

AGRICULTURE AND RURAL DEVELOPMENT SECTOR POLICY

Growing Inclusive Rural Economies



Agriculture Infrastructure Division
Economic and Social Infrastructure Department

December 2018

Disclaimer

This document has been produced by the Islamic Development Bank (IsDB) and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without authorization of IsDB. The views expressed in this document do not imply any judgment or views on the part of IsDB nor its member countries concerning the legal status of any territory or the endorsement or acceptance of such boundaries and information. The data and information provided in this document have been prepared from available sources and references to the origin of the data are provided where possible. IsDB cannot be held liable for the accuracy, completeness and correctness of the data and information.

Contents

Abbreviations.....	iv
Purpose, objectives and background	1
Definitions	2
Scope	4
Guiding principles	8
Roles and responsibilities	9
Related policies.....	10
Version history	10

Abbreviations

10YS	10-Year Strategy (IsDB)
FAO	Food and Agriculture Organization of the United Nations
GDP	Gross Domestic Product
IFAD	International Fund for Agricultural Development
IsDB	Islamic Development Bank
MDB	Multilateral Development Bank
P5P	President's Five-Year Programme (IsDB)
SDG	Sustainable Development Goal (United Nations)
SME	Small-to-Medium Enterprise
UN	United Nations

Purpose, objectives and background

1. **Purpose.** This Agriculture and Rural Development Sector Policy aims to provide strategic direction for investment by the Islamic Development Bank (IsDB) in the agricultural and rural development of its Member Countries. The policy outlines a framework for IsDB Group support to Member Countries to improve food security through rural and agricultural development for rural economic growth and employment generation. The thesis of the policy is to promote the commercialization of smallholder agriculture through the development of agriculture value chains, with an emphasis on private-sector participation.
2. **Objectives.** The 10-Year Strategy (10YS) of IsDB identifies inclusiveness, connectivity, and growth in the Islamic finance system as the main strategic corporate developmental objectives. Those objectives represent the building blocks of the overall aim of this Agriculture and Rural Development Sector Policy – to promote sustainable, resilient and equitable agriculture and rural development through the development of viable and profitable agriculture value chains and by promoting innovative Islamic finance. To attain this, the policy has the following three objectives:
 - alleviate poverty and enhance food security;
 - enhance public–private partnerships towards the overall aim of sustainable, inclusive and equitable agriculture and rural development; and
 - create rural employment opportunities both in agriculture and the rural non-farming economy.

Particularly in agriculture-based Member Countries, the agriculture and rural development sector is recognized not only as a way of life and important for national socio-economic development, but also as an engine for economic growth. The sector is the biggest contributor to gross domestic product (GDP) in most Member Countries, contributing to more than a fifth of GDP in 18 Member Countries and more than a third of GDP in nine. The sector also provides a third of employment opportunities overall.¹

Much progress has been made recently in reducing hunger and poverty and improving food and nutritional security in developing countries. Gains in productivity and technological advances have contributed to more efficient resource use and have

1. Islamic Development Bank (July 2018) 'Agriculture and rural development sector study'. Jeddah.

improved food safety in some Member Countries. Major concerns persist, however, that are of critical importance to many Member Countries:

- persistent extreme poverty, malnutrition and hunger;²
 - low agricultural productivity and an inability to meet increasing food demand, particularly in sub-Saharan Africa;
 - poor market access;
 - increasing food waste and food losses;
 - low levels of agricultural technology and limited rural infrastructure, especially in south Asia and sub-Saharan Africa; and
 - inadequate institutional and policy coordination.
3. This Agriculture and Rural Development Sector Policy is informed by an IsDB analysis – the agriculture and rural development sector study³ – and by the findings and recommendations of a wide range of stakeholder consultations involving Member Countries and development partners. The policy recognizes the diversity of challenges and priorities across the 57 Member Countries and the variety in their resource endowments, socio-economic set-ups and stages of development. It is guided internally by 10YS and the President’s Five-Year Programme (P5P), and externally by the action plan to 2025 of the Organisation of Islamic Cooperation and by the Sustainable Development Goals (SDGs) set by the United Nations (UN).

Definitions

4. **Agriculture** in this policy includes crop, livestock and poultry production; apiculture; fisheries and aquaculture.

2. More than a third of the total population of IsDB Member Countries is considered multidimensionally poor. The regional differences within this show that closer to two thirds of people in sub-Saharan Africa (62.4%) are multidimensionally poor, compared with 15.4% for Member Countries in Asia and 9.6% for Member Countries in the Middle-East and North Africa.

3. Islamic Development Bank (July 2018) 'Agriculture and rural development sector study'. Jeddah.

4. Bolzani, D., de Villard, S. and de Pryck, J.D. (2010) 'Agricultural value chain development: threat or opportunity for women’s employment?' Gender and rural employment policy brief no. 4. Food and Agriculture Organization of the United Nations (FAO), International Fund for Agricultural Development (IFAD) and International Labour Office, Geneva and Rome.

5. **Value chain** refers to a set of linked actors and activities that bring agricultural products from the farm to the final consumer, with value being added to the product at each stage.⁴
6. **Climate-smart agriculture** is agriculture that sustainably increases productivity, enhances resilience (climate adaptation), reduces or removes greenhouse gas emissions where possible (climate mitigation), and enhances the achievement of national food security and development goals.⁵
7. **Resilient agriculture** meets both food and development needs over the short and very long terms, and from local to global scales, without destabilizing global ecological systems. **Resilient agriculture systems** are able to absorb, accommodate or recover from the effects of stress events (environmental or non-environmental) in a timely and efficient manner.⁶
8. **Co-location** is a development model in which interventions are concentrated in a particular geographical area to ensure greater cumulative impacts in that location.
9. **Food and nutrition security** means all people, at all times, have economic, social and physical access to sufficient, safe and nutritious food that meets their dietary needs and food preferences to enable them to lead active and healthy lives. The four pillars of food security are (i) availability, (ii) stability, (iii) access (including affordability) and iv) food nutrition, quality and safety.⁷
10. **Food system** encompasses all the components and actions concerning all stages of food production (from original source to consumer), and also the socio-economic and environmental outcomes of these activities.⁸

2. FAO (2013) 'Climate-smart agriculture sourcebook'. FAO, Rome.

3. Field, C.B, Barros, V., Stocker, T.F. and Dahe, Q. (eds) (2012) Glossary of terms. In: *Managing the Risks of Extreme Events and Disasters to Advance Climate Change Adaptation: Special Report of the Intergovernmental Panel on Climate Change*. Cambridge University Press, Cambridge.

4. FAO, IFAD, UNICEF, WFP and WHO (2018) 'The state of food security and nutrition in the world 2018: building climate resilience for food security and nutrition'. FAO, Rome.

5. Compact2025, World Bank, Rabobank and Landesa (2016) 'Global food system index: concept note'. International Food Policy Research Institute, Washington, DC.

Scope

11. This Agriculture and Rural Development Sector Policy will guide IsDB investment in its Member Countries. It applies to all IsDB-financed projects, programmes and initiatives in the sector. The policy provides a platform for synergies within the IsDB Group to bring about the desired development impact while maximizing efficiency. It enables IsDB to forge purposeful partnerships with multilateral development partners, including multilateral development banks (MDBs), civil society organizations and the private sector.
12. This policy has three objectives, six policy pillars and four guiding principles (see the policy framework, Figure 1). The following six policy pillars recognize the diverse socio-economic situations, stages of development, and challenges and priorities in the 57 Member Countries:
 - (i) **Build resilient and climate-smart agriculture.** IsDB will encourage climate-smart agriculture that builds resilience and enhances agricultural productivity. The Bank will devote special attention to resilience in fragile high-risk and low-capacity countries. The agriculture and rural development sector study found that agricultural productivity in Member Countries is currently less than half the global average, and raising it will contribute directly and meaningfully to agricultural and rural development goals. IsDB will help improve the climate-adaptation capacity of smallholders through increased access to yield-enhancing technologies, to infrastructure and to know-how.

The Bank will show determination and leadership in decisively addressing the threats of climate change and environmental degradation. The integration of efforts to protect nature and conserve biodiversity is also a key part of this policy by promoting practices that make sustainable use of natural capital and protect ecologically critical areas.

Due to the global nature of climate change, IsDB will support the widest possible international cooperation and pursue purposeful partnerships to increase the adaptation capacities of agricultural systems and to reduce greenhouse gas emissions through mitigation measures and appropriate new technologies.
 - (ii) **Improve access to remunerative markets.** IsDB will support Member Countries to improve market infrastructure and support strong farmer–buyer links that facilitate the commercialization of subsistence agriculture.

Figure 1. Framework for the Agriculture and Rural Development Sector Policy

Objectives



Promote sustainable, resilient and equitable agriculture and rural development by:

- alleviating poverty and enhancing food security
- promoting public–private partnerships
- creating rural employment opportunities

Pillars



Build resilient and climate-smart agriculture
 Improve access to markets
 Promote inclusive, sustainable and integrated approaches
 Promote access to Islamic microfinance
 Promote private-sector participation
 Build human and institutional capacity

Guiding principles



Synergy and complementarity
 A value-chain approach and private-sector participation
 Innovation, science and technology
 Regional differentiation

IsDB will support efforts to close the gap between women and men in the productive and social roles in supply chains.

Within the broader concept of promoting sustainable food systems, IsDB will lend in areas where the reduction of food losses and food waste is embedded in the value chain. IsDB will enhance the private sector's role to develop value chains, mobilize finance, provide effective mechanisms of service delivery and contribute to technology transfer and know-how. IsDB will support trade finance and encourage business networking within and across borders.

(iii) **Promote inclusive, sustainable and integrated approaches.** IsDB will support projects and programmes that adopt an integrated approach to agriculture and rural development through improved access to basic services, infrastructure and economic opportunities. Such projects and programmes should support innovative, sustainable and scalable interventions that empower local populations to have ownership and to take the initiative in transforming their rural environment. IsDB will ensure the co-location of development interventions to create synergies towards greater outcomes and impacts in Member Countries through multisectoral and multidisciplinary opportunities. Special emphasis will be given to economic empowerment through employment generation and access to services for women and youth.

(iv) **Promote access to Islamic financial products and services.** Islamic finance is at the core of what makes IsDB unique among MDBs, in terms of both its mandate and its experience. IsDB aims to improve investment in agriculture that generates sustainable growth among rural communities and to deepen Islamic rural financial intermediation. Microfinance institutions will also economically empower clients through non-financial services such as facilitating access to markets and market information.

IsDB will encourage the development of Islamic microfinance products that cater for the needs of smallholders and small-to-medium enterprises (SMEs) involved in rural development. In addition, the Bank will engage in capacity development and policy dialogue to foster a conducive legal and regulatory environment for the use of Sharia-compliant products. IsDB will also emphasize closer collaboration that raises awareness of Islamic financial products and services among national and multilateral financial institutions working for agricultural and rural development.

- (v) **Promote private-sector participation.** IsDB will support private-sector participation and contributions through all the stages of project conception, formulation and implementation to ensure sustainable impacts. IsDB will support Member Countries in attracting foreign investment to generate broad-based growth and to increase the numbers of higher quality jobs in rural areas. The Bank will support the development of the commercial agricultural sector and will encourage the private sector to develop value chains, mobilize finance, provide effective mechanisms of service delivery and contribute to research and development in agriculture and rural development. In addition, IsDB will encourage and support intra-Organisation of Islamic Cooperation foreign direct investment in agriculture through the development of special geographically based economic zones such as agro-poles and agro-processing zones.
- (vi) **Build human and institutional capacity.** IsDB recognizes the importance of capacity development for the success of its development financing. Capacity-building is an integral part of IsDB's evolution from being mainly a financier to being a knowledge provider and an honest broker of development solutions to its Member Countries. Moreover, 10YS highlights the need for IsDB to change gradually to become both a development bank and a bank for developers, and identifies a new business model that stresses the Bank's role as a catalyst for cooperation among developers at every step of the development cycle.

IsDB will thus collaborate with leading partners and specialized agencies, and through internal mechanisms with relevant departments, to support: capacity-building within project design and implementation; technical vocational education and training in agriculture – with an emphasis on human and institutional support to such education for employability; and local and national producers' cooperatives. IsDB will give priority through its capacity-building programmes to fragile countries and those with post-conflict contexts.

Guiding principles

13. This policy is fundamentally client-focused and contributes to achieving the objectives of 10YS and the SDGs (SDGs 1, 2 and 13 in particular). The following four principles will guide programmes, projects and initiatives financed by IsDB in agriculture and rural development within the policy pillars outlined in item 12 above.

- (i) ***Synergy and complementarity.*** IsDB will promote synergy within the Group and with other development partners to achieve the co-location of investments for greater impact. IsDB will prefer to lend to integrated projects that have complementary components to address the socio-economic needs of rural communities. Preference will be given to rural community-based projects and programmes that assure inclusiveness and the co-location of development financing.
- (ii) ***A value-chain approach and private-sector participation.*** IsDB financing will support projects and programmes that use the value-chain approach (the input–output market model). The Bank will encourage the private sector to play a critical role in ensuring sustainable development. IsDB lending will ensure employment generation as well as financing sustainability.
- (iii) ***Innovation, science and technology.*** IsDB will support Member Countries to mobilize or deploy science and technology to accelerate agricultural transformation and drive rural economic growth. The Bank will promote projects and programmes with innovative research-based development models. IsDB-financed projects should have a component that promotes science and technology and/or technology transfer, including the adoption and promotion of regional and global best practices. IsDB will use its reverse-linkage programme, among others, to promote South–South cooperation as a vehicle for technology transfer.
- (iv) ***Regional differentiation.*** In addition to the first three guiding principles, IsDB will apply regional differentiation to prioritize project and programme financing. This reflects the diversity of challenges and priorities across the 57 Member Countries and the variety in their resource endowments, socio-economic set-ups and stages of development.

Sub-Saharan Africa is the most vulnerable region in terms of poverty, food security and social indicators. IsDB will give special attention here to enhancing agricultural productivity and reducing high post-harvest losses, thereby reducing food and nutritional insecurity.

In IsDB's Middle East and North Africa region, priority will be given to enhancing the efficiency of water management, improving food and nutrition security, as well as reducing the high dependency on imports. In addition, IsDB will help to improve the investment environment to ensure a growing role for the private sector in improving food systems and market access.

In Asia, IsDB will give special attention to the regional priorities of poverty reduction and increasing the value added by the Bank to support the competitiveness of Member Countries and enhance their productivity. For those in the central Asia subregion specifically, IsDB will give more emphasis to institutional reform and market access, while for east Asia it will pay attention to increasing investment in rural areas, in answer to the large migratory flow from urban areas. The Bank will also help to enhance east Asia's capacity to absorb increasing urbanization. Finally, in south Asia, the emphasis will be on increasing productivity and on reducing child malnutrition, land fragmentation and the sharp differences across genders and localities.

Roles and responsibilities

14. Within the IsDB Group, the Bank will lead the implementation of this Agriculture and Rural Development Sector Policy. The following Group entities will also have particular roles and varying levels of engagement: the Islamic Corporation for the Development of the Private Sector (ICD), the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), the Islamic Solidarity Fund for Development (ISFD) and the Islamic Trade Finance Corporation (ITFC).
15. The pillars of this policy include components in which other development partners have demonstrated a comparative advantage and have greater implementation experience. These partners will therefore take the lead in such areas, with close collaboration from IsDB as a facilitator. To ensure lasting results, Member Countries and their targeted beneficiaries must be able to spearhead and have ownership of the implementation of this Agriculture and Rural Development Sector Policy, with the joint assistance of IsDB and relevant partners that are presently or potentially interested.

Related policies

16. This policy relates to existing and planned IsDB country policy documents, including 'Country Engagement and Programming', IsDB's classification of fragile and conflict-affected Member Countries and the Bank's policy for dealing with de facto governments.
17. In classifying countries based on achievements towards the attainment of SDGs, as a way to select and prioritize country operations in the sector, this Agriculture and Rural Development Sector Policy will be guided by the operational and financial policies of the Bank.
18. At the operational level, this policy is relevant to a number of other IsDB policy and strategy documents (and still others may arise during the life of this policy), including 'Science Technology and Innovation', 'Partnership Development, Resource Mobilization, Regional Cooperation and Integration', 'Reverse Linkage', 'Women Empowerment', 'Youth Development', 'Fragility and Post Conflict', 'NGOs and Civil Society Engagement', 'Trust Funds Management', 'Education', 'Health', 'Transport', 'Energy', 'Climate Change' and 'Knowledge Management'.

Version history

19. This Agriculture and Rural Development Sector Policy is the first of its kind to be prepared since the establishment of IsDB. It represents key areas of deviation from the past and reflects what IsDB should do differently, in the following ways. The policy:
 - is the first comprehensive Agriculture and Rural Development Sector Policy;
 - is nested within one IsDB overall strategy;
 - avoids previous biases towards either pre-harvest interventions, stand-alone agriculture or rural development;
 - focuses on climate-change adaptation and on building resilience;
 - values purposeful partnerships with the private sector;
 - gives attention to fragile and post-conflict countries;
 - builds on innovations and appropriate technology transfer; and
 - emphasizes job creation and capacity-building for the employability of women and youth.

