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Policy for Grant Financing

Note to Executive Board representatives

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Abbreviations and acronyms

ASAP	Adaptation for Smallholder Agriculture Programme
COSOP	country strategic opportunities programme
DSF	Debt Sustainability Framework
PBAS	performance-based allocation system
PoLG	Programme of Loans and Grants
QAG	Quality Assurance Group
RIDE	Report on IFAD's Development Effectiveness

Recommendation for approval

The Executive Board is invited to approve the new Policy for Grant Financing, as contained in this document.

Policy for Grant Financing

Preamble: Why a new policy?

1. To deliver on its mandate and achieve its goals, IFAD has the option of using grant financing. As these resources are limited, IFAD Management is committed to ensuring the highest standards with regard to the rationale, efficiency and effectiveness in the use, management and impact of these funds.
2. In order to address perceived shortcomings in the 2009 (revised) IFAD Policy for Grant Financing and weakness in its implementation, IFAD Management undertook an internal review from December 2013 to April 2014. The review concluded that a new grant policy and revised procedures were necessary.¹ In addition, the corporate-level evaluation on the IFAD Policy for Grant Financing – conducted by the Independent Office of Evaluation of IFAD (IOE) in 2014 – revealed significant gaps between the potential of the policy and achievements thus far.²
3. This new policy aims to revamp the use and management of grants, with a view to making significant progress on four fronts:
 - (i) Improving the relevance and focus of grant-funded operations by introducing more robust strategic guidance, a clearer set of selection criteria and stronger integration and synergy with country or thematic programmes;
 - (ii) Increasing the effectiveness and impact of grant-funded projects with more rigorous quality enhancement and quality assurance reviews, more systematic supervision and greater accountability;
 - (iii) Achieving greater efficiency by streamlining the planning, design and approval processes, reducing transaction costs and containing the number of grant-funded operations; and
 - (iv) Enhancing the contribution of grant-funded projects to knowledge generation and dissemination internally and among IFAD's partners.
4. In order to monitor progress and performance in the implementation of the new policy, a results framework and specific indicators have been formulated (annex III); these aspects will be regularly reported upon in the annual Report on IFAD's Development Effectiveness (RIDE).
5. New procedures for IFAD grants have also been formulated to ensure that the new policy is effectively and immediately translated into practice.³ Special attention is given to guiding and supporting grant sponsors in the strengthening of knowledge management, monitoring and reporting of grant-funded operations.

I. The rationale for IFAD grant financing

6. Grant financing is a highly valued "premier" IFAD instrument to advance smallholder farming, rural transformation and the fight against rural poverty. Compared to loans, grants provide IFAD with enhanced flexibility for responding to

¹ For more details on the conclusions of this review, see annex I.

² For a summary of the main evaluation findings, see annex II.

³ The implementing procedures for grant financing are set forth in document EB 2015/114/INF.5

needs and opportunities. Although their amounts are generally limited, grants have special value for supporting policy engagement, research and partnerships, and for generating, testing and implementing innovative ideas and approaches, not only with partner governments, but also with actors in civil society, academia and the private sector.

7. The goal of IFAD grants is to significantly broaden and add value to the support provided to smallholder farming and rural transformation, thereby contributing to rural poverty eradication, sustainable agricultural development, and global food security and nutrition. In order to achieve these goals, IFAD grants should adhere to three basic principles: (i) make a significant contribution to a global, regional or national public good related to IFAD's mandate; (ii) focus on interventions where grant financing has clear added value and a comparative advantage over regular loans; and (iii) not be used as a substitute for resources from IFAD's administrative budget.
8. The objectives of IFAD grant financing are to: (i) promote innovative, pro-poor approaches and technologies with the potential to be scaled up for greater impact; (ii) strengthen partners' institutional and policy capacities; (iii) enhance advocacy and policy engagement; and (iv) generate and share knowledge for development impact. Rural poor people and their organizations should be squarely positioned at the centre of each grant submission to fulfill IFAD's mandate to enable poor rural people to improve their food security and nutrition, raise their incomes and strengthen their resilience.

II. Types of IFAD grants

9. This Policy for Grant Financing concerns exclusively grants funded directly by IFAD from its replenishments, loan reflows and internal resources.⁴ It does not cover investment projects funded by Adaptation for Smallholder Agriculture Programme (ASAP) grants⁵ or Debt Sustainability Framework (DSF) grants.⁶
10. The Policy for Grant Financing focuses on two types of grants with distinct and separate funding windows; however, both types are guided by a common strategic goal and objectives, administrative requirements and review and approval processes, all of which are defined under this policy.

- (i) Global and regional grants are driven by thematic and regional corporate-level strategic priorities for partnership, research, policy engagement and capacity-building, and innovative responses to rural and agricultural challenges being faced by three or more partner countries.

The allocation of resources for these grants will continue to be managed outside the country-focused performance-based allocation system (PBAS).

- (ii) Country-specific grants address the challenge of weak performance by government and other in-country partners by strengthening institutional, implementation and policy capacities, particularly in fragile contexts; and innovating in thematic areas, or by using approaches and methodologies that can subsequently be scaled up through IFAD's country programme.

Country-specific grants can finance a component of a loan-funded investment project. In these cases, grant concept and quality reviews will be part of the

⁴ Supplementary contributions provided by donors for grants beyond the regular programme of loans and grants (PoLG) are excluded from the Policy for Grant Financing; their use and administration are defined in specific modalities agreed with donors as well as in President's Bulletin PB/2013/12 and its addendum PB/2014/08.

⁵ The ASAP was established in the context of the Ninth Replenishment of IFAD's Resources to improve smallholder farmers' resilience to climate change. While the programme is delivered in the form of grants, the allocation is outside the scope of the performance-based allocation system (PBAS).

⁶ Since the 2007 adoption of the International Development Association's model of a debt sustainability framework to govern highly concessional assistance to countries with high to moderate debt distress risk, IFAD has transformed highly concessional loans into full or partial grants for "red" and "yellow" countries.

overall investment project review and will be processed along the lines of the regular loan project cycle. The expected contribution and results of the grant component must be explicit in the project document. Whenever country-specific grants are designed as stand-alone operations, their processing from concept note to approval will be in line with the regular grant review process.

Allocation of resources for country-specific grants will continue to be managed within the PBAS allocation to “green” countries, i.e., these resources allow a small part of the PBAS allocation to be used as grants, while the total country allocation remains unchanged. “Red” and “yellow” countries will continue – within their PBAS allocation and consistent with their country strategic opportunities programme (COSOP) – to benefit from the option of stand-alone country-specific grants under the DSF mechanism.⁷

Since the IFAD President has been delegated authority by the Executive Board to approve grants of up to US\$500,000⁸ or equivalent (referred to as small grants), the typology of IFAD grants will continue to distinguish between small grants and grants subject to approval by the Executive Board (of above US\$500,000 or equivalent up to US\$3.5 million or equivalent, referred to as large grants).

III. Strategic direction for grants

11. Grant-funded activities must be fully anchored in and aligned with IFAD’s long-term vision and Strategic Framework. Moreover, the medium-term plans resulting from consultations on IFAD replenishments must integrate a three-year corporate strategic direction with priorities and objectives regarding the expected volume of grants and their use as an important complement to IFAD’s lending and advisory services.
12. With a view to ensuring a flexible but consistent and strategic allocation of grant resources, IFAD Management will provide an annual guidance note to translate the corporate strategic direction for grants into priority lines of action.⁹ The timely release of this document will ensure that grants are properly integrated into the preparation of the programmes of work and budgets and will be crucial for the early review and clearance of concept notes required to start the design of grants.
13. Other key determinants of grant financing are:
 - (i) Total volume of grant resources. The resources for grant-funded activities will be maintained at 6.5 per cent of the projected annual programme of loans and grants (PoLG).¹⁰ Based on the experience of recent years, this amount represents an optimal balance between various factors – including the demand for grants, IFAD capacity for their management and the impact on the financial viability of IFAD (due to lack of future reflows).
 - (ii) Allocation of resources by type of grant. The distribution of resources between global and regional grants, and country-specific grants remains unchanged at 5 per cent and 1.5 per cent respectively of the projected annual PoLG. The volume of small grants is expected not to exceed 10 per cent of the total grant allocation.

⁷ See paragraph 22 of the IFAD Policy for Grant Financing in relation to the debt sustainability framework (2007), which relates to the DSF (EB 2007/90/R.3).

⁸ With the exception of grants to the private sector, which are all to continue to be approved by the Executive Board, as per para. 10 of the Revised IFAD Policy for Grant Financing (EB 2009/98/R.9/Rev.1).

⁹ This strategic guidance will draw upon the directions for grants in the Strategic Framework, medium-term plan, Annual Report on Results and Impact of IFAD Operations (ARRI), RIDE, annual portfolio reviews, and IFAD policies and strategies, including the knowledge management, private-sector and partnership strategies among others.

¹⁰ This does not include stand-alone country-specific grants financed under DSF to “red” and “yellow” countries.

- (iii) Portfolio of ongoing grants. The number of new grants approved each year has to be carefully monitored vis-à-vis the portfolio of ongoing grants. In order to optimize efficiency and effectiveness, and work within administrative capacity constraints, efforts will continue to promote fewer but larger new grants and facilitate prompt closure of completed grant-funded projects. The objective is to reduce over time and contain the ongoing portfolio to the target set in the medium-term plan.
- (iv) Alignment with IFAD country priorities. Country-specific grants must be closely linked to each country's COSOP or IFAD's country-level strategic objectives.¹¹ In the case of global and regional grants, consultation with country programme managers responsible for countries concerned directly or indirectly by the proposed grant-funded activities must be ensured early in the process. Any important linkage with country programmes will be highlighted in the grant project documentation.
- (v) Duration of grants. The maximum implementation period is three years for small grants and five years for large grants.
- (vi) Sustainability. Whenever relevant, grant submissions will incorporate considerations addressing the sustainability of the expected results.
- (vii) Managing risks. Grant submissions will provide a clearly articulated risk assessment with mitigation measures, acknowledging that risk is inherent in innovation.
- (viii) Leveraging resources. While not an end in itself, the cofinancing by partners of IFAD grant-funded projects is strongly encouraged and must be reported upon.
- (ix) Implementation and supervision. Divisions and units sponsoring and managing grants must formulate implementation and supervision plans that are adequately resourced.

IV. Identification and selection of grantees

14. Recipients of IFAD grants can include developing Member States, inter-governmental organizations (including United Nations agencies and Consultative Group on International Agricultural Research centres), civil society organizations, academic institutions and the private sector. Grantees must have demonstrable technical competence and capacity to manage the grant financing effectively to ensure that the project objectives are achieved; IFAD's legal and fiduciary requirements are met; and the highest standard of ethics and integrity are observed (in line with the IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations). IFAD conducts due diligence on each proposed grantee to assess reputational risk, professional competence and the legal and financial standing and integrity of both the institutions and the individuals assigned to managing the project. IFAD also evaluates potential grantees' track record in delivering for results, past collaboration with IFAD, in-country presence and cash or in-kind contributions to the proposed project.
15. IFAD grants must clearly aim to derive the highest possible value for money in terms of their impact on, and for, rural poor people. The preferred approach for selecting grantees is via efficient competitive processes, including calls for interest in thematic constituencies. Any exception must be fully explained and justified in the grant submission. The policy recognizes the three following exemptions:
 - (i) For country-specific grants that are part of loan-funded investment projects, it is expected that these grants will be structured and delivered by the partners already identified for the project.

¹¹ As reflected in the expanded investment project concept note.

- (ii) For global and regional grants to global institutions of which IFAD is a member and that are recognized by IFAD as strategic partners, direct attributions may be made. The number of such strategic partners is expected to remain extremely limited.¹² The cumulative criteria to reach the status of recognized IFAD strategic partner for grant financing are the following:
- (a) Internationally recognized institutions founded by IFAD or of which IFAD is a member in an area of strategic relevance and importance for its mandate;
 - (b) Established networks with competence in global advocacy or policy influence in which IFAD engages, with a medium-term perspective and high visibility;
 - (c) Institutions in which IFAD's influence at the governance level requires demonstrated ownership and financial contribution, including for leveraging cofinanciers;
 - (d) High potential for collaboration and synergy with IFAD, and for global impact.

Specific arrangements may be defined through a memorandum of understanding with strategic partners to facilitate the development of a medium-term relationship and administrative procedures.

- (iii) For global and regional grants to institutions that are unique in their normative, policy or representational mandates and therefore have no competitors, a direct attribution is possible. This may include institutions for regional integration, global or regional apex organizations of agricultural and rural producers, and United Nations institutions.¹³

V. Principles for efficient grant management

16. In order to improve the management of grants, reduce transaction costs and enhance quality and legal and fiduciary compliance, new procedures have been prepared based on the following key principles:
- (i) Timely release (July)¹⁴ by the Executive Management Committee of its annual guidance on the strategic direction of grants for the following year. This is important to ensure that grants are properly integrated into the preparation of annual work programmes and budgets.
 - (ii) Early decision (by December, with a second round by the end of March)¹⁵ by the Operational Strategy and Policy Guidance Committee regarding clearance of grant concept notes submitted by the department heads. This will permit timely commencement of grant preparation and design.
 - (iii) Full responsibility and accountability by the originating/sponsoring division and staff throughout the entire grant project cycle (from design to final reporting). Interdepartmental and interdivisional collaboration for the submission of grant proposals is expected. The definition of responsibilities during grant implementation should clearly distinguish and reinforce IFAD's supervisory role from the grantee's implementation responsibilities. IFAD's institutional policies and procedures will apply to grant-funded operations, as appropriate.¹⁶

¹² The annual strategic guidance by the Executive Management Committee will specify these strategic partners.

¹³ The Operational Strategy and Policy Guidance Committee will review and decide upon each of these submissions upon the discussion of the grant concept note.

¹⁴ Date is indicative.

¹⁵ Dates are indicative.

¹⁶ Grants will be aligned with relevant corporate strategies relating in particular to partnership, the private sector and knowledge management.

- (iv) Preference for competitive processes to select grantees (excluding the three exceptions listed in paragraph 15 of this policy).
- (v) Streamlined and paperless process for managing the quality reviews leading to the submission of grants to the President or Executive Board for final approval. A unified grant management flow chart, with harmonized documentation requirements, applies to all grants and is supported by the Quality Assurance Archiving System (QUASAR), a web-based knowledge management platform. Fast-tracked processing and differentiated documentation requirements are possible within the flow chart, particularly for small grants.
- (vi) The Quality Assurance Group (QAG) facilitates and documents the quality review process leading to final approval. Special attention shall be given to ensuring full legal, fiduciary and quality enhancement compliance at the time of the quality assurance review, which will be conducted efficiently for all grant proposals.¹⁷ In addition, the QAG will report on the overall quality at entry of grants and maintain relevant databases on QUASAR.
- (vii) An annual briefing on achievements and lessons learned during the quality review process for grants will be presented by the QAG to the Operational Management Committee. In addition, reporting on the implementation of the policy and the overall performance of the grant programme will be consolidated annually by the QAG, with the support of all concerned IFAD departments, within the RIDE.
- (viii) Dedicated training modules on grant design and management will be organized by the QAG. Efforts to increase incentives and recognition for grant quality and effectiveness will be considered by IFAD Management.

VI. Achieving better results, generating and sharing knowledge

17. Through an increased focus on identifying clearly and assessing systematically what is expected of and achieved through grants, IFAD will expand its knowledge and experience to enrich its lending operations, advisory services and knowledge products. This will enhance the credibility and relevance of grants. To achieve this, the following conditions must be satisfied:
 - (i) Each grant submission must have a logical framework addressing the expected outcomes and impact, regardless of the type of grant.
 - (ii) IFAD must inform grant recipients explicitly about its knowledge agenda and products, and the visibility expected from the grant-funded activities. This must be reflected in the logical framework of the grant proposals.
 - (iii) IFAD must capitalize more systematically on the experience and knowledge gained through its grant-funded activities. This will be achieved through regular targeted reviews and dissemination of information – including through supervision missions – to document lessons and analyse results, particularly in terms of uptake, and through the strengthening of dedicated databases.
 - (iv) IFAD will recognize the best IFAD grant of the year through an annual award.

¹⁷ Country-specific grants presented as a component of a loan-funded investment project are an exception. For these grants, the quality review is fully integrated into the loan quality enhancement and quality assurance processes.

Main conclusions of the Management Review of the IFAD Policy for Grant Financing

(Review conducted by the Vice-President from December 2013 to April 2014)

1. Over the past two decades, IFAD grants have been instrumental in the development of key strategic partnerships (for example, in agricultural research, with farmers' organizations and communities of indigenous peoples), and in promoting and delivering innovative pro-poor approaches and technologies. These efforts have served the cause of smallholder agriculture and the fight against rural poverty well. However, the focus and clarity of purpose of these grants have eroded over time.
2. The 2003 IFAD Grant Policy (and its 2009 revision) have failed to support a consistent and coherent approach to the implementation and delivery of grants. A new grant policy must be urgently formulated to clarify the rationale, relevance, approach and value of grants in pursuing IFAD's mandate and strategic objectives.
3. New procedures for implementing and managing grants have to be prepared; maintaining the status quo or fine tuning current procedures and modalities would not be adequate. Training on the new procedures should be provided to staff.
4. The allocation system for grants must be more strategic, with a medium-term perspective. Annual guidance by IFAD Management is required to translate the corporate strategic direction into concrete action and deliverables.
5. The definition of global and regional grants is well established at IFAD, and there is a strong case for maintaining this category as the main channel for grant delivery. Regarding country-specific grants, there is a need to be more explicit on the rationale, to maintain direct linkage with the PBAS, and focus only on "green countries. The interface with IFAD's efforts for innovation, capacity-building and policy dialogue in "red and yellow countries" must be clear and unambiguous.
6. The COSOP should explicitly address the role, added value and expected outcome of IFAD grants. The expected contribution and results of country-specific grants mobilized in the context of loan-funded operations should be explicit in the project document.
7. There is a need to clarify the criteria for grantees to reach the status of IFAD strategic partner (implying a long-term collaborative arrangement). There is also a need to dramatically increase competition in the allocation of grant financing.
8. The engagement in new grants must be commensurate with capacity in order to ensure adequate quality in grant design, implementation, supervision and reporting. Fewer but larger grants should be considered.
9. The efficient and effective management of grants requires flexibility and agility, along with robust and streamlined decision-making and review processes. The aim is to significantly reduce transaction costs while enhancing quality and ensuring due diligence and compliance.
10. There is urgency to adopt an information technology solution for harmonized management, processing and monitoring of IFAD grants (building on existing tools for IFAD loans).
11. More and better quality reviews of grants are needed. Quality assurance must be independent of any responsibility associated with grant generation, design or management, and the QAG must be fully empowered to carry out its duties.

12. There is a need to increase accountability. Each grant proposal should have a robust and realistic results framework, and must specify who is responsible for grant implementation, supervision and reporting.
13. Sponsoring divisions should make adequate provisions in their work plans for the management of grants.
14. IFAD should be more explicit about the visibility and knowledge products expected from activities undertaken by its grantees. As a learning institution, IFAD must capitalize and disseminate more systematically the experience and knowledge gained in grant-funded operations.

Key findings of the Independent Office of Evaluations (IOE) corporate-level evaluation of the IFAD Policy for Grant Financing

(Extracts from report number 3600, December 2014: Section VI, A. Conclusions, paras. 252-270)

- Grants can be an important instrument to achieve IFAD's mandate of rural poverty reduction, complementing loans and other non-lending activities.
- IFAD has however missed the opportunity to leverage the grants programme in a strategic manner at all levels, partly due to a weak corporate policy environment and insufficient linkages with corporate and country-level priorities.
- The synergies between grants and country programmes and other policies are generally not adequate across the board, with insufficient attention to learning from grants, thus constraining results at the country programme level.
- IFAD internal procedures governing grant processes and overall management are cumbersome and not calibrated to the available resources, and impinge on the efficiency of the policy implementation and on the organization's overall institutional efficiency.
- This evaluation finds that there were gaps in the 2003 policy. While setting the objectives of contribution to innovation and capacity-building, both having a broad area of application, the policy provided limited guidance as to grant priorities. The 2009 policy missed the opportunity of closing or at least narrowing these gaps.
- Policy effectiveness is overall assessed as moderately unsatisfactory, but with progress towards moderately satisfactory since 2010. In recent years, IFAD has taken steps to improve the management of the grant programme. These measures appear to be the reason for some improvements in the performance of grants since 2010, although key issues still need to be addressed.
- Many grant designs have been and continue to be recipient-driven, not adequately connected to IFAD's country operations and strategies or to broader corporate priorities. There are also issues with the clarity in the definition (and realism) of grant objectives and with the ex ante identification of modalities through which IFAD plans to internalize and use knowledge generated through grant activities.
- The grant programme has not established partnerships to the extent envisaged under the policy.
- While in almost all cases the grant recipients produced reports of various kinds, these were insufficiently internalized by IFAD.
- Combined with the fundamental problem of lack of clarity in both 2003 and 2009 policy documents, the grant procedures have led to complicated and cumbersome processes around grants and not provided the right incentives to achieve the expected objectives and goals.
- In terms of allocation of grant resources, the current system may not foster sufficient competition within and between the sponsoring divisions.
- Procedures for grant approval, oversight and monitoring, and fiduciary aspects were motivated by the commendable intention of making ex ante grant reviews more transparent and impartial and grant management more rigorous. Unfortunately, the resulting processes are overly complicated and cumbersome and do not ensure commensurate added value or selectivity of grant proposals or better internalization of knowledge and results.

- It is also widely claimed that supervision of grants has been insufficiently funded.
- The systematic recording and retrieving of information and documentation about grants received little attention in the past.
- The current practices for assessing and reporting on grants, both internally as well as to the governing bodies do not facilitate the accountability and strategic guidance role of both IFAD Management and the Executive Board.

Implementing the Policy for Grant Financing: Results framework and performance indicators

Expected results	Performance indicators ¹
1. Improved relevance and focus of the grant-funded projects	(a) Percentage of grant-funded projects with an overall rating of 4 or better at entry (b) Percentage of grantees selected via competitive processes
2. Increased effectiveness and impact of grant-funded projects	(a) Percentage of grant-funded projects rated 4 or better at completion for effectiveness (b) Percentage of grant-funded projects rated 4 or better for overall implementation progress (c) Number of grants resulting in scaled-up development interventions, including IFAD investment projects
3. Greater efficiency in grant management	(a) Number of days required to process both small and large grants, from clearance of concept note to final approval (b) Number of ongoing grants in the IFAD portfolio (c) Average size of small and large grants
4. Enhanced knowledge generation and dissemination	(a) Percentage of grants with a knowledge management plan and budget at quality assurance (b) Percentage of grants rated 4 or better for knowledge management and sharing in grant status reports

Note: Reporting on IFAD's performance in implementing its grant policy will be undertaken annually through the RIDE. Additional information on the results of the grant programme will also be provided within this report.

¹ Baselines and targets for the indicators will be specified in the medium-term plan.