level 2 – Agricultural Transformation and Sustained Inclusive Agricultural Growth

Level 3 – Strengthening Systemic Capacity to Deliver Results

The development and implementation of NAIPs, following the process laid out by CAADP, will help each country to:

- meet its Malabo commitments;
- ensure that all programmes relating to agriculture are coordinated and aligned with the Malabo commitments;
- enable accounting and monitoring of NAIP results.

What lessons have been learned from developing NAIPs?

Since the CAADP process was established in 2003, it has succeeded in raising the profile of agriculture and agricultural transformation on the political agenda of participating countries in Africa. 47 countries have fully embraced CAADP and signed a CAADP Compact and two-thirds of these have formulated NAIPs or National Agriculture and Food Security Investment Plans (NAFSIP).

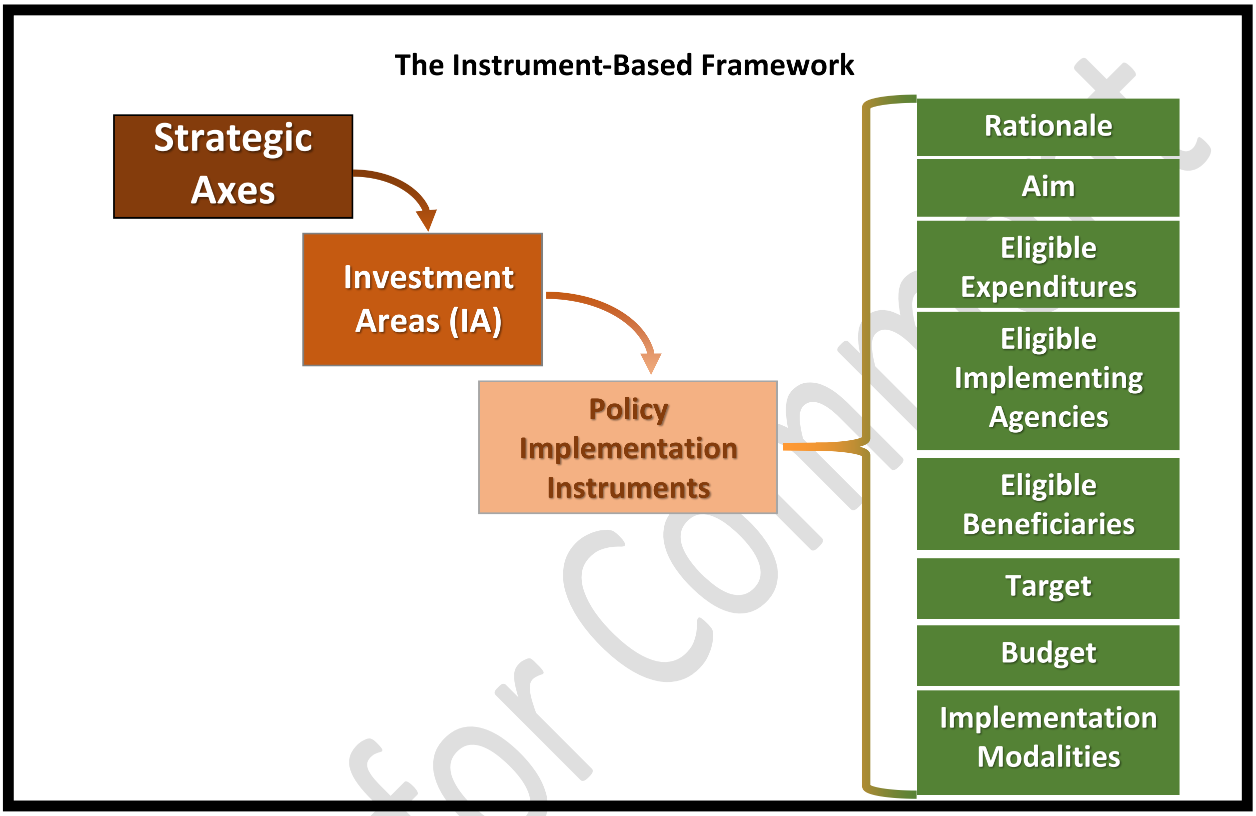
These have led to increased public sector expenditure for agriculture in most countries although the target of 10 per cent share of public expenditure for agriculture pledged in Maputo has only been reached in a few cases. Though there has been some progress made towards increasing annual growth in agriculture GDP, the 6 per cent target has proved elusive. Achieving equitable agriculture growth has been challenging, as is indicated by stubbornly high food insecurity, stunting and poverty levels and what growth has occurred was achieved mainly by an increase in area under cultivation rather than by an increase in productivity of land, labour, and capital.

In particular, governments have expressed a need for more specific guidance on **how** to go about formulating NAIPs in a way that will help them to achieve their Malabo commitments. This demand has encouraged CAADP, with FAO's collaboration, to develop a more structured approach to the formulation of NAIPs and their implementation arrangements that will help governments to move from the broad framework provided by CAADP to the specific measures that need to be put in place to bring about transformation in the agricultural sector. The need for new approaches to supporting priority value chains for agricultural commodities has also be highlighted along with better mechanisms for resource mobilization for investments within well-structured investment portfolios. All of this needs to be supported and underpinned by a pragmatic approach to strengthening institutional and organizational capacity of the public sector to create an enabling environment for the transformation of the agri-food sector.

What is the "*Instrument-Based Approach*" to developing a NAIP?

An "**Instrument-Based Approach**" (IBA) is a systematic approach to investment planning that provides the governments of member countries with a step-by-step **process** for formulating and implementing NAIP.

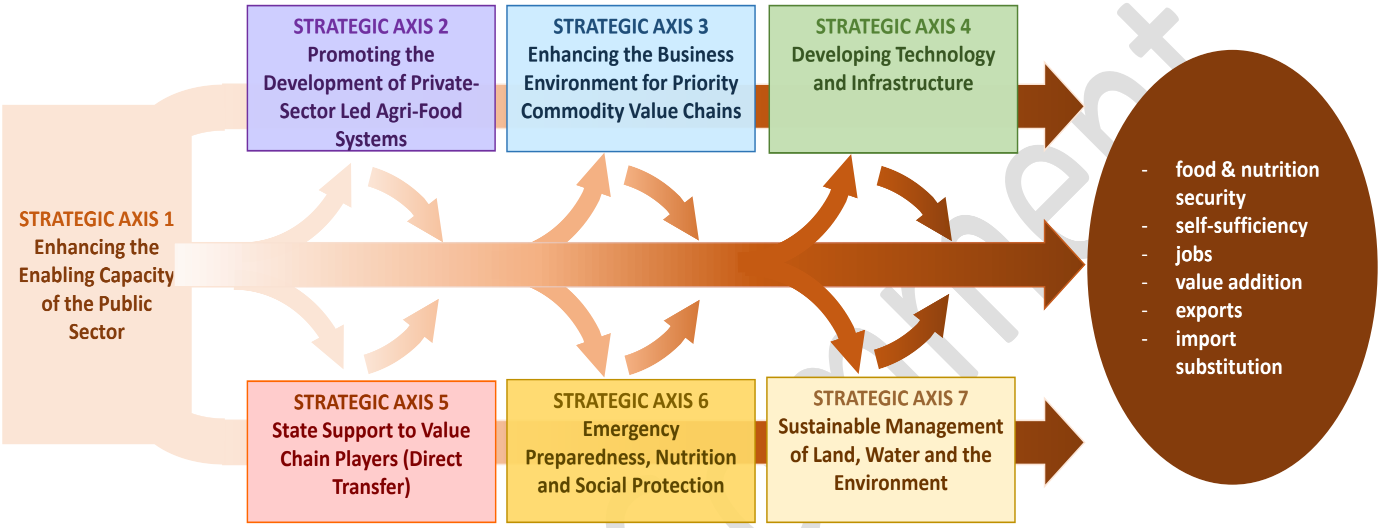
The IBA has four key components which are shown in the accompanying diagram.



- The "**Strategic Axes**" provide a proposed Programmatic Framework for the NAIP (in this guidance we suggest 7 Strategic Axes but governments may customize these based on their specific context).
- Under each of these Strategic Axes, a series of key **Investment Areas** (IAs) are proposed that can also be customized to reflect country conditions and priorities (see diagram below).
- For each of these IAs, the Instrument-Based Framework provides a web-based platform where governments can select, from a range of options, the specific **Policy Implementation Instruments** that they decide are appropriate for addressing different issues in the Investment Areas they have chosen.
- For each of these Policy Implementation Instruments, using the web-based platform, governments are asked to define **8 key elements** of their chosen Policy Implementation Instrument: rationale; aim; eligible expenditures; eligible implementing agencies; eligible beneficiaries; target; budget; implementation modalities.

The process outlined in the Instrument-Based Approach, and the Strategic Axes, Investment Areas and Policy Implementation Instruments that make it up, are based on best practices from over three hundred years of public sector interventions in agri-food systems from all over the world, including experience in Africa.

The Instrument-Based Approach: Strategic Axes and Investment Areas



The results shown in the diagram above provide countries with a series of key parameters under which clear measures of progress can be developed. These will help countries to identify in concrete terms how the Instrument-Based Approach is adding value over time.

Following the **process** suggested for implementing the Instrument-Based Approach ensures:

- that the plan is developed in a transparent manner that all stakeholders can understand;
- that the broad strategies outlined in CAADP are adapted to take proper consideration of the national context;
- that different stakeholders in the agricultural sector (farmers, value-chain operators, the private sector in general, consumers, non-state actors, investors, development partners and the State) are engaged in the process and their interests are taken into account.

POLICY INSTRUMENTS

In this set of guidance, "policy instruments" are defined as " the tools used by governments to pursue a desired outcome" (Cairney, 2015).

The **Policy Implementation Instruments** are structured to enable the formulators of the NAIP to explicitly define how the interventions will be implemented to address the bottlenecks and market failures in the agri-food sector that they have identified, and to ensure that sectoral objectives are achieved.

A guiding principle behind the Policy Implementation Instruments is that they should ensure that private sector enterprises are enabled to perform the key functions of supplying of goods and services, production, processing, marketing and distribution of agricultural and food commodities along the priority commodity value chain. This aims to increase productivity, enhance competitiveness and stimulate inclusive growth in the agricultural sector. In addition, the policy implementation instruments will empower governments to harmonize all public sector (Government and Development Partners) interventions and align them to national priorities.

How does the instrument-based approach add value?

The instrument-based approach adds value to the CAADP process by:

- Building on good practice in agricultural investment policies and making best practice easily accessible to policymakers;
- Providing a clear process for policymakers to follow in developing their NAIPs;
- Providing sound, evidence-based financial arrangements for investments in the agricultural sector;
- Empowering governments to harmonize all public sector (Government and development partners) interventions and align them with national priorities;
- Clearly linking different policy options, and the instruments used to implement them, with the achievement of defined results;
- Facilitating greater transparency and better monitoring of progress of CAADP and NAIPs by deploying a web-based platform for the use of policymakers in developing their NAIPs (see **Formulate Instrument-Based NAIPs**).

Why do we need new guidance and who is it for?

This new set of guidance to support the NAIP process has been developed in response to requests from participating countries who have highlighted the need for simpler and clearer guidance on how to formulate and effectively implement their NAIPs to achieve the much desired results of transforming Africa's agri-food sector. While previous guidance on the CAADP process and the development of NAIPs has provided a useful framework, policymakers have expressed the need for guidance on **how** to formulate interventions, harmonize and coordinate their implementation by both government and development partners, leverage private sector investments, and ensure accountability for results from these interventions.

No guidance can be definitive. It is expected that as new options for developing and implementing NAIPs are identified, they will be incorporated into this guidance in the future. Based on feedback from users, NEPAD and FAO also intend to adjust and improve this guidance to make it as user-friendly as possible and add new modules as required in response to the needs of partners throughout Africa.

The guidance is intended for use by:

- key decision-makers within Ministries of Agriculture and Rural Development to inform their policy-making process;
- technicians within those Ministries who are tasked with translating policy decisions into investments of State resources and interventions in the sector;

- private sector operators in agricultural value chains (including producers, processors, and market actors) to better understand the intentions behind government policy decisions and inform their efforts to characterize and influence policy decisions;
- investors seeking to better understand opportunities in the agricultural sector and the respective roles of the State and private investors in enabling the sector's development.

What other guidance is available for this process?

This guidance is intended to complement and develop upon the various sets of guidance already provided for the CAADP process. This includes:

- The Implementation Strategy and Roadmap to Achieve the 2025 Vision on CAADP (African Union, 2015);
- Country CAADP Implementation Guidelines under the Malabo Declaration (AUDA-NEPAD, 2016);
- An AU Guidance Note on Tracking and Measuring the Levels and Quality of Government Expenditures for Agriculture (AUDA-NEPAD, 2015);
- Country Agribusiness Partnership Frameworks (CAP-F): an Implementation Guide for Governments and Partners (GrowAfrica / AUDA-NEPAD, 2017);
- The AU NAIP Toolkit for Malabo Domestication (African Union, 2018);
- Guidelines on Non-State Actor Participation in CAADP Processes (CAADP Working Group on Non-State Actor Participation 2011);
- The Knowledge Compendium on Domestication of the Malabo Declaration (AUDA-NEPAD 2019);
- A Policy Brief – Priority Action for Effective Engagement of Women in Agribusiness (AUDA-NEPAD 2017);
- The Continental Agribusiness Strategy Framework Document: Driving Africa's Inclusive Growth (African Union 2017).

What is in this guidance and how to use it?

The guidance is currently organised into 14 modules that explain how to undertake the key steps in the process of developing a NAIP.

The modules are divided into 4 parts:

Formulate an Instrument-Based NAIP – Preparing an Instrument-Based National Agricultural Investment Plan (Modules 1 – 5)

Mobilize Public and Private Investments – Mobilizing Resources to Finance a Structured Investment Portfolio (Modules 6-7)

Support Value Chains – Profiling and Designing Government Support to Priority Value Chains (Modules 8--12)

Build and Strengthen Institutions – Capacity, System and Organisational Strengthening (Modules 13-14).

The 5 modules in **Formulate an Instrument-Based NAIP** are intended to lead users through the key steps involved in the preparation of their NAIP and give them access to the policy instruments they require in order to undertake those different steps:

- Module 1 – Analysing the Country Context
- Module 2 – Adapting CAADP to the Country Context
- Module 3 – Using the Menu of Policy Instruments to Develop the NAIP
- Module 4 – Formulating the NAIP
- Module 5 – Organizing Approval of the NAIP and Securing Budget

Mobilizing Public and Private Investments in agriculture consists of 2 modules that provide guidance on how to mobilize public and private financing for a NAIP:

- Module 6 – Establishing and Financing and Agricultural Development Fund (ADF);
- Module 7 – Mobilizing Finance for Agriculture from Private Sources.

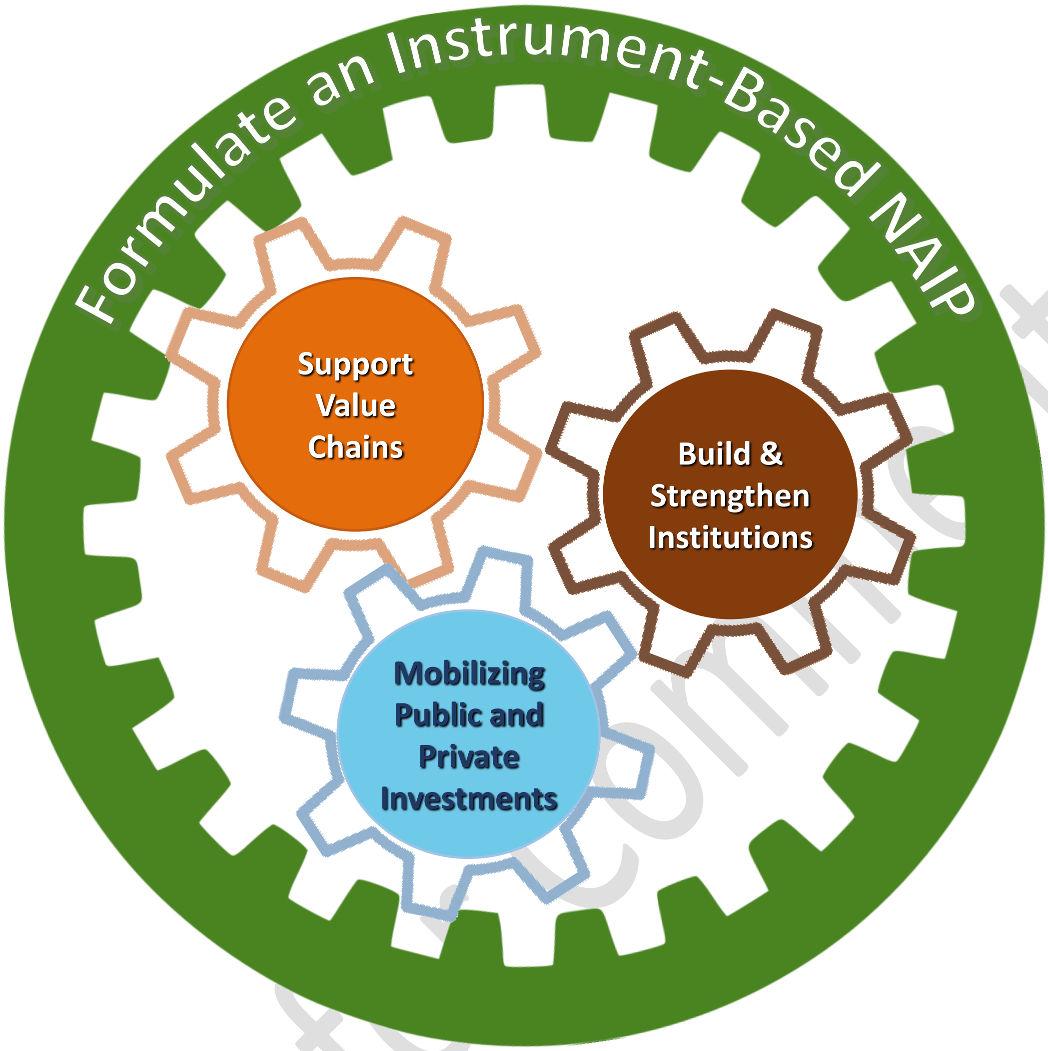
Supporting Value Chains has 5 modules that provide detailed guidance on how to analyse specific value-chains and develop appropriate support for agricultural commodity sectors:

- Module 8 – Profiling and analysing priority value chains
- Module 9 – Designing interventions for improving priority value chains
- Module 10 – Using Policy Instruments to Support Priority Value Chains
- Module 11 – Setting up and Implementing Public-Private Partnerships (PPP) for Developing Priority Value Chains
- Module 12 – Promoting Enterprises for Value Chain Development

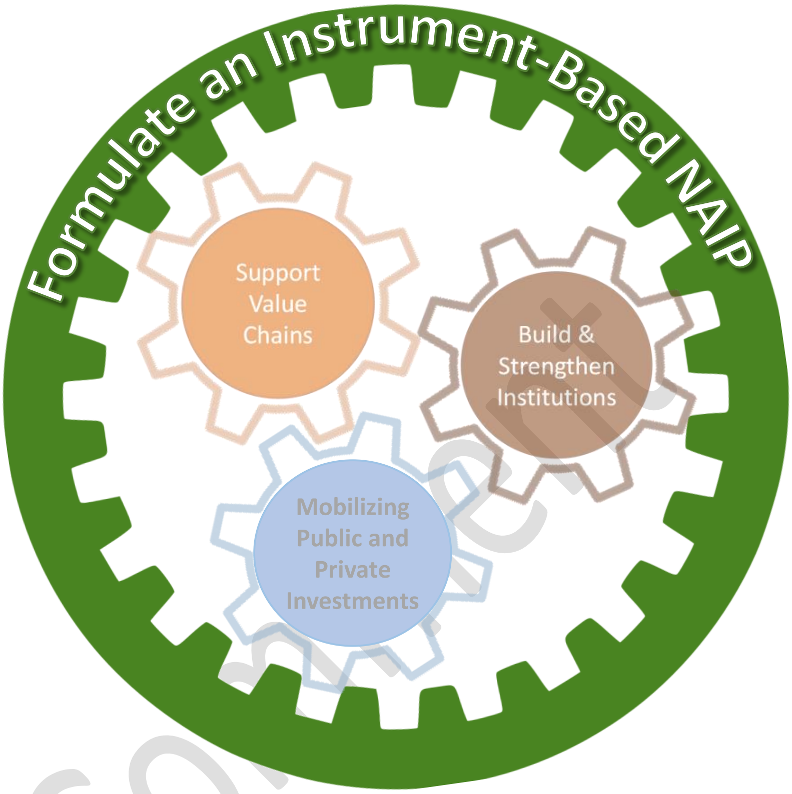
Build and Strengthen Institutions deals with the processes that may be required to develop and strengthen key institutions in order to effectively used the approaches proposed in this guidance note:

- Module 13 – Strengthening Institutional Capacity
- Module 14 – Building Systems and Organisations

These four parts should **NOT** be regarded as **independent** – the elements covered in each part are closely **interdependent** with those in other parts. At the same time, the four parts are not intended to be carried out sequentially – depending on the context, they might be implemented in parallel or in different sequences. The outputs of each part reinforce each other and are complementary and interlocking. Undertaking an effective NAIP process should involve following the guidance in **ALL FOUR** of these areas.


Formulate an Instrument-Based NAIP
Support Value Chains
Build & Strengthen Institutions
Mobilizing Public and Private Investments

PART 1 - FORMULATE INSTRUMENT-BASED NATIONAL AGRICULTURAL INVESTMENT PLANs (NAIPs)



The National Agricultural Investment Plan (NAIP) represents the key vehicle for the implementation of CAADP at the national level.

A CAADP NAIP is a plan developed to guide the public sector investments in the agricultural sector to provide the enabling environment for private sector actors, including smallholder farmers, to perform the delivery of goods and services that will enhance competitiveness and improve factor productivity in order to stimulate jobs, ensure self-sufficiency in domestic food needs, and increase exports. These are necessary to drive the annual growth of 6 percent in agriculture value-added GDP.

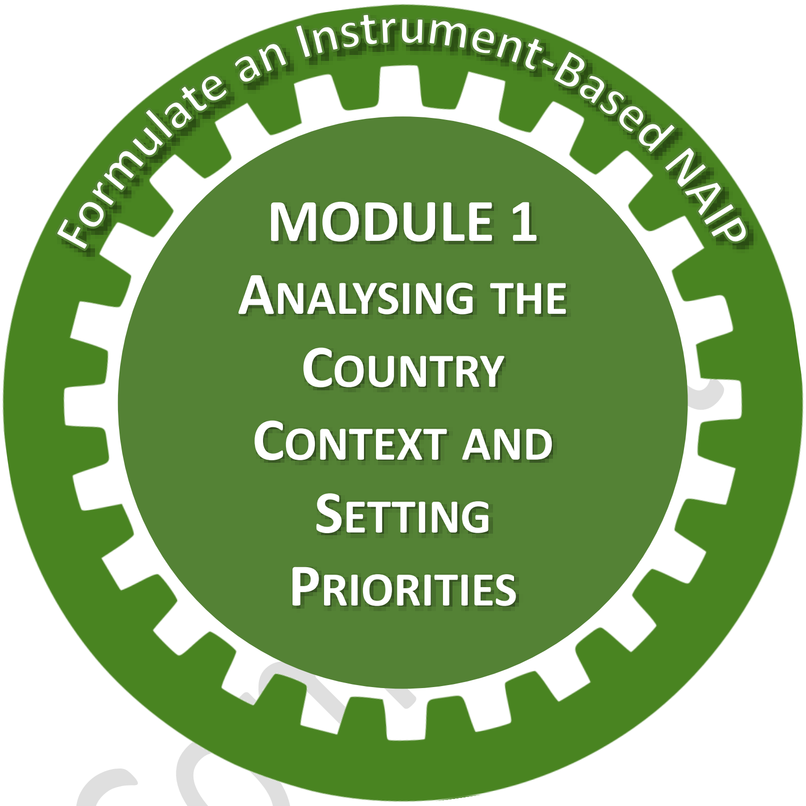
A CAADP NAIP must contain some critical elements which include:

- The Country Context for Accelerated Agricultural Transformation and Inclusive Growth;
- Priorities for public investment in agriculture transformation based on an analysis of the country context;
- The CAADP Theory of Change adapted to the country context and priorities;
- Clear Strategic Objectives for the investment period;
- The CAADP Results Framework adapted for the country;
- A Programmatic Framework for the country developed using the 7 Strategic Axes proposed in the Instrument-Based Approach;
- Priority Investment Areas within each Strategic Axis;
- Policy Implementation Instruments for each Priority Investment Area;
- A brief description of programmes, priority investment areas and policy implementation tools.

Part 1 of the guidance series consists of 5 modules that lay out the key steps in developing a NAIP using the Instrument Based Approach (IBA):

- Module 1 – Analysing the Country Context;
- Module 2 – Adapting CAADP to the Country Context;
- Module 3 – Using the Instrument Based Framework to Develop the NAIP;
- Module 4 – Formulating the NAIP;
- Module 5 – Organizing approval of the NAIP and securing budget.

Module 1 – Analysing the Country Context and Setting Priorities



1.1 Analysing the country context

The development of a National Agricultural Investment Plan (NAIP) must have its roots in a detailed, in-depth analysis of the country context, as detailed in the *Malabo Status Assessment and Profile (M-SAP)*, and particularly of the agricultural sector. This analysis is to provide the basis for setting national priorities for agriculture that are firmly based in the sector's realities and respond to its needs and potential and contained in the *Malabo Goals and Milestones (MGM) Report*.

The country context analysis is to provide a comprehensive understanding of the following:

- Critical factors affecting agricultural development, including strengths, weaknesses, opportunities and threats;
- Stakeholders within the agricultural sector and their respective roles, the issues they face and their strengths and potential contributions in the future, including the numbers of people employed in different sub-sectors, services and activities in agriculture and their characterisation (if the data is available) by gender, age and socio-economic characteristics;
- Existing and potential interactions between agricultural growth and the rest of the economy, including the multiplier effects of agriculture on other sectors;
- Existing and potential respective roles of the private sector and the state and non-state actors in agriculture, agricultural value chains and agricultural investment;
- Existing and potential patterns of public and private investment in agriculture and other sectors that play a role in supporting the sector;
- Learning and experience from past interventions in agriculture, including past policies and their impacts, projects and programmes in the sector, and experience with interventions in other sectors;
- Past and current institutional arrangements affecting agriculture and its development;

- The role, importance and potential of different subsectors in agriculture, including different value chains;
- Analysis of the domestic food market including; trends in consumer preferences, consumption patterns, distribution channels and market routes and food imports.

The analysis should pay attention to key cross-cutting issues including the following:

- Nutrition and the role played by the agricultural sector in ensuring food security;
- Gender issues in agriculture and the roles played by women and men in decision-making in the sector;
- Youth issues in agriculture;
- Vulnerability and resilience to climate change impacts in agriculture, including existing patterns of adaptation and response to climate-change related threats and hazards;
- Ecological, economic, social and institutional sustainability in agriculture to deal with future change.

Developing as complete a picture as possible of these factors will enable those involved in developing the NAIP to understand where the priorities for future development of agriculture should lie, and to inform the eventual choice of appropriate policies and investments that will enable the sector's transformation. This analysis should also enable those developing the NAIP to understand what the impacts of different policies might be on the agricultural sector as a whole, on different parts of the sector and on specific stakeholder groups within the sector.

A range of analytical tools and approaches are available that can help during the course of this analysis of the country context. The following tools represent just a few that might be particularly useful:

- SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis (click the link below to find out more on SWOT Analysis).

  [EU Capacity4Dev];
- Public Expenditure Review (PER) (click the link below to find out more about PERs).

  [World Bank Open Budgets Portal];
- Inclusive Growth and Value Chain Development (click on the links below to find out more on Value Chains).

  [CGIAR Value Chains Knowledge Portal] [FAO Value Chain Analysis Tools];
- Gender dimensions in agriculture (click on these links for more information and experience on understanding the gender dimensions of agriculture).

  [FAO Gender Assessments] [FAO CEDAW] [Empower Women Resources]
- Institutional Analysis (click this link to find out more in institutional analysis) [IFAD Institutional Analysis Guidance];
- Management and Functional Reviews (click the link below to find out more about MFRs).

  [Global Delivery Initiative]

- Tools for analysing and addressing Climate Change (click the links below to find out more about CLimate Change and agriculture).

  [CGIAR Climate Change, Agriculture and Food Security (CCAFS)] [IFAD Climate Adaptation in Rural Development (CARD)]

- Regional Trade and Computerized General Equilibrium (CGE) modelling (click the link below to find out more on CGE)

  [UNESCAP]

1.2 Identifying priorities and investment portfolios

Based on this country context analysis, it should be possible to identify critical interventions in the agricultural sector and prioritize possible investment portfolios. Clearly these priorities will vary from country to country so no single template for investment portfolio will be appropriate for all. Each country needs to conduct its own assessment of how it wishes to transform the agri-food sector and decide which public sector investments are required to support that transformation.

However, based on experience, three broad investment portfolios are likely to be needed although these may need to be adjusted according to the country context, as well as affordability considerations. These three investment portfolios are:

1. **Infrastructure development** focused on the critical infrastructure required to enhance the productivity and competitiveness of priority commodity value chains. These interventions might include access roads, infrastructure for potable water, irrigation, energy, storage, processing and marketing, water transport, railways, etc.;
2. **Agri-food system building** including the seed system, a system of regulations, a system for innovation (research and technology) development and dissemination, systems for the efficient marketing of factors and products, systems for knowledge and skills development and dissemination, financial systems, etc. All these systems are critical to enable the private sector to perform effectively;
3. **Direct transfers to agri-food sector actors** consisting of tax incentives and well-targeted smart subsidies for the various actors in the agri-food sector.

These three complementary interventions areas need to be critically assessed and the priorities for each intervention area determined.

1.3 Building consensus and synergies

The results of the country context analysis will differ from country to country. Also, very importantly, different stakeholders in the agricultural sector within a country are likely to have different views regarding what is important and where government priorities should lie.

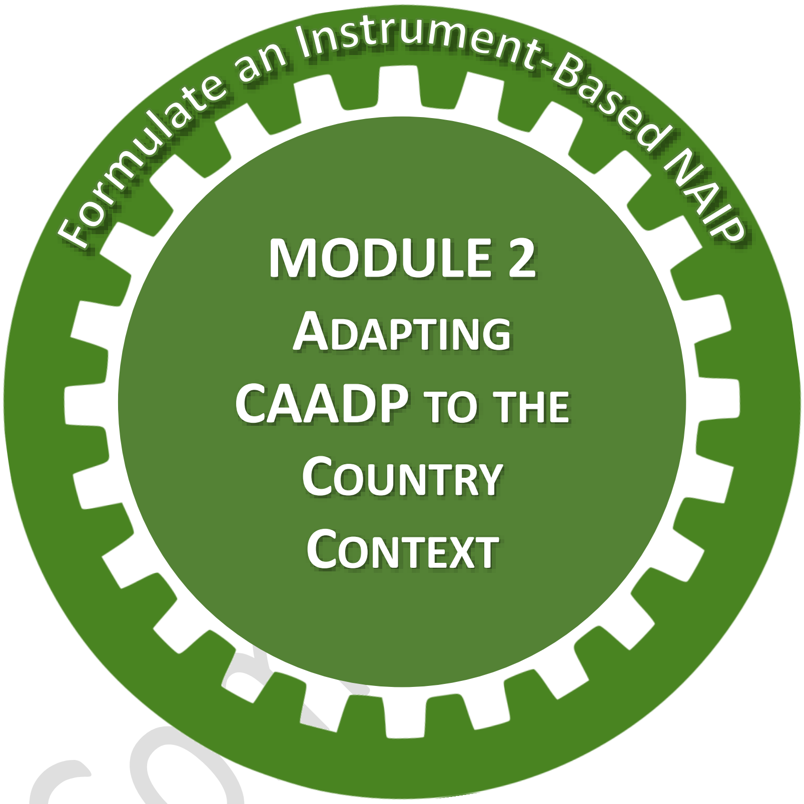
Building a consensus around a set of priorities is therefore challenging, but very important, if policy makers hope to develop momentum for positive change in the sector.

In order to build consensus and create the synergies that are needed to translate policies into positive change, the following steps are important:

- **Engaging with as wide a range of stakeholders as possible** from the sector right from the start of the process of developing the NAIP. Where stakeholders feel they have been consulted from an early stage, they are far more likely to be supportive of new policies;
- **Emphasise the economic, social and environmental returns** that can be expected by adopting the NAIP. Stakeholders need to clearly perceive the tangible results that will be generated through undertaking the NAIP process and understand the economic benefits, the employment potential, the wider social and economic benefits that a transformation of the agricultural sector can generate, and the potential for better environmental management through a more efficient and well-governed agricultural sector;
- Be willing to **adjust intervention areas and priorities to fit with stakeholder concerns**. Stakeholders need to see that their suggestions and concerns can actually influence policy decisions;
- **Pay attention to the language** used when framing the discussion about policy options, intervention areas and priorities. The same words may hold very different meanings for different groups of stakeholders so great care is needed in ensuring that this discussion is clear and understandable to all;
- Be prepared to "**re-frame**" the discussion of policy options and priorities using new language or to introduce new perspectives should there be a need. This can often help overcome objections or resistance among stakeholders;
- Identify **particular individuals or groups that have the potential to become "champions" for positive change** either because they are particularly influential or respected by other stakeholders, or because they are dynamic and forward-looking. Creating alliances with these individuals or groups can help create momentum for change and greater support for new policies. (At the same time, be aware that these "champions" will also have their own agendas and interests that need to be taken into account).
- Particularly where there are divergent opinions about where priorities should lie in agriculture, try to identify one, or a few, **key intervention areas or investment options that all stakeholders seem to agree about**. These can become an initial focus for action and investment with a view to creating consensus and synergies that can then provide a platform for other actions and investments in the future.

To understand better some of the issues surrounding consensus building, click this link to go to the website of Beyond Intractability, an organisation working on conflict resolution.

Module 2 – Adapting CAADP to the Country Context



Based on the analysis of the country context carried out in Module 1, countries need to develop policies (see the box below for a definition of "policy") that will be supportive of improved performance in the agriculture sector. The Comprehensive Africa Agriculture Development Programme (CAADP) aims to provide countries with the elements that they need in order to develop appropriate and effective policies that will achieve real positive change in their agriculture sectors.

No programme can provide "off-the-shelf" policies that will be appropriate everywhere, but worldwide experience has provided a body of knowledge about what policies work and how those policies can be implemented. CAADP provides a starting point for tapping into this body of knowledge and experience.

> **WHAT IS "POLICY"?**
>
> For the purpose of this guidance, policy is defined as a decision, a course of action, or a way of acting, decided upon by an actor or an institution to achieve a particular goal or outcome. "Public policy" relates specifically to what governments decide to do (or **not** to do) and how to do it.

CAADP has two key elements.

- the CAADP Theory of Change;
- the CAADP Results Framework.

These core elements are intended to provide countries with a common platform from which to develop their own, context-specific, customised National Agricultural Investment Plans (NAIPs) that take account of the conditions and priorities of each country and their agricultural sectors.

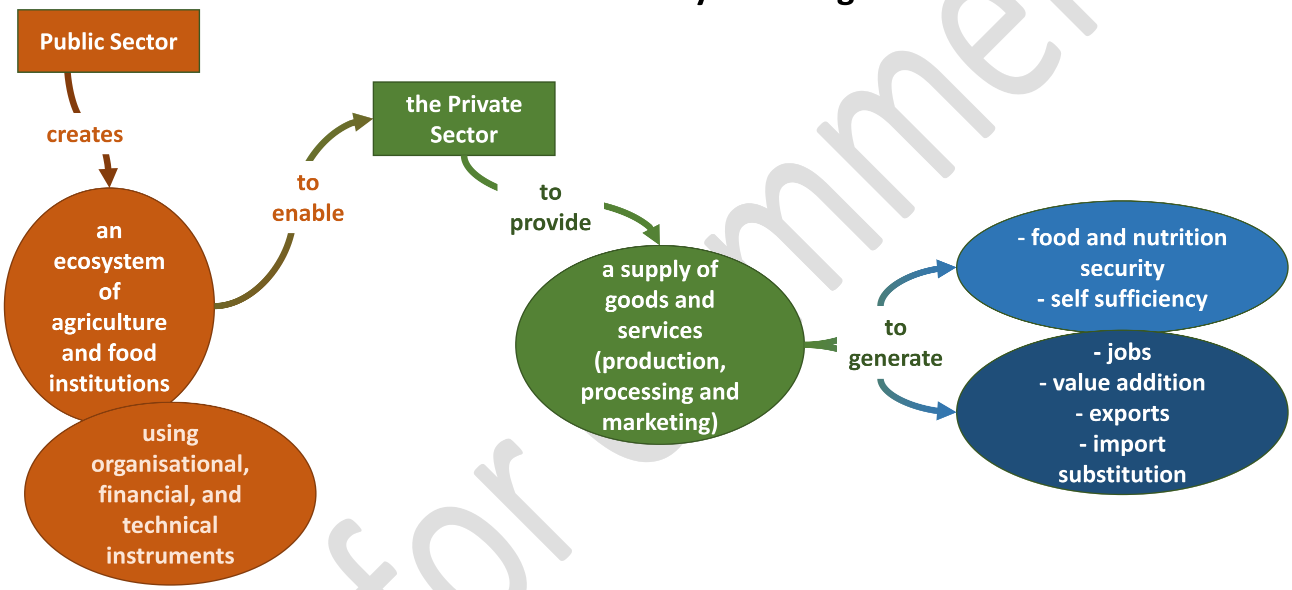
Making use of the results of the country analysis described in Module 1, each of the key elements provided by CAADP needs to be adapted to country conditions.

2.1 Adapting the CAADP Theory of Change

The CAADP Theory of Change shown below represents a broad vision of how CAADP aims to bring about the transformation of agriculture in Africa. It highlights how the vision of CAADP envisages the public and private sectors working together, with clearly defined roles and responsibilities for each, to bring about transformation in the agriculture sector.

However, this Theory of Change is deliberately generic. In order to develop their NAIP, each country needs to analyse and describe each element for their country, both current conditions (making use of the outputs of their country context analysis in Module 1) and desired future changes and conditions that they would like to achieve.

The CAADP Theory of Change



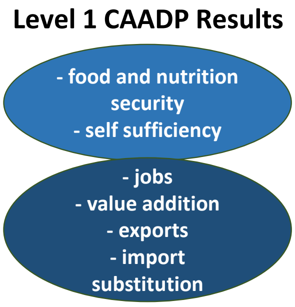
For each country, this Theory of Change needs to be customized and enlarged upon in order to understand the key challenges facing the sector. The Theory of Change can be used as a means of structuring the country context analysis to respond to several key questions:

- What institutions make up the public sector? What capacities do they have? What are their current roles and what potential for change do they have?
- What should be the key components of the ecosystem of agriculture and food institutions? How should roles and responsibilities change? How should relationships between institutions change?
- What organisational, financial and technical instruments are currently available and what innovations should be introduced?
- What are the characteristics and capacities of the private sector? How is the private sector organised?
- What goods and services does the private sector currently provide and how effectively does it perform? What relationships are there between the public and private sectors in supporting service provision? Which types of goods and service provision function well and which do not? Why?

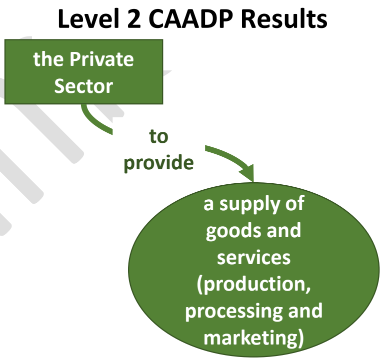
- What results are generated in the sector in terms of food and nutrition, resilience to shocks and change, employment, income, exports and import substitution?

2.2 Adapting the CAADP Results Framework

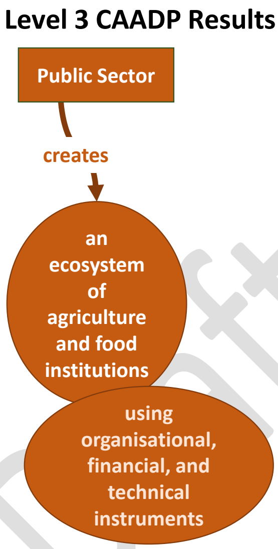
CAADP provides a three-tier results framework with clear indicators for the results obtained at each level. The three tiers of results are:



- **Level 1**: at the level of the overall national economy, this level of desired results defines the impacts of the agricultural sector on economic growth and poverty alleviation. These desired results should define the overall objectives of the NAIP and are concerned with the final outcomes of the CAADP Theory of Change;



- **Level 2**: at the level of the agriculture sector, these desired results are concerned with the modernization of the agriculture sector through the development of viable private sector enterprises that provide the goods and services required to enable the sector to perform effectively. These results are concerned with the performance of the Private Sector shown in the CAADP Theory of Change;

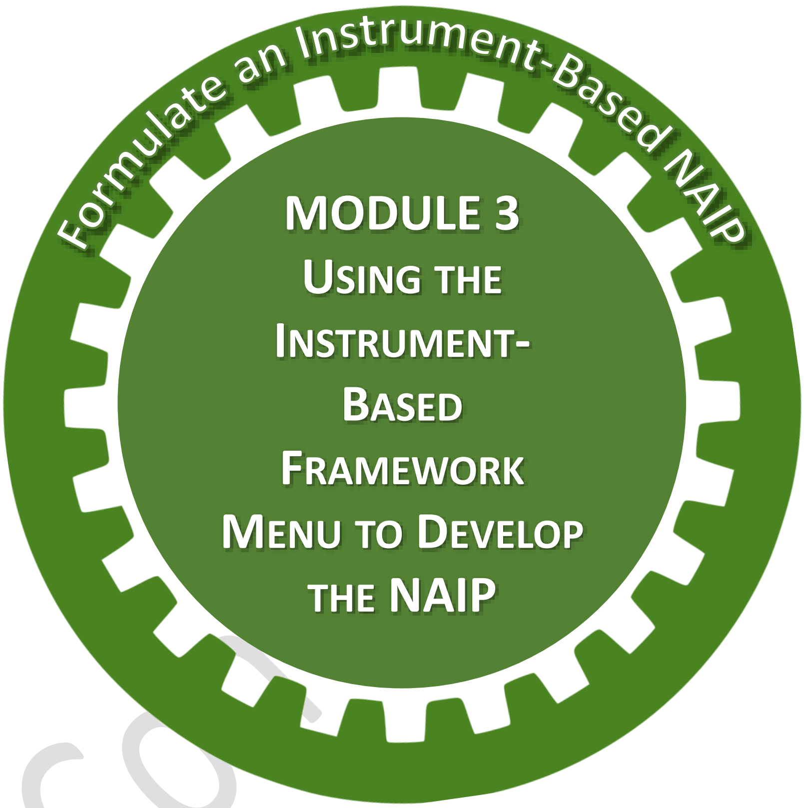


- **Level 3**: at the level of the agriculture and food institutions involved in the agriculture sector, these desired results are concerned with the capacity of these institutions to create an enabling environment where the private sector can perform effectively. These results are concerned with the performance of the Public Sector shown in the CAADP Theory of Change.

Like the CAADP Theory of Change, the CAADP Results Framework also needs to be adapted to the conditions of specific countries, reflecting the priorities of the country and the existing capacities of the private and public sectors. But this framework has been developed recognizing that different countries have different tools and processes in place at the national level for designing, implementing, monitoring and evaluating their interventions in the agriculture sector. While the CAADP Results Framework should be adapted to country conditions, country systems also need to be aligned with the CAADP Results Framework if they are to deliver the desired results.

Details of the CAADP Results Framework and the indicators can be seen by clicking this link.

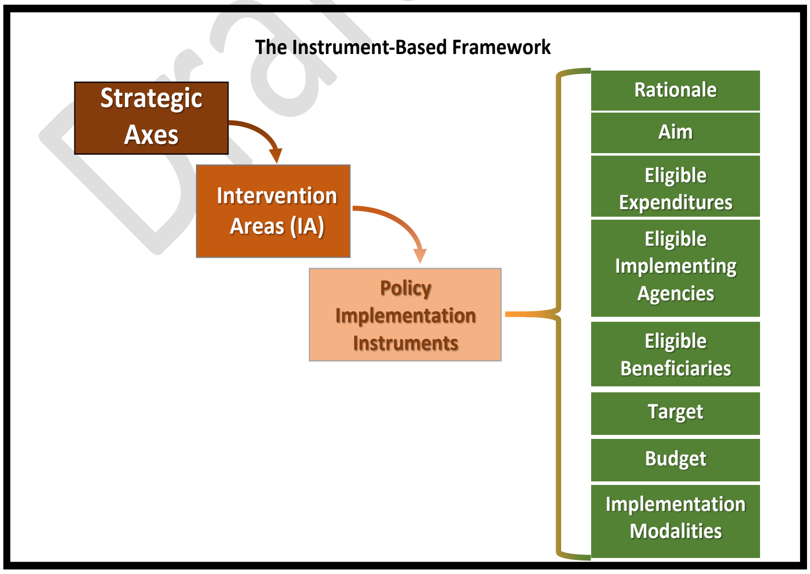
Module 3 – Using the Instrument Based Framework Menu to Develop the NAIP



The completion of Modules 1 and 2 will provide policy makers with:

- A detailed analysis of the country context (Malabo Status Assessment Profile);
- Clear objectives and priorities for investments to bring about positive change in the agriculture sector that are aligned with CAADP (Malabo Goals and Milestones);
- A Theory of Change, Results Framework and Programmatic Framework for the sector adapted to country conditions;
- A clear definition of the key development issues for a National Agriculture Investment Plan (NAIP) that are harmonized and aligned with government priorities and with the proposed Programmatic Framework.

The next step in the process of developing the NAIP is to use the IBA to provide a coherent structure for the government to plan and implement interventions to deal with the development issues and meet the objectives. It is important to note that for transformation to occur in the agri-food sector, public interventions will have to be well coordinated, harmonized, and properly aligned to the national priorities. The first step is the configuration of the Programmatic Framework, which should organize the public interventions into clearly defined strategic axes that align with the Government's programmes for national development.



Using this Programmatic Framework, a pre-prepared set of policy instruments is then suggested to identify those specific investments that can be undertaken in order to achieve the desired results. This Policy Instrument Menu will enable policy makers to develop a structured investment portfolio where options for the investment of public resources can be selected and directly linked to specific sets of results.

POLICY INSTRUMENTS

In this set of guidance, "policy instruments" are defined as " the tools used by governments to pursue a desired outcome" (Cairney, 2015).

It is expected that this menu will continue to be developed and expanded on in the future and it is provided through an on-line platform. This will allow countries and regions to access a menu of policy instruments that has been kept up to date with latest experience and practice documented worldwide.

The structure of the Menu of Policy Instrument is also intended to help countries to structure their NAIPs in a way that is aligned and harmonised with CAADP. It does this by using the Programmatic Framework made up of seven "axes" to organise the proposed Policy Instruments into seven distinct axes for intervention.

3.1 Developing a customized Programmatic Framework for an Instrument-Based NAIP

Possible interventions aiming to bring about transformative change in the agricultural sector of any country are potentially wide-ranging and diverse. In order to develop a **structured** portfolio of investments that will generate change in the sector, some form of framework is required that will help policy makers to identify coherent "areas of intervention" where different specific interventions work together.

Such a framework needs to be developed for each country where the NAIP process is being undertaken, but, for the purpose of this guidance note, a framework is proposed that is sufficiently generic to address the key common areas of interventions seen in the agricultural sectors of most African countries, and which can be easily customized to reflect the specific context of each country.

The proposed Programmatic Framework shown below identifies seven "axes" for intervention and provides countries with a means of organizing and structuring the interventions that are likely to be required as part of their NAIP. It is more detailed and suggests seven possible "axes" which they can think of targeting for investment in order to achieve the desired results of their NAIP in a way that is aligned with CAADP.

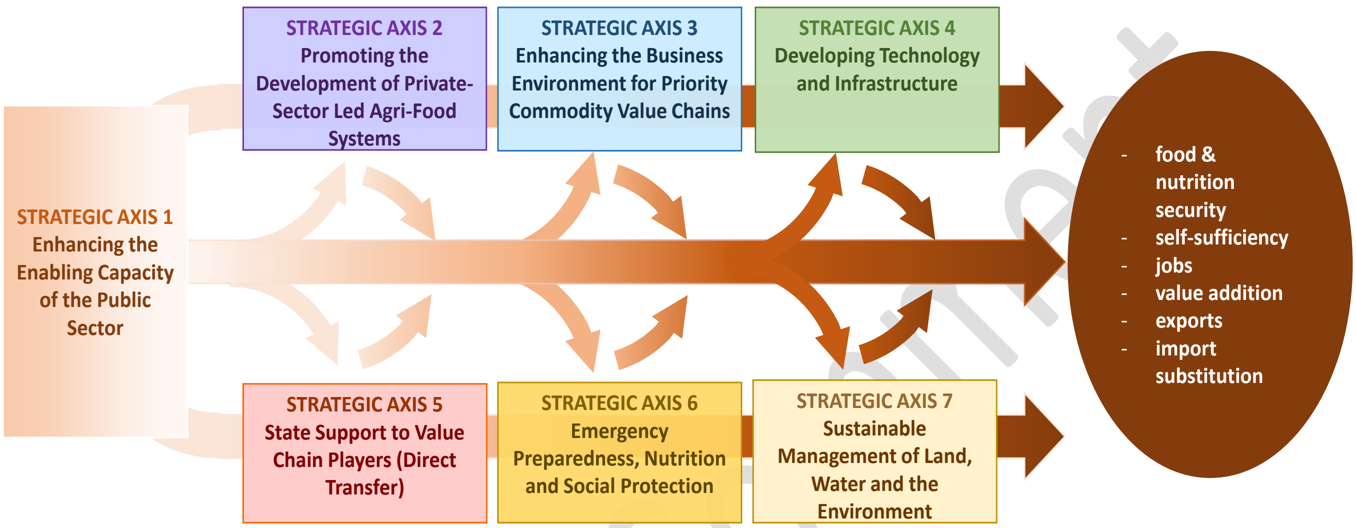
As with the CAADP Theory of Change and the CAADP Results Framework, countries need to adapt the Programmatic Framework to their own conditions.

Customizing the framework to properly reflect the country context and country priorities has four key components:

- Identifying those strategic axes that address national priorities;
- Identifying the specific intervention areas that will fall within each of these axes;

- Analysing, within the national context, where coordination between different agencies and institutions is likely to be required in order to implement interventions within each strategic axis;
- Choosing parameters that will measure expected results against the existing "baseline" situation.

The Generic Programmatic Framework for an Instrument-Based NAIP



The web-based tools described below will be particularly important in helping countries to do this. These tools are organized around the same seven strategic axes and suggest specific policy instruments that can be used to implement interventions within each axis.

3.2 Building consensus around the Programmatic Framework

In Module 1, the importance of involving a wide group of stakeholders in the analysis of the country context and the setting of national priorities in order to build consensus and create synergies was highlighted.

Likewise, in the process of adapting the CAADP Theory of Change, Results Framework and Programmatic Framework, consultation and engagement with stakeholders in the sector is key to ensure that different stakeholders understand their roles and responsibilities and share ownership of the interventions that emerge in the NAIP.

Many of the interventions within each of the axes in the Programmatic Framework will involve coordination and alignment between both institutions in the Public Sector and actors in the Private Sector. This can only be achieved if all these actors feel that they are part of a transparent process and clearly understand their respective roles. This can help to achieve "buy-in" to the process among the key stakeholders involved.

Several mechanisms can be used to achieve this engagement:

- **Technical working groups or committees** that bring together key ministries and departments who have a role to play. The process of customizing the Theory of Change, Results Framework and Programmatic Framework needs to involve all the Public Sector actors who have a role to play. Development Partners might also be engaged in this process where they are likely to have an important role and where it will not affect the national ownership of the process;

- **Broader stakeholder consultations** involving:
    - Elected representatives in national and regional assemblies;
    - Senior government officials (particularly in the Ministries of Finance and/or Planning who are likely to have a key role in approving the resources for interventions);
    - Professional bodies, producer organizations and associations representing key actors involved in the agriculture and food sector;
    - Financial institutions;
    - Non-state actors such as NGOs that may have an interest or concern over issues related to agriculture and food;
    - Representatives of women and youth in rural areas;
    - Educational and research institutions.

Using **on-line platforms** for consultation and information dissemination. Digital communications and social media offer important opportunities for expanding the coverage and inclusiveness of consultations and enhancing their transparency. Means of engaging with a wider base of stakeholders using on-line forums and web-based groups on social media can be explored as a means of encouraging wider "buy-in" to the process of developing the NAIP. However, it is important to recognise that these digital mechanisms do require dedicated resources and constant management and monitoring if they are to be effective.

3.3 Customizing the Menu of Policy Instruments for the NAIP

Under each Strategic Axis under the Instrument Based Framework, there are proposed Intervention Areas that help organize the Policy Implementation Instruments to avoid confusion. Users should identify and describe the Policy Implementation Instruments under each of the selected Interventions Areas.

Ideally, the Policy Instruments Menu should be accessed on-line where the menu will be easy to use, accompanied by clear instructions on use and a record kept of the final results that can be updated overtime. Use of the on-line platform will also enable progress in the development and implementation of CAADP NAIPs to be monitored more effectively as these programmes develop in participating countries. Click this link to access the CAADP on-line Smart Policy Implementation Instruments platform.

Each Policy Instrument has eight elements that need to be customized to ensure that public sector interventions will address the specific development issues in the country.

These eight elements, and the questions that need to be answered in order to customize them to country conditions, are:

1. **Rationale** – why use this specific policy instrument and how will it add value to the development process?
2. **Aim** - what will the use of this policy instrument achieve and how will those achievements contribute to the overall development process?
3. **Beneficiaries** – who will benefit from the use of this instrument and how are they expected to benefit from the intervention?
4. **Eligible Expenditure** - what expenditure items are eligible as part of this policy instrument?
5. **Eligible Implementation Agency** - which public sector agencies at the various levels of government are eligible to implement all or part of this policy instrument?
6. **Target** – how many beneficiaries or targeted agencies will benefit from the use of this policy instrument during the period of implementation?
7. **Implementation modalities** - how should this policy instrument be implemented to ensure that it achieves the intended results?
8. **Budget** - how much of public resources will be committed to the implementation of this policy instrument and where will those resources come from?

Under each Strategic Axis, the Policy Instrument options that a country selects should be customized in detail, with each of the eight elements in each instrument described in detail. Not all countries will necessarily identify intervention areas under all the Strategic Axes, but those that are selected need to be filled out in detail.

3.4 Reviewing the country-specific Compendium of Policy Implementation Instruments

The completed list of Policy Instruments that the country has selected now constitutes a "Compendium" of Policy Instruments that is specific to that country and provides the skeleton of their NAIP.

The next step is for this Compendium of Policy Implementation Instruments to be reviewed in detail. Note that wider consultations should be carried out once this Compendium has been reviewed and refined by key public actors that will be involved in its implementation. At this stage, the review should be carried out by:

- Members of the technical working group or committee overseeing the process;
- Public sector agencies who will have a direct role in its implementation – normally Ministries of Agriculture and/or Rural Development, but also other agencies that may have important roles to play under certain axes, such as those responsible for enterprise or industrial development, infrastructure and public works, water resources, environment, health, education, trade and commerce, or disaster preparedness;
- Public sector agencies responsible for economic and development planning, and finance – these are particularly important as they are likely to make the ultimate decisions regarding resource allocation for the NAIP; they are also likely to be well-placed to identify issues relating to harmonization and alignment with other plans and policies nationally;

- Representatives of different levels of government that are likely to have a role in putting these Policy Instruments into action.

3.5 Preparing a draft budget

Once the draft Compendium of Policy Instruments has been adjusted, based on the review described above (MGM and M-SAP), a draft budget for the Investment Plan can be developed.

This can be done by aggregating the budget lines as follows:

1. Under each Intervention Area, add up the budget lines for the different Policy Instruments selected and customized to give a total budget for each Intervention Area;
2. For each Strategic Axis, add up the budget lines for the different Intervention Areas to give a total for each Strategic Axis;
3. Across all the Strategic Axes, add up the totals to give an overall total for the Investment Plan as a whole.

The draft budget will provide a good guide on what will be required to successfully implement the Investment Plan. This can then be compared to the existing resources available and identify eventual gaps in the finance requirements.

The web-based tool can be used to generate the draft budget which can be exported in an excel spreadsheet and discussed with the appropriate government agencies responsible for the national budget. These discussions should aim to clarify the implications of annual financing requirements for the national budget, financing arrangements, fiscal policy, and development partner programming for the investment period under consideration, as well as highlighting the expected economic and social returns from implementing the Investment Plan.

3.6 Building consensus around the country Compendium of Policy Implementation Instruments

Once a compendium of policy instruments has been identified, achieving agreement among key stakeholders, and the institutions that will be involved in implementing those instruments, is key and cannot be taken for granted.

In the preceding modules of this guidance, the importance of engagement with stakeholders in order to build consensus around and buy-in to the NAIP process has been emphasised. If these steps have been followed, the mechanisms for presenting and discussing the compendium of policy instruments should already be well established at this stage of the process. However, care should be taken when presenting the compendium of policy instruments to different stakeholder groups to ensure that the instruments are properly understood by those participating in the discussions. This is particularly important as some of the terms used to describe different policy instruments may be interpreted somewhat differently by different stakeholder groups.

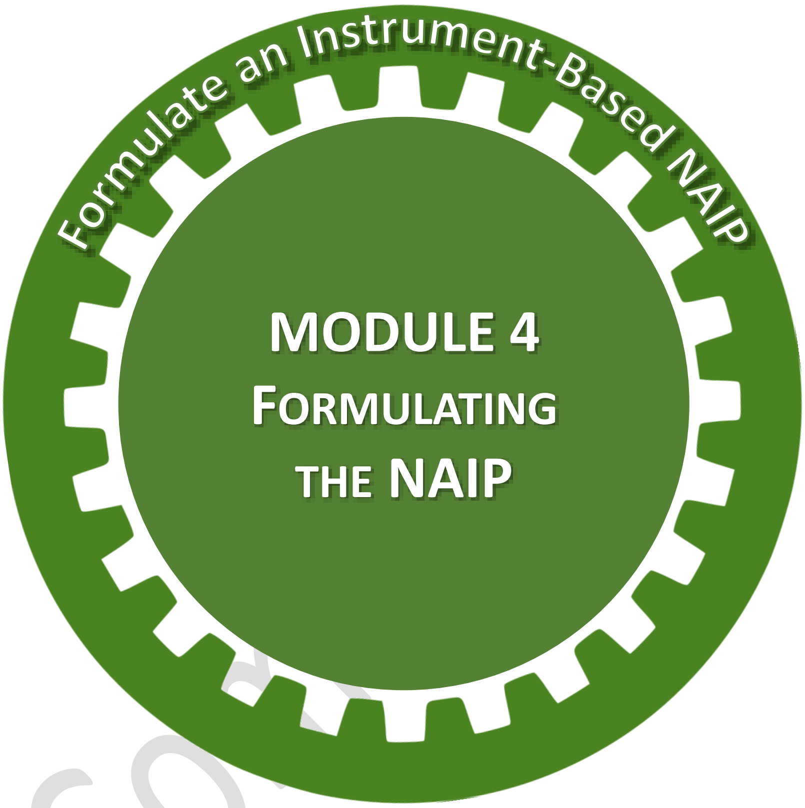
Two key activities for building consensus at this stage will be:

1. Reviewing the compendium of policy instruments with the technical working group or committee created as part of Module 2. This should involve representatives of the key ministries involved and, most importantly, the unit of the Ministry of Finance responsible for

developing the national budget, as these will be key actors in the eventual approval of the NAIP. The specific policy instruments proposed in the compendium will need to be aligned with the national budget process.

2. Engaging the broader stakeholders already involved earlier in the consultative process for the NAIP in order to validate the choices made regarding policy instruments. Consultations with the various stakeholders can be done through meetings with specific beneficiary groups such as producer organizations, service providers, marketing associations, and women's or youth groups.
3. On-line consultations might also be used to enable wider comment and review of the proposed compendium of policy instruments.

Module 4 – Formulating the NAIP



After following the process described in Modules 1 to 3, the core materials for developing a National Agricultural Investment Plan (NAIP) should be available.

Module 1 will have produced a detailed description and analysis of the Country Context.

Module 2 will have customized the CAADP Theory of Change, Results Framework and Programmatic Framework to the national context.

Module 3 will have identified specific investments of public resources in the agricultural sector with intervention areas and compendium of policy instruments for their implementation. It will also have developed a draft budget.

Critically, all of these steps will have been sequentially carried out with a systematic engagement of key stakeholders in the sector including both leading and supporting government agencies, the private sector, representatives of key stakeholder groups and the non-state sector.

This will provide a comprehensive basis for developing the NAIP.

4.1 Developing the main NAIP document and the annexes

In order to develop the written version of the NAIP, the first step is to identify a drafting committee to lead this process.

A drafting committee might be led by an appropriate consultant, but this figure should be supported by a technical committee whose role should be to assist in carefully synthesizing all the various components of the NAIP into a single document.

The proposed contents of a CAADP NAIP include:

i. Country Context;
ii. Government Priorities;
iii. An adapted Theory of Change for the NAIP;
iv. A definition of the objectives of the NAIP;

v. A programmatic framework laying out the programmes and priority areas of investment for the NAIP;

vi. A more detailed description of these programmes, priority areas of investment and policy instruments.

Suggested Annexes to the draft NAIP would include:

- Annex 1: The national adapted results framework;
- Annex 2: A detailed programmatic framework;
- Annex 3: A detailed description of policy implementation tools;
- Annex 4: The budget.

An additional annex to be developed to complete and complement the NAIP would be one describing future government support for priority value chains (see Part 2: Modules 6-8).

4.2 Completing and finalizing the budget

Based on the steps completed in Module 3, the draft budget prepared will next need to be completed and presented, having been aligned with the national budgeting process.

Depending on the budgeting procedures in place in different countries, the budget allocated for the NAIP will most likely expand on current allocations for the day-to-day administration and operation of the Ministry of Agriculture and its allied directorates or departments. In countries where the composite budget approach is the practice, the budget for Strategic Axis 1 under the proposed programmatic framework will generally cater for the administration and operation of the Ministry of Agriculture and its allied departments. The final NAIP budget should additionally have explicit allocations for the other 6 strategic axes, investment areas, and the specific policy implementation tools.

4.3 Developing an implementation / execution plan

The NAIP should be supported by a detailed plan for its implementation and execution. This plan will inevitably involve a wide range of agencies, organisations and stakeholders in the implementation of different investment areas and policy instruments. As a result, it will be subject to on-going development and progressive refinement as negotiations and approval of the NAIP are taken forward.

However, it is important to develop a draft implementation plan that clearly lays out the necessary phasing of interventions. This plan should clearly articulate how different interventions interact and support one another and encourage actors in the implementation of the NAIP to understand which parts of the NAIP are interdependent, and which parts could constitute stand-alone components.

Module 5 – Organizing approval of the NAIP and securing budget

No matter how strong and well-articulated a NAIP might be, without approval and commitment of the required budget it will remain on paper and fail to produce impact. Therefore, once a NAIP has been drafted, the process of organizing approval of the NAIP and securing the required budget is key.

This stage of the NAIP process requires careful thought, planning and commitment of time and resources. Simply leaving the completed draft of the NAIP to go through the procedures required may not ensure that approval is given. Greater levels of follow-up by the key actors involved in the development, and future implementation, of the NAIP may be required to convince decision-makers and elected representatives that there is a "critical mass" behind the NAIP that will ensure that it is actually put into action and achieves its stated objectives.

In Modules 1 to 4, a process for developing the NAIP has been described where consultative processes involving key stakeholders, institutions and concerned groups play an important role from the very start. If engagement has been thorough and inclusive from an early stage, support for the NAIP is more likely to be clearly perceived by key decision-makers and this should influence their decisions regarding approval and financing for the NAIP. By contrast, if consultations and engagement have been less systematic and some stakeholder groups or institutions feel that they have **not** really participated in the plan's development or have been actively excluded from key discussions, this is likely to translate into criticism and lack of support that may negatively influence decision-makers perceptions of the NAIP. This can block, or slow, the process of approval and financing.

5.1 Organizing a stakeholder validation workshop (or workshops)

A stakeholder validation workshop, or series of stakeholder validation workshops, carried out once the NAIP has been drafted, can provide a strong platform for initiating the process of piloting the NAIP through the approval process. Stakeholders in key institutions, in the private sector, among producer and value chain actor associations, and in the non-state actor sector, need to be familiarized with the NAIP's content; the process that has led to its development, and expected results, as well as mechanisms for monitoring progress, and the roles and responsibilities of different sets of actors in the NAIP's implementation.

These workshops will also provide important space for feedback and opportunities for any appropriate adjustments that reflect the concerns of participants, as well as suggestions on future implementation arrangements.

In particular, public engagement with key stakeholders through these workshops should make it clear to key decision-makers that there is substantial support for the NAIP and that it reflects the outputs of a systematic process of consultation and engagement within the agricultural sector. Where appropriate, key decision-makers who will play a role in the approval process, and parliamentarians and elected representatives who will be called upon to approve key legislation and budget arrangements to make the NAIP effective, might also be called upon to participate in these validation workshops as observers so that they are exposed to the participation of other stakeholders in the NAIP and can see first-hand the support within the sector.

5.2 Engaging with senior officials

Engagement with senior government officials needs to be ensured at several levels at this stage of the NAIP process.

At the **governmental level**, senior government officials including Ministers, Deputy Ministers, Principal Secretaries, Directors, and Head of Agencies for those ministries directly concerned with the NAIP need to fully understand the core strategies and highlights of the NAIP and how it addresses the government's priorities and how it aligns with regional, continental and global development goals and, in particular, the commitments in the Malabo Declaration. A summary of these key aspects of the NAIP should be prepared and made available to these figures to ensure that they have key information about the NAIP at hand to support their engagement in the discussions required for its approval. It is also important to provide a synopsis of the compendium of policy instruments to senior government officials, demonstrating to them how the instrument-based approach empowers the government and enables them to harmonize and align all public interventions with government priorities.

At the **parliamentary level**, parliamentarians and the various select committees responsible for agriculture and other related sectors such as land, natural resources and environment, science and technology, trade, health, social welfare and gender/youth should be informed regarding the NAIP and made aware of how the various interventions proposed in the NAIP will address challenges that affect their constituents. Engagement with elected representatives should highlight how the NAIP will enhance public sector accountability and empower the government to account for the results achieved. Engagement should also solicit the support of the parliamentarians for any legislation that will be required for the implementation of the NAIP, including legislation to support the establishment of new funding mechanisms such as Agricultural Development Funds and their management.

At the level of **civil society and the private sector,** stakeholders and concerned parties need to be aware of the key intervention areas identified in the Programmatic Framework and informed of the effectiveness of the proposed policy instruments in addressing the development bottlenecks that impede the transformation of the agricultural sector. The roles expected of different actors need to be highlighted along with the ways in which the proposed policy instruments will enable them to perform their core functions in the transformation process. It is also important to highlight any subsidies, incentives and tax breaks proposed and how these interventions are structured to target the varied needs of different stakeholders in the sector.

5.3 Transmitting the NAIP to the Cabinet

Usually the Cabinet Paper of Cabinet Memo has a strict format depending on the country. However, a generic format could contain the following; in a 3 to 5 page document:

- The **Title** should be clearly stated. In this case, it could read "National Agriculture Investment Plan 2020-2025;
- The Memo should state the key issues under consideration;
- Some specific recommendations have to be made for consideration by the Cabinet on the paramount importance to adopt the proposed plan that seeks to resolve the challenges in the sector, thereby transforming the sector;
- Some brief background must be provided to allow the Cabinet to see the connection between the plan and everything else happening in the country under the National Development Plan (NDP);
- Timing is of essence and must be stated in such a manner that one knows when the plan will start and when it will end. Increasingly, countries are being encouraged to align their new NAIP to the overall national planning cycle. In some countries, this time is being aligned to the presidential mandate so has to ensure consistency with vision of any sitting administrations;
- Stakeholders' views on the proposed plan have to be briefly presented as well;
- Implementation plan and proposed institutional arrangements must be spelled out.
- The monitoring and reporting plan must be included;
- The Memo must be clear on the financial implications of adopting the plan on the national budget;
- To end, the paper has to conclude on a formal "**Request to the Cabinet**" of the National Government in which the Minister responsible for Agriculture seeks Cabinet's approval of this National Agriculture Investment Plan, which details the principles, actions, and budget and organization arrangements to transform agriculture in the country as a consensual document from the extensive consultations with the key stakeholders on the land.

5.4 Streamlining the new NAIP into the national budget

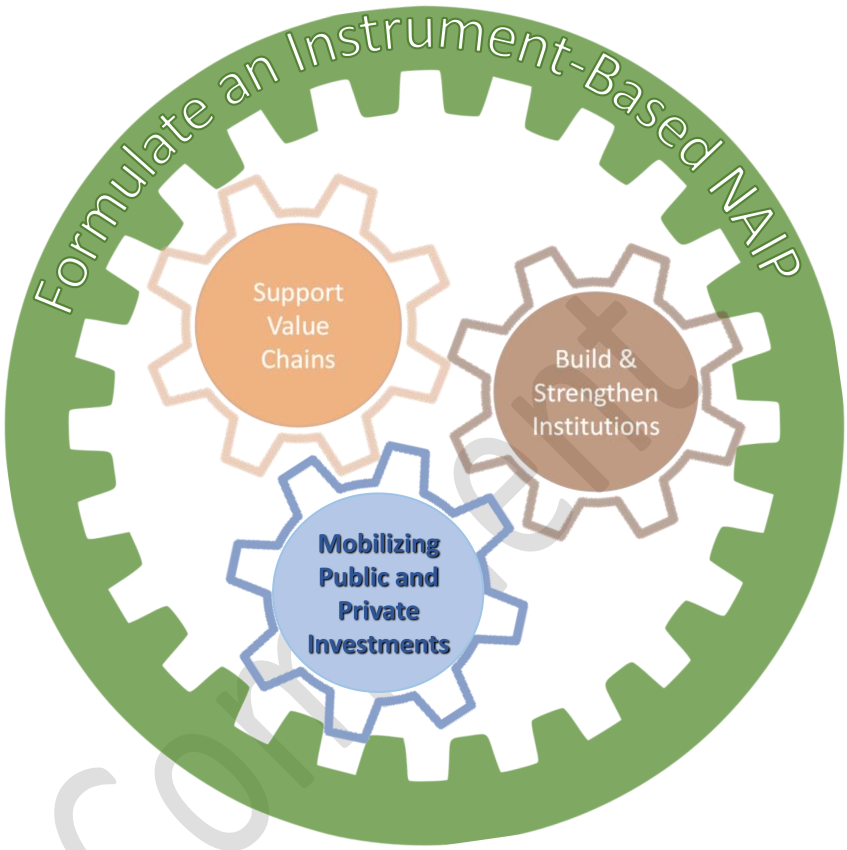
An important lesson that has emerged after several years of countries receiving support from various institutions to implement their NAIP is that the CAADP process is not always embedded in national planning and budgeting systems.. This seems related to the way the CAADP process was launched in some countries. In fact, by 2004, most countries had Agriculture Sector Wide Approaches (SWAPs) in place. While some have turned their Agriculture SWAP into the NAIP, aligning it to the CAADP principles, in some countries the two continued to exist side-by-side (often competing for public resources). Additionally, the link between the NDP and the NAIP is often not defined equally in different countries. As national budgets are often based on National Development Plans, a weak link to the NAIP can have financial implications.

Key issues that have emerged from this lesson include:

- *Improving the flow of public finance to policy priorities*: What needs to be done to ensure that public finance is balanced across policy priorities and programme components with respect to government and donor funding? What recommendations should be included in roadmap?
- *Aligning complementary and reliable development partners' (DP) funding*: what specific synergies between government and donor funding should be aligned to ensure that core tasks are funded first, gaps are filled, and duplication is avoided? What recommendations should be included in the roadmap?

So, ideally, a NAIP spending plan must be embedded in the national budget. From experience, this seems to be a good practice to ensure that public expenditure in agriculture is aligned to and guided solely by the NAIP. Spending via the NAIP should be subjected to budget reviews such as the Annual Audit, Agriculture Public Expenditure Reviews (AgPER) and Public Expenditure and Financial Accountability (PEFA) Reviews, thanks to a wider dissemination and application of their respective guidelines.

PART 2 – MOBILIZING PUBLIC AND PRIVATE INVESTMENTS



An investment portfolio is only as effective as the resources that are available to finance it. This part of the guidance focuses on different ways to mobilize the resources required to fund NAIPs and thus generate transformative investments in agriculture in Africa.

A critical starting point for understanding how to go about mobilizing financial resources required to underpin a NAIP is the recognition that lack of financial resources is **not** the key issue holding back the development of African agriculture.

In 2016 African countries spent USD 35 billion on imported food, a figure that at current rates could rise to USD 110 billion by 2025[1]. At the same time as these significant financial resources were flowing out of the continent to pay for imported food, over USD 50 billion were flowing into the continent in the form of Overseas Development Aid (ODA)[2]. Of this, food aid represented around 10 percent. In addition to these already substantial resources spent on imported food and food aid, foreign direct investment in Africa in 2018 reached USD 46 billion[3]. Clearly, financial resources are available, but they are not being invested in agriculture, or they are being invested badly, and are failing to achieve the transformation in African agriculture that is needed to feed the growing population of the continent.

Through CAADP and the Malabo Declaration, participating countries have undertaken to ensure that they invest at least 10 percent of public expenditure in agriculture. The NAIPs represent the key channel for these resources to be effectively invested in agriculture by providing an enabling environment for agriculture to attract investment, both from public sources and the private

[1] AfDB (2016). *Feed Africa: Strategy for agricultural transformation in Africa 2016-2025*. AfDB Abidjan. https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Feed_Africa-_Strategy_for_Agricultural_Transformation_in_Africa_2016-2025.pdf

[2] OECD (2018). *Development Aid at a Glance: Statistics by region. 2.Africa 2018 Edition*. http://www.oecd.org/dac/financing-sustainable-development/

[3] UNCTAD (2019). *World Investment Report 2019.* United Nations, New York. https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=2460

sector. But this commitment should be seen as the **minimum** investment required in the agricultural sector in Africa if it is to realise the ambition of becoming a motor for development, food security and poverty alleviation. Recognising the true potential of African agriculture will require the establishment of sustainable mechanisms for ensuring that all actors in agricultural value chains, whether large, medium or small-scale, can access the finance they need to ensure that their agricultural enterprises can develop.

The obstacles to achieving these levels of investment in agriculture are numerous. In a global financial context offering a wide range of potentially attractive investment opportunities, attracting finance to invest specifically in African agriculture can be especially challenging. While the immense potential of African agriculture may be recognised among those closely involved in its development, convincing investors of this potential can be difficult.

Several specific factors may deter investors from investing in African agriculture. These include:

- The perceived risks in a sector still dominated by rain fed agriculture and relatively unorganised value chains;
- Lack of an enabling environment and political will for reforming the agriculture sector;
- Poorly organized and inefficient value chains throughout the agricultural sector;

Agricultural development in Africa has commonly been financed through two principle channels:

- International development aid through projects;
- National governments through allocations directly from their national budgets, channelled either through projects or services to support agriculture.

The first of these options, while often achieving significant short-term results, has demonstrated how project approaches rarely generate sustainable results. Relatively short-term inflows of financial resources often create systems that cannot be sustained once the source of funding is exhausted. Time and again, projects have failed to establish viable food systems and the institutional arrangements required to ensure effective governance for those systems. The overall impact on agriculture has rarely been transformative.

The second of these financing options, where national governments either establish their own projects or a set of dedicated services for the support of agriculture, financed from the national budget, at least have the potential for addressing some of these sustainability options. However, they have often been hampered by the limited resources available from national budgets, leakages, and bureaucratic obstacles that delay disbursement of funding and make these government initiatives unresponsive to needs on the ground. Particularly where the need is for investments to encourage a more dynamic agricultural sector that engages with the market, bureaucratic systems face insurmountable difficulties in providing the responses needed.

Addressing these issues requires actions that are covered over all of the four parts in this guidance. In this Part 2, the focus is on those specific actions that can help to finance both public and private investments in agriculture. As in the other parts, the approaches to mobilizing and governing financial resources for agricultural transformation are based on the last 50 years of experience in agricultural development in Africa and worldwide. This experience highlights two key action areas for financing agriculture and good systems:

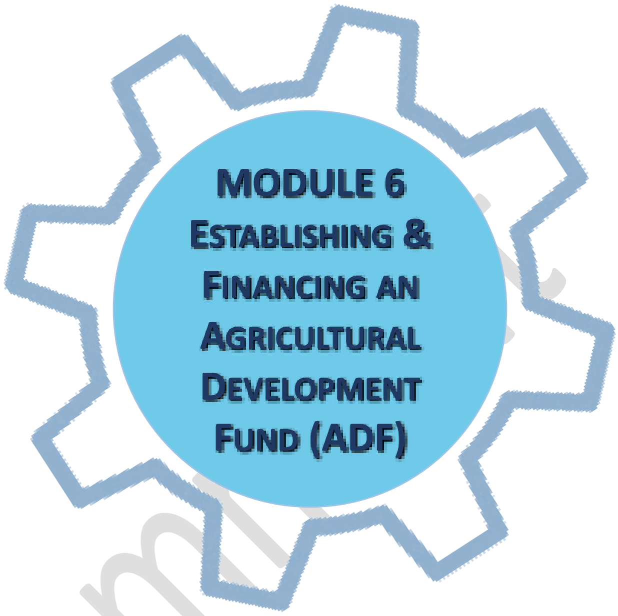
- The establishment of an Agricultural Development Fund (ADF);
- Mobilizing private sector finance for the agricultural sector.

In looking at financing for the agricultural sector, the actions laid out in this part cannot be taken in isolation from the processes outlined in the other parts of this guidance. Establishing effective financing arrangements must be closely linked with the development of a NAIP (Part 1), support to value chains (Part 3) and building and strengthening institutions (Part 4). Encouraging investment in agriculture is **not** just about finding resources and channelling them into agricultural investments. It requires the creation of a set of conditions that will make agriculture an attractive investment.

Part 2 consists of 2 modules:

- **Module 6: Establishing and Financing an Agricultural Development Fund (ADF)**. This module describes the crucial role to be played by dedicated Agricultural Development Funds (ADF) as a key element in ensuring financing to bring about transformative change in the agricultural sector. The module deals with the process of setting up an ADF, identifying funds for its establishment and, in particular, highlights key features of the governance of the ADF to ensure that it functions effectively;
- **Module 7: Mobilizing Private Sector Finance for the Agricultural Sector**. Ultimately, the development of a dynamic agricultural sector in Africa will depend on mobilizing private finance to invest in the agriculture. Long-term sustainability cannot depend on public funding alone. This module discusses some of the key strategies for engaging with private finance, including key policy instruments for encouraging investment in agriculture.

Module 6 – Establishing and Financing an Agricultural Development Fund (ADF)



Importance of a dedicated fund to support agricultural development.

In the long-term, a modern agricultural sector will only be sustainable if it is financed by the private sector. But in the African context, as in many other parts of the world in the past, there are significant constraints that hinder the mobilization of domestic and international public and private resources to finance agriculture.

These constraints include:

- The lack of critical infrastructure such as transport, communications, irrigation, power supply, and storage and marketing facilities;
- The lack of mechanisms for sharing the risks associated with agriculture (weather conditions, pests and diseases, natural disasters);
- Limited organisation and mechanisms for aggregation of production, particularly among poorer and small-scale farmers such as women, youth and vulnerable groups;
- Poorly organised and structured value chains for agricultural commodities.

To help to overcome these constraints and initiate the process of transformation in the agriculture and food system, a dedicated Agricultural Development Fund is an essential tool

6.1 Establishing the purpose and priorities of the ADF

One of the major challenges in setting up an ADF is ensuring that the purpose that it serves is clearly defined and understood by all the stakeholders concerned: politicians, administrators and the fund’s potential users. In the past, ADFs or similar mechanisms have often been established without a clear definition of their role in facilitating agricultural development, or as a political instrument for channelling resources to the agricultural sector to ensure support among agricultural populations.

The purpose and priorities of the ADF will clearly need to be aligned closely with the issues and interventions identified in each country’s NAIP and identify those areas of intervention where the

ADF has a key role to play. These will then need to be incorporated into the fund's statement of purpose and its priorities.

The overall purpose of the ADF will inevitably be relatively broad ranging in order to include all the areas in which is it likely to be engaged. An example of such a statement of purpose might be:

> "to provide a comprehensive, harmonized, efficient and effective legal and regulatory framework for financing of agriculture".

The statement of **priorities** of the ADF needs to be more detailed and provide a guideline for implementing the fund that will be clear for all stakeholders and that will clearly define the limits of what the ADF can (and cannot) do. These priorities will also provide stakeholders with a clear means of holding the ADF to account as to whether or not it is achieving its goal and pursuing its stated priorities.

In the African setting, an ADF is likely to prioritise the growth and development of smallholder farmers as they are the dominant actors in the sector, but this may be achieved through focusing on a variety of priority areas including:

- Value-chain development;
- Promoting the safe use and handling of agrochemicals;
- Promoting the production and use of quality feeds;
- Promoting agriculture insurance instruments;
- Providing legal aid to farmers to secure land tenure;
- Promoting irrigation;
- Improving marketing and aggregation arrangements for small farmers;
- Facilitating infrastructural improvements.

Building consensus and understanding of the purpose and priorities of the ADF prior to its establishment is critical as this will affect the framing of an appropriate legislative, regulatory framework and governance arrangements for the ADF. If the purpose and priorities are not well understood or not widely supported, there are risks of these arrangements be established in a way that could lead to the ADF being diverted away from its stated purpose and "used" to address other priorities that may have little to do with achieving transformative change in the agricultural sector.

6.2 Establishing a regulatory framework for the ADF

The regulatory framework for the ADF needs to clearly define several key elements in the ADF's operation.

WHAT the ADF aims to achieve. Clearly this needs to be aligned with the stated purpose and priorities that have been agreed upon among stakeholders.

WHO the ADF intends to benefit. This should also be aligned with the priorities set for the ADF and needs to be laid out as precisely as possible and thought through fully. Even if the overall intended beneficiaries of the ADF are smallholder farmers, attention needs to be given to how strategic investments that might benefit banking institutions offering loans to smallholder farmers, or investments in larger scale enterprises producing quality seed, might also be needed in order to sustainably support smallholder farmers. Therefore the full range of potential beneficiaries need to be taken into consideration.

HOW the ADF will benefit the intended beneficiaries. This should lay out what specific actions the ADF will undertake in order to achieve its purpose and address its priorities. This will effectively provide a guide on what implementation measures the ADF aims to use to achieve its purpose and will be critical in guiding the ADF's functioning.

The process of developing the NAIP in each country should provide an important basis for establishing what exact measures the ADF will be involved in implementing and these will vary according to country priorities and the specific areas of intervention that both the NAIP and the ADF have identified.

The following examples provide illustrations of how the implementation plan of an ADF might vary according to the priorities that it has set, or according to the priorities that have been laid out in the country's NAIP.

- An ADF whose priority is to support the development of agricultural finance systems to help smallholder farmers get access to capital essential for growth might adopt measures such as:
    - Incentivizing and funding banks and other financial institutions to study, develop, and offer innovative and affordable agricultural financing and lending guarantee products for the benefit of value chain actors, especially smallholders and women;
    - Building the capacity of borrowers such as farmers, smallholder aggregations and other value chain actors to access loans which will improve their productivity;
    - Incentivizing and funding insurance institutions to study, design and offer affordable insurance products to smallholder farmers to protect them from the inherent uncertainties of the agricultural sector;
    - Funding advocacy, knowledge dissemination, and training on the use of said products.
- An ADF which aims to "provide a safety net for farmers, to protect them from market volatility, and compensate them for the low profitability of the agricultural sector" might, like the European Union's European Agricultural Guarantee Fund (EAGF), provide direct payments to farmers who meet their stated eligibility criteria, namely:
    - be an active farmer, have agricultural land at their disposal that is used for agricultural activity within the EU member states' territory, and satisfy the minimum requirements of the regulation;
    - The direct payments are given in the form of:
        - Basic Payments, which is given to all farmers based on the number of hectares they farm;

    - Green Payment, given for compliance with stated climate and environment friendly agricultural practices;
    - and Young farmers, awarded for up to five years for people under the age of 40 who are just commencing agricultural activity;
    - Member States are also given the flexibility of apportioning payments for Small farmers schemes, redistribution schemes and Payment for Areas with Natural Constraints, such as mountain areas, where farming is especially difficult.

- An ADF which aims to regulate markets to ensure stability and agricultural growth might take, also like the EAGF, the measure of establishing a price support system in the form of:
    - Public intervention in agricultural markets;
    - Funding the storage of agricultural products to stabilize market outputs;
    - Using special intervention methods in times of crises such as widespread animal diseases and natural disasters;
    - And fixing quota schemes for specific product markets such as sugar and milk.
- An ADF which aims to encourage smallholder farmer aggregations might, like the SADC:
    - Finance the studies, consultations and negotiations leading to the establishment of new smallholder aggregations, producer organizations and industry associations and the strengthening of already existing ones;
    - Fund the development of aggregations, including the cost of developing business plans;
    - Fund the training and coaching of leaders and staff of producer organizations, farming aggregations to deliver on their support for the agricultural value chains.

6.3 Establishing effective governance for the ADF

Ensuring that the ADF functions effectively in the long-term will depend on establishing effective governance mechanisms. In the past, many attempts to establish Agricultural Development Funds have foundered through failures to establish proper governance arrangements that ensure that the fund is used for its stated purpose, that there are effective checks and balances in place to control how the fund operates, and to ensure complete transparency in its management and implementation.

Who manages the fund?

One of the most common errors that has led to the failure of past ADFs has been to assign control to existing government agencies. This tends to lead to the ADF being used to further the agenda of the particular agency placed in control (rather than the achievement of the specific purpose and priorities of the ADF itself) and the ADF becoming simply an arm of the agency that manages it, rather than an independent body functioning for the benefit of the agricultural sector as a whole. It is critical that the management of the ADF be seen by all the stakeholders involved as representing their common interests. Some form of "collective" governance involving representatives of all those with an interest in the fund is therefore to be recommended. This might take the form of a board of trustees made up of representatives of agricultural sector associations, banks, processors, agricultural input and production traders, farmer organizations. Relevant government agencies might be brought in as one of these sets of interests, but independence from political influence should be an important criteria for the governance body. An alternative arrangement might be for the ADF to be created as a corporation jointly owned by these different interest groups.

In a country context where some form of government involvement is seen as important to ensure engagement by all actors in the sector, government appointees might take on an additional oversight or figurehead role. But independent operation of the fund is critical.

How will it be managed? In establishing the mode of operation and management of the ADF, the principle of operational independence needs to be clearly articulated. Appointees should not be political but based on familiarity with the issues facing the agricultural sector and associated services, as well as proven capacity to perform the specific roles required within the ADF. Procedures need to be established not on the basis of precedents for past government schemes or financial support but on the basis of the actual requirements of the proposed beneficiaries of the ADF's activities. Bureaucratic procedures need to be kept to a minimum and arrangements put in place to ensure that the ADF responds swiftly to the demands made upon it.

Transparency

Full transparency in the operation and management of the ADF will be key to ensuring its sustainability and effectiveness. This should include:

- Transparency over funding sources so that all stakeholders can clearly identify what money is available within the fund, from what source and for what purpose;
- Transparency over the ADF's purpose and priorities presented and made widely available to all potential stakeholders on a regular (possibly yearly) basis, including what the ADF will finance, how it will implement that financing, what the limits are on finance that can be requested and the procedures that potential beneficiaries need to undertake to access that financing;
- Transparency over ADF performance published in regular reports and certified by appropriate authorities, clearly presenting what the ADF has done, what has been achieved and the way in which the funds available to the ADF have been used.

How these efforts towards transparency are articulated will depend very much on the country setting. The use of electronic platforms and social media offer a wide range of options for providing stakeholders with access to information about how an organisation works and these may be appropriate in some cases. Where access to electronic media is more limited, there may be a need to invest time and resources as part of the normal day-to-day business of the ADF in communicating what the fund does and how to make use of it using more innovative approaches that can be easily understood by potential users.

Effective check and balances

Another important operational consideration is what checks and balances mechanism will be put in place to ensure that the funds are not being misappropriated and that the Fund's monies are going towards measures that actually address its stated priorities.

6.4 Financing the ADF

Ensuring that the ADF is able to mobilize finances to fund its activities will, first and foremost, depend on whether or not it has been established with a clearly stated purpose, with effective regulations in place and with appropriate governance arrangements. The possibilities of attracting finance, from whatever source, will be significantly increased where these three key elements of the ADF are well established and have been effectively communicated to potential sources of finance. The perception that the ADF has effective governance arrangements will be particularly important in inspiring trust among potential financiers. In the past, the ADFs that have often been established have been entirely reliant on government funding, or project funding from external donors through the Treasury of their respective countries. This has rarely proven to be effective. Funds from within government tend to be limited and funds provided by external donors are often time-bound and not sustainable. Reliance on treasury disbursement also tends to involve significant delays due to complicated bureaucratic procedures that can seriously inhibit the capacity of an ADF to perform its core functions.

It is therefore important to aim to finance the ADF from funds that are outside of the national budget. Initially, there may be a need to use government or donor funding as "seed capital" for the establishment of the fund, but the medium to long-term aim should for the fund to be financed from within the agricultural sector itself. Much as road construction can be financed by levies on road use, a dynamic agricultural sector, with well-structured and organised value chains should be able to support the ADF through a system of light taxes and levies that will not impinge on the sector's operation but enable resources to be accumulated to support the on-going development of the sector.

The ADF should not be seen as a sole source of investment into the agricultural sector operating in isolation. Among its core functions should be the role of facilitating investment from other sources into agriculture and food systems. This is likely to mean working to identify co-financiers, particularly from the private sector, with whom the ADF can develop blended financing arrangements for investment packages in agriculture and associated services.

Effective communication regarding the ADF, its purpose, its priorities and its performance will be essential in ensuring that the resources it requires can be mobilized. This will require investment in communication from the earliest stages of the establishment of the ADF and will continue as the ADF lobbies key figures both in the public and private sectors in order to ensure that the independence of the ADF is ensured, and to attract investment into the sector.

Module 7 – Mobilizing Finance for Agriculture from Private Sources

In the medium to long-term, financing a dynamic and transformed agricultural sector cannot depend on public financing. The agricultural sector needs to become an attractive investment for private financiers who will want to invest in agriculture if they see that it can provide attractive returns on their investments. The need for governments to provide the initial impetus for agricultural transformation, particularly in the African setting, is recognised, but it is essential to work from the earliest stage of agricultural development towards making agriculture to become an attractive option for private investors.

To date, in Africa, attracting private investment into the agricultural sector has proved challenging. Agriculture in Africa is still perceived as prone to risk and lacking many of the fundamental features that are required to make it an "attractive" investment compared to other sectors.

This module therefore suggests some of the mechanisms and instruments that can be considered to encourage private investment in agriculture.

7.1 Sovereign Wealth Funds, Sovereign Wealth Enterprises and Development Funds

Several African countries have established Sovereign Wealth Funds (SWFs) as mechanisms to pool surplus revenues, particularly those generated from the exploitation of minerals and oil. The purposes of these funds can vary. Some countries see them primarily as a means of providing security against volatility in international markets for the key resources on which they depend. However, they are also increasingly being regarded as mechanisms for mobilizing resources for national development. Sovereign Wealth Enterprises and Strategic Development Funds can represent very significant sets of public resources that may be seeking channels for appropriate investment in support of the country's development. Where these funds are available, investment in an Agricultural Development Fund could represent a viable channel for investing their resources.

7.2 Agricultural Commodities Exchange

The risks involved in agricultural investments represent one of the key obstacles for potential investors. Commodity exchanges can reduce the costs and risks of transacting. They can provide valuable public information such as prices and volumes of trade. In many indirect ways, they can encourage the financial sector to invest in agricultural value chain development, improve farmers' access to markets, reduce marketing margins, and encourage agricultural productivity growth.

An agricultural commodity exchange is an organized, regulated market that facilitates the purchase and sale of contracts whose values are tied to the price of commodities (e.g., corn, potatoes, beef). Typically, the buyers of these contracts agree to accept delivery of a commodity, and the sellers agree to deliver the commodity. Exchanges stipulate the standardized features of each contract such as the quantity to be delivered, the quality of the commodity, its price and when it will be delivered.

Agricultural commodity exchanges are typically associated with efficient and sophisticated markets, providing valuable benefits such as price discovery, publicly available market information, contracts for minimizing price risks, low transaction costs of exchange, and insurance against potential opportunistic behaviour of trading partners.

Creating an appropriate environment for the introduction of agricultural commodity exchanges is critical. Key conditions that need to be put in place include:

- A readiness of financial and banking firms to fulfil commodity exchange transactions and to lend to actors in the agricultural sector based on a perception that it is profitable for them to do so;
- A strong demand and willingness among actors in agriculture to pay for the possibility of shifting and spreading risk;
- A management entity that is perceived as trustworthy, even-handed, and yet decisive in its approach to resolving contract disputes between market participants. To support this clearly defined rules of behaviour for those participating on the exchange are key;
- Transparent rules governing the behaviour of brokers active on the exchange;
- A commitment from governments to adopt transparent and predictable rules for direct state operations in agricultural markets, including trade policies;
- Vibrant spot markets with large trade volumes already in place.

Clearly in many African countries these conditions are still under-developed and it may require a long process before these conditions are in place. Some of these conditions can only be established once transformation of the agricultural sector is underway. Agricultural commodity exchanges require organised and structured value chains and a critical mass in terms of volumes of commodities being exchanged, and these need to be developed before initiating the process of establishing an exchange.

Detailed consultations are needed to ensure that governments understand how commitment to the development of commodity exchanges would circumscribe their behaviour and policy choices. In particular, prospects for the sustained development of commodity exchanges are highest where governments are prepared to accept a more limited and predictable approach to intervening in agricultural markets and to trade policy. To date, most governments have considered that such commitments impose unacceptable constraints on their mandate to ensure national food security.

7.3 Blended finance

Blended finance is defined "as the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets"[4] resulting in positive results for both investors and communities. Blended finance offers the possibility to scale up commercial financing for developing countries and to channel such financing toward investments with development impact. The concept of blended finance can contribute to raising the private financing needed.

OECD[5] recently identified 180 blended finance funds and facilities, with USD 60.2 billion in assets invested across 111 developing countries and impacting over 177 million lives, demonstrating the tremendous potential of blended finance to close the funding gap required to finance the ambitious Sustainable Development Goals (SDGs) agenda and deliver development outcomes. The concept has been gaining popularity lately within the world of international development finance. As a result, blended finance principles[6] have been adopted by the Development Assistance Committee to guide the design and implementation of the concept, which aims to use development finance, including philanthropic resources, to align additional finance towards meeting the SDGs.

Following this concept, blended finance offers important potential for use in conjunction with public resources, including those provided through an ADF, to unlock private financing and facilitate a transition towards higher levels of private finance for the agricultural sector.

This blending can take various forms, with public resources generally being targeted at those areas that might prove less attractive for private financing institutions. In particular, public finance can play an important role in absorbing some of the real or perceived risks associated with investments in African agriculture in order to leverage private finance that is looking for better returns on their investments at lower risk.

The public finance element in blended financing arrangements can take many forms with different balances between public and private participation. These include the following:

- Perhaps the most limited level of public participation in a blended finance arrangement might be where public institutions or international agencies are simply named as stakeholders in a project where their involvement is seen as representing a means of assuring private investors of government support.
- Public institutions can supplement the investments from the private sector by providing the technical assistance, in the form of research inputs, training, or smart subsidies for specific technologies in order to reduce transaction costs for private investors.

[4] https://www.oecd.org/publications/making-blended-finance-work-for-the-sustainable-development-goals-9789264288768-en.htm (see page 49)
[5] https://www.oecd-ilibrary.org/development/blended-finance-funds-and-facilities_806991a2-en
[6] http://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/

- An important form of blended finance is where public finance institutions use smart subsidies to support farmers' and value chain actors' access to commercial bank loans by covering the costs of guarantees required by banks, providing insurance, absorbing or reducing the cost of high interest rates, or matching loans with complementary grants.
- Public finance can play a particularly important role in blended financing arrangements by underwriting risks associated with private investments in agriculture to fully or partially protect investors against risks and capital losses.
- A less common form of public participation in blended financing arrangements would be government provision of market incentives in the form of offtake guarantees and financing linked to performance as a means of reassuring investors, particularly where new agricultural markets are being developed or in difficult or unstable market conditions.

Blended finance can therefore constitute a key tool for enabling the private sector to work together with the ADF and enable the ADF to target strategic investments that the private sector might find less attractive.

For more on blended finance arrangements for agriculture click on this link. [Blending4ag]

7.4 "Impact" finance

Impact finance represents another potentially important form of private investment fund that, in the right conditions, can be attracted to invest in agricultural development.

Impact investing refers to investments made into companies, organizations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return. Impact investments typically provide capital to address social and/or environmental issues.

Impact investors seek to invest their capital in businesses, non-profit organisations, and funds in industries such as renewable energy, as well as in basic services including housing, healthcare, and education, micro-finance, and sustainable agriculture.

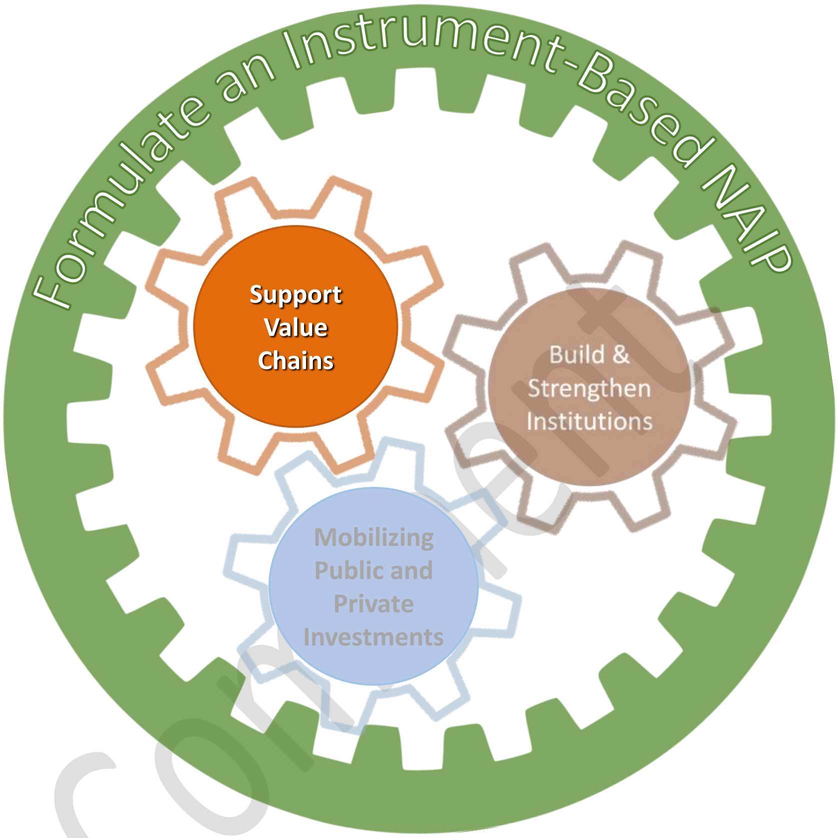
As interest and concern has grown worldwide in sustainable food systems and agricultural value chains, increasing numbers of investors are beginning to explore high impact investing opportunities in food, farming, and forestry. Opportunities for impact investors in sustainable agriculture now extend from real estate investments in sustainably managed farmland and forests to debt investments (investments with no expected return, as in the case of an endowment, donation) in farms, cooperatives, and food enterprises, to equity investments — both private and public — in healthy food companies, retailers, and agricultural technologies focused on the efficient use of energy, inputs, and natural resources.

For the agricultural sector in African countries, challenges in attracting impact investments include:

- Achieving sufficient levels of organisation and aggregation in the agricultural sector for potential investors to have a critical mass with which to deal;
- Improving regulatory structures, processes and mechanisms;

- Ensuring accountability and transparency within the agricultural sector and within agricultural value chains;
- Strengthening mechanisms for dealing with grievances and resolving disputes.

PART 3 – SUPPORT VALUE CHAINS



In Module 1, in describing the steps required to develop a National Agricultural Investment Plan (NAIP), an "Instrument-Based Approach" was suggested. Sets of possible policy implementation instruments that can be used to achieve different goals were proposed for each of the seven key axes for intervention that were used to divide the agricultural sector into distinct "intervention areas".

One of the seven proposed axes – State-support to value chain players – requires particularly careful attention. To achieve CAADP goals of transforming the agricultural sector in Africa, experience has shown that improving the way agricultural value chains work has a key role to play.

A "value chain" is a set of linked activities (a "chain") that take inputs of goods and services and generate or add value by transforming them into new or improved goods and services that satisfy a market demand. The value chain is made up of:

- Natural or legal persons (referred to here as value chain "players" or "actors"), their core activities and the technology they use to produce inputs and transform those inputs into new products or by-products from the process;
- The consumers who make use of those products and by-products;
- The linkages between these different "actors", including the services that allow them to operate, the rules and regulations that govern the different segments, activities and transactions involved, and the information that flows between them;
- The "value" that this chain generates.

If a value chain functions effectively and efficiently, each step along the chain should generate sufficient extra value above and beyond the costs of the operations involved to provide benefits for all the different actors who have roles in the process, while still providing end-products or by-products that are affordable for consumers and respond to their demands.

An agricultural commodity value chain is the value chain that delivers a particular agricultural commodity to the market. Like any value chain, it is market-driven and it can generate more or less value, and greater or smaller benefits for the actors involved, depending on the efficiency and effectiveness of its operations, the appropriateness of the technologies involved, and the ways in which linkages between the actors and the steps along the chain work.

Agricultural commodity value chains can range from being relatively simple, involving a few actors and key functions, to being extremely complex with many actors making use of a range of different inputs, performing different key functions and generating different products and by-products targeting different market segments.

Click on these links to learn more about value chains, how to understand them, and how to make them work better. [AG4IMPACT] [FAO]

Developing smallholder inclusive value chains critical

In Africa, where the agricultural sector is largely made up of smallholder farmers, developing agricultural commodity chains that include those smallholders is essential if agriculture is to contribute meaningfully to economic development. Experience shows that, where smallholder producers are well-organized and have the capacity to perform their core activities effectively, and where they operate as commercial small farms with better access to quality inputs and to markets, they can raise their incomes significantly. This in turn can have a radical positive impact on agricultural growth and the sector's contribution to wider economic growth.

Making agricultural commodity value chains work for smallholders can help African countries achieve the target of 6 per cent per annum agricultural growth that they have committed to under the CAADP. It can also contribute significantly to poverty reduction by stimulating growth in employment and incomes in the rural non-farm sector and stemming rural-urban migration.

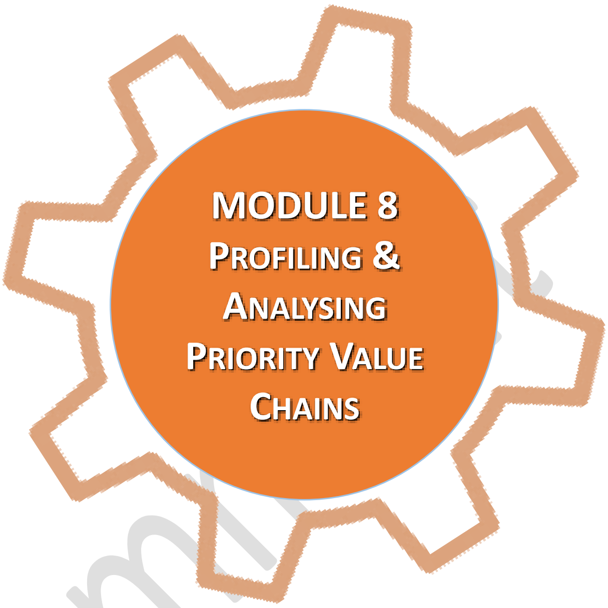
What can Government do to promote commodity value chains development?

There are several key areas in which Government can intervene to promote the development of more effective and inclusive value chains for agricultural commodities, as contained in the 5 modules presented under this Section 3 of this guidance series.

- **Module 8: Profiling and Analysing Priority Value Chains**. Carrying out thorough value chain profiling and analysis is a key starting point for working to improve value chain performance.
- **Module 9: Designing Interventions for Improving Priority Value Chains**. This module focuses on the steps that need to be taken to identify appropriate interventions for the improvement of priority value chains. These include a results-based analysis of value chains, steps to improve value chain organisation, and steps to upgrade the supply of goods and services for value chains through a careful analysis of the "delivery arenas" (made up of the persons and organisations that deliver goods and services) associated with particular value chains.
- **Module 10: Using Policy Instruments to Support Priority Value Chains**. This module links the support of priority value chains to the policy instruments discussed in Part 1 of the guidance and identifies those policy measures that are of particular importance for the development of improved value chains, including economic instruments, infrastructure development, improvements in communications, the promotion of specialized agencies and the means that can be considered for rolling-out these measures.

- **Module 11: Setting up and Implementing Public-Private Partnerships (PPP) for Developing Priority Value Chains**. Public-private partnerships have a particularly important role in value chain development and this module deals with some of the specific issues that need to be taken into account when developing and implementing these partnerships.
- **Module 12: Promoting Enterprises for Value Chain Development**. This module discusses some of the different types of enterprises that can be considered for promotion as part of the process of developing value chains.

Module 8 – Profiling and Analysing Priority Value Chains



8.1 Overview of value chain profiling and analysis

The process of value chain profiling and analysis consists of the following key elements:

- **Characterising the commodity** concerned, including current characteristics and the precise characteristics demanded by different markets, both current and potential;
- **Mapping out the "chain"**, or the processes involved in transforming goods and services into that commodity;
- **Geographical mapping** of the locations involved in production and transforming goods and services in the value chain paying attention to the comparative advantages of different geographical areas;
- **Profiling the market** for the agricultural commodity concerned to identify as precisely as possible current markets, potential alternative markets, their characteristics and their specific demands;
- **Identification and characterisation of the value chain actors** involved in different stages, from production to final sale, and their characterisation in terms of their needs, their influence, their capacities and their potential to contribute to improvements in the value chain;
- **Identification of the key challenges** to enhancing productivity and competitiveness within the value chain;
- **Profiling value chain performance and potential value chain improvements**.

It may be possible to make use of secondary data for many aspects of a value chain analysis, but direct engagement with value chain actors is essential in order to understand the complexities of value chains and the motivations and concerns of the people involved. Interviews with individuals or groups of value chain actors can provide an opportunity to carry out the mapping activities and help with the identification and characterisation of different actors.

Workshops that bring together value chains actors, either as separate stakeholder groups or with different actors from different stages meeting together, can also provide new insights. Particularly when identifying key challenges, interactions with groups of value chain actors can be particularly useful.

The importance of effective engagement with key stakeholders in the agricultural sector as part of the process of identifying appropriate policy instruments and investments in the sector has already been described in Section 1 of this guidance. Where this engagement has been carried out systematically, there should be a strong basis for engaging with actors in the key commodity value chains in order to carry out value chain profiling and analysis in a participatory way.

8.2 Characterizing the commodity

The starting point for any value chain analysis must be the precise characterization of the commodity involved. This itself will involve two important elements:

- The characteristics of the commodity currently being produced;
- The characteristics of the commodity demanded by a particular market segment or by different market segments.

This characterisation needs to look in detail at:

- The key existing attributes and the attributes demanded by the market;
- The current and demanded quality parameters;
- The current and demanded packaging and labelling;
- The current and demanded quantity and time characteristics of the commodity;
- Price parameters – the value achieved under current conditions and the potential value if the demands of identified market segments were to be satisfied.

This characterisation, presented in a succinct table, will provide a frame for all future work on improving and upgrading the value chain. Clearly, as more is learnt about the value chain, and in particular about the market for the commodity concerned, this initial characterisation may need to be revised to include new details as knowledge and understanding of the value chain develops.

8.3 Mapping the chain of commodity production:

Mapping out of the chain for the production of the commodity concerned in the form of a detailed flow diagram or chart that allows the value chain to be broken down into key steps or functions.

At each step, the mapping should identify:

- All the inputs required at each stage (raw materials, goods, services, finance, skills, equipment);
- Any by-products generated at each stage;
- The state of the commodity produced after each stage of the process.

This mapping should take account of the current steps in the value chain for the commodity, and what different or additional steps might be involved in an improved value chain aiming at a higher value market.

8.4 Geographical mapping of the value chain

The geographical mapping of the value chain should aim to understand how the different processes mapped out in the value chain are distributed geographically.

This should aim to identify:

- Areas of production at different levels (high or low);
- Locations of aggregation;
- Locations of sale at different stages;
- Primary processing activities;
- Marketing activities.

For each of these locations, some description of the potential and competitive advantage associated is important, such as availability of key resources or skilled manpower, as well as key constraints facing particular areas, such as poor infrastructure or vulnerability to natural hazards.

These key geographical features of the value chain can be located using sketch maps and then synthesised into tables or diagrams to display key features.

8.5 Profiling the market

Understanding the market for an agricultural commodity is key to both understanding the value chain and improving it. The market survey should look at both current markets and potential alternative markets for the same commodity (although perhaps with different characteristics). Understanding the structure and characteristics of different market segments may be particularly important in identifying potential developments in the value chain aiming at improving the results obtained by actors within that value chain.

Key features of existing and target markets that need to be assessed include:

- The structure of the market, including:
    - location of markets;
    - numbers, distribution and size or scale of the actors involved;
    - how transactions are conducted;
    - product differentiation and branding;
    - market share of different actors and their relative power to influence the market;
    - barriers to entry to the market and their effectiveness;
    - degree of integration of the market.
- Behaviour of the market, including:

- changes over time and their causes;
- influences on pricing, production, promotion and distribution of market activities.

- Performance of the market, including:
  - wastage and losses, and their causes;
  - value and its distribution among actors;
  - openness to innovation and adaptation.

Click this link for more information on market analysis.

8.6 Categorizing value chain actors

Each stage along the value chain for any agricultural commodity will involve a series of actors who perform different functions in the process. These will include producers of raw materials, aggregators who collect produce, handlers and transporters at different stages, processors, input providers, those involved in storage activities, financiers, accountants, those involved in marketing activities at different levels, and actors who might play a role in organising and representing the interests of other actors.

Understanding who these actors are, and characterising them in as much detail as possible, is essential, particularly with a view to developing value chains that are inclusive and produce better outcomes for the people involved.

Key features of each of the different actors that need to be characterized include:

- their core activities;
- their social and economic characteristics;
- their numbers;
- their locations;
- the size of their businesses;
- the technologies and equipment they employ in performing their activities;
- their supply needs, in terms of inputs, finance and services;
- and the outcomes they realise from their activities in terms of their livelihoods, earnings and welfare.

The characterization of these actors should also map of their relative power and influence within the value chain, including their relationships with other actors, the extent to which they can influence how these relationships work, and the potential for adjusting or strengthening collaboration and cooperation in these relationships.

Once these different value chain actors have been clearly characterized, and the roles they play in the value chain defined, the appropriateness of different actors to the roles they are expected to play, within both the current value chain and any eventually improved value chain, can be assessed. This assessment should look at:

- The appropriateness of each actor's capacities (resources, knowledge, tools and skills) to the performance of their core activities in the value chain;
- The incentives that each actor receives (financial, recognition, status, promotion, obligation, coercion) for the performance of their role in the value chain.

8.7 Identifying key challenges in the value chain

A thorough value chain analysis can generate complex results that need to be synthesised effectively so that the key learning from the value chain profiling and analysis is highlighted and can be used to develop options for future upgrading.

As suggested in 10.1, a workshop setting can be particularly effective for getting participants in the value chain to comment on findings from the analysis process and prioritise issues and challenges. Conducting a simple SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis together with these actors can help to distil the key learning and ensure that the conclusions reached are shared among key stakeholders. It can also highlight where different value chain actors may have different perceptions regarding the challenges facing the value chain and where work may be required to achieve consensus over future action.

8.8 Creating a profile of value chain performance and potential improvements

Based on the steps outlined above, it should now be possible to create a profile of the performance of the commodity value chain being analysed and, based on this, describe where there is potential for improvement and upgrading.

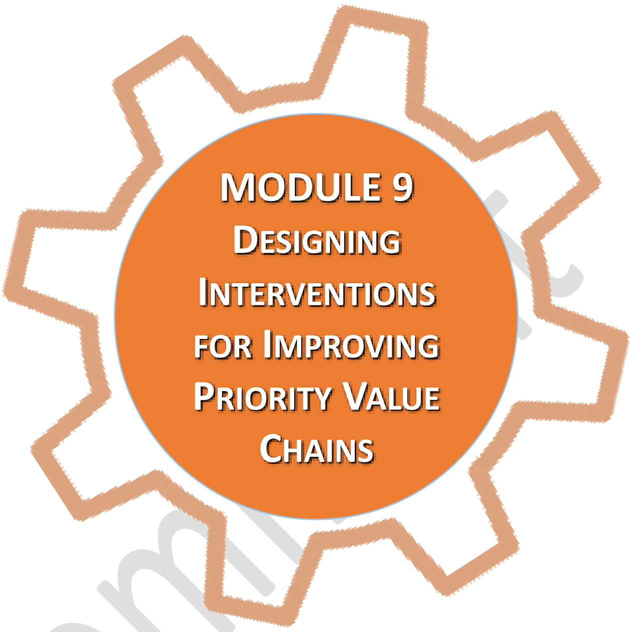
Several key areas need to be highlighted in this profile:

- The **current performance** of the value chain needs to be profiled in terms of:
  - production volumes;
  - production costs;
  - quality parameters of the produce;
  - the effectiveness of the current marketing channels in delivering value to the target market(s);
  - value distribution among the various players in the value chain.
- **Technology challenges** should be clearly identified, including:
  - access to inputs and input use – e.g. fertilizer access and bad practices in fertilizer application – broadcasting, late application, blanket recommendations with no reference to crop needs and soil conditions;
  - access to knowledge and information on production and alternatives;
  - mechanization options both in production and at other stages along the value chain;
  - irrigation, water management structures and water use.

- **Value chain organization challenges** particularly where organization can enhance efficiency and reduce transaction costs. These challenges may include organization of:
  - production units, particularly where smallholders with small production units are spread over wide areas;
  - producer organizations,
  - organization of the supply of goods and services and their coordination;
  - aggregation of produce to meet market requirements.
- **Competitiveness and efficiency** within the value chain needs to be assessed including:
  - cost structure and the drivers of production costs;
  - the levels of post-harvest losses;
  - market channels and their inefficiencies in the market channels will have to be identified,
  - critical production and post-production infrastructure;
  - levels of risk in the value chain, particularly where it affects access to investment and financing.

Based on this profiling of current performance, the key areas in the value chain where improvements need to be introduced can be clearly identified and highlighted with a view to designing potential interventions to increase the results achieved.

Module 9 – Designing Interventions for Improving Priority Value Chains



The profile and analysis of the value chains developed in Module 8 should provide a clear picture of where interventions are required in order to improve the efficiency of the value chain, enhance productiveness and improve the distribution of value among the actors involved.

This module provides guidance on some of the key elements to be taken into consideration when designing government interventions aimed at improving priority value chains for agricultural commodities.

For governments considering these interventions, at this point it is worth going back to the CAADP Theory of Change discussed in Module 2 of Part 1 of this guidance. Particularly when considering interventions in value chains it is important to recall the **role** of government as it is outlined in the CAADP Theory of Change – "to create an ecosystem of agriculture and food institutions…using organisational, financial and technical instruments". This highlights the role of government as an "**enabler**", while the private sector's role is to actually **provide** the goods and services required for priority value chains to function effectively and generate the final products.

Thus, any government interventions should be clearly focussed on providing a more "enabling" environment for the private sector players in the value chain to play their roles of providing the right goods and services. As much as possible, Government should **not** aim to substitute the private sector in providing those gods and services or in production and processing activities. Experience in agricultural development over the past decades has shown repeatedly that attempts by government to **replace** the private sector in directly providing goods and services prove inefficient and unsustainable and often disrupt value chain operations rather than improving them. While there may be specific opportunities for government to provide direct transfers to value chain actors to enable them to improve their operations and perform their roles better, that is not the same as government attempting to take on those roles themselves.

9.1 Assessing opportunities to enhance value chain productivity and competitiveness – focussing on the results

The key obstacles and weaknesses within a commodity value chain will be clearly based on the profiling and analysis described in Module 8, as will the opportunities that have been identified for possible improvements.

The next step is to refine these possible areas of improvement into more clearly defined opportunities for interventions and assessing the feasibility and eventual results that might be expected from different interventions in the value chain.

As with the process of profiling and analysing value chains, the definition of interventions should ideally be done in close collaboration with the value chain actors who are likely to be involved in implementing these measures or who would be affected by them. Where organisations or associations of value chain actors are involved, workshops or working groups that include their members and representatives can provide a forum in which the definition and refinement of interventions in the value chain can be undertaken as a group. This will ensure greater transparency and ownership of interventions among those who will have the greatest responsibility in making these interventions work. Where such levels of organisation within the value chain are lacking, focus groups of private operators who are active in value chain might provide an alternative forum for elaborating these interventions in as participatory way as possible.

An important starting point for assessing interventions is the clear definition of the **results** that they would be expected to generate. To do this, three key areas of possible results need to be understood:

- **Outcome Results**: When looking at interventions, whether for the whole value chain or a particular "link" in the value chain, the "Outcome Results" are the "final" results that the actors involved in that particular operation or set of operations will see in terms of their production and their livelihoods. Outcome results will include the benefits that value chain actors realise and the performance of their enterprises. These results might include:
    - increased production;
    - increased productivity (production in relation to inputs of labour and resources);
    - enhanced competitiveness;
    - increased exports
    - reduced imports
    - employment generated (direct, indirect, on farm, processing service providing…)
    - increased revenue for the actors involved
    - value added.

  Ultimately, all interventions should aim to improve the Outcome Results for all the value chain actors involved.

- **Delivery Results (access to goods and services)**: All the functions that different value chain actors perform within the value chain depend on their access to sets of goods and services. These are the key inputs to the particular core activities they perform or the services they need to carry out their functions in the value chain. Four key areas of these Delivery Results need to be assessed:
  - **Capital goods** that are used by value chain actors to perform their activities, such as seeds, fertilizers, equipment, raw materials, etc.
  - **Core services** that are required by value chain actors in order to perform their functions within the value chain, such as financial services, extension services, access to information, communications, etc.
  - **Market access services** that enable value chain actors to add to or maintain the value of the commodity they are dealing with. These might include processing and handling services, sorting, grading, storage, packaging, marketing, etc.
  - **Enabling services** are those services that may not be directly delivered to value chain actors, but which contribute to the functioning of the value chain by creating an "enabling" environment. These services might include certification, regulations for rural financing and their enforcement, quality control and grades and standards regulations, etc.

  For each of these sets of goods and services, Delivery Results measure the extent to which actors in the value chain are able to access the goods and services they require. Specific Delivery Results that need to be measured include:
  - Affordability (in terms of costs);
  - availability of range and choice of goods and services;
  - commercial sustainability of the delivery of key goods and services;
  - quantity and quality of goods and services required compared to what is available;
  - timeliness of delivery;
  - effectiveness and efficiency of the distribution system for goods and services.
- **Governance Results**: Any value chain operates within a set of rules and norms. The effectiveness of these rules and norms in leading to a balanced, efficient and effective functioning of the value chain constitute the Governance Results. Governance Results can include:
  - participation & voice of different value chain players in decision-making;
  - transparency of the transactions among value chain actors;
  - access to information;
  - legitimacy of the activities and transactions along the value chain;
  - distribution of benefits among different value chain actors;
  - trends in the benefits generated from the value chain among different actors;

- transaction costs along the value chain;
- levels of conservation of key natural and physical capital involved in the value chain;
- effectiveness of mechanisms for conflict resolution;
- ecological sustainability of the core activities;
- institutional learning/ feedback mechanisms;
- stability of the actors involved in the value chain.

Governance Results often depend on the effectiveness of the institutions that are mandated or tasked with delivering them, as well as the legislative framework that provides them with that mandate and their legitimacy to operate. This means that the institutions concerned need to be understood and their capacity to deliver the Governance Results required for improved value chains assessed. Where they are weak, interventions and resources to improve these institutions may be required.

Any intervention being proposed in the value chain needs to take into account how it will contribute to improving (or impact negatively on) some or all of these different types of results. This will enable policy makers to determine where their interventions are likely to have maximum positive impacts and identify possible negative impacts that may need to be mitigated.

9.2 Improving value chain organisation

The range of possible government interventions to upgrade and improve value chains of agricultural commodities is considerable, but experience in the development of African agriculture has indicated two key areas that are likely to be of paramount importance.

Improved business models for smallholders

A business model describes how actors involved at any given stage in a value chain relate to each other to do business, market their products and source supplies for their activities.

A smallholder inclusive business model is a business model in which smallholders and other actors involved in agricultural commodity value chains are linked to markets by stimulating better forms of business relationships that generate improved benefits for smallholder groups and small value chain actors.

The FAO recommends that upgraded Smallholder Inclusive Business Models (SIBM) should ensure the structured arrangements that:

- *Provide a living wage for vulnerable groups,* such as smallholder groups, small enterprises, women- and youth-run enterprises, while also enabling buyers to profit;
- *Use flexible trading arrangements* that make it easier for *smallholders* or MSEs to supply a buyer, such as cash on delivery, accepting small consignments, providing reliable and regular orders;
- *Support farmers and small enterprises to establish a stronger negotiation positi*on through skills development, collective bargaining and access to market information and financial services;

- *Build on the skills and expertise of existing market players*, including traders and processors, and promotes value chain collaboration, transparency in pricing mechanisms, and risk sharing;
- *Are scalable in the medium-term* so that the numbers of small actors involved can be increased and/or the type of business model can be replicated in other value chains or parts of the sector;
- *Allow for diversified income streams* in the long term to enable the dissemination of upgraded skills to the rest of the sector, avoiding overdependence on any single buyer or market outlet.

More details on SIBMs can be found by clicking on these links [FAO1] [FAO2] [FAO3] [FAO4] .

Any improved business model for smallholders and small actors in the value chain should aim to provide structured and well-coordinated arrangements for the following key elements:

- Prior arrangements for the purchase of the product of the value-chain ("off-take" arrangements) including the contracts and product specifications;
- Contracts for the provision of all the goods and services required;
- Arrangements for the aggregation and delivery of the products to the consumer;
- The timely flow of information required by actors in the value chain to perform their core roles, including the details of the goods and services required and available, product specifications, prices, timing of arrangements for aggregation, transport and sale, weather conditions, and any other information that will affect the way value chain operations are conducted;
- Financing arrangements to cover all value chain activities.

As part of the interventions to improve value chain organisation, the identification of individuals or organisations that can take on the important role of organizing and coordinating the activities of smallholders and small value chain actors is vital. The "value chain drivers" need to act as facilitators and guidance for their identification can be found through this link.

9.3 Upgrading the supply of goods and services in priority value chains

The effective functioning of improved value chains will often depend on improvements in the efficiency and effectiveness of the delivery of goods and services within that value chains. The improvement of the "Delivery Results" associated with the provision of these goods and services (see 9.1 in this Module) demands particular attention and will probably require some additional analysis so that mechanisms involved are properly understood.

The profiling and analysis of the value chain described in Module should have already provided a good picture of the actors who are involved in the provision and delivery of goods and services at different stages of the value chain. Some of the principle obstacles faced by these actors should also be clear and different types of "Delivery Results" relating to capital good, core services, market access services and enabling services should have been identified.

However further analysis needs to focus very tightly on each of the key "**Delivery Arenas**" concerned with the delivery of particular sets of goods or services.

A "Delivery Arena" is the set of actors, roles, resources and incentives that work together to achieve a set of Delivery Results. These results may be good, with actors able to perform their roles well, access the resources they need and realise the incentives they expect; or they may be poor, resulting in roles not being fulfilled properly, resources not being available when or where they are needed and the benefits realised by the actors involved not living up to expectations.

To upgrade or improve value chains, upgrading and improving these Delivery Arenas is often essential.

The arenas that need to be analysed may vary in number and complexity (the Box gives an example of Delivery Arenas that might be involved in a typical smallholder inclusive value chain), but a few key steps need to be carried out to ensure that it is clear what needs to be upgraded and how it can be achieved.

DELIVERY ARENAS FOR A TYPICAL SMALLHOLDER INCLUSIVE VALUE CHAIN

- **Farmer Profiling and Identification Arena**: which might provide services for farmer registration, GIS mapping of farms,
- **Information and Management Services Arena**: which would provide services for capturing and recording farm-level data, managing of contracts with appropriate software, and information sharing services;
- **Inputs Arena**: which would provide all the inputs like seed, feed, fertilizers, pesticides, petrol, etc. required by smallholders;
- **Mechanization Services Arena**: providing all the mechanization needs from land development to preparation and harvesting;
- **Knowledge and Skills Arena**: providing training for actors and developing their skills and capacities to care out their activities;
- **Market Access Services Arena**: providing services such as threshing, cleaning, sorting, packaging and aggregation that transform products from farm produce to a tradable commodity;
- **Transportation Services Arena**: providing transportation services from aggregation centres to final purchasers or markets.

Mapping the Delivery Arena

Using an approach not unlike that suggested in the Profiling and Analysis of Value Chains in Module 10, each of the relevant supply arenas needs first to be mapped out in detail, illustrating:

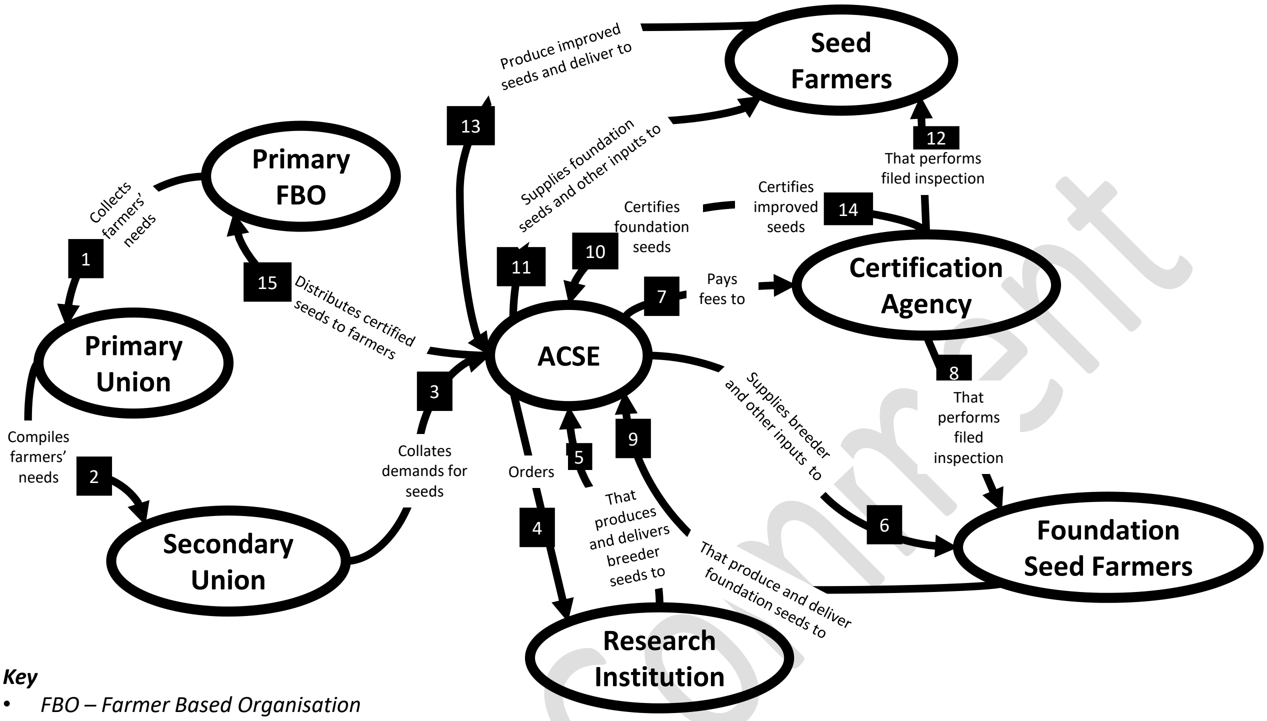
- the actors involved;
- their respective roles;
- the activities they conduct in the arena.

All the activities performed in arena should be sequenced so that is clear in what order they take place and how one activity might be dependent on the performance of other activities.

Much of the information required to carry out this mapping will have already been generated during the Profiling and Analysis of Value Chains in Module 10. Some validation of this information with stakeholders involved in each Delivery Arena may be required to cross-check information and add additional details.

For an example of the output of the mapping of a Delivery Arena, in this cases for seeds, see the diagram below.

MAPPING OF SEED DELIVERY ARENA



Key

- *FBO – Farmer Based Organisation*
- *ACSE – Agriculture Community Service Enterprise*

Analysing the Delivery Arena

The analysis of the Delivery Arena can again draw on information provided by the Profiling and Analysis of Value Chains in Module 8, but this analysis will be more tightly focussed on how to modify and adjust these Delivery Arenas in order to ensure better results.

Key elements to be analysed in each Delivery Arena will include:

- The **actors** involved, with a focus on: their **capacities** to perform the roles that they occupy in the arena; the **incentives** they have for performing those roles and how satisfactory they might be (do they deliver the desired Outcome Results – see 9.1 above); their **completeness** (are there actors missing and why?);
- The **roles** of different actors: this requires specific attention as the analysis here should identify whether different actors occupy roles that are **appropriate** to their **capacities**, **knowledge** and **skills**. It should also analyse whether they are the right **type of actor** to occupy that role. This last point is particularly important as it is vital that particular roles are occupied by actors (or organisations of actors) that are suited to those roles (the Box uses the Theory of Goods to illustrate what types of actors might be appropriate for performing different roles in a typical value chain);
- The **resources** (human, financial, material, and technological) required to deliver the goods and services required in the Delivery Arena and how access to those resources needs to be

distributed and ensured in order for the Delivery Arena to function efficiently and effectively;

- The **incentives** required by all the different actors involved to ensure that they collaborate to improved results from the Delivery Arena;
- The **governance arrangements** for the Delivery Arena, in other words:
    - the **relationships** between the actors involved;
    - the **rules** that determine how those relationships will function, including how roles are shared, how resources are allocated, what actors and agencies can and cannot do, how transactions are carried out, the transparency of transactions, the sanctions in place for breaking of rules and how these rules are enforced.
- The **costs and revenues** associated with the provision of goods and services in the Delivery Arena. This analysis should aim to ensure that the performance of the different roles within the Delivery Arena can constitute a commercially viable business that will be sustainable over time and generate an adequate set of Outcome Results of those involved and sufficient cash flow for the business to operate.

MATCHING ROLES AND DIFFERENT TYPES OF ACTORS IN DELIVERY ARENAS

Depending on the types of goods and services being delivered within a Delivery Arena, different types of actors are more likely to be able to fulfill the role assigned to them in relation to the delivery of that particular good or service. For example:

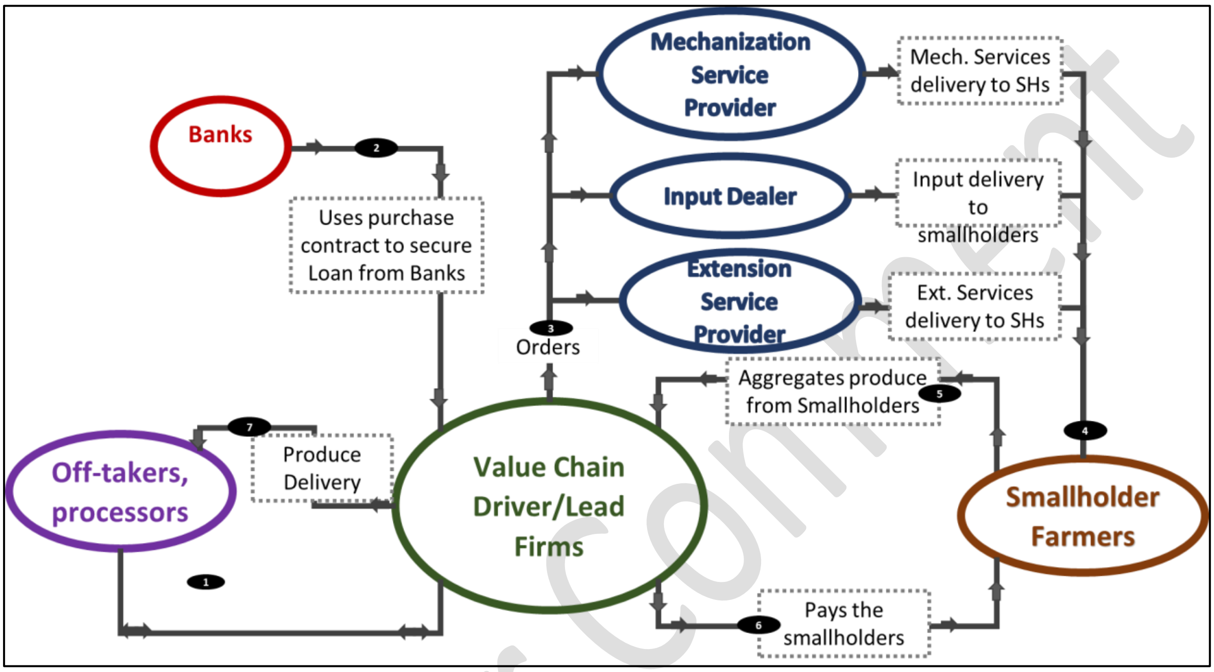
- If the good or service delivered is a **private good** (such as a cassava processing machine) it is best managed by a **private actor**;
- If the good or service delivered is a **public good** (such as a road), it is best managed by a **public sector actor or institution**;
- If the good or service delivered is a **common pool good** (such as water in an irrigation scheme or fish in the sea), they may be managed by the group that controls them whether that is a **community-based organization**, a **local authority** or **mandated groups of resource users**.
- If the good or service delivered is a **toll / "club" good**, (such as a National Park where access is in some way limited) they may be managed either by **public sector actors or institutions, community-based organizations or private actors**.

Developing Improved Business Models

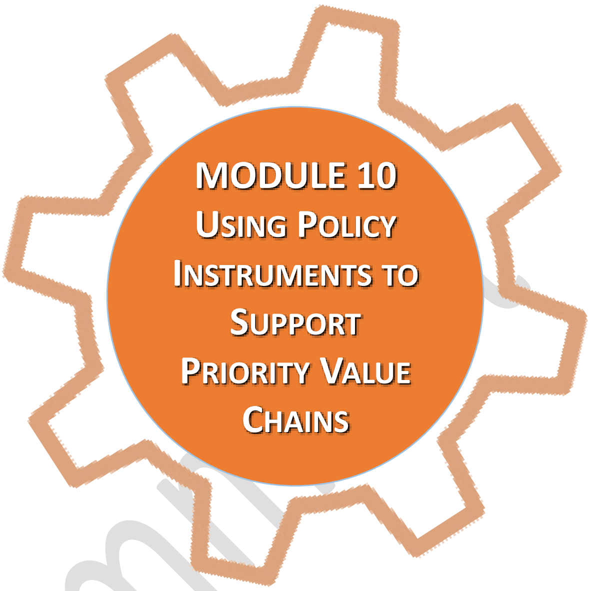
The outputs of this analysis, and the proposals to develop more effective and efficient Delivery Arenas can then become inputs for improved Business Models where the different arenas required to upgrade the value chain and achieve better results can be combined. How these different Delivery Arenas would be configured and a description of how they would deliver the required goods and services to ensure improved value chain performance would need to be elaborated upon. Attention would also need to be focused on relating improved Delivery Arena configurations to the target market requirements identified in Module 8.

This Business Model will guide the implementation and management of the upgraded value chain. Each transaction involved will have to be identified and a map of how these transactions would work together included in the business model. The diagram below depicts a schematic representation of an improved business model for an improved Smallholder Inclusive Value Chain.

A Schematic Diagram of an Improved Business Model for a Smallholder Inclusive Value Chain



Module 10 –Using Policy Instruments to Support Priority Value Chains



Value chains should be mostly driven by sets of private sector enterprises and individuals who work together to achieve results that are satisfactory for all of them. But the policies established by governments are key in providing an environment within which these private sector arrangements can thrive.

The role of government is therefore key.

Perhaps the most important role that government has to play in supporting the development of value chains is not exclusively linked to agriculture but affects all economic activity in any country – guaranteeing the rule of law, political stability and public security. Experience world-wide, supported by research in Africa[7], suggests that development of a more dynamic agricultural sector will above all depend on the guarantees that a stable and secure environment provides.

Beyond ensuring these basic conditions, as indicated in the CAADP Theory of Change discussed elsewhere in this guidance, government also has a key responsibility in ensuring an “enabling environment” where agricultural producers and value chain operators can function effectively. Key elements in this environment include the regulatory framework within which value chains operate, access to finance to develop enterprises (see Part 2 of this guidance), access to the skills and knowledge to improve the operation and technology associated with agricultural value chains, putting in place the infrastructure required to facilitate value chain operation, and a range of economic measures to incentivise better performance.

Depending on the wider economic context and the specific characteristics of each country, there may also be a need for specialised agencies to perform particular functions that are important for value chain development – in the long-term many of these functions may be taken up by private sector actors but in some cases government can play a role in establishing these agencies in order to provide the initial stimulus for improved value chain performance.

[7] https://www.future-agricultures.org/wp-content/uploads/2019/08/APRA-Policy-Brief-19_Agribusiness-Investment-in-Agricultural-Commercialisation-in-Ghana_Rethinking-Policy-Incentives.pdf

The Future Agricultures website established by Agricultural Policy Research in Africa (APRA) provides a range of sources and experiences on different forms of policy instruments for agriculture in Africa [APRA].

10.1 Regulatory instruments

The regulatory framework provided by government plays a key role in value chain development. Too many regulations, or regulations that require excessive resources to monitor and implement can easily become an impediment to the performance of value chains. But appropriate regulation, to ensure standards that protect consumers and to ensure fair competition within value chains and equitable access for different value chain players are important.

Achieving the appropriate balance between these two aspects of government's regulatory function is by no means simple. Constant dialogue and engagement between government agencies and actors in agricultural value chain is key to ensure that regulations are constantly being reassessed and improved. Regulations may also need to adapt to a constantly changing market environment and address new issues in food safety and diseases in agriculture that will require new forms of control and regulation where government will need to play a leading role.

However, world-wide experience can be drawn on to assess the wide range of possible regulations that government may need to put in place in order to effectively support value chain development for key commodities. The World Bank has developed a set of indicators that are used to assess laws, regulations and bureaucratic processes that affect farmers across 101 countries worldwide (*Enabling the Business of Agriculture*). The discussion of these indicators and the results of these assessments can be found at this link [World Bank EBA] and provides a useful starting point for work on developing appropriate regulations for value chain development.

The indicators taken into consideration relate to:

- supplying seed;
- registering fertilizer;
- securing water;
- registering machinery;
- sustaining livestock;
- protecting plant health;
- trading food;
- accessing finance.

Depending on national priorities, countries might consider expanding their regulatory framework for agricultural value chains to take into account additional factors such as:

- ecological sustainability;
- social sustainability and fair trade arrangements;
- promotion of small-scale producers;

- origin and traceability of food and agricultural produce.

The European Union has extensive experience in this field that is available this the following link [EU].

10.2 Infrastructure development

The analysis of value chains carried out as part of Module 8 should also have identified a range of infrastructural requirements for the better functioning of value chains. Traditionally infrastructure development has been regarded as a responsibility of government and infrastructure itself is regarded as a "public" good and, in most cases, government is expected to play the leading role in investing and developing key infrastructure. Given expanding infrastructure needs as economies develop, mechanisms for mobilizing private sector finance for infrastructure are increasingly being developed through public-private partnerships, but for most African countries the public sector is likely to continue to play the lead role for the foreseeable future.

Key examples of infrastructure that are likely to play an important role in facilitating agricultural value chains include:

- Roads and other transport infrastructure.
- Water supply and irrigation
- Market structures and facilities
- Power supply.

Agricultural agencies face challenges in addressing infrastructure needs because most infrastructure required to support agriculture is likely to involve other sectors as well as agriculture. Roads will involve Ministries of Transport and/or Public Works or local administrations that may have responsibility for feeder roads. Railways and air transport will also have their respective ministries or authorities as well. Similarly power supply and market structures are likely to be the responsibility of other public sector agencies. Even the development of irrigation facilities specifically designed to serve the agriculture sector is likely to require close engagement with agencies responsible for water, land-use planning and public works construction.

Engagement with these agencies in order to encourage the prioritisation of infrastructure to support agriculture is therefore key. In Part 1 of this guidance, the importance of this engagement from the earliest stages of NAIP development has already been highlighted along with the need to work closely with ministries of economic planning and finance in order to ensure that budgetary allocations are made available to invest in these infrastructure needs.

Engagement with regional and local administrations will also be essential in order to ensure that they recognise how agricultural and value chain development can contribute to local economies and therefore justify investments in key supporting infrastructure.

Public-private partnerships are gaining increasing support as alternative mechanisms for mobilizing the resources required for infrastructure investments. Clearly, private investors in infrastructure will be looking for appropriate returns on their investment and mechanisms for taking this into account need to be developed. These might take the form of payment for the services provided through new infrastructure or highlighting the potential gains that might be generated from new enterprises facilitated by infrastructure development – private investors in agricultural enterprises might be willing to invest in ancillary infrastructure if they see that the returns on their investment in agriculture will make it all worthwhile.

10.3 Promoting specialized agencies

The development of improved value chains in agriculture may also require the promotion of a range of specialized agencies that are required to provide specific services to the sector. In the long-term, many of these specialized services should have the capacity to function as viable, self-financing commercial enterprises operating in the private sector, but they may require stimulus from public finances for their initial establishment.

Examples of such specialized agencies might include:

- Specialized laboratories to control quality of seeds, fertilizers and pesticides, and compliance with food safety regulations;
- Laboratories for soil analysis and pest and disease analysis,
- Land use planning and soil management agencies;
- Agricultural Enterprise Development agencies to support farmers and value chain operators in developing their businesses;
- Meteorological services and their outreach to farmers and value chain operators.

These specialized agencies all have key roles to play in supporting more effective value chains in the agriculture sector and investments to facilitate their establishment are likely to represent an important element in any NAIP. During their initial start-up phase they may operate as government agencies or authorities, but it is important to build in the capacity for them to be converted into private sector operations financed by contributions from their users in the agriculture sector as soon as possible.

In some cases, industry associations may be able to play an important role in establishing and supervising such agencies. Where industry associations have this potential, the NAIP might consider financing capacity building for these associations in order to enable them to take on the role of establishing specialized agencies to provide these key services to their members.

10.4 Economic instruments

Government can play a role in supporting the development of improved value chains in agriculture through the use of a range of economic instruments that can provide incentives to encourage new agricultural practices and better performance by value chain actors.

Fiscal instruments

One economic instrument available to governments to incentivise particular forms of behaviour among producers and value chain actors are fiscal instruments. These provide incentives for particular forms of behaviour through reducing the levels of taxation on either the products concerned, the enterprises involved in a particular value chain, or on the inputs required in production or processing.

Examples of these instruments in practice might include:

- Research and development tax incentives that provide incentives for agricultural producers or value chain actors to test or adopt new technologies;
- Reduced taxes (value-added tax or import duties) on the purchase of particular inputs that the government wishes to promote, such as safe pesticides, organic fertilizers, or more efficient equipment for harvesting or processing;
- Reduced taxes (income tax or corporate tax) on enterprises that achieve certain types of certification such as HACCP, organic agriculture, social certification;
- Tax "holidays" (complete exemption from certain types of taxes) for new agricultural enterprises meeting specific criteria.

Examples of fiscal incentives from the U.S:A agricultural sector can be seen by visiting this link [Alliant Group].

"Smart" subsidies

Subsidies have long been a preferred instrument used by governments for promotion of particular types of economic behaviour. Indeed, in most African countries a very significant part of the public resources available to support agricultural development are expended on subsidising agricultural inputs, whether they be seeds, fertilizers, pesticides, machinery, fuel and power for irrigation or other key inputs. The focus of these subsidies has tended to be on the production end of the value chain as it has widely been perceived that this is where the key obstacles to increasing production lie and where subsidised inputs can have a direct positive impact on small scale farmers and poor rural people in general.

However, assessments of the impacts of these extensive subsidy programmes in agricultural sectors throughout the continent have increasingly indicated that the impacts of subsidies have been limited in terms of leading to increased agricultural production and better livelihoods for farmers. Many agricultural sectors have become dependent on these subsidies while not necessarily improving their economic performance and this has often led to the sector becoming a significant drain on public resources instead of contributing to wider economic development.

Input subsidy programmes have a very varied history in Africa. They tend to be politically popular and can be used to provide clear evidence of governments' willingness to "invest in agriculture", but evidence of their effectiveness in stimulating sustainable increases in agricultural production is limited. Even where they are intended to provide access for poorer farmers to inputs that they could not otherwise afford, and increase their production and productivity, failures in targeting, implementation, distortions of the commercial market for inputs, and failures to provide the supporting services that are required to ensure that subsidised inputs have the desired impacts at the farm level have all undermined their effectiveness and sustainability. At the same time, because of their political popularity, the withdrawal of subsidies even where it has been established that they are not cost-effective can be difficult[8]. In practice, input subsidy programs in Africa have become the principle instrument of governments for supporting the agricultural sector absorbing a high proportion of public investment in the sector and draining resources that might otherwise have been spent on more strategically significant areas such as agricultural research, land management, extension services and sustainable finance mechanisms for agriculture.

In spite of these issues, subsidies can still represent a potentially important tool for governments for intervening in the agricultural sector and in priority value chains for agricultural commodities provided that they are used effectively and in the right context. The concept of "smart" subsidies in particular has gained traction. The links provided can be consulted for more detailed discussions of "smart" subsidies but a few key points can be highlighted here regarding **what** should subsidized, based on experience, and what makes a subsidy "**smart**".

Click on this link to view a wider discussion of agricultural subsidies in Africa [World Bank 1] [World Bank 2]

What should the public sector subsidize?

As a general rule, **public sector resources** are best spent on **public goods** – investments that will have widespread benefits for the rural population. This contracts with the tendency of governments to subsidize **private goods** – a subsidy on fertilizer, or fuel represents as subsidy on goods that are used by individual farmers rather than the farming community as a whole and the effects that these subsidies will have depend on the use individuals make of subsidized goods, their capacity to use them effectively and their individual circumstances. Experience, supported by research, has shown that investments on public goods, such as **agricultural research**, **rural infrastructure** and **dissemination or training**, tends to generate far greater returns than subsidizing agricultural inputs where returns on investment are generally low and extremely variable[9].

These public sector investments can then be complemented by carefully targeted subsidies aimed to support those poorer farmers and value chain actors who may genuinely require support in order to improve their productive capacity. Even in these cases, subsidies on private goods for certain categories of farmers need to be accompanied by **extension programmes** that will build farmers' and value chain actors capacity to make full use of subsidized inputs and encourage them to shift from dependence on subsidies to making use of market mechanisms for inputs as soon as possible.

Examples of genuinely "smart" subsidies might include:

- Subsidies for equipment and/or inputs for strategic enterprises that will have significant spread effects such as high-quality seed or fertilizer production, processing enterprises or community enterprises for aggregating and marketing produce;

[8] Goyal, Aparajita, and John Nash. 2017. *Reaping Richer Returns: Public Spending Priorities for African Agriculture Productivity Growth*. Africa Development Forum series. Washington, DC: World Bank. doi:10.1596/978-1-4648-0937-8. License: Creative Commons Attribution CC BY 3.0 IGO
[9] *Ibid.*

- Subsidies for equipment for key service providers such as agricultural mechanization enterprises;
- Subsidies for the establishment of rural credit mechanisms – importantly these should focus on building the capacity and infrastructure of the institutions (such as Agricultural Development Funds, Agricultural Development Banks or micro-finance networks) rather than subsidizing loans to individual borrowers[10]. The reduction in interest rates to borrowers needs to be achieved through increased efficiency and competition between lenders rather than through subsidizing interest rate reductions;
- Subsidies to establish agriculture insurance schemes – as with rural finance, these subsidies should focus on building the institutions required to support such schemes;
- Limited subsidies for inputs such as fertilizer and seeds for specific, targeted groups who may lack access to these inputs.

Even where subsidies are regarded as being "smart", their use should be guided by the following principles:

- Subsidies are a short-term solution that may be required to provide an initial stimulus to change in the agricultural sector but should only be introduced with a very clear, time-bound exit strategy in place;
- Subsidies are an option that should not be regarded as replacing the use of private sector mechanisms to provide inputs and services to the sector but as a complementary measure to support either specific vulnerable target groups or strategic enterprises that require support during their start-up period;
- Subsidies should not be allowed to consume a significant proportion of the budgets available within a NAIP.

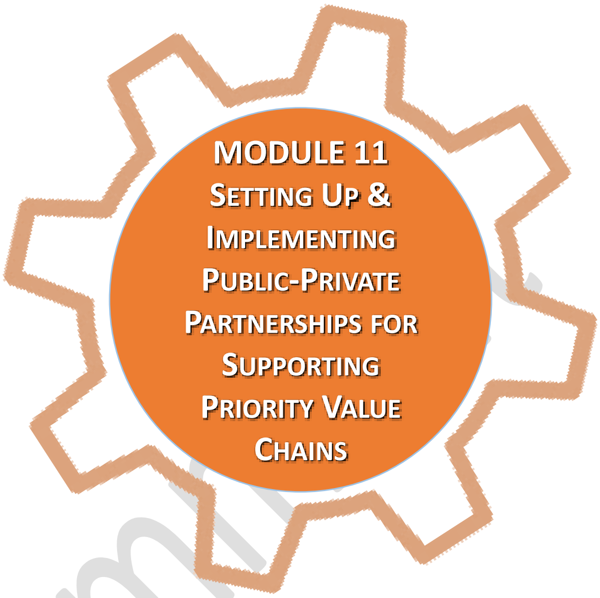
Blended financing

In order to prevent subsidies from absorbing too much of the public sector investments made available within the NAIP, blended financing represents an increasingly important option for mobilizing resources to invest in improved value chains. These mechanisms aim to match public sector investments with either commercial financing arrangements, "impact" investments or investments from philanthropic funds. Particularly when investing in improvements to commodity value chains that aim to make them commercially viable, there should be opportunities for attracting such private investments.

For more on blended financing mechanisms see these links [USAID] [OECD] [SAFIN]

[10] Meyer R.L (2011). *Subsidies as an Instrument in Agricultural Finance: a Review.* IBRD / World Bank, Washington D.C. 72p.

Module 11 – Setting up and Implementing Public-Private Partnerships (PPP) for Developing Priority Value Chains



Supporting priority value chains inevitably involves action by both public institutions and the private sector. As in all areas of investment addressed by the NAIPs, public institutions have an essential role in creating a legal, regulatory and policy environment that **enables** the private sector to perform effectively, while the private sector must take the lead in actually implementing the measures necessary to develop effective value and efficient value chains in the sector.

In order to stimulate change, particularly in the African context, there is also significant scope for the public and private sectors operating together, as **public-private partnerships (PPP)**, to initiate the process of transformative change and making efficient use of those public resources that are mobilized by the NAIP.

A PPP can be defined as ""…A long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility and remuneration is linked to performance"[11].

PPPs have been developed as a means of bringing the efficiency and economies of private sector operators to play in making the delivery of services to the public more efficient. They were originally promoted for services that had traditionally been handled by the public sector, such as water, power supply, and transport services, as well as for developing key infrastructure such as roads and railways. However, their potential for playing a role in the delivery of key services and functions within agricultural value chains has also been increasingly realised.

PPPs in themselves by no means guarantee better service delivery and better performance. But well-designed and carefully conceived PPP arrangements established in an environment that encourages their effective operation can play an important role in making the best use of public sector investments in agriculture and the delivery of services within the agricultural value chain that are essential if it is to be developed to its full potential.

[11] IBRD/World Bank (2017). *Public Private Reference Guide Version 3*. IBRD/World Bank, Washington D.C. 238p. https://library.pppknowledgelab.org/documents/4699/download

PPPs can take many forms and involve different contractual arrangements between public entities and private sector parties but this Module will focus on discussion of some of the key elements that are likely to be important in the development of PPPs to facilitate implementation of NAIPs in the African context.

For a more complete discussion of PPPs, their different forms and the key elements that need to be taken into consideration when developing them, see this link [World Bank].

11.1 Sector Development Plan Agreements (SDPAs)

The key feature of any PPP is that it is based on a clearly articulated and detailed agreement between the public sector entity or entities concerned and private sector operators. In the agricultural sector this can take the form of a Sector Development Plan Agreement (SDPA) where the key actors to be involved in undertaking action for the development of a particular value chain become **signatory parties** to an agreement which defines their respective roles, the actions that they have agreed to undertake, the resources that they will apply to those actions and the distribution of benefits that they generate.

The key elements that should be included in such an SDPA are discussed below. For an example of SDPAs from Morocco, clink on this link [Morocco SDPA].

Signatory Parties

The signatory parties for such agreements should include all those agencies that have a defined role to play in the implementation of the agreement. On the public sector side, these might include:

- Ministry of Agriculture;
- Ministry of Trade and Commerce;
- Ministry of Economy and Finance;
- Ministry of Water Resources;
- Ministry of Land;
- Ministry of Environment;
- Public research institutions;
- Public agencies involved in monitoring food standards;
- Public financing entities.

On the private sector side, they might include:

- Associations or federations of specific value chain operators (producers, aggregators, processors, other market operators);
- Cooperatives;
- Participating private credit institutions;
- Other private enterprises involved in the value chain.

Objectives, period and scope

An SDPA should lay out clearly the overall objectives to be achieved through the SDPA and the period of time for which it will operate. It should also define the **value chain axes** within which the SDPA will operate (see below).

Global investment

The overall investment envisaged for implementing the SDPA should also be defined, along with the eventual sources of this investment, particularly where different forms of financing from different sources are required.

Implementing provisions

The means by which the parties to the SDPA will undertake the implementation of the agreement should also be laid out. For example, each party may be required to develop an Action Plan for SDPA implementation and the specific means by which progress against these Action Plans will be monitored specified.

Reciprocal commitments

The specific commitments by each party in the SDPA regarding what actions they will undertake will constitute the core of the agreement. These commitments should be laid out in as much detail as possible making clear how these actions will contribute to the achievement of the overall objectives and the investment that will be required to undertake these commitments.

Monitoring and evaluation

The mechanisms by which the performance of the agreement will be monitored and evaluated should be established along with the actions required of each party in reporting progress and achievements on a regular basis.

Special provisions

The SDPA should also include any appropriate special provisions such as transitional provisions that deal with the relationship between any previous agreements undertaken by the parties, respect for the reciprocal commitments of the parties involved, and any control mechanisms such as periodic verification of the administrative and financial operations by an appropriate entity, such as inspectors of the Ministry of Finance.

Amendment of the contractual arrangement

Any SDPA, and the PPP that underpins it, is likely to need to be adapted over time in response to changing conditions on the ground and in the marketplace. This may lead to the need to amend agreements periodically and it is important that scope for such amendments is incorporated into the agreement signed by the respective signatory parties. The establishment of a third-party mechanism for arbitrating such renegotiation is recommended and that third party has to be recognised and respected by the participating parties as neutral and respectful of the rights and obligations of both sides of the agreement.

11.2 Defining objectives and value chain development axes

Experience has shown that there are two key axes in value chain development within which PPPs, and the SDPAs that those PPPs implement, are likely to play a role:

1. The **modernization of commodity production** through upgrading of mechanisms for aggregation of production and enhanced processing.
2. The improvement of the **business environment** of the value chain.

An important first step in developing an SDPA is to identify under which of these key axes the SDPA will be operating and then defining as precisely as possible the **objectives** that the SDPA will be intended to achieve.

In defining these objectives, reference can be made to the analysis of value chain functions discussed in Module 8 and the different sets of **results** that are being targeted discussed in Module 9. Reference to these should make it easier to define a clear set of objectives that relate closely to specific functions within the value chain that an eventual PPP would be expected to perform.

Possible types of objectives under each of these key axes might include:

Axis 1 – Modernisation of commodity production

- Improved production;
- Improved productivity;
- Reduction of production costs;
- Achievement of better market prices;
- Increased export earnings;
- Better access to/use of/prices for key inputs;
- Increased employment;
- Increased investment;
- Increased turnover.

Axis 2 – Improvement of the business environment

- Improved insurance arrangements for value chain players;
- Access to specific new forms of insurance (such as climate risk insurance);
- Upgrading of business models and business arenas;
- Transforming the market structure;
- Implementing of safeguard measures (quality control, standards, etc.);
- Enhancing sector or value chain coordination;
- Research and development.

Whatever the type of objective being pursued, the more precise the definition of these objectives is, the easier it should be subsequently to develop the elements in the PPP arrangement that will permit the achievement of that objective. Setting of **quantitative indicators** for the achievement of these objectives will facilitate monitoring of progress over the period of the SDPA.

11.3 The roles and commitments of value chain players

The core of an effective PPP arrangement is the clear definition of the roles and commitments of the parties involved.

For value chain players, such as associations or federations of producers, aggregators, processors or other value chain players, typical roles and commitments might include:

Under Axis 1:

- Commitment for improved particular value chain results in terms of production, productivity, cost reduction, elimination of waste, product prices, employment and employment conditions, quality, or exports of products.
- Commitment to increase investments and turnover.

Under Axis 2:

- Subscription of appropriate insurance mechanisms.
- Upgrading business models and business arenas.
- Transforming the market structure.
- Adoption of specific sets of standards established by third party agencies (such as social sustainability, environmental or fair trade standards).
- Implementing safeguard measures.
- Enhancing sector coordination.
- Collaboration with research and development entities.

11.4 The roles and commitment of Government

The potential roles and commitments of public sector entities participating in the SDPA might include:

Under Axis 1

- Support to investment through direct transfer to value chain players (farmers and enterprises).
- Providing subsidies for specific inputs and for specific value chain players where appropriate.

Under Axis 2:

- Implementation of provisions governing the sector.

- Promoting the sector and undertaking awareness campaigns for potential users or consumers.
- Strengthening sector coordination capacity.
- Providing research capacity for research and development activities.
- Promoting commodity consumption.
- Establishing and financing credit mechanisms for value chain players.

11.5 Monitoring and evaluation of value chain development

The establishment of effective monitoring and evaluations mechanisms that are agreed upon and respected by all the parties involved will be particularly important when using PPPs to develop and implement SDPAs. Ideally these mechanisms might include involvement of third party or independent organisations that are clearly distinct from the parties involved.

Monitoring and evaluation arrangements should combine both quantitative assessment of progress and achievement of targets for value chain development and direct engagement with the parties involved to identify key issues that might arise during the course of SDPA implementation.

Module 12 – Promoting Enterprises for Value Chain Development

The process of working to develop value chains for key commodities through PPPs and SDPAs outlined in Module 11 envisages above all PPPs and SDPAs involving public sector institutions and associations of value chain actors involved in the specific arenas relating to a particular value chain. However, there are likely to be some functions within any value chain for which associations or federations of value chain players are not appropriate. These functions may be too complex or require a degree of flexibility that these types of organisation may not be able to provide.

To perform these functions, private enterprises may be better equipped to provide the critical goods and services that other value chain players need to access and, above all, provide them efficiently, affordably, in a timely fashion and in the right place at the right time.

Therefore an important part of working to develop value chains is likely to involve promoting and supporting private enterprises to perform effectively.

Governance of enterprises is critical to make sure they do not put value chain and people at risk.

12.1 Typology of enterprises

Promoting private enterprises for developing value chains may involve working with a range of different types of enterprise. These might include:

- Purely private companies;
- Joint venture profit-oriented companies;
- Non-profit companies (in general joint ventures);
- Large companies or corporations;
- Micro, small and medium enterprises.

The appropriateness of one or the other of these types of enterprise will depend on local and national circumstances and the capacities of these different categories of enterprise to perform the roles required to upgrade value chain performance. Typically, private enterprises are likely to play important roles in:

- Processing, including packaging;
- The management of market hubs;
- Input provision for agriculture;
- Financing (i.e. banks or credit institutions).

12.2 Promoting companies

There are various ways in which public institutions can play a role in promoting private enterprises, but at all times these efforts should be guided by the principle of avoiding the risk of those private enterprises becoming dependent on public support. Key to overcoming this risk is the need for thorough vetting of companies that are being considered for support using strict criteria of business viability and based on well-developed business plans.

There are several key areas where the public sector can play a role in enterprise promotion.

Facilitating access to capital and finance

Direct provision of capitalization or operating capital in the form of loans or grants from public resources to private enterprises has rarely proved effective or sustainable. Public resources can more effectively be used to provide guarantee funds for loans or other forms of financing to the private sector through existing finance and credit mechanisms.

Developing a stock exchange or commodity exchange to mobilize private financial resources

Government support to the establishment of a functioning stock or commodity exchange can constitute an important means of promoting private enterprise by facilitating access to private finance.

Smart subsidies

As indicated above and discussed in Module 10, subsidies are one tool available for the public sector to support private enterprises but there are challenges involved in their delivery and implementation. Leakages in the system for delivering subsidies and the risk of subsidies becoming mechanisms for political patronage suggest that subsidies should be used very sparingly as a means of promoting private enterprise. However, in exceptional circumstances, and with appropriate care to ensuring that subsidies are genuinely “smart” they can represent a useful tool for enterprise development as long as they are accompanied by other measures that will ensure sustainable capacity development and an enabling business environment. Ideally, if subsidies are felt to be necessary, they should also be combined with private financing so that enterprises are not purely dependent on subsidised inputs.

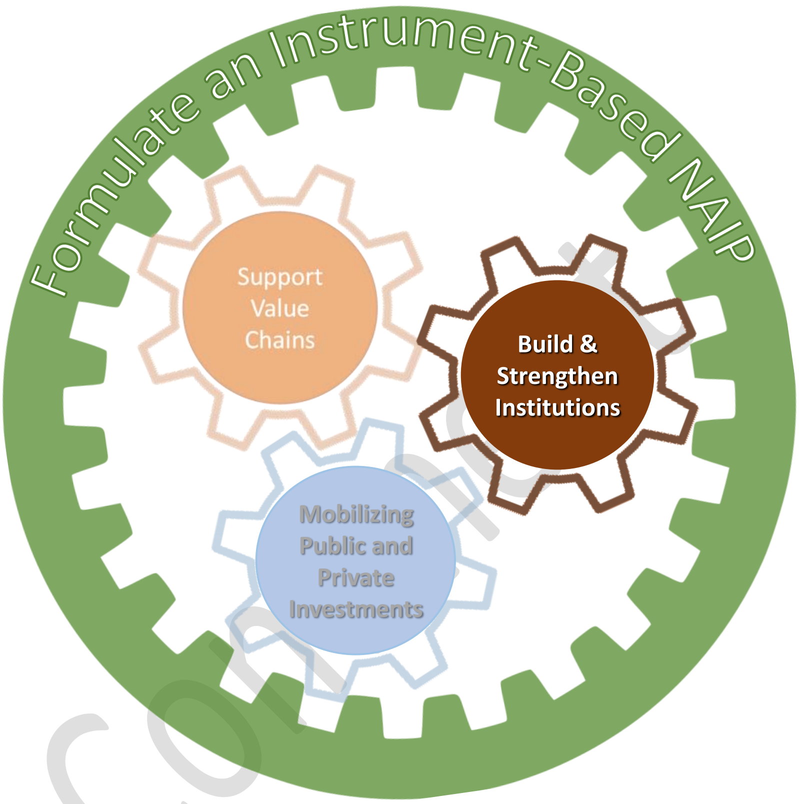
Capacity building

Perhaps the most important area where public institutions can support private enterprises development is through capacity-building and training. Supporting private sector players to develop their skills in management, accounting system, software, auditing, human resource development, and the use of appropriate checks and balances in their enterprises can make a vital contribution to the development of more effective value chains.

Possible mechanisms that can be used for providing this support might include:

- Vocational training institutes;
- Small and medium enterprise development centres;
- Mentoring programmes;
- Apprenticeship schemes;
- Training provided through sector associations or federations.

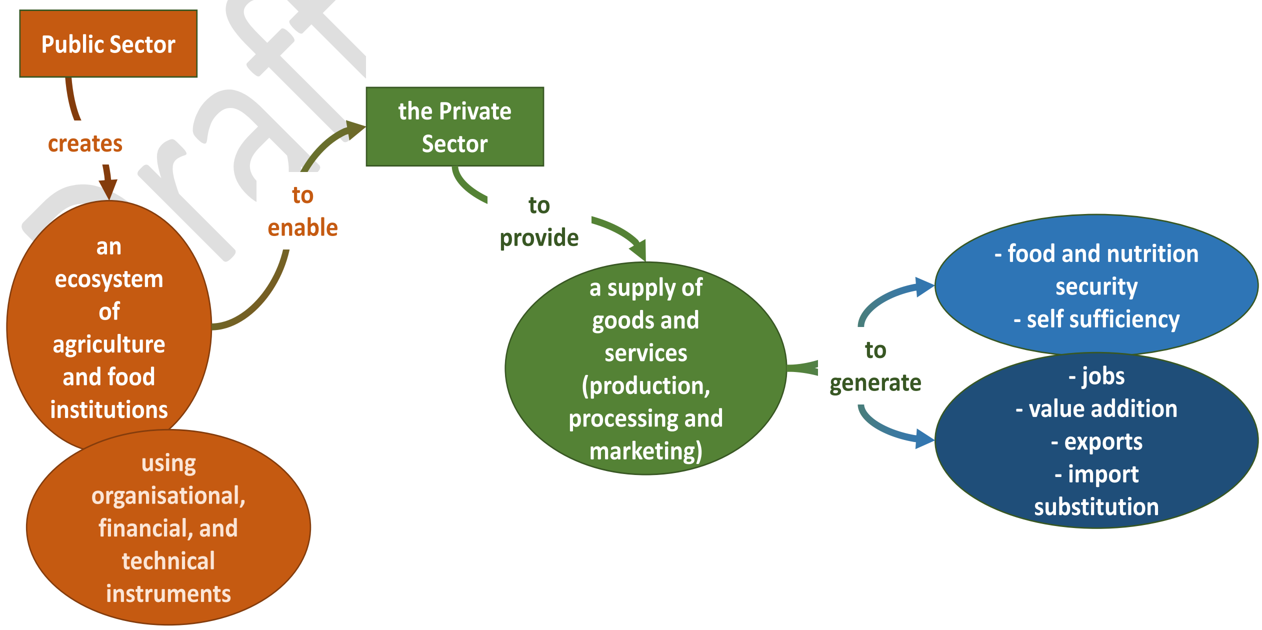
PART 4 – BUILD AND STRENGTHEN INSTITUTIONS



Implementing and managing the NAIP process described in Parts 1, 2 and 3 of this guidance depends on having effective, strong institutions that can participate in, and lead the process. As illustrated in the discussion of the CAADP Theory of Change and the CAADP Programmatic Framework in Module 2 of Part 1, the creation of an "*…ecosystem of agriculture and food institutions…*" that will **enable** the private sector in agriculture perform better is an essential part of the whole CAADP process and of the NAIPs that are the cutting edge of that process.

However, bringing about the changes in institutions required to effectively support CAADP and the NAIP is one of the most challenging elements in the whole process and one that too often is regarded as secondary. Often, both the process of either strengthening institutions or building

The CAADP Theory of Change

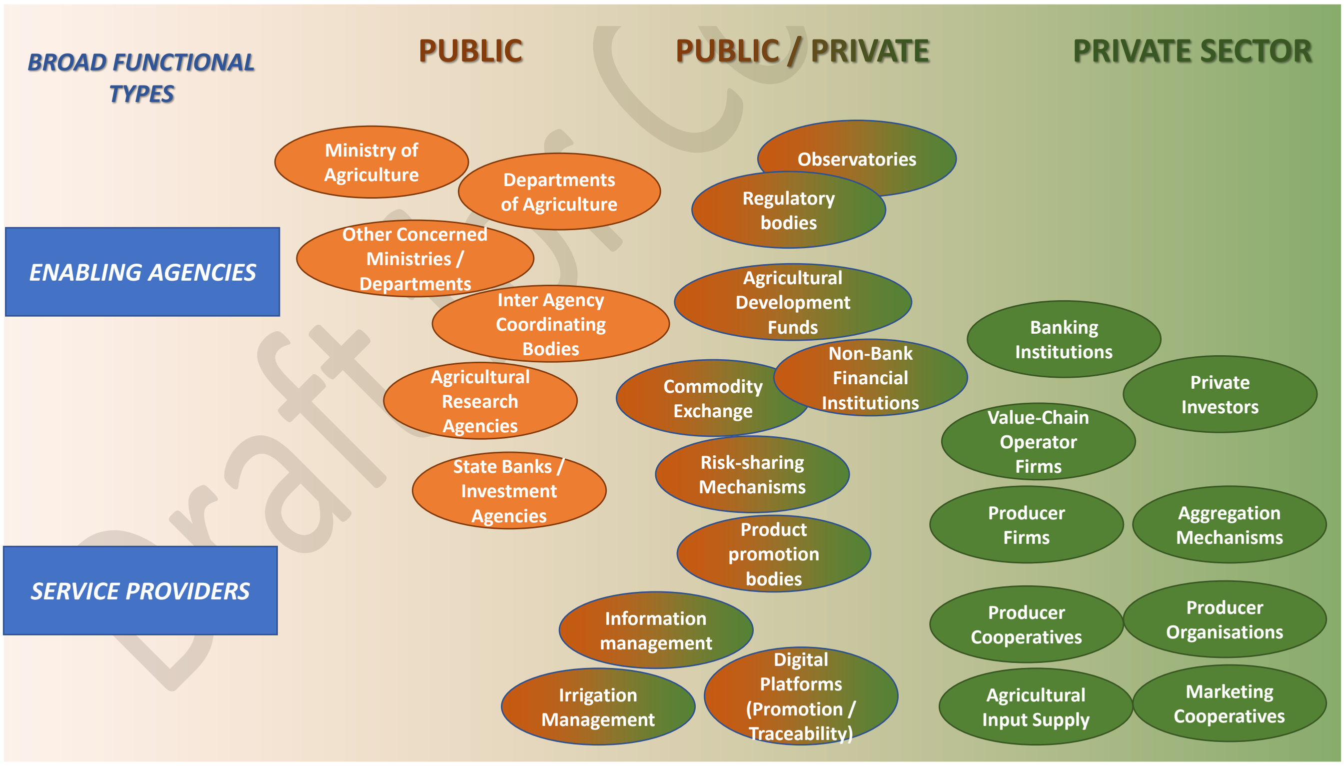


new institutions and systems is approached without the level of political will required in order to bring about the necessary changes.

Reluctance to engage with this need for institutional change is not surprising – it can be a difficult, long-term and even painful process that forces existing institutions to examine the way they work, often come to unpleasant conclusions about how they work now, and even question their very existence. But, to bring about **transformative change** in the agricultural sector, it is to be expected that **transformative change in institutions** involved in the agricultural sector is required.

The "ecosystem" of agriculture and food institutions described in the Theory of Change above consists of a potentially wide range of systems, organisations, agencies, mechanisms and other bodies. A **critical** role in establishing and implementing an appropriate institutional and regulatory framework will be played by existing or new public institutions. But it is the private sector that must play a leading role in transforming agriculture and this will also call for developing new or strengthened forms of organisation to develop and manage improved value chains for agricultural produce and provide the services required by a modern agriculture sector. The diagram below illustrates some of this range of public and private institutions that may need to be taken into consideration for institution building or capacity strengthening activities for NAIPs.

Range of Institutions for NAIPs



Significantly, the majority of institution building and strengthening activities are likely to be focussed not just on public agencies – the ministries and departments that are likely to be taking a lead in initiating the CAADP and NAIP process – but on the wide range of organisations among private sector operators in the agriculture and food sector. Similarly, there are a range of organisations and mechanisms that might combine public and private sector actors, including some of the mechanisms for mobilizing resources for the sector identified in Part 2 of this guidance, observatory and regulatory bodies that should ideally include representatives of both the public and private sectors, and a series of promotional and information management functions that could be shared between public and private actors.

Whatever the range of institutions identified as being required for NAIP implementation, whether they are to involve private sector interests or public agencies, and whether they already exist or need to be developed, the key principle to guide work with institutions is to ensure that they are "**fit for purpose**" – institutions must be designed to perform a clearly defined **set of functions**, and the organisational and administrative arrangements that they have in place should **enable** them to perform those functions. Great care should be taken to ensure that the organisations and mechanisms put in place are not attempting to perform functions that they are simply not equipped or mandated to perform effectively.

A "Functional" Approach to Institutions

Understanding the "functions" that different players in the agricultural sector perform is essential in both designing strategies for strengthening existing institutions and in building new institutions and systems to enable the sector to perform better. The more precisely the functions expected of different institutions and institutional players are defined, the easier it will be to decide how their capacity to perform those functions can be strengthened or how new forms of institution or organisation can be created.

Clearly the different specific functions that the wide range of institutional players involved in the preparation and implementation of a NAIP are numerous, but 3 broad categories of function are likely to be important:

Enabling functions.

For a range of institutions involved in the agricultural sector, particularly **public** institutions, but also among public-private and private sector organisations, their key role should be to **create the conditions** in which other actors involved in agriculture (particularly in the private sector) can perform better. These enabling functions are concerned above all with the performance of the "eco-system of agriculture and food institutions" mentioned in the CAADP Theory of Change, and the "organisational, technical and financial instruments" that they use to create an environment in which the private sector can function effectively.

Examples of key enabling functions, and the enabling institutions that might be involved in performing those functions, are:

- Developing and implementing policies that are supportive of transformative changes in the agriculture sector (politicians, representative bodies such as parliament, ministries and departments) — establishing supportive and enabling policies are clearly a key function of enabling agencies. The Policy Instruments provided in the Annex to this guidance provide examples of these policies while Part 1 – Formulate an Instrument-Based NAIP – explains how these can be developed and incorporated into the NAIP.

- Establishing a legislative framework that enables policies to be implemented and creates an environment in which private sector agricultural enterprises can function effectively and with greater confidence (politicians, representative bodies such as parliament, ministries and departments, legal institutions) – this function is also an integral part of the Policy Instruments discussed in Part 1.
- Establishing effective monitoring and evaluation mechanisms to provide feedback on sector performance and evolution (ministries and departments, research institutions, agriculture sector associations, producer and value-chain operator associations) – enabling agencies can only enable agricultural performance if they know what is happening in the sector.
- Establishing clear rules and standards for the agriculture sector and its performance (ministries and departments, agriculture sector associations, producer and value-chain operator associations) – – commonly accepted rules and standards are key for the performance of the agricultural sector, and particularly for accessing wider markets. It is the role of enabling agencies to ensure that these are in place.
- Putting in place the infrastructure that the agriculture sector requires to function effectively (ministries and departments, inter-sectoral coordination bodies, agriculture sector associations, financial institutions) – clearly infrastructure development also requires service providers, but public institutions will need to take the lead in ensuring that infrastructure development facilitates the functioning of the agricultural sector.

Service provision functions

The performance of the agriculture sector depends, not just on production, but on a range of services that need to be provided to ensure that African agriculture, and particularly more efficient and modern agriculture, can realise its potential. The provision of services is, and should be, mostly a task for the private sector that is in a much better position to look for and take advantage of opportunities to increase efficiency, respond to changes in supply and demand, and encourage producers to become more efficient and market oriented. In the past, attempts by public institutions to perform service provision functions may have been partially justified by the need to “kick-start” changes in the agricultural sector, but they have generally proved unsustainable and inefficient because they are hampered by bureaucratic processes and a lack of transparency and accountability. As a general rule, enabling agencies (government) should focus on “enabling”; service provision agencies (private sector) should focus on service provision: the two functions should not be combined otherwise there are risks of distorting the market for services.

Examples of service provision functions, and the types of institutions that would be expected to perform those functions, include:

- Aggregation of goods from different producers to facilitate better marketing arrangements (producer cooperatives, marketing enterprises, middlemen) – this will often be an essential function for agricultural enterprises seeking to establish better market linkages.

- Supply of inputs to producers, such as fertilizer, seed, pesticides, fuel, tools and equipment (private input-supply enterprises, middlemen, producer cooperatives or associations, marketing enterprises) – existing middlemen may already perform some of these functions but ensuring that inputs are of high quality and are accessible and affordable to producers may be key to improving agricultural value chains.
- Packaging and processing of agricultural products (private processing enterprises, middlemen, producer cooperatives, marketing enterprises) – improving the value generated by agricultural produce is an important part of improving the performance of the sector and better packaging and processing to add value may be an essential part of this.
- Transporting agricultural products to markets (private transport enterprises, marketing enterprises) – difficulties in getting agricultural produce to centres of aggregation or new market outlets is often an important obstacle for producers and new forms of organisation may be required to achieve this more efficiently.
- Making market information accessible to producers and value chain players (middlemen, marketing enterprises) – improved value chains for agricultural produce depend on access to up-to-date information on market opportunities.

Producer / processor / user functions

Like enabling institutions and service providers, producers, processors, value-chain operators, and all the users of improved services involved in agriculture, need to perform better if the agricultural sector is to be transformed. This will mean performing their “functions” in new, better ways. The capacity of producers, processors and value-chain operators to take advantage of new opportunities is key.

Some examples of examples of these producer/processor/user functions include:

- Aggregation of produce
- Coordination of production
- Organisation in order to access services
- Accessing and making use of market information
- Adapting production to market demand
- Seeking economies of scale in accessing agricultural inputs
- Articulating and communicating needs to enablers and service providers.

Institutional change requires time and cannot be rushed. Expectations regarding new types of institutional arrangement and the performance of institutions undergoing a process of change should be realistic, and this will affect the overall planning of the NAIP process and its implementation. Often, change will need to be incremental over an extended period and it cannot be expected that new or retooled institutions will necessarily perform all their new functions perfectly from the start. Institutions, like people, need time to learn and practice before they will perform to their full potential.

Part 4 consists of 2 modules:

- **Module 13 – Strengthening Institutional Capacity** which provides a framework to identify what is needed in terms of institutional capacity strengthening;
- **Module 14 – Building Systems and Organisations** on building sustainable, effective and nationally autonomous systems and organisations.

Module 13 – Strengthening Institutional Capacity

Building new institutions to support transformative change can be a long-term and resource-intensive process. As a result, the preference is often to strengthen existing institutions, either by improving their capacity in different ways, or re-equipping them to perform new functions.

While this preference for using the institutional arrangements that are already in place is understandable and often justified, it requires great care. The desire to make use of existing institutions and build their capacity can result in attempts to get existing institutional arrangements to perform functions that they are simply not designed to perform, no matter how much capacity-building they receive. The reasons for this can be varied: existing institutions inevitably have a history and their own "culture" and it may be extremely difficult to change the way they behave. Even if the formal mandate of an institution suggests that it should be responsible for performing functions that a required to support the CAADP and the NAIP, it may have a structure and way of working that are completely inappropriate for performing new functions or even performing existing functions effectively.

This can be particularly true for **public institutions** where institutional history and culture, bureaucratic practice and habits of "command and control" are often very difficult to change. Where positions in public institutions are linked to systems of political or personal patronage, accountability for performance is often limited, and there may be little interest in improving the results that an institution achieves. Starting afresh with new institutions or devolving certain functions to different institutions may actually prove more cost-effective.

In the **private sector**, strengthening institutional and system capacity presents different sorts of challenges.

Identifying as precisely as possible exactly what sorts of capacity need to be built within existing organisations is a key first step. All too often capacity-building programmes are initiated without a clear definition of the **results** (i.e. changes in performance, behaviour, knowledge or attitudes) that they are expected to achieve and, as a result, they can easily lose their focus and effectiveness. Being as precise as possible about the expected results is therefore critical. These results need to be linked directly the **functions** that institutions are expected to perform once their capacity has been strengthened (see in the introduction above for more on institutional functions).

13.1 Identifying Capacity Building Needs

Institutional capacity can be defined in different ways but is perhaps best thought of as operating at different levels:

- **Individual level:** Any institution is made up, above all, of the people who work within it. Thus capacity can be built by improving, changing or upgrading the capacity of those individuals to perform their work, or new tasks, by developing their skills and knowledge, encouraging them to behave in different ways, and/or bringing about a change in their attitudes in ways that will lead to better performance in their work.
- **Institutional level**: At the level of the institution as a whole, new ways of working, new or improved procedures, new physical instruments such as equipment, or new structures can also be used in conjunction with individual capacity development to ensure that the institution's resources are used more effectively. This might also include the introduction of new policies and review of the mission and goals of the institution.
- **Networks**: Increases in capacity and performance can also be sought out by looking not just at specific institutions or the individuals within them, but at the way that institutions, organisations and individuals work together. Changes in relationships and how they function can often be as important as the specific capacities of those involved in those relationship. Analysis of these networks and how they function can also contribute to identifying new capacities that can be strengthened in order to achieve specific outcomes.

Methods for capacity need assessment

There are numerous methods and tools that can be of use when conducting an assessment of capacity needs. Their appropriateness will depend on the specific subject of the assessment - an assessment of the capacity needs of an organisation will require one set of tools while an assessment of the capacities of individual operators within, for example, a particular value chain might require very different methods. Here, a few key methods are suggested but a wide range of toolkits and guidance materials on conducting capacity needs assessment are available. These include guidelines by the FAO and the World Bank that are available at these links [FAO] [World Bank].

Stakeholder involvement

In general, direct involvement of the stakeholders concerned in assessing capacity and capacity needs is critical. Not least, this is because assessing capacity needs together with those whose capacity is being analysed helps them to recognise the need for change and can build consensus around exactly how a particular institution, organisation or system needs to improve its performance.

Stakeholder involvement is also important because it is often difficult for those outside a particular institution to determine how it actually operates internally. While functions and processes may be defined on paper, the reality will often be quite different and determined by factors such as political pressure, internal power distribution, personalities and precedent, features that can often only be understood and identified by those directly concerned.

The capacity assessment process therefore needs to make use of the full range of methods for engaging with stakeholders including workshops, focus group discussions, individual interviews and feedback sessions where findings and conclusions can be discussed and corrected. Even where stakeholders are directly engaged, it may take time and patience to encourage participants to distinguish between what is **supposed** to happen within an institution or organisation, and what **actually** happens.

Stakeholder Analysis

As with any process that requires stakeholder engagement, a careful analysis of who those stakeholders are is vital as a starting point. In the context of a capacity and capacity needs assessment, this analysis will provide an answer to the critical question of **whose capacity** requires building. But it will also provide an understanding of the different groups within an institution or system and how they relate to one another. This can be of particular importance when organising consultations, workshops or focus group discussions as the way in which different interest groups within an institution interact may influence to outcomes of such consultations.

There are numerous approaches to stakeholder analysis that can be drawn upon. Some examples are provided at these links [IIED] [IFAD]. Both of the sets of tools described in these links provide guidance on how to analyse the relationships between different stakeholders which are a key part of an effective stakeholder analysis.

Management and Functional Review (MFR)

To understand the capacity needs of formal institutions and organisations, conducting a management and functional review (MFR) can provide a systematic means of analysing how the management and administrative arrangements, personnel, financial systems and physical capacity of an organisation match the functions that it is intended to perform.

Within an MFR, numerous specific tools can be deployed but the key steps that need to be undertaken include:

- Definition of the mandate, vision, mission or objectives of the institution in question;
- Mapping of the organisational structure;
- Description of the status of human resources, budget and material resources available;
- Definition of the key functions performed and the processes undertaken to perform those functions including:
    - Policy and planning functions – those functions that lead to the definition of policy, setting of objectives and planning for how to put implement those policies or objectives;
    - Administrative functions – those functions internal to the organisation that ensure that the component parts of the organisation, and the individuals involved, work

together towards achieving the organisation's objectives (e.g. human resource management, resource allocation, etc.);

- ○ Delivery functions – particularly for service delivery organisations, those functions that permit the organisation to deliver goods or services to their clients or users;
- ○ Information and knowledge management functions – those functions that enable information and knowledge to circulate within the organisation, corporate learning and monitoring and evaluation of performance;
- ○ Outreach functions – those functions that enable the organisation to interact and communicate with the outside world, include promotional activities, knowledge sharing and monitoring of result or impacts.

- Analysis of the status and performance of these functions and their associated processes.

In conducting an MFR, it is particularly important to distinguish between what is **supposed** to happen within an institution or organisation and what **actually** happens as the two may be quite different.

The Organizational Performance Assessment (OPA) suggested in FAO's Capacity Development Guidance provides as similar process (see this link[FAO]).

SWOT Analysis

Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis provides a simple but structured means of helping people to analyse the organisation or systems in which they participate. It is effective and widely applicable particularly because it does not limit itself to identifying problems and needs but also focuses on the positive aspects of institutional arrangements and the people involved in them and therefore can be perceived as less threatening than a straightforward problem analysis and their inevitable negative implications.

The basic framework for a SWOT Analysis involves a simple matrix that can be used to structure the outputs of discussions of either a particular organisation or system, part of an organisation or system, or even a specific function performed by an organisation or system.

This can be used directly with stakeholders as a framework for discussion or as an analytical tool to organize findings from different sources.

13.2 Capacity Strengthening Approaches

Any programme of capacity strengthening needs to set priorities. Not all capacity can be strengthened simultaneously, particularly when dealing with institutions that have ongoing responsibilities and functions that must be maintained during a period of institutional change. This means that developing a roadmap for institutional strengthening and change is critical. This should map out a step-by-step process of change and will need to be constantly reviewed and updated to adapt to changing circumstances.

It is also crucial to recognise from the start that some forms of capacity strengthening require significant timespans to be effective. For example, building the physical capacity of an organization can be addressed by purchasing computers and vehicles and training people how to use them over a relatively short period. Developing the capacity within the same organisation to perform new functions or perform existing functions better may take much longer. It may not simply be a question of "training" but of changing attitudes, behaviour, knowledge and personnel. This may require long-term processes and even generational turn-over in staff.

A key first step to developing a coherent capacity building strategy is to work within the institution concerned to build consensus regarding the need for change among the people directly concerned. This in itself may require considerable effort – change within any institution is often seen as a threat. Creating this consensus may also require considering incentives that might encourage staff to "buy-into" the change process and accept the need for capacity building activities.

Engagement and commitment "at the top" of an institution, or from key figures within the institution, can be of great importance in encouraging buy-in to capacity-building processes. So-called "champions of change" need to be figures that command respect within the institution who can influence others to accept the need for capacity-building activities and encourage them to participate.

Where there is resistance to change in general and capacity-building in particular among the higher echelons of an organisation, it may be possible to work with lower-level staff to create pressure for wider change "from below". The viability of such a strategy will depend on institutional dynamics and the overall context. Seeking out alliances within the organisation may also be an alternative approach.

Establishing appropriate incentives and rewards participation in capacity-building activities is also important. If there is no clear advantage involved in individuals changing their behaviour or upgrading their skills, reluctance to take capacity-building seriously may be widespread.

Mentoring approaches, where key change agents work within the organisation without necessarily conducting formal capacity-building activities, but introducing new practices and skills by example and "on-the-job" can also be especially powerful approaches for building capacity.

Module 14 – Building Systems and Organisations

In the process of transforming the agricultural sector, some new systems and organisations are likely to be required in order to perform some of the new functions that are currently lacking in many African agriculture and food systems. For example, as part of the process of the NAIP implementation, better organised and more efficient value chains will be required and these will often need new forms of organisation among producers and value-chain participants in order to achieve economies of scale and greater capacity to respond to market demand.

The time and effort required to create these new systems and organisations should not be underestimated. Where there are existing organisations that can perform these new functions, the potential for building on what is already there should always be explored thoroughly. However, some new systems and organisations are likely to be needed.

Several key principles need to guide this process and these are laid out in this module.

14.1 Building Institutions for Sustainability

A common weakness in interventions in the agricultural sector derives from the project-focussed orientation of many of these interventions. In spite of the best intentions of many projects initiated by governments, particularly when they are based on donor funding, these are often dependent on the creation of temporary institutional arrangements specifically created to implement these projects (typically **Project Implementation Units**). This creates almost inevitable problems of sustainability for the interventions undertaken by that project. Even where there are existing institutions or mechanisms in place that could play a role in these interventions, they are often ignored in favour of special arrangements that aim to ensure efficient delivery of the project and the resources it provides. As a result, non-sustainable institutional arrangements are favoured instead of strengthening of existing agencies or the creation of agencies that would then have a "life beyond the project".

In identifying institutional forms for the delivery of agricultural transformation, the focus should always be on identifying and building **national and local institutions** that can take on a long-term, autonomous role in performing the functions required. This will require dedicating resources and time to the creation of the appropriate institutional capacity and will also form the basis for sustainable support to the sector. Institutions "learn by doing" – if they are not given the opportunity to learn by doing, they will never develop and, if they already exist, they are likely to atrophy over time.

Creating an enabling ecosystem of agricultural and food system institutions therefore requires a focus on building institutions and mechanisms that are rooted in the national and local context and will have the time to develop their capacity and play a long-term role in supporting the sector.

14.2 Building Systems and Organisations that are "Fit for Purpose" – "Results-Based" and "Functional"

When building systems or organisations (as with strengthening the capacity of existing institutions), the first step should always be to determine very clearly, and in as much detail as possible, what **results** are being sought. Here, the overall results should be clearly laid out in the NAIP although there may be a need to refine the results in order to be more precise about what is required, for example, from a particular value chain or in a particular area.

Next, the **functions** that need to be performed in order to achieve those results should be defined, once again as precisely as possible. Using the analysis of the Action Arena suggested in the introduction to Part 4 above, this should enable us to define a set of functions that will contribute to achieving a particular result.

Taking these functions, the range of possible institutional forms that **could** be developed to perform those functions can be considered and a choice made on what form is best suited.

This requires a careful and detailed analysis of:

- what functions that aggregating mechanism will have to perform?
- what are the key characteristics of the products that need to be aggregated?
- what are the precise demands of the value chain that the aggregating mechanism will be supplying; what obstacles are likely to be encountered?
- what skills and capacities will be required in order to make an aggregating mechanism work?
- what skills and capacities are available on the ground that can be drawn upon in creating this mechanism?

Only after this careful analysis has been carried out should consideration be given the **form** of organisation that would be best suited to performing these functions. It might well emerge that a farmers' cooperative **is** the best solution because it is a form of organisation that stakeholders are familiar with, it has been shown to work in that particular area and there are local people available who have the skills required to manage a cooperative. However, alternatives might also be considered – other forms of association among producers to facilitate coordinated production to supply the value chain; a joint-owned company bringing together existing aggregators to work in coordination; forms of contract farming that provide farmers with a guaranteed market and price. Each of the alternatives needs to be carefully assessed based on its capacity to perform the intended functions effectively and a decision on the most appropriate (or "fit for purpose") system or organisation to be created based on this.

Deciding what sort of institution is most appropriate to perform a particular function involves looking carefully at the different sets of actors that are engaged in that function, the relationships between them, and the particular role that the institution will need to play in performing that function.

In Module 9 in Part 3 of this guidance, in the discussion of approaches for identifying opportunities for enhancing value chains, the analysis of a "Delivery Arena" was discussed. Institutions will involve both these Delivery Arenas and other arenas where a series of different actors play roles in achieving specific results. These "Action Arenas" need to be analysed so as to understand the roles that a particular institution can and should play. The principles behind this are similar to those already discussed for Delivery Arenas.

First the identification of what kind of results a particular action arena is concerned with:

- **Outcome Results** are the "final" results that a particular action arena produces in terms of benefits for the different actors involved or for other groups or organisations for who that action arena produces goods or services. Defining what these outcomes or benefits will be is a key first step in analysing an Action Arena. Outcomes that will be relevant for institutions or organisations concerned with the implementation of the NAIP are likely to include:
    - Improved livelihoods for farmers and value-chain actors;
    - increased production;
    - increased productivity (production in relation to inputs of labour and resources);
    - enhanced competitiveness;
    - increased exports
    - reduced imports
    - employment generated (direct, indirect, on farm, processing service providing…)
    - increased revenue for the actors involved
    - value added.
- **Delivery Results (access to goods and services)** refer to the ways in which institutions deliver particular goods or services produced by a particular Action Arena relevant to the NAIP. They might include:
    - **Capital goods** that are used by farmers or value chain actors to perform their activities, such as seeds, fertilizers, equipment, raw materials, etc.
    - **Core services** that are required by farmers or value chain actors in order to perform their functions within the value chain, such as financial services, extension services, access to information, communications, etc.

    - **Market access services** that enable value chain actors to add to or maintain the value of the agricultural commodity they are dealing with. These might include processing and handling services, sorting, grading, storage, packaging, marketing, etc.
    - **Enabling services** are those services that may not be directly delivered to farmers or value chain actors, but which contribute to the functioning of the value chain by creating an "enabling" environment. These services might include certification, regulations for rural financing and their enforcement, quality control and grades and standards regulations, etc.

- **Governance Results** are the rules and norms required to enable the agricultural sector, and the value chains that make it up, to function in a balanced, efficient and effective way. Governance results can include:
    - participation & voice of different actors in decision-making;
    - transparency of the transactions among actors;
    - access to information;
    - legitimacy of the activities and transactions;
    - distribution of benefits among different actors;
    - trends in the benefits generated among different actors;
    - transaction costs;
    - levels of conservation of key natural and physical capital involved;
    - effectiveness of mechanisms for conflict resolution;
    - ecological sustainability of the core activities;
    - institutional learning/feedback mechanisms;
    - stability of the actors involved.

Once the specific results that the particular Action Arena under consideration have been identified, the process of defining the precise role or function that the institution being developed should play in producing those results can be elaborated in more detail. This process should play careful attention to the roles played by other actors in the Action Arena and the relationship that the institution being developed should have with those other actors. Mapping of the Action Arena, the roles played by different actors and their relationship can help to clarify this.

For more details on analysing and mapping Action Arenas for institutional development, click on this link [IFAD Institutional Analysis].

The development of any institution should use this carefully elaborated definition of the Action Arena in which the institution will operate, the precise role that it will play, and the relationships that it will need to have with other actors in that Action Arena as a starting point. Only after this has been done, the "form" that the institution should take can be considered.

The “fit” of different institutional forms to particular functions will also depend on the national and local context. This means that it is difficult to set hard and fast rules regarding what sort of institutions will be best adapted in any particular situation. However some general principles can be laid out.

Public institutions are best suited to roles that involve the setting of rules and regulations within any particular Action Arena provided that they have a clear mandate to perform this function. This role generally falls within the enabling function of government. However it is important that public institutions are appropriately equipped, in terms of capacities and skills to perform this role well.

Public institution may also play an important role in providing certain enabling services, such as setting standards and monitoring their application. These enabling services can be provided by private organisations as well but there may not be private entities equipped to perform these important roles and government may therefore need to lead on this. Similarly, research and development functions in support of the agriculture sector may also be best performed by public research institutes.

In Part 2 on mobilizing resources for the NAIP the possible role of public sector bodies in financing the agriculture sector has been discussed in more detail. Although they may be required to provide guarantees for investments in agriculture, incentives for investment and enabling measures to leverage private investment, public sector bodies should not be viewed as the exclusive or principle sources of finance for agriculture. Their role should be as enablers of private sector investment.

Private entities are generally best suited to take the lead in most Action Arenas that involve service delivery functions that require flexibility and responsiveness in order to adapt to changing circumstance on the ground and, in particular, to shifts in demand from the production sector and in the market.

Importantly, wherever the goods and services produced are for **private benefit**, such as equipment or services related to value-chain activities, private enterprises should be encouraged to play the leading role.

Organisations and associations of private operators, such as farmer associations or organisations of different operators in the agricultural value chain, may have an important role to play in particular functions such as aggregation of produce, or the provision of inputs where economies of scale can make production more efficient. But these organisations do not generally perform in the same way or as effectively as individual private enterprises. Their performance needs to be carefully assessed, as it will depend on how they are organised and the capacities of their members. Attempts to set up associations or cooperatives that are expected to operate in a competitive environment with the same level of efficiency as a private enterprise have often failed. It is therefore important to assess very precisely the functions that associations are expected to perform and whether or not they can be provided with the capacity required to perform them effectively.

Associations of this kind may often be better suited to play a more localised enabling function such as representing the interests of a particular group of producers and facilitating their performance as private enterprises rather than becoming directly involved in the production of goods or provision of services.

Finance for the agricultural sector may be one of these areas where the government may need to provide the initial impetus to stimulate investment in agriculture although it is hoped that private investment will eventually take the lead. Thus Agricultural Development Funds (ADF), non-bank credit mechanisms and risk-sharing mechanisms may require public-private entities are established making use of public resources but aiming to eventually function primarily with private resources. Importantly, even where public institutions have an interest and a role in new finance institutions, their management should be kept separate from existing institutions and performed according to the criteria generally applied in the private sector.

Public-private partnerships may also be particularly important for establishing regulatory bodies for the sector, where participation of both public and private actors will encourage transparency and accountability. Promotion and information management for the sector can also be appropriate functions for public-private partnership.

14.3 Building Effective Governance into Institutions

Institutions can be seen as a means of structuring the relationships between people. The ways these relationships are structured will determine whether an institution is able to perform its designated functions effectively. Structuring these relationships so that they work properly is at the core of “good governance”.

Good governance is something that needs to be incorporated into the building of new institutions from the start. Key principles that need to be incorporated include:

- **Transparency**: This is critical for ensuring accountability as it allows people on one side of an institutional relationship to determine whether actors on the other side are performing or not;
- **Accountability.** Within an institution, and between different institutions, accountability is an essential feature of effective working relationships. It allows the actors on one side of a relationship to have **recourse** if actors on the other side are not performing. Establishing clear and well understood mechanisms to ensure accountability is critical;
- **Contracts**. Contracts need to be used to clarify relationships and establish how they should function, and help to ensure both transparency and accountability;
- **Feedback and communication**. Mechanisms that allow feedback and are accessible to all the concerned actors in an institution, and across institutional relationships, are critical. All these relationships are essential if actors are to be responsive and if actors on one side are to be able to influence actors on the other and monitor and control how they perform.

14.4 Key Elements to be considered in Building Institutions and Systems

Once the core functions of an institution have been agreed upon, an appropriate institutional form identified and appropriate governance arrangements established, the process of actually creating an institution need to pay attention to several key areas.

Building institutional capacity

Any new institution needs to develop the capacity to carry out the functions that it has been created to perform. This involves ensuring that:

- The **mandate** of the institution and its founding articles clearly reflect the functions that it is intended to perform;
- The **human capacity**, in the form of skills, knowledge and norms of **behaviour**, are available and in place;
- The institution has a **political space** within which it will be able to operate effectively, in other words that its performance of the functions it is designed to perform are seen as a legitimate sphere of activity and one for which this institution is recognised as being appropriate;
- The **physical capacity**, in the form of a functioning base of operations, the equipment required and the ability to operate it effectively, is in place.

Building human resources

The performance of any institution is determined by the people who work within it. While the human capacity can be put in place by identifying (or training) those individuals who will need to perform different roles within an institution or organisation, maintaining performance by those individuals, and ensuring their involvement and commitment to the institution and the achievement of its goals, requires more than simply putting together people, their individual skills and the functions they are to perform. Human resource management is critical and involves developing a clear strategy that will allow people to participate in the institution as a whole and its performance, have clear incentives for performing well and identifying themselves with the institution in the long-term.

Institutional rules

Any institution requires a clear set of rules in order to function effectively. These need to provide guidance on operational procedures, protocols for performing the key function of the institution, and rules regarding how the institution interacts with the outside world. Particularly in a new institution, these rules will need to be revised and revisited regularly to ensure that they are appropriate and enable the people within the institution to perform to the best of their ability.

Any system of rules needs to include systems of accountability, reporting, sanctions for poor performance or breach of rules and regulations, as well as incentives and rewards for good performance.

Financial resources

Mechanisms for ensuring the financial viability and sustainability of an institution or organisation are clearly critical. These need to take into account both the capital investment for the initial establishment of the organisation and the acquisition of key physical capacity, as well as the ongoing operating costs both for running the organisation and ensuring that it provides the functions or services for which it is intended.

Particularly in institutions established for service provision, including public-private partnerships or producer associations aiming to provide specific services, consideration should be given from the start to possible mechanism for cost recovery and service charges that can ensure at least a degree of self-sufficiency in the future.