An overview of IFAD’s holistic approach to tailoring operations to country context (encompassing fragile situations, middle-income countries, the performance-based allocation system and decentralization)
Abbreviations and acronyms

CLE corporate-level evaluation
ICO IFAD Country Office
IOE Independent Office of Evaluation of IFAD
MDB Multilateral Development Bank
MICs middle-income countries
PBAS performance-based allocation system
SSTC South-South and triangular cooperation
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I. Introduction

1. IFAD’s Strategic Framework 2016-2025 recognizes the importance of employing enhanced and differentiated approaches that respond to the diverse needs of the countries in which IFAD works and are in step with social and economic progress and changes in the broader development landscape. Towards this, following commitments made for the Tenth Replenishment of IFAD’s Resources (IFAD10, which covers the period 2016-2018), actions are under way to further strengthen IFAD’s operational delivery model. These actions apply to four interconnected areas, which together underpin IFAD’s approach to tailoring its operations to country context: engagement in countries with fragile situations; engagement with middle-income countries (MICs); implementation of the performance-based allocation system (PBAS); and decentralization. At its 117th session, the Executive Board underscored the need to develop IFAD’s future directions in these areas in a holistic and mutually reinforcing way.

2. This paper explains the rationale for addressing these four areas in a joined-up manner, and provides an update on progress to date and the road map to produce an encompassing document entitled “IFAD’s holistic approach to tailoring operations to country context.” The document will serve as a critical foundation for the operationalization of IFAD’s Strategic Framework 2016-2025. It will be completed by May 2017, thereby ensuring that it informs the substantive deliberations of the Consultation on the Eleventh Replenishment of IFAD’s Resources (IFAD11) expected to start in June 2017.

II. Background

3. As noted above, a number of actions are under way to further enhance IFAD’s operational delivery model. The relevant IFAD10 commitments and related timelines agreed during the IFAD10 Consultation held in 2014 include:

   (a) Provision of updated information on IFAD’s strategy on engagement with MICs to the Executive Board (December 2015);

   (b) Development of a new strategy for IFAD’s work in countries with fragile situations for Executive Board approval (April 2016);

   (c) Support to the Executive Board to improve implementation of IFAD’s PBAS (throughout 2016); and

   (d) Review of IFAD’s country presence (by 2017), and establishment of 10 additional country offices (by 2018).

4. In light of the interlinkages between these commitments and work on related corporate-level evaluations (CLEs) by the Independent Office of Evaluation of IFAD (IOE), timelines were reviewed to ensure a coherent and integrated approach to their delivery. In this vein, a collective discussion of the four topics was held at the 117th session of the Executive Board based on the following documents: (i) Update on IFAD's engagement with MICs; (ii) IFAD’s approach to a strategy for engagement in countries with fragile situations (serving as a building block for development of the related strategy); (iii) Update on IFAD's country presence; and (iv) Corporate-level evaluation of IFAD’s PBAS (accompanied by Management’s response thereto). The Executive Board concurred on the need for a holistic approach to defining future directions in these areas and to capturing them in one document.
III. Rationale for a holistic approach to tailoring IFAD’s operations to country context

5. A harmonized approach for these four areas will underpin IFAD’s efforts to tailor its operations to individual contexts, needs and demands in order to optimize support for inclusive and sustainable rural transformation in each of its client countries. Such an approach will also strategically position IFAD to offer and deliver a mix of relevant financial and knowledge products and services to its evolving clientele amid changes in the broader development context.

6. The rationale for a holistic approach stems from the interlinkages between these four areas. The majority of IFAD-supported projects target remote and disadvantaged regions often characterized by fragility in one or more of its forms, be it weak institutions, elevated vulnerability or volatility (for example, due to extreme climatic events, natural disasters, and social or economic shocks). The approach paper on countries with fragile situations discussed at the Board’s 117th session and the related strategy under preparation recognize that IFAD deals not with fragile states but with fragile situations, which can be national, subnational or regional and which affect countries across all income classifications. Indeed, there is significant overlap between countries classified as MICs (especially lower MICs) and those with fragile situations. This reinforces the need for coherence and flexibility in IFAD’s approach to engagement in countries with fragile situations and in MICs, i.e. provision of varying combinations of financial and non-financial products and services that cater to the extent and type of fragility and the social and economic environment prevailing in a given country.

7. The successful delivery and maximum impact of tailored country programmes hinge on the effective allocation of IFAD’s finite resources according to country needs and performance, and deployment of appropriate levels of in-country support. For this reason, enhancements to IFAD’s engagement in countries with fragile situations and MICs are being made in tandem with efforts to improve the PBAS, based on such sources as the recently completed CLE on the PBAS. At the same time, IFAD’s country presence and decentralization are being strengthened, drawing, inter alia, on IOE’s ongoing formative CLE on decentralization.

8. As part of the preparation work on the fragile situations strategy, IFAD is developing a more rigorous approach to the classification of fragile situations – that will in part draw on elements of the PBAS – to allow countries with highly fragile situations (several of which may be MICs) timely access to additional resources to address fragility, but with the flexibility to limit financing during periods of instability and reduced absorptive capacity. These and other aspects are being considered in the context of IFAD’s efforts to improve the way its financing instruments and tools – including the PBAS – address needs and performance across the many and diverse countries and socioeconomic contexts in which it operates.

9. Integral to the above initiatives, a medium-term plan for IFAD’s country presence and decentralization is being prepared with full appreciation of the key role that proximity to client countries plays in strengthening programme performance in countries with fragile situations and in enhancing delivery of non-lending services (policy engagement, knowledge management, partnership-building and South-South and triangular cooperation [SSTC]), which are of growing importance especially among the increasing number of MICs that IFAD serves.

IV. Road map and overall structure

10. The road map for completing the holistic approach document by May 2017 is provided below reflecting the different timelines, milestones and actions requested by the Executive Board and various interactions with the Executive Board, Evaluation Committee, and the Executive Board Working Group on PBAS (PBAS Working Group) in the period between September 2016 and April 2017.
### Road map for document finalization

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*Following its meeting in September 2016, the PBAS Working Group may decide to hold one or more additional meetings to finalize the revisions to the PBAS that are planned for presentation to the Board in April 2017.

11. Following the Executive Board session in April 2017, the papers on each topic will be consolidated into a single document. This document will be organized into four main chapters that deal with each topic separately, while highlighting their interlinkages. The final version of the document will be released in May 2017 and will have the following chapters:

   (a) Strategy for engagement in countries with fragile situations;
   (b) Strategy for engagement in MICs (including the main elements of the approach paper on SSTC presented at the Executive Board’s 119th session);
   (c) Revised PBAS; and
   (d) Corporate decentralization plan.

12. The document will be made available in time to inform substantive deliberations of the IFAD11 Consultation, which are expected to start in June 2017. It will be submitted to the Executive Board for information in September 2017.

V. Progress to date and main directions pursued

13. This section provides an overview of progress since the 117th session of the Executive Board in each of the four areas.

A. Strategy for engagement in countries with fragile situations

14. IFAD’s internal working group on this subject has met a number of times since April 2016 to further develop the strategy based on feedback from the Executive Board and undertake an extensive review of approaches adopted by other United Nations organizations and international financial institutions. Work is ongoing along the following lines:

   (a) Review of the latest approaches and practices across the international community, with specific attention to the ongoing replenishment exercise at the International Development Association at the World Bank (IDA18). Review of IFAD’s experiences and lessons learned through previous engagement in fragile situations and the status of the current portfolio in fragile situations;
   (b) Strengthening of guiding principles especially with respect to partnerships, targeting, gender mainstreaming, resilience, flexibility in operational guidelines and processes, and risk management;
   (c) Classification of fragile situations to ensure that targeted additional support is provided to the most fragile situations. While development of a composite index was considered, the cost was deemed high. Instead, options drawing on
elements of the PBAS that reflect institutional capacity and on other criteria related to conflict are being assessed;

(d) Further assessment of the scope and modalities for allocation of IFAD resources to enable enhanced support to projects in the most fragile situations (or a fragility window); and

(e) Strengthening IFAD’s organizational and operational approaches in fragile situations. This includes strengthening support to national partners and facilitating “watching briefs” in countries whose portfolios have been suspended. Options for strengthening organizational resilience are also being examined in consultation with IFAD’s corporate decentralization coordination group and will be reflected in the corporate decentralization plan discussed below.

15. IFAD’s strategy for engagement in countries with fragile situations will be presented to the Evaluation Committee in October 2016 to allow for incorporation of the Committee’s feedback in the final version of the strategy to be submitted for approval at the 119th session of the Executive Board in December.

B. Strategy for engagement in MICs

16. This chapter will not be substantively different from the update provided at the 117th session, which informed representatives of IFAD’s progress in developing and implementing the services, products and instruments approved in the MIC strategy of 2011 and described IFAD’s value proposition to MICs. The chapter will: (i) highlight relevant links with the fragile situations strategy (in particular relative to improvements in the way IFAD addresses fragile situations in MICs) and future directions for the PBAS and decentralization; (ii) provide additional information requested by the Board on the development of approaches to measure performance of services and products delivered to MICs; and (iii) reflect the main elements of the approach paper on SSTC that will be presented at the 119th session of the Board.

C. Revised PBAS

17. Following the Executive Board’s discussion of the CLE on the PBAS at the Board’s 117th session, Management formed an internal IFAD technical working group, tasked to address the CLE’s recommendations and to support the Executive Board’s PBAS Working Group in assessing and reaching consensus on revisions to the PBAS. Both working groups met a number of times subsequent to the Board session. The PBAS Working Group met on 10 June and agreed to meet again on 20 September 2016. At the meeting on 10 June, it reviewed Management’s proposed workplan for revision of the PBAS and the results of preliminary analysis of potential changes to the PBAS. In this context, Management informed the PBAS Working Group of recent discussions within the PBAS Working Group of the Multilateral Development Bank (MDBs), including the interest of some MDBs in enhancing the needs component of their respective performance-based allocation systems.

18. With regard to the recommendation of the CLE on the PBAS to enhance the focus on poverty in the needs component of the formula, the PBAS Working Group considered the preliminary analysis on the use of the logarithmic function of rural population or the Human Development Index in place of – or complementary to – gross national income per capita. In each case the outcome was a narrower range and significantly different allocations for many countries. To address Executive Board feedback on the need for the PBAS to better reflect dimensions such as gender, climate change, nutrition and fragility while keeping the formula simple, Management made a number of proposals, namely: (i) strengthening the portfolio-at-risk variable to capture a number of the above dimensions (while noting however that other MDBs cater to cross-cutting issues at policy or operational level); (ii) removing the Country Policy and Institutional Assessment (CPIA) variable; and (iii) streamlining IFAD’s rural sector performance assessment.
19. The group welcomed the proposal to remove the CPIA from the formula and expressed support for the development of an IFAD-specific index that captures the specificity of IFAD’s mandate. However, it asked for a more thorough analysis of current and potential variables to include in the formula and for further discussion on the appropriate balance between need and performance in the PBAS in subsequent meetings of the Working Group before reaching any conclusions.

20. The Working Group’s deliberations will be captured in the approach paper on the PBAS to be discussed by the Board at its 119th session. Those discussions will in turn inform the finalization of the proposal for revision of the PBAS planned for presentation to the Executive Board at its 120th session, in April 2017.

D. Corporate decentralization plan

21. As noted in the update on country presence presented at the 117th session, a corporate decentralization plan will be submitted to the Board in December with the goal of deepening IFAD’s decentralization and making it more effective. Work on the plan is under way under the aegis of IFAD’s corporate decentralization coordination group, co-chaired by the Associate Vice-President, Programme Management Department, and Associate Vice-President, Corporate Services Department, taking into account feedback from the Executive Board at its 117th session and analysis from IOE’s ongoing formative CLE on decentralization, and working in consultation with the internal working group tasked with development of IFAD’s strategy for engagement in countries with fragile situations.

22. The plan will be developed with particular attention to the key role of country presence and decentralization in efforts to strengthen programme performance in fragile situations and in enhancing delivery of non-lending services (policy engagement, knowledge management, partnership-building and SSTC), for which there is growing demand, not least among the increasing number of MICs that IFAD serves.

23. Reflecting regional and country specificities, the plan will provide further information on the optimal number and mix of IFAD Country Offices (ICOs), international and national staffing needs, policies and procedures (including on delegation of authority), and a human resources framework to encourage career development and to enhance the capacities of ICO staff.