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Investing in rural people

Country and thematic selectivity: Issues and options

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Country and thematic selectivity: Issues and options

I. Introduction

1. At the 108th Session of the Executive Board, the Management response to the Corporate-level evaluation of IFAD's institutional efficiency and efficiency of IFAD-funded operations¹ (CLEE) indicated that, with regard to country selectivity, Management agreed with the finding that IFAD generally suffers from a low scale of economies in its operations, and that more country selectivity can help enhance institutional efficiency. At the subsequent Executive Board, in its response to the CLEE through the IFAD Consolidated Action Plan to Enhance Operational and Institutional Efficiency,² Management noted that small operations in small countries cost nearly as much to prepare and supervise as do large operations in large countries, leading to high operational costs overall.
2. Management observed, however, that reducing the number of countries in which IFAD operates would increase cost-efficiency, but would also run counter to IFAD's mandate to provide support to poor rural people globally. In the light of this divergence, IFAD Management noted³ that it would seek the Executive Board's guidance on country selectivity and would prepare a paper outlining various options for consideration by the Executive Board. At the eighty-fourth session of the Evaluation Committee, the President's Report on the Implementation Status of Evaluation Recommendations and Management Actions,⁴ (PRISMA) stated that "With regard to the paper outlining options for country selectivity due in September 2014, Management believes that this issue should be addressed in the context of the Working Group on the Performance-based Allocation System and plans to submit a paper to this effect to the Board's September 2014 session."⁵
3. The Action Plan also addressed the CLEE concern regarding thematic selectivity, which had concluded that there is insufficient thematic focus in IFAD's operations. However, the plan noted that the 64 categories that IFAD uses to monitor its resource allocations fall into 12 technical areas related to agricultural and rural development, and are all within the scope defined in the IFAD Strategic Framework 2011-2015.⁶ More than half the amounts approved in the last four years were in only three areas: agricultural development; rural infrastructure, including irrigation and farm roads; and rural financial services. The Action Plan concluded that Management thus believes that the Fund's operations enjoy adequate thematic focus and do not require further concentration.
4. This paper addresses the Consolidated Action Plan responses with regard to country selectivity and updates the status of IFAD's thematic selectivity.

II. IFAD's policies and criteria regarding country selectivity

5. IFAD's current policies and criteria for the allocation of resources, programme of work and country criteria are set out in the recently amended Policies and Criteria for IFAD Financing:⁷

¹ EB 2013/108/R.3/Add.2, IFAD Management Response to the Corporate-level evaluation of IFAD's institutional efficiency and efficiency of IFAD-funded operations.

² EB 2013/109/R.12

³ Ibid.

⁴ EC 2014/84/W.P.4, President's Report on the Implementation Status of Evaluation Recommendations and Management Actions (PRISMA).

⁵ Ibid.

⁶ EB 2011/102/R.2/Rev.1, IFAD Strategic Framework 2011-2015: Enabling poor rural people to improve their food security and nutrition, raise their incomes and strengthen their resilience.

⁷ At its thirty-sixth session, 13-14 February 2013, in resolution 178/XXXVI the Governing Council adopted a revised version of the Lending Policies and Criteria, which was renamed Policies and Criteria for IFAD Financing.

- (i) **Allocation of resources.** The resources of the Fund available for financing for developing Member States shall be allocated in accordance with a performance-based allocation system (PBAS) established by the Executive Board. The Executive Board shall report annually to the Governing Council on implementation of the PBAS.
- (ii) **Programme of work.** Projects and programmes submitted to the Executive Board for consideration and approval shall be based on a programme of work proposed by the President and approved each year by the Executive Board in accordance with article 7, section 2 of the Agreement Establishing IFAD. In developing the proposed programme of work, the President is guided by the Strategic Framework, as approved periodically by the Executive Board.
- (iii) **Country criteria.** Projects and programmes submitted for financing by the Fund shall be based as much as possible on results-based country strategic opportunity programmes (RB-COSOPs), which provide a framework for making strategic choices about the Fund's operations in a Member State, identifying opportunities for Fund financing and facilitating management for results.

III. IFAD's operational approach to country selectivity

6. In making strategic choices at the country level, the regional divisions of the Programme Management Department are guided by the Strategic Framework. This document steers the RB-COSOPs that frame IFAD's engagement in – and cooperation with – its developing Member States, and the individual programmes and projects that IFAD funds. At the beginning of each replenishment period, the regional divisions indicate Member States to be included in the programme of loans and grants (PoLG) on the basis of COSOPs already approved by IFAD Management or to be approved during that period. This includes country-level dialogue with members, review of potential interventions, assessment of the ongoing portfolio and options for cofinancing and scaling up. Following approval by the Associate Vice-President, Programmes, these countries enter the PBAS and receive an allocation, according to application of the PBAS formula for the three-year replenishment period. Apart from some countries that may have capped allocations, the PBAS formula is applied equally to all countries included in the PoLG.
7. IFAD Management has proactively managed the number of countries included in the PoLG in any given replenishment period. For example, following introduction of the PBAS in 2005, and the allocations given to 118 countries, IFAD Management – cognizant of the effect on both project financing levels and budget implications – reduced the number of countries in the subsequent Seventh Replenishment of IFAD's Resources (IFAD7), 2007-2009, to 89. Similarly, in IFAD9, 2013-2015, 99 countries are included in the PoLG for allocations through the PBAS process. This is a reduction in direct response to the Consolidated Action Plan from the 114 included in IFAD8, 2010-2012.

IV. IFAD Management proposals for reducing the number of Member States included in the PoLG for any given replenishment periods

8. A reduction in the number of countries in the PoLG has the effect, as noted by Management actions over the past 10 years, of increasing allocations to countries in proportion to their PBAS country scores. This has increased the size of programmes in line with IFAD Management's intention to have fewer, larger programmes. It has also allowed the allocation of the administrative budget by regional divisions to focus on fewer programmes in the design stage and to emphasize implementation and the addressing of problem projects. In addition, country allocations have been

capped in accordance with PBAS guidelines⁸ (e.g. China and India), or voluntarily, as part of operational management decisions (e.g. Thailand).

9. Nevertheless, a reduction in the number of countries selected in the PoLG effectively curtails demand from Member States and, depending on the lending terms applied, also the level of loan reflows. Based on initiatives already taken and experience gained, IFAD Management considers that the current number of countries included in the PoLG (99) is fully manageable moving forward, including further reductions, as needed, for operational management. Consistent with the recommendation of the CLEE on greater country selectivity, IFAD Management would be ready to consider adjusting this number in future replenishment periods to a maximum of 90 countries. As necessary, implications for the annual PoLG could be reviewed by the Executive Board's PBAS Working Group, together with any alternative scenarios as appropriate.

V. IFAD's approach to thematic selectivity

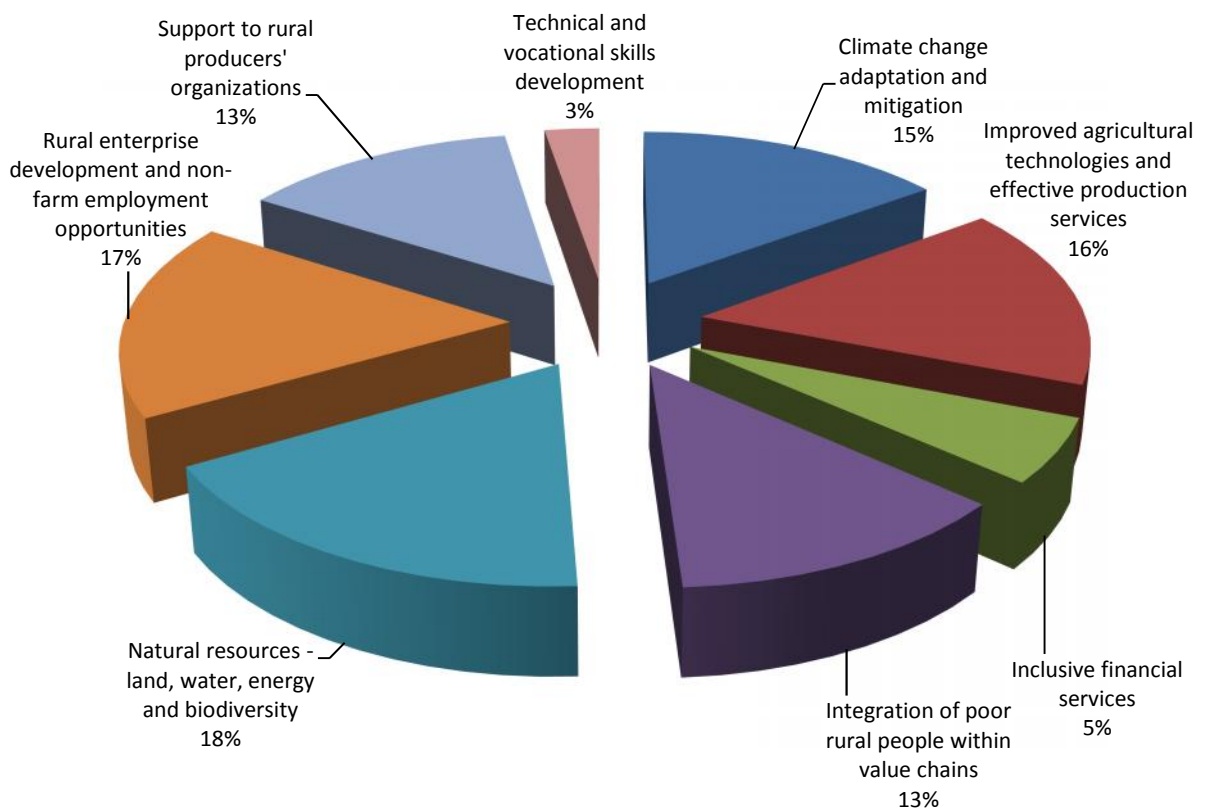
10. The 102nd session of the Executive Board in May 2011 approved the current Strategic Framework, which highlights IFAD's areas of thematic focus – intended to concentrate IFAD's efforts in areas of direct relevance to its mandate and comparative advantage. These reflect both the continued factors of poverty among rural households and IFAD's understanding of new risks and opportunities linked to a new global environment (e.g. climate change). As recognized in the current Strategic Framework, poor rural people depend on a variety of sources for their livelihoods. Consequently, the IFAD portfolio covers relatively diverse subsectors, given that IFAD projects are essentially client-centric, bottom-up and demand-driven.
11. The eight areas of thematic focus of the Strategic Framework are:
 - Natural resources – land, water, energy and biodiversity;
 - Climate change adaptation and mitigation;
 - Improved agricultural technologies and effective production services;
 - A broad range of inclusive financial services;
 - Integration of poor rural people within value chains;
 - Rural enterprise development and non-farm employment opportunities;
 - Technical and vocational skills development; and
 - Support to rural producers' organizations.
12. Gender equality and social inclusion will be addressed as cross-cutting themes in each of these areas, as will household strategies to improve food security and nutrition.
13. Accordingly, staff in the Policy and Technical Advisory Division are assigned to the following themes, representing the diverse subsectors:
 - Natural resources – land, water, energy and biodiversity;
 - Climate change adaptation and mitigation;
 - Improved agricultural technologies and effective production services, including livestock and fisheries;
 - Inclusive financial services, including remittances;
 - Integration of poor rural people within value chains;

⁸ PBAS guidelines indicate that no country can receive more than 5 per cent of the overall PBAS sum available for allocation,

- Rural enterprise development and non-farm employment opportunities;
- Technical and vocational skills development;
- Support to rural producers' organizations;
- Gender equality; and
- Food security and nutrition.

14. IFAD's reporting and information systems have been calibrated to reflect these thematic areas to ensure that all programmes in the pipeline are classified according to these themes. An indicative analysis of the proposed allocation of IFAD financing by thematic area is included in the annual programme of work and budget presented for Executive Board approval.

Indicative distribution of 2014 lending and Debt Sustainability Framework grants by area of thematic engagement



15. IFAD Management believes that these measures have ensured a sharpening of IFAD's thematic and subsectoral focus, without excessively constraining the areas of IFAD assistance. With the assignment of staff as indicated, it has also built a critical mass of expertise within IFAD to better serve its portfolio. Management thus believes that the areas of thematic focus, in line with the Strategic Framework, remain relevant and appropriate to IFAD's mandate and operations.

Executive Board working group on the performance-based allocation system

1. At its eighty-seventh session in April 2006, the Executive Board decided to convene a working group on the performance-based allocation system (PBAS) – as referred to in the Report of the Consultation on the Seventh Replenishment of IFAD’s Resources approved by the Governing Council – in order to develop a broader understanding of evolving issues in PBAS implementation.
2. The terms of reference of the working group were drafted¹ with the aim of “Developing a broader understanding of evolving issues in PBAS implementation including:
 - Modifications of elements of the formula, including performance assessments, and the weights of population and income, while maintaining the overall weight of performance;
 - The experience and lessons learned from other agencies implementing PBAS initiatives;
 - The data to be used for rural populations;
 - The implementation of the PBAS for concessional and non-concessional borrowers; and
 - Other potential indicators of poverty such as nutrition and per capita rural income levels.”
3. In the Report of the Consultation on the Eighth Replenishment of IFAD’s Resources, approved by the Governing Council in February 2009, the Board was requested to mandate the PBAS working group to: continue its functions; review the practices of other international financial institutions (IFIs); and identify improvements to the system. Possible areas for examination included: relative weights of diverse elements of the PBAS formula; current level of minimum and maximum allocations; and possible need for exceptional allocations for particularly vulnerable countries (in addition to the current support for post-conflict countries). The reallocation approaches of other IFIs would also be examined. The PBAS working group would review and assess all such proposals, which would subsequently be presented to the Executive Board and Governing Council for their consideration and approval.
4. The composition of the working group is as follows:
 - List A: France, Italy, Sweden, United States
 - List B: Nigeria (chair), Venezuela (Bolivarian Republic of)
 - List C: Sub-List C1: Mauritius
 - Sub-List C2: Republic of Korea
 - Sub-List C3: Mexico

¹ EB 2009/97/R.48/Rev.1