

Can Value Chain Development Target the Poorest of the Poor? The Matching Grant Scheme of the RAPID Growth Project

Matching Grants as a Strategy for Enterprise Development

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<https://pidswebs.pids.gov.ph/CDN/document/pidsdps2338.pdf>

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What to expect

- Issues
 - Value chain approach: development and equity
 - Case of Matching Grant Project as implemented in RAPID Growth
- Overview of Matching Grant Schemes
 - Theory
 - Evidence
- Case of RAPID Growth as Matching Grant Scheme
 - Overview of the Project
 - Results of Baseline Study
- Conclusion

The issues

Issues

- Agricultural value chain approach and agri development
 - Increased incomes, by enhancing vertically-linked activities:
 - *Agri input* → **Farmed output** → *Processed product* → *Marketing* → **Consumer** (Domestic/Foreign)
 - Strong element of *enterprise development* (MSMEs)
- Link to equity
 - Theme of 22nd DPRM: “Securing a Future for All by Growing a Resilient Middle Class”
 - Agricultural value chain approach – poorest of the poor, or borderline-poor and low-income households?
 - Directly relevant for “Growing a Resilient Middle Class”

Income classes, Indicative monthly family income and size of income class (families & persons) as of 2021

Income class	Income cluster	Definition: Per capita income	Indicative Range of Monthly Family Incomes (for a Family Size of 5 members) at 2021 prices	Estimated Size in thousands (and in % of Total)	
				Families	Persons
Low income	Poor	less than official poverty threshold	Less than PhP 12,030 per month	3,592 (13.6)	20,431 (18.3)
	Low income (but not poor)	between the poverty line and twice the poverty line	Between PhP 12,030 to PhP 24,060 per month	9,907 (37.5)	45,617 (40.9)
Middle income	Lower middle income	between two- and four-times the poverty line	Between PhP 24,060 to PhP 48,120 per month	8,305 (31.5)	31,122 (27.9)
	Middle middle income class	between four- and seven-times the poverty line	Between PhP 48,120 to PhP 84,210 per month	3,104 (11.8)	10,003 (9.0)
	Upper middle income	between seven- and twelve- times the poverty line	Between PhP 84,210 to PhP 144,360 per month	1,087 (4.1)	3,238 (2.9)
High income	Upper income (but not rich)	between twelve- and twenty times the poverty line	Between PhP 144,360 to PhP 240,600	288 (1.1)	747 (0.7)
	Rich	at least equal to twenty times the poverty line	At least PhP 240,600	115 (0.4)	301 (0.3)

Nature and rationale of matching grant scheme

What are matching grants?

- IFAD: one-off, non-reimbursable transfer to project beneficiaries, based on a specific project rationale for particular purposes and on the condition that the recipient makes a specified contribution for the same purpose or subproject.
- May be linked with other financial services, such as loans
- Often tied with availment of business development services as a conditionality (e.g. capacity-building in business planning and proposal preparation)
- **Not** identical to subsidies for inputs, credit, or provision of safety nets such as cash transfers or food-for-work

Nature and rationale of matching grant scheme

Why matching grants?

- Market failure for finance, risk-sharing
- Asymmetric information, moral hazard, constrain financing for rural-based enterprises
- Counterpart offers a signal to correct asymmetric information and moral hazard; matching grant allows sharing of risk
- Tied technical assistance (business development services) address information and technology constraints facing enterprises

Nature and rationale of matching grant scheme

Pitfalls of matching grants using public funds

- Subsidies for private enterprises can lead to private gains rather than generate public gains that can justify using public funds.
- Crowding out private investment or duplication of private investment activities (“Additionality”)
- May create market distortions, i.e. lower price of business development services may cause firms to overconsume
- Can finance non-viable or non-feasible investments and business activities and keep unprofitable firms going (“Sustainability”)

Evidence

International literature

- McKenzie et al. (2016) - randomized controlled trial of a matching grant scheme in Yemen + subsidized business development services → the intervention generated additional innovative activities such as more product innovation, upgrade in the accounting system, more marketing, more capital investments, sale growth in the first year
- Bruhn, Karlan, and Schoar (2012) - randomized controlled trial of a matching grant program in Mexico + SMEs received subsidized consulting services - consulting services increased sales, profits, and productivity among recipient enterprises; but no impact on employment
- Hossain, Mabiso and Garbero (2022) - matching grant scheme in Rwanda using a regression discontinuity design → matching grants increase the horticultural, wage/service, and total income of project beneficiaries

Evidence

International literature

- Philips (2010) reviewed ten matching grant programs of the World Bank → impact and sustainability are weak, while performance on various indicators is mixed.
- Hristova and Coste (2016) reviewed 106 World Bank matching grant programs → no single design feature systematically impacts project outcome and success
- Sberro-Kesler (2019) reviewed 21 matching grant programs focused on agriculture → these tend to be more successful and larger than outside agriculture; good practices include technical assistance in business planning, customization of size of matched grant, linkage to “access to finance” component

Evidence

Local examples (pre-RAPID)

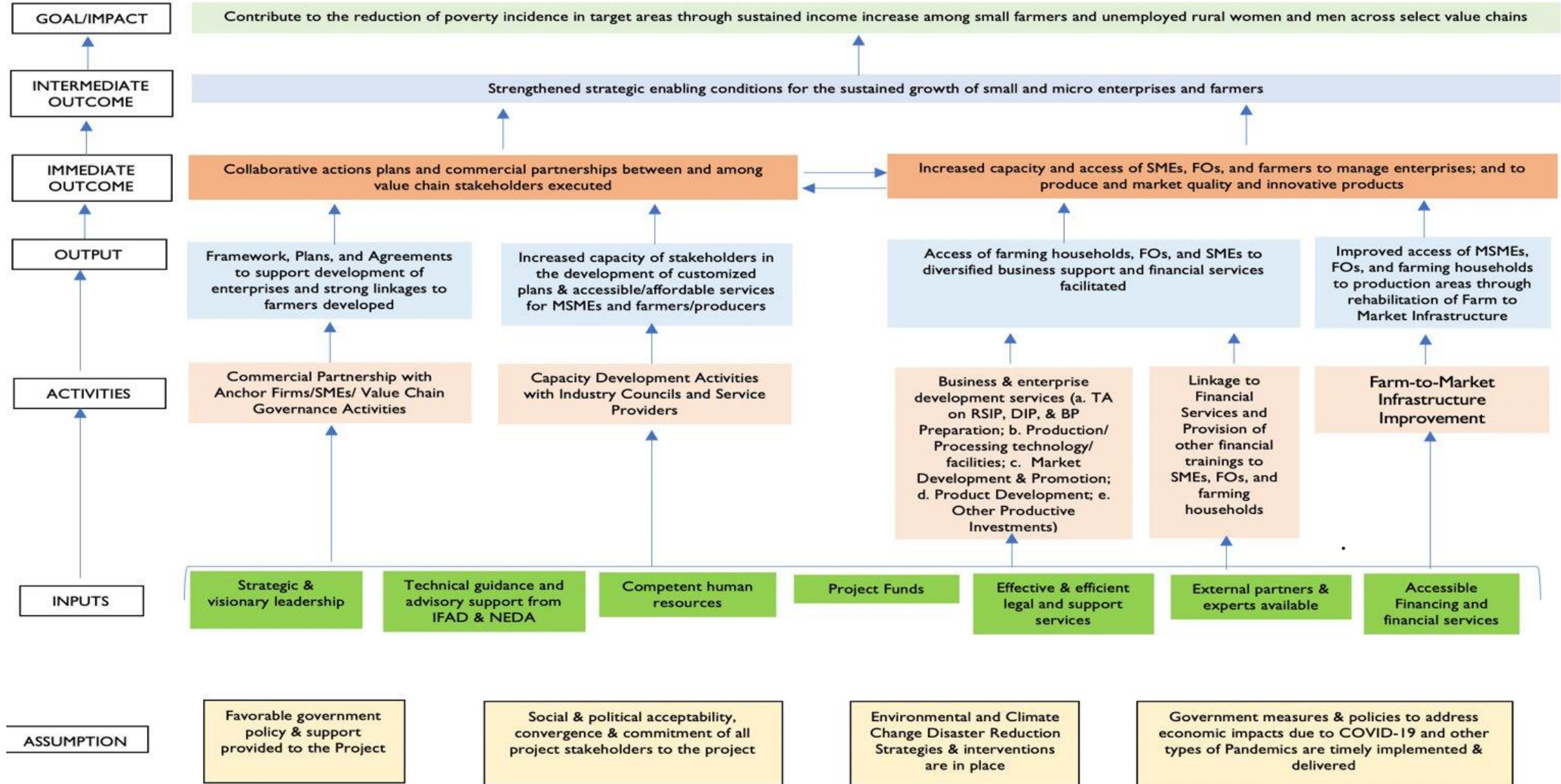
- Available examples do not exactly fit definition of matching grant: Agricultural Competitiveness Enhancement Fund – government contribution is a loan; Shared Service Facilities (SSF) of DTI – counterpart is existing assets/facilities for housing equipment, operating expenses
- Stronger examples from Philippine Rural Development Program (PRDP), Convergence on Value Chain Enhancement for Rural Growth and Empowerment (ConVERGE) - but equity contribution still often existing assets/facilities/operating expenses
- Varying implementation → difficult to evaluate

Case of RAPID Growth

- Rural Agro-Industrial Partnership for Inclusive Development and Growth
- Implementing agency: Department of Trade and Industry (DTI);
- Implemented in 2019 – 2025 (six years); Mindanao (all regions) + Eastern Visayas;
- Covers value chains for coconut, cacao, coffee, processed fruit and nuts
- Total project cost USD 93.59 million. Financing sources (USD millions):

IFAD loan and grant	65.40
GOP and LGU	10.81
Beneficiary farmers and MSMEs	4.94
Financial Service Provider (FSP)	12.44

Theory of Change



Project Components



- Delivery of Business Development Services
- Enterprise Strengthening – includes **matching grants, participatory implementation**
- Farm to Market Infrastructure Development
- Cost allocation: 80%

Interventions identified in 2 stages:

1. Regional strategic investment planning
2. Detailed investment planning (DIP)

- Establishment of provincial networks of Negosyo Centers
- Development of Microenterprises and Cooperatives as service hubs
- Facilitation of partnerships between SMEs for profitable domestic and export markets
- Capacity building of LGUs on supervision and monitoring of FMI rehabilitation
- Support VC enablers through Industry Councils
- Cost allocation: 3%

- Capacity building of FSPs to deliver accessible financial products and services for concerned value chains
- Cost allocation: 2%

- Provision of incentives to private equity and venture capital firms to co-finance SME capital requirements
- Cost allocation: 6%

- Ensure that activities are properly designed, planned, implemented, and monitored
- Cost allocation: 9%

RAPID Growth Project strategy for matching grants

- Development of a DIP and Business Plan (externally supported)
- Matching grant covers : i) business development and extension services; ii) productive investments
- Business development service provided by private sector (institutional buyer, consultancy service, NGO)
- Equity counterpart is strictly in cash. For coops: as high as 40%. Enterprise can borrow counterpart from FSP.
- Recipient, DTI, and FSP sign tripartite agreement strictly determining use of funds
- The project beneficiaries **directly procure the productive investment** with guidance and due diligence from DTI.
- Payment to the supplier is thru the bank upon notice from DTI.

DISCUSSION PAPER SERIES NO. 2023-39

Rural Agro-Enterprise Partnership for Inclusive
Development and Growth (RAPID-Growth)
Project Baseline Survey

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The Baseline Study

<https://www.pids.gov.ph/publication/discussion-papers/rural-agro-enterprise-partnership-for-inclusive-development-and-growth-rapid-growth-project-baseline-survey>

Findings from process evaluation

- Project delivered business development services to stakeholders
- Challenges and delays were observed in in strategic and detailed investment planning → availability of qualified consultants, onset of the pandemic, and subpar quality of DIP submissions
- Varying levels of detail in commercial partnership agreements in DIPs
- Larger cooperatives typically prefer cash in funding their counterpart in the matching grant
- Assumes capacity limitations of FSPs as a barrier to extending credit to RAPID stakeholders → **not** confirmed by FSPs themselves
- Potential issues with matching grants: a) possible selection of enterprises already likely to succeed without the grant; b) enterprises tend to avoid debt, prefer cash counterpart; c) needy enterprises are those unable to come up with the cash

Findings from process evaluation

- Potential issues with matching grants:
 - a) possible selection of enterprises already likely to succeed without the grant;
 - b) Enterprises tend to avoid debt, prefer cash counterpart;
 - c) Enterprises most in need of assistance are those unable offer the cash counterpart
 - creates preference for more cash-endowed enterprises
 - tend to have members who are not predominantly poorest of the poor; near-poor + low-income households

Overall conclusions

- Matching grant induces strong participation of FOs and their members
- Government procurement for VCEs, noted for delays and unreliability, is avoided, while communities empowered by direct implementation
- Complemented by intensive program of capacity development; DTI opted for a strong private sector role in its main VC project.
- The Project flagged for implementation problems, including deficiencies in M&E system
- Implications of the matching grant strategy on **sustainability**, **additionality**, and **equity** to be clarified at endline
- N.B. By-passing poorest of the poor – not necessarily a bad thing; other programs such as cash transfers may be more appropriate for this neediest segment of the population



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Thank you!

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