Review comments from AGRA

April 2022

1. The focus of Dutch policy vis-a-vis the private sector will be on the 'twin transitions' of digitalisation (including artificial intelligence) and sustainability – both of which will be key to achieving the Paris and Glasgow climate goals in the years ahead. How can we increase the involvement of Dutch companies in the twin transitions in low- and middle-income countries?

The lessons learned from the G4AW investments, point to the fact that strong local (developing country based) partners are needed to ensure the development of viable business cases and consequent sustainability of digital solutions that enable climate adaptation. More user oriented, demand driven development of solutions that address real needs of farmers is key to ensure uptake and usage.

AGRA's lessons learned from our 25 digital partnerships include the importance of investments in on the ground presence to make sure solutions are responding to a real need and demand and to drive adoption by farmers (Tech vs Touch), the need for digital to reduce cost and risk of existing services delivery (digital on its own does not solve for farmers' challenges) and the importance of bundling services to get to an affordable price point. The efficacy of digital solutions is anchored on up-to-date data and as such investments are needed to ensure the data provided is continuously informed by the needs

Our recommendation is that:

- More visibility is given to the "Dutch Tech offer"
- Support is provided to local, African digital-climate smart solution providers and users who are enabled/incentivized to 'buy' ('pull') that expertise from the Dutch companies.
- Support is provided for the 'Touch' side of digital (people on the ground to enhance relevance, usage, and user experience of digital solutions for impact)

This demand led approach (demand as understood demand from the final beneficiaries ((farmers) and local solution providers) is different from the current supply-led (being the supply from the Dutch technology solution providers) subsidizing of the Dutch 'Tech' companies and knowledge institutions for 'pushing' their products into markets they do not always know very well.

2. How can government, the private sector and knowledge institutions work together better to achieve the Sustainable Development Goals?

- For the agricultural and food sector, it starts by acknowledging the role each of the actors can play to increase productivity and resilience of smallholder farmers. In line with Gerrit Holtland's comments, we see the increased productivity and resilience of small-scale producers in Africa as key in meeting many of the SDGs. Smallholder farmers in Africa need systems that work for them, not projects that temporarily solve for their challenges.

- Predictability and implementation of policies, functioning extension systems, creation of an enabling environment for private sector and coordination of the support to the agricultural sector are key roles for Government. The National Agricultural Sector Strategies and National Agricultural Investment Plans coupled with the CAADP (Malabo) commitments are frameworks that can guide each actor's intervention per country in Africa.
- Knowledge institutions should be supported to develop the innovations that can sustainably increase the productivity and resilience of farmers. More engagement with local private sector players can lead to more responsive and realistic expectations on adoption of innovations. The breeding of climate smart, drought tolerant varieties of crops cannot create impact if the delivery system to get these seeds to farmers does not function.
- Agricultural private sector (seed companies, fertilizer blenders, processors,) should be incentivized to adopt the innovations created by the knowledge institutions and be incentivized to service smallholder farmers (who are not the most profitable and easy-to-serve client) on a sustainable basis with those innovations.
- Most coordination efforts take place at country level within agricultural sector donor groups and system specific networks and platforms that bring private and public sector together. A presence of Dutch private sector representatives and knowledge institutions in those platforms is important to make sure interventions are aligned, coordinated and duplication reduced.
- Greater coordination among actors is critical not only to ensure pressing needs are responded to but in ensuring that there is complementarity in investments for greater impact. This takes cognizance of the fact that there are numerous digital solutions providers targeting same clientele yet there is an opportunity to coordinate efforts for greater impact. Knowledge partners are particularly critical in availing up to date data and content that will be useful to stakeholders

3. How can the Netherlands' efforts to achieve policy coherence for development be further strengthened or enhanced?

To contribute to policy coherence in international trade, the Netherlands can support efforts by regional trading blocs (EAC, COMESA, ECOWAS,..) and Governments that reduce non-tariff barriers, implement standards and grades, develop price discovery mechanisms that stimulate regional trade by harmonizing regulations on seed and commodities trade and create transparent markets.

As recommended by the IOB 'Gedeelde belangen, Wederzijds profijt' study, more attention should be given to the political economy aspects. Removing trade barriers and changing regulations might benefit organizations and people in different ways, and as an investor in improving regional and international trade, the Dutch Government should understand who is benefitting from its interventions and investments.

The following coordinating mechanisms can help to ensure coherence in support for Agriculture in Africa:

a) The Comprehensive Africa Agriculture Development Programme (CAADP) outlines the framework for economic growth through **agriculture-led development.**
b) African Agricultural Transformation Scorecard **tracks progress in achieving the Malabo commitments.**
c) Dutch Governments' goal **of impacting poverty reduction and reduction in hunger and malnutrition** directly impact Goals 1,2, and 3 of the 2030 Agenda -Sustainable Development Goals **(SDGs) with clear targets for 2030**

There is need to enhance capacities of governments and other actors to exploit synergies across different policy areas for instance on important cross-border dimensions, such as trade, investment, agriculture, health, education, environment to create environments conducive to development.

4. How can the government strengthen Dutch companies' sustainable earning capacity abroad?

By supporting their discovery of opportunities that exist in countries and sectors, getting to know the private sector landscape that can provide partnerships, understanding the political economy in the various sectors that can inform how investments impact the various stakeholders and finally de-risking instruments can be offered to incentivize companies to invest abroad.

5. In which themes or sectors do you see opportunities for international enterprise?

The key sector to invest in to meet many of the SDGs and to build on the expertise of the Dutch international enterprises is to invest in Sustainable Food Systems, which includes:

- Sustainable intensification of (smallholder) agricultural production using innovative technologies and practices (seeds, soil health, agronomy,..) and
- Increased value addition to agricultural produce in Africa for improved nutrition. (Agro-processing with a nutrition lens)
- Access to affordable and appropriate financing for the agricultural sector

6. How can the government better support companies (and SMEs specifically) that are doing or wish to do business abroad?

   a) What type of support do companies need in order to achieve international success in the areas of digital innovation (innovation partnerships) and sustainability?

      - Matchmaking with digital innovators based in the developing countries,
      - Incentives (exchange visits, learning events, coaching/twinning) to share know-how and invest in digital innovators in Africa
      - Identify smaller, more agile implementing partners for financial instruments in digital innovation and sustainability that can act faster, do smaller deals and be closer to the market. AfDB (AFAWA), FMO (DFCD), FAO (food and nutrition security resilience fund) are too big and bureaucratic to invest in smaller projects that can ride on new developments in an agile manner.
      - Localize the investment instruments like FMO innovation fund, Farmfit fund, Agri3 fund and G4AW to make sure they can identify investment opportunities faster and be closer to the markets which are rapidly evolving.
      - BHOS should be open (and may be more risk taking) to new Africa based partnerships for the implementation of some of the financial instruments that support digital and climate change adaptation and sustainability innovations.

   b) For what countries, regions or markets should the government provide private sector support?

      - BHOS should focus on building local (African based) agricultural SMEs so that they can become credible, reliable, growing business partners of Dutch companies that want to enter African markets. Agricultural SMEs are the key drivers for employment creation, food security and sustainable food systems on the continent.

- Without a solid, competitive private sector in Africa, Dutch companies will also find it difficult to do business. Strengthening of the local Agricultural SME sector through building of functioning business development support and agricultural finance markets within an enabling environment should be at the core of the BHOS policy for Africa.

c) What type of trade promotion activities should the government stop doing?

Government should stop trade promotion that is creating unfair competition for local, African small and medium sized enterprises. Support instruments should be additional, contribute to the public good and be solving for risks and costs that cannot be assumed by the private sector.

7. In your opinion, what are the Netherlands' strengths when it comes to development cooperation? In which policy themes could the Netherlands play a leading role?

   Agriculture, Food security and Food Systems; Water management; Financial sector; climate change adaptation and strengthening resilience of Agriculture and food systems

8. In what other ways and areas could Dutch development cooperation innovate more?

- Take a system-building approach and invest (or de-risk investments) in identified gaps in each system as opposed to supporting stand-alone projects that solve for a particular challenge. Many pieces of the food systems are functioning, but…:
- Policies are there (but implementation and enforcement is often lacking), farmers are there (but not reached by critical services such as extension, especially women), seed companies and fertilizer blenders exist (but suffer from unpredictable Government interventions), agrodealers are many (but not reaching the last mile), food processors are there (but not getting the right quantity and quality of raw material to operate at full capacity and produce nutritious food), it is often the connection between these different pieces and the investments in those critical gaps that are missing to make the food system sustainable and investable.
- Coordinate and align more with various actors in the ecosystem to reduce duplication, deepen niche areas and contribute to greater impact.

9. In what ways or areas could the Netherlands, as a donor, be even bolder?

- Be bold and open the discussion on the role public development banks should (be allowed to) play in financing private sector to adapt to climate change, create employment and be more gender inclusive or transformative (AfDB, FMO, EIB, IFC,.).
- These institutions have the mandate to invest for impact (SDG contribution) but are at the same time bound by heavy regulation, compliance and their triple A rating and bank status (by their shareholders including the Dutch Government). This means they cannot take the risks that are often required to invest in the areas where most of the impact can be achieved: the agricultural (SME dominated) sector. Their operational costs also do not allow for investments in smaller and more risky deals which form the majority of private sector in Africa.
- Many of the public development banks, impact investment funds and even commercial banks are competing for the same (large) impactful deals and unfair competition through use of subsidy instruments (deal sweeteners) risks to distort the markets and drive-up valuations and deal origination cost.
- Be bolder in increasing investments into climate change adaptation especially for African agriculture and enterprises, both at the country and regional levels. Africa like many

developing countries bears the brunt of the effects of climate change and therefore need more bolder adaptation initiatives. The upcoming COP27 is an important opportunity for greater voices on supporting LDCs and DCs adaptation.

- Greater engagement in supporting policy reforms and institutional building. In the realm of agriculture, Netherlands is focused on rural land rights in partner countries. The policy note *Investing in Global Prospects* mentions the importance of land rights and the expertise of the Netherlands on this topic. While this is important there is a need to make investments into broader policy areas as this is critical for sustainability of development efforts.

10. Are there any other points that you believe should be included in the new policy document?

It is important to take a holistic view on cost of capital for Africa based agricultural SMEs and support measures that can reduce the cost of capital. Lack of access to finance for the agricultural sector is priority number one for African private sector (which represent 65% of employment, 30% of GDP contribution but receives less than 4% of bank financing) and cost of capital is a major barrier in accessing the required finance. The current Dutch instruments are not sufficiently addressing these (mostly regulatory and know how) issues.

The required measures will cut across policy measures, innovations, digitization, de-risking instruments, insurance, etc... The current Dutch financial sector interventions in Africa are mostly focusing on larger deals, non-agricultural sectors and financial sector players that are not investing in the agricultural sector either.