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Investing in rural people

Tailoring operations to country context – a holistic approach

Note to Executive Board representatives

Focal points:

Technical questions:

Périn Saint-Ange
Associate Vice-President
Programme Management Department
Tel.: +39 06 5459 2448
e-mail: p.saintange@ifad.org

Lisandro Martin
Chief
Operational Programming and Effectiveness Unit
Tel.: +39 06 5459 2388
e-mail: lisandro.martin@ifad.org

Hisham Zehni
Senior Results Specialist
Tel.: +39 06 5459 2183
e-mail: h.zehni@ifad.org

Dispatch of documentation:

William Skinner
Chief
Governing Bodies Office
Tel.: +39 06 5459 2974
e-mail: gb_office@ifad.org

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Contents

Acronyms

CLE	corporate-level evaluation
CLPE	country-level policy engagement
CPM	country programme manager
ICO	IFAD Country Office
IOE	Independent Office of Evaluation of IFAD
LICs	low-income countries
LMIC	lower-middle-income country
MFS	most fragile situation
MICs	middle-income countries
PBAS	performance-based allocation system
PoLG	programme of loans and grants
RB-COSOP	results-based country strategic opportunities programme
RSP	rural sector performance
SDGs	Sustainable Development Goals
SIDs	small island developing states
SO	strategic objectives
SSTC	South-South and triangular cooperation
UMIC	upper-middle-income country

Tailoring operations to country context – a holistic approach

I. Introduction

1. This paper highlights progress and challenges in enhancing IFAD's operating model and how this is helping to shape a strengthened and more holistic approach to tailoring IFAD's operations to the specific conditions, demands and priorities of partner countries and its target group. It reiterates the key role of results-based country strategic opportunities programmes (RB-COSOPs) in framing IFAD's engagement with any partner country in a manner that responds to specific needs and priorities. It summarizes the expanding range of approaches, and the financial and knowledge products and services that can be included in the package of interventions that IFAD supports in a country.

2. In this context, the paper highlights specific efforts made to sharpen IFAD's engagement in countries with fragile situations, to enhance its value proposition to middle-income countries (MICs), and to make sure its operations respond to the specific challenges faced by small island developing states (SIDS). Over the last year a special effort has been made to develop and refine several key interlinked elements of IFAD's operating model, in an integrated and mutually reinforcing way. Table 1 provides an overview of interactions with, and related documents presented to, the Executive Board, the Evaluation Committee and the Executive Board Working Group on the Performance-based Allocation System (PBAS Working Group).

Table 1
Operating model enhancements and updates considered by IFAD's governing bodies in the last year

April 2016 Executive Board	September 2016 Executive Board	October 2016 Evaluation Committee	November 2016 Evaluation Committee	December 2016 Executive Board	April 2017 Executive Board
• Approach paper on engagement in countries with fragile situations (review)	• Overview of holistic approach to tailoring operations to country context (information)	• Strategy for engagement in countries with fragile situations (review)	• Independent Office of Evaluation of IFAD (IOE) corporate-level evaluation (CLE) on decentralization (review)	• Strategy for engagement in countries with fragile situations (approval)	• Review of the PBAS framework and extension of the time frame for finalization and approval at the September 2017 Board (approval)
• Update on engagement in MICs (review) • Update on country presence (review) • Corporate-level evaluation of the PBAS (review)				• Corporate decentralization plan (review) • Approach to PBAS (review) • Approach to South-South and triangular cooperation (SSTC) (review)	• Tailoring operations to country context – a holistic approach (review)

Meetings of the PBAS Working Group were held in June and September 2016 and in January and March 2017.

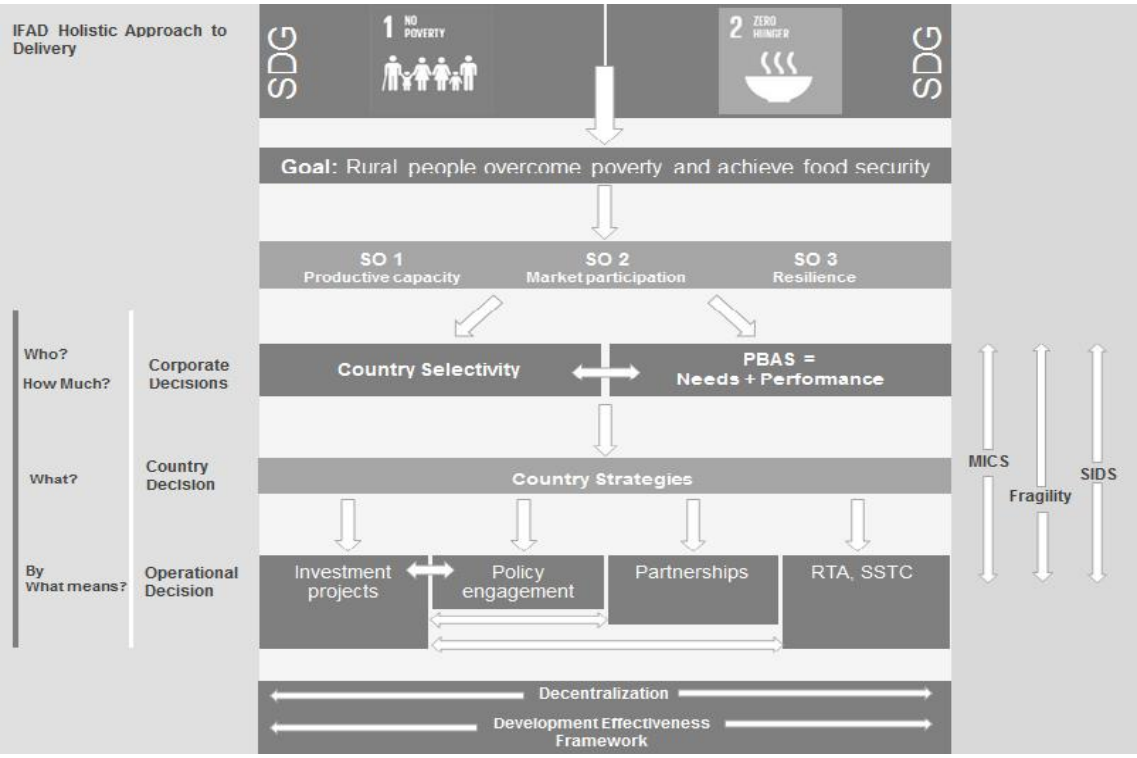
3. To ensure IFAD's continued relevance and effectiveness in working to fulfil the 2030 Agenda, the approach to tailoring its operations to country context necessarily has to evolve in line with changes at the national level and in the broader global development environment. This evolution will be guided by Member States through IFAD's governing-body mechanisms and country-level dialogue processes. In this regard, Member States' guidance in the context of the 120th session of the Executive Board in April 2017 and the Eleventh Replenishment of IFAD's Resources (IFAD11) consultation in 2017 will be crucial.

II. Holistic approach

4. The 2030 Agenda for Sustainable Development is a global commitment, made at the highest level, to "leave no one behind" in attaining the Sustainable Development Goals (SDGs). Nowhere is the challenge of leaving no one behind more salient than in rural zones, since 75 per cent of the world's hungry poor live in such areas.[1] Thus, "leaving no one behind" clearly demands a special targeting of poor rural women and men; and it highlights the global relevance of IFAD's mandate to invest in poor rural people and enable inclusive and sustainable transformation of rural areas, notably through smallholder-agriculture-led growth.

5. As stated in the Strategic Framework 2016-2025,[2] IFAD's overarching goal is for rural people to overcome poverty and achieve food security through remunerative, sustainable and resilient livelihoods. This goal is directly linked to achieving SDG1 of eradicating poverty and SDG2 of ending hunger and malnutrition, achieving food security and promoting sustainable agriculture, specifically for rural communities and households.

Figure 1
Holistic approach



6. IFAD's model for contributing towards these SDGs and attaining this goal involves three closely interlinked and mutually reinforcing strategic objectives (SOs): SO1 – to increase rural people's productive capacities; SO2 – to increase rural people's benefits from market participation; and SO3 – to strengthen the environmental sustainability and climate resilience of rural people's economic activities. Achieving these SOs is primarily accomplished through a programme of loans and grants (PoLG) – i.e. investment projects in the field – although these are complemented

[1] https://www.ifad.org/documents/30600024/30604583/RDR_WEB.pdf/c734d0c4-fbb1-4507-9b4b-6c432c6f38c3
[2] https://www.ifad.org/documents/10180/edb9b9d4-664e-42dc-a31e-db096e6a71b5

with other tools including policy engagement, partnership-building, and knowledge generation and transmission.

7. In selecting these investment projects and complementary activities, IFAD needs to recognize the context in which it operates. As articulated in the Rural Development Report 2016: Fostering Inclusive Rural Transformation, with economic growth the structure of economies changes and in this process rural economies transform. This transformation is driven by urbanization and changing food consumption habits and is expected to lead to increased agricultural productivity and expanded agricultural processing. Agriculture changes from being a primary employer to a driver of growth, with the rural non-farm economy becoming increasingly important. As the Report notes, however, inclusive rural transformation does not happen automatically; it must be made to happen. IFAD's projects must recognize these evolving contexts and invest to ensure the inclusion of poor and marginalized rural women and men in rural transformation.

8. IFAD's Strategic Framework 2016-2025 explicitly recognizes the importance of employing enhanced and differentiated approaches that promote inclusive rural transformation and respond to partner countries' increasingly diverse needs and demands. This is aligned with the 2030 Agenda resolution to create conditions for sustainable and inclusive economic growth, shared prosperity and decent work for all, taking into account different levels of national development and capacities. In this regard, the Agenda states that "each country faces specific challenges in its pursuit of sustainable development. The most vulnerable countries and, in particular, African countries, least developed countries, landlocked developing countries and small island developing states, deserve special attention, as do countries in situations of conflict and post-conflict countries. There are also serious challenges within many middle-income countries." [3]

9. Achieving IFAD's goal requires corporate-level decisions to allocate resources to countries where most of the rural poor and food-insecure live, through a systematic approach that permeates down to commitments tailored to country contexts (figure 1). As the majority of rural poor and food-insecure people are in MICs, this means focusing not just on the low-income countries (LICs), but on a broad range of developing countries. Furthermore, while MICs may have more domestic resources available to address issues related to achieving the SDGs, they may not always have viable solutions to chronic rural poverty.

10. Deciding which countries should receive financial support (who?), and the amount of funding that each selected country should receive (how much?), is the first step in IFAD's operating model. The logic of this decision is to ensure that funding is going to where it is needed (countries where poverty and food insecurity are issues) and where it is likely to be successful (where project performance is expected to be at a high level). This involves two steps: (i) selecting countries to be considered for funding; and (ii) identifying the amount available through the PBAS. Inclusion in the PBAS dictates whether the country receives any funding, while the PBAS formula determines the amount. The PBAS includes a needs element linked to rural poverty and food insecurity; and it also has a performance element linked to the ability to adequately manage investment projects.

11. Beyond selecting countries for possible interventions, meeting IFAD's goal requires that poor and food-insecure rural populations within countries are targeted with investments, and that these investments help improve their well-being. Through a coordinated approach to sustainable rural transformation, IFAD is increasingly underpinning the growing portfolio by assisting with climate-change mainstreaming through gender dimensions of food and nutrition security. Operationally, this

[3] *Transforming our world: the 2030 Agenda for Sustainable Development*, United Nations resolution A/RES/70/1, adopted by the United Nations General Assembly on 25 September 2015.

approach includes, inter alia, introducing technologies and approaches which help in targeting the most vulnerable socioeconomic groups and communities, identifying rural development challenges and proposing pathways for sustainable transformation, diversifying production and seed and farming systems, adding value to production and products, and diversifying diets.

12. Identifying the intersection of IFAD's goals with country priorities entails a series of country level decisions (what?) to ensure programme delivery provides investments in rural people that are tailored to country circumstances. The approach for a given country is determined by the country strategies that IFAD agrees on with Member States as contained in their RB-COSOPs or country strategy notes. The country strategy takes account of country characteristics; and critical components of this are whether the country is a MIC, (including whether they are upper- or lower-middle income), or a LIC and if they are experiencing a fragile situation. Regardless of the development level, identifying rural poor and food-insecure households within the country, through the country strategy, is critical for ensuring that investment reaches the target population to attain both IFAD's and the country's goal of rural poverty reduction.

13. After preparing the country strategy, country teams make a series of operational decisions by selecting the tools for successful interventions (by what means?), from a menu of choices that include policy dialogue, partnership-building, and the harnessing of available knowledge on the bottlenecks hindering achievement of the SDGs in rural areas and on potential solutions to overcome them. To improve the success of programme delivery, IFAD has decentralized in recent years; it is revamping its ability to manage for results at the operational level, and it is strengthening its capacity to generate, consume and curate knowledge to further adapt its approach to country needs. The purpose of all of this is to enhance the flow of information. Decentralization allows for greater interaction with policymakers and beneficiaries, thereby facilitating improved identification of rural development problems, leading to more realistic country strategies and better designed projects. Similarly, stronger results-orientation and better knowledge flows facilitate the identification of potential solutions, which allows lessons from one context to be adapted to another.

14. The following sections dissect this holistic approach, providing more specific details for each of its different parts.

III. Corporate-level decisions: who and how much?

15. This section describes the means by which IFAD identifies the countries that are willing and eligible to receive financial support (who?), and the level of that support (how much?).

Serving the rural poor

16. In IFAD10, the PoLG is expected to reach 112.75 million rural poor people to directly contribute to the 2030 Agenda. The number of people reached has steadily risen through successive replenishment cycles, from 78.7 million in IFAD8 to 111.5 million in IFAD9. The 2006 Policy on targeting states that IFAD's target group includes rural people living in poverty and food insecurity in developing countries.[4] It stresses that this is not a predefined group in geographic or occupational terms (e.g. through an exclusive focus on agriculture), nor in terms of a present income threshold.

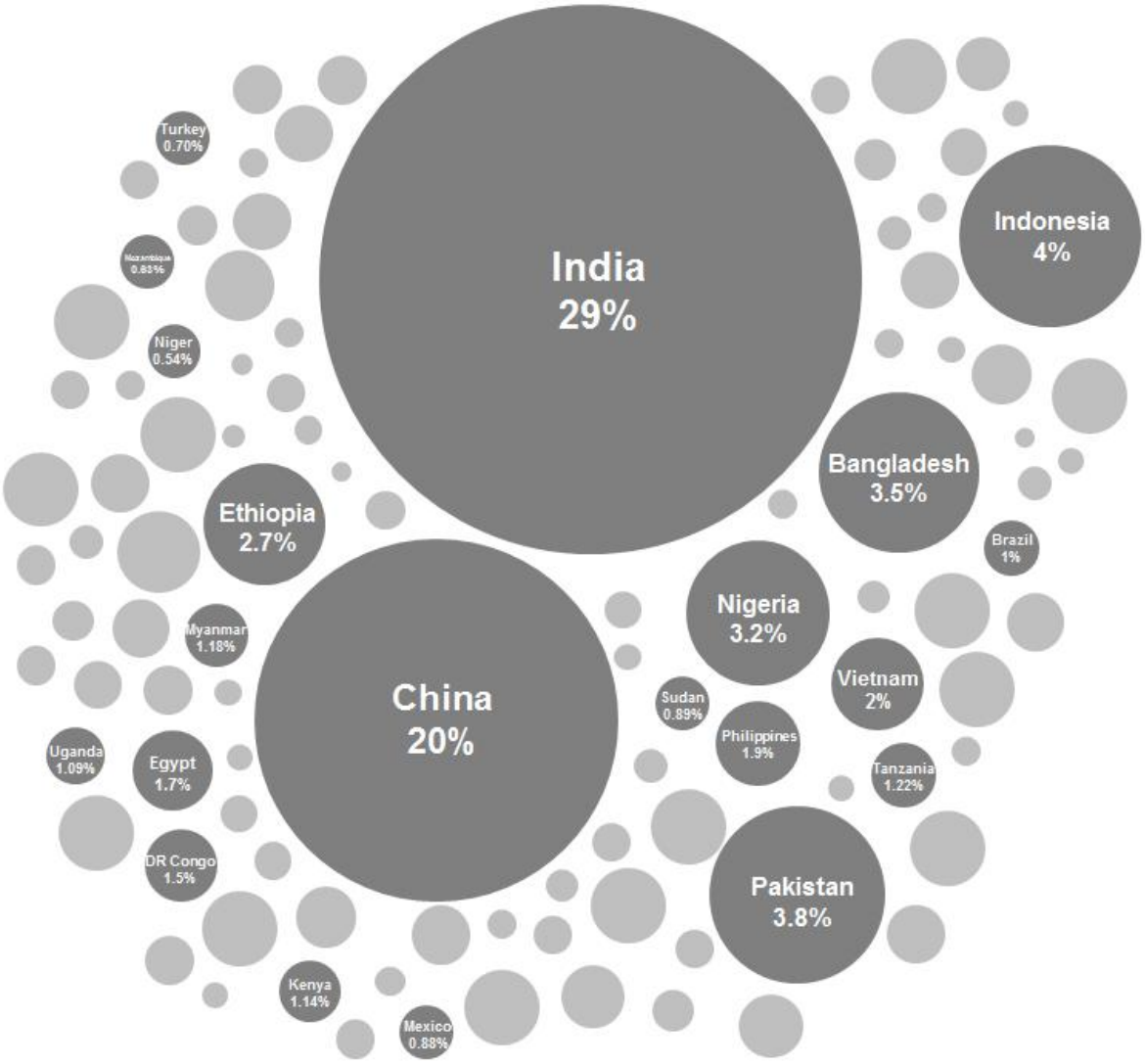
[4] *Reaching the Rural Poor: IFAD Policy on Targeting*: www.ifad.org/gbdocs/eb/88/e/EB-2006-88-R-2-REV-1.pdf.

17. Historically, most of the world's poor have lived in LICs:[5] using standard official definitions, 20 years ago 90 per cent of the world's poor lived in LICs. Today however, these countries account for just 28 per cent; yet the gaps they must close to attain the SDGs are disproportionately large. They continue to be the primary beneficiaries of IFAD services, representing 36 per cent of ongoing operations and an estimated 32 per cent of the Fund's planned deliveries in IFAD10.

18. The transformation of countries that were previously LICs into MICs has accelerated in the last 20 years. In IFAD8 for example, Bangladesh, Cambodia, Kenya, Kyrgyzstan, Myanmar and Tajikistan were all LICs; and they became lower-middle-income countries (LMICs) during IFAD9 and 10, constantly representing about 10 per cent of total allocations. Most developing countries are now MICs, and three quarters of the world's poor live in countries so designated. This is particularly true for most of the world's poor, food-insecure and malnourished rural people. Thus, with the exception of China (upper-middle income country – UMIC, 609 million) and Ethiopia (LIC, 80 million) the ten countries with the highest rural populations included in the IFAD10 PBAS are LMICs, namely: India (882 million), Indonesia (119 million), Pakistan (116 million), Bangladesh (106 million), Nigeria (95 million), Viet Nam (61 million), Philippines (56 million), and Egypt (52 million). In fact, 80 per cent of the rural populations served by IFAD are in LMICs and LICs. As a result, achievement of the 2030 Agenda – and IFAD's contribution to it – will be strongly influenced by the success or otherwise of development in MICs, particularly LMICs.

[5] IFAD does not classify countries by income itself; instead it draws on the World Bank's income categories which group countries as follows: low-income, lower-middle-income, upper-middle-income and high-income. These classifications are based solely on the countries' gross national income (GNI) per capita. The current range for MICs is a GNI per capita of between US$1,045 and US$12,736, while that of LMICs is between US$1,046 and US$4,125.

Figure 2
Distribution of rural populations across populous countries included in the PBAS in IFAD10



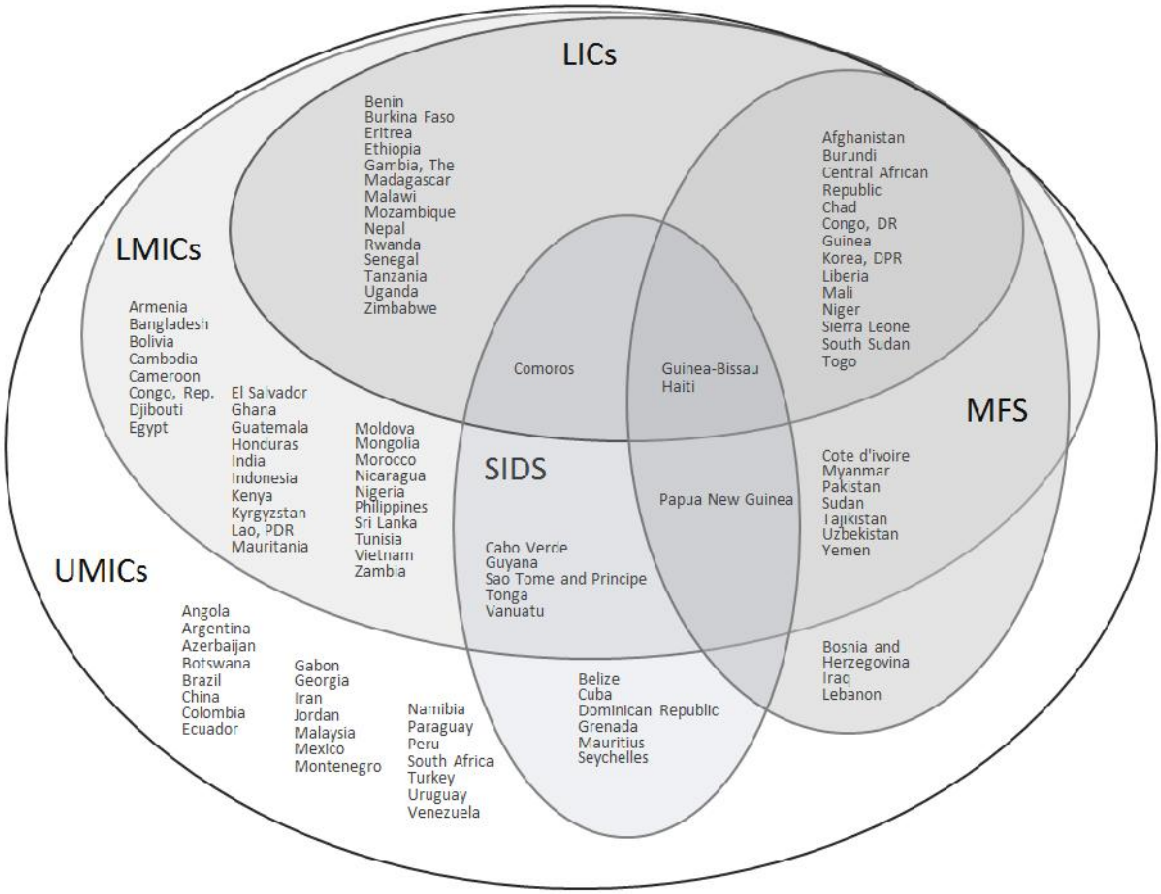
19. As the share of countries belonging to the LICs category is declining, so is the proportion in the LMIC category, while that of countries classified as UMICs is growing. UMICs are the most heterogeneous group, home to approximately 22 per cent of the world's extremely poor. IFAD10 includes countries as different as small islands like Grenada and Mauritius, and large economies like China, Brazil and Mexico. Evidence shows that along many non-income dimensions, poverty is as severe in some UMICs as it is in LICs. Moreover, many of these countries experience the "middle-income trap" – a situation in which growth slows after reaching middle-income levels. The transition to high-income levels more than often takes many decades. According to World Bank estimates, only 13 of 101 middle-income economies in 1960 had graduated to the high-income category by 2008. This is an increasingly relevant phenomenon in view of the 2030 Agenda, given the heavy concentration of poverty in these economies.

20. Countries in fragile situations, characterized by weak institutions and vulnerability to conflict, exist in all income categories (figure 3) and account for 10 per cent of the total rural population in IFAD10 countries. IFAD's new strategy articulates a new definition of fragility and criteria to identify countries with fragile situations

that warrant genuinely differentiated approaches. These are referred to as countries with most fragile situations (MFS).[6,7] Despite shared characteristics vis-à-vis fragility, this grouping is far from homogenous in terms of GNI per capita, comprising 16 LICs, 12 LMICs and three UMICs. The significant overlap between MFS and MICs underscores the importance of IFAD maintaining a consistent approach to engagement in countries with MFS and in MICs.

Figure 3

IFAD10 countries by groupings



21. Considering both UMICs and MFSs as beneficiaries underscores the need to analyse the incidence of poverty and vulnerability at subnational levels. In UMICs, IFAD investments focus on regions with per capita incomes that are below the UMIC

[6] IFAD's new definition of fragility states: "Fragility is a condition of high vulnerability to natural and man-made shocks, often associated with an elevated risk of violence and conflict. Weak governance structures along with low-capacity institutions are a common driver and consequence of fragile situations. Such situations typically provide a weaker enabling environment for inclusive and sustainable rural transformation and are characterized by protracted and/or periodic crises, often with implications for smallholder agriculture and food security."

[7] IFAD's classification of countries with MFS will use the following two indicators:
(a) Institutional capacity: IFAD will apply its fragility-sensitive differentiated approach to countries with the lowest IFAD rural sector performance (RSP) scores (approximately the bottom quintile). The RSP is the current IFAD methodology used to assess country performance in establishing a policy and institutional framework conducive to rural development; and
(b) Conflict: The proxy indicators for conflict-related fragility are: (i) countries in which United Nations/regional peacekeeping forces are present; and (ii) countries with "very high alert" and "high alert" situations under the Fund for Peace Fragile States Index (covering conflict and related indicators including refugees and internally displaced persons, group grievances, human rights and rule of law, security apparatus in-country and monopoly on use of force, factionalized elites and external interventions), covering conflict-related situations, without necessarily the presence of peacekeeping forces.

threshold, often closer to the LMIC threshold. In Brazil, for example, the GDP per capita of Maranhão (one of the Federal States in which IFAD projects are implemented) stands at US$6,631, similar to an LMIC like the Congo (US$6,130) or Cabo Verde (US$6,476).[8] Regional disparities are even greater at municipal levels, with poverty and food insecurity extremely concentrated in the rural municipalities where IFAD operates.

22. The 2030 Agenda is epitomized by the commitment to leave no one behind. In this spirit, and in line with its targeting policy, IFAD uses a variety of tools to ensure that the largest possible number of rural poor people benefit from emerging economic opportunities; and that those who cannot do so immediately – notably people from marginalized groups, such as women, indigenous peoples[9] and youth – are proactively supported in developing the skills and assets to do so in the near future.

Country selectivity

23. IFAD provides up to 45 per cent of its core financing to sub-Saharan Africa, and up to 50 per cent to Africa generally. For the purposes of its lending programme, the Fund does not directly utilize the income classifications provided by the World Bank. In line with the Policies and Criteria for IFAD Financing, the Fund lends to developing Member States on highly concessional, blend and ordinary terms. Instead, IFAD classifies countries according to their borrowing terms. While there is significant overlap between the income and lending-term classifications, the match is not perfect. For example, as Bangladesh belongs to the LMIC category, it borrows from IFAD on highly concessional terms. The total amount of financing provided each year on such terms should amount to approximately two thirds of the total committed annually by IFAD.

24. At the start of each replenishment period, the regional divisions identify Member States for inclusion in the PoLG on the basis of country strategies already approved by IFAD Management or to be approved during the 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 Operations Management Committee and the Executive Management Committee, these countries enter the PBAS and receive an allocation defined by applying the PBAS formula for the three-year replenishment period. Apart from some countries that may be subject to capped or minimum allocations, the PBAS formula is applied equally to all countries included in the PoLG.[10]

25. 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, Management reduced the number of countries to 89 in the subsequent IFAD7 (2007-2009), given the effect on both project financing levels and the budget. In IFAD9, 2013-2015, 99 countries were included in the PoLG for allocations through the PBAS process; and this number has been maintained for IFAD10, while recognizing that further reductions may be desirable.

26. A reduction in the number of countries in the PoLG has the effect of increasing allocations to countries in proportion to their PBAS country scores, as noted by Management actions over the past 10 years. This has increased the size of programmes in line with IFAD Management's intention to have fewer, larger

[8] All 2014 values in purchasing power parity at current prices; sources: regional data for Brazil OECD Regional Statistics Dataset; Cabo Verde and the Republic of the Congo: World Bank Database. The overall GDP per capita of Brazil stands at US$16,000, and that of the Federal District (the wealthiest Brazilian State at US$40,917).

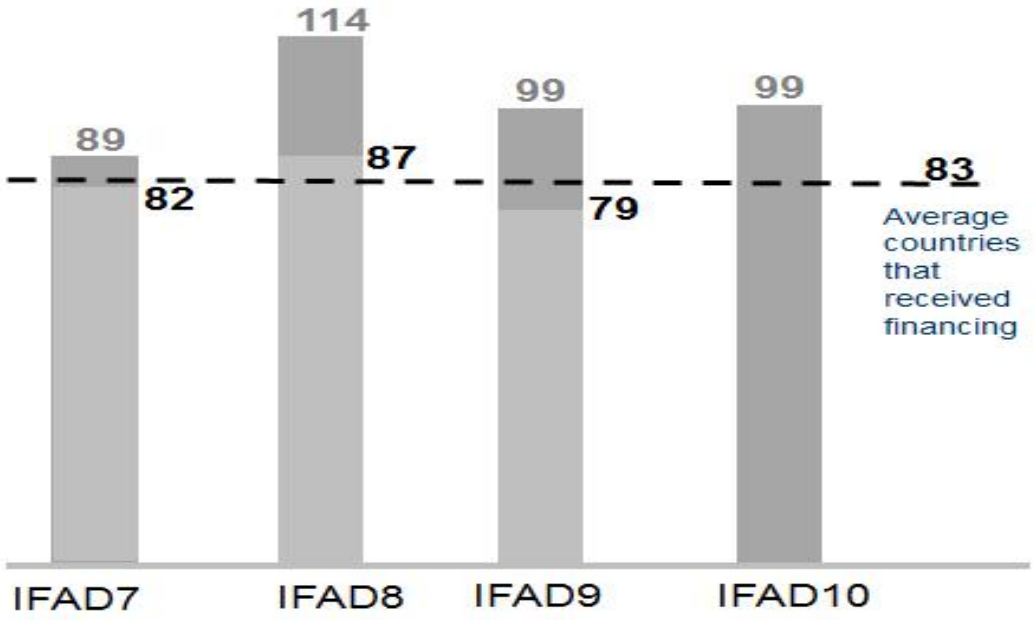
[9] *IFAD Policy on Engagement with Indigenous Peoples*: www.ifad.org/gbdocs/eb/97/e/EB-2009-97-R-3-REV-1.pdf.

[10] This process is explained in *Country and thematic selectivity: Issues and options* (document EB 2014/112/R.6/Rev.1).

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.

27. Nonetheless, 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.[11] Consistent with the recommendation of the corporate-level evaluation (CLE) on IFAD's efficiency on greater country selectivity, future replenishment periods should strive to further reduce the number of countries to a maximum of 85-90, in line with historical trends of countries that are able to use the allocation through approved investment projects (figure 4).

Figure 4
Number of countries that enter the PBAS and those with projects approved in each cycle



Resource allocation

28. Like other international financial institutions, the allocation of IFAD's financial resources to individual countries is governed by a PBAS. Essentially, the PBAS is a rules-based system that uses a formula that incorporates measures of country needs and performance to determine the level of financing that a country can receive over a given three-year replenishment period. Improvement of the PBAS is under way, based on the CLE, conducted by IOE in 2015-2016, and subsequent consultations with the Executive Board in 2016-2017. These changes aim to ensure the PBAS fits IFAD's mandate, role and evolving policies better, and that allocation of the Fund's resources responds more effectively to partner countries' social, economic, environmental, institutional and policy contexts, as well as to climate change and other vulnerabilities, and fragility.

29. The country-needs component of the PBAS will be strengthened by adding a vulnerability component to the formula, referred to as the IFAD Vulnerability Index

[11] MICs play a major role in IFAD's medium-term financial sustainability, and they impact through reflows from past IFAD loans (US$1 billion in 2003-2013, i.e. 38 per cent of total reflows), through gains from the spread on loan charges, and from replenishment contributions. Reflows to IFAD from loans (on ordinary and blend terms) provided to MICs are projected to amount to US$560 million in 2016-2018.

(IVI).[12] Targeting resource allocation on structural vulnerabilities is a way of compensating for structural handicaps to growth and poverty reduction, i.e. shortcomings that are durable and beyond the country's current capacity to overcome (of course they may result from past policy): they mainly reflect the impact of historical or geographical factors, or the international environment. But focusing on vulnerability is also a way to enhance aid effectiveness. In the long run, focusing on this criterion helps to dampen likely but unforeseen shocks, and avert social unrest and state fragility, in which prevention is better than cure.

30. The performance component of the formula uses the rural sector performance (RSP) scores to assess countries' institutional and policy environments for rural poverty reduction. RSP scores provide evidence to country teams for targeted policy engagement, and are thus a key piece in a holistic approach that blends lending and non-lending activities. As proposed in the document Approach to the Review of the Performance-based Allocation System,[13] which was reviewed by the Executive Board in December 2016, the RSP questionnaire is being strengthened and systematized to ensure its alignment with the Strategic Framework 2016-2025, and better incorporation of cross-cutting issues, such as climate change, gender and nutrition. As part of this, the RSP questionnaire is being enhanced for efficiency and usefulness for policy dialogue purposes, including by designing a mixed-method approach using a combination of qualitative and quantitative metrics to ensure the objectivity of the overall exercise.

Figure 5
Investment per rural person by country category in IFAD9

31. This approach to resource allocation and investment is aligned with partner countries' economic and social progress. It invests predominantly in the countries that are in greatest need of assistance: in IFAD9, LICs and LMICs accounted for roughly 89 per cent of total financing. Moreover, IFAD investment per rural person is highest in LICs, and declines progressively as countries transition from LMIC to UMIC status: in IFAD9, investment per rural person was US$2.32 in LICs, US$0.79 in LMICs and US$0.45 in UMICs (figure 5). Furthermore, as MICs develop, they tend to access a declining share of IFAD's resources (as determined through the PBAS), largely on ordinary terms; and they become more proactive in cofinancing IFAD-supported projects. In IFAD9 the cofinancing ratio of MICs (1.69) was more than four times the ratio for LICs (0.41). Furthermore, demand for financing from

[12] The IVI is an index developed by IFAD that builds on the Notre Dame Global Adaptation Index's (ND-GAIN) vulnerability component. For further details see annex II of *Approach to the review of the performance-based allocation system* (document EB 2016/119/R.5).
[13] Document EB 2016/119/R.5.

UMICs is increasingly being satisfied through borrowed funds, rather than from core replenishment contributions.

32. The PBAS system helps to make IFAD's holistic approach more effective at the country level by: (i) providing a check on excessive resource allocations to poorly-performing countries, and directing resources to better-performing ones; (ii) improving the stability and predictability of resource flows where this is most needed – to those countries with a stable or improving performance; and (iii) helping to provide a standard, through the use of performance ratings, which separates exogenous factors that make development more or less challenging in different countries or regions.

IV. Country-level decisions: what and how?

33. This section describes how IFAD, along with borrowing countries, makes decisions on the goals and expected results (what?) of its assistance to Member States, and how it tailors its interventions to achieve them (how?) based on country specifics.

Country-based model

34. Alignment with the SDGs through each country's own poverty reduction strategies for the agricultural sector, in particular smallholder agriculture, is the cornerstone of the country-based model, summarized in country strategies. Thus, IFAD effectively has a strategy for assisting each country – a COSOP or country strategy note – which evolves over time to adapt to changing challenges and priorities. The country strategy facilitates alignment with country priorities by taking national development programmes into account as well as harmonization with other donors, thereby maximizing impact on the ground. The country strategy also makes it possible for IFAD's programme to reconcile global concerns and national priorities at the country level.

35. At the same time, country strategies are guided by IFAD's own Strategic Framework 2016-2025[14] and policies. Engagement with any partner country is ultimately aimed at the realization of the overarching goal of poor rural people overcoming poverty and achieving food security through remunerative, sustainable and resilient livelihoods, underpinned by country programmes that realize IFAD's three SOs and adhere to its five principles of engagement.[15,16] Such engagement typically blends financial resources for investment programmes with knowledge, which may relate to production technologies and rural productivity know-how, inclusive pro-poor policy development and implementation, and strategic partnerships.

36. New country-strategy procedures were released in 2015, helping to streamline the RB-COSOP process and mainstream developments in IFAD's operating model. They promote the adoption of a more programmatic and longer-term approach to supporting smallholders. They present a holistic and integrated approach that combines lending and non-lending activities in support of longer-term country goals. RB-COSOPs articulate how the projects and programmes to be supported are owned by the government, are aligned with sector and macro priorities, and contribute to country system strengthening and local capacity-building. This alignment with country priorities is further exemplified through the results of IFAD's client survey, which poses substantive questions to clients on IFAD's

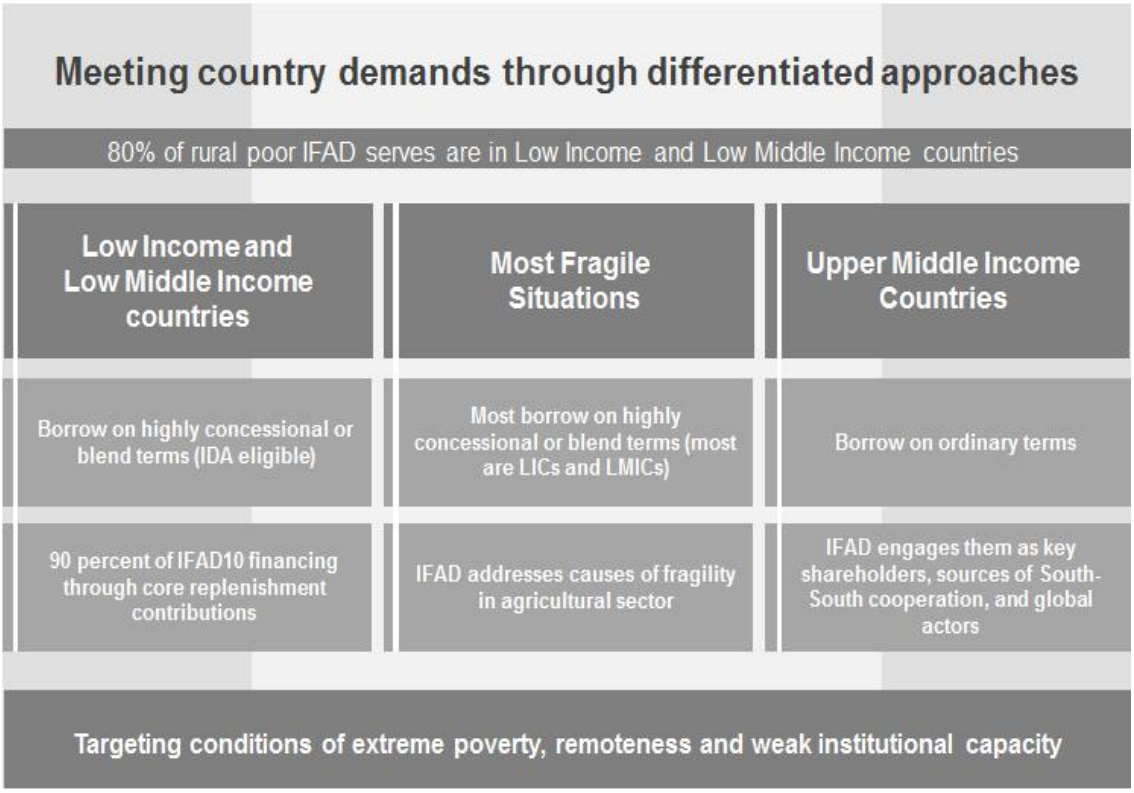
[14] Document EB 2015/116/R.4/Rev.1 https://webapps.ifad.org/members/eb/116/docs/EB-2015-116-R-4-Rev-1.pdf
[15] IFAD's three SOs are: increase poor rural people's productive capacities; increase poor rural people's benefits from market participation; and strengthen the environmental sustainability and climate resilience of poor rural people's economic activities.
[16] IFAD's five principles of engagement are: targeting and benefitting the largest number of poor rural people possible; empowering them socially and economically; promoting gender equality; advancing innovation, learning and scaling up of successes; and, leveraging effective and efficient partnerships where comparative advantages are exploited so that the overall impact is greater than the sum of its parts.

performance in countries with regard to policy and programmes. IFAD's ratings in this respect have been consistently increasing from IFAD9 through IFAD10. All RB-COSOPs now include results frameworks (albeit of uneven quality) that link IFAD activities and country-level results. One innovation of the new procedures is the flexibility to align the timing of country strategies with the horizons of domestic actors. This can help IFAD make better use of the fertile ground provided by stronger country ownership.

Differentiated approaches

37. Challenges and opportunities vary widely across countries, so it is imperative that IFAD's engagement with any country be tailored and targeted according to its individual characteristics and circumstances. Nonetheless, as shown in figure 3, the overlap between countries with fragile situations, or those that are SIDS or MICs underscores the importance of consistency in IFAD's approach to engagement in countries that fall in these groupings. These approaches must be applied on a complementary basis, with engagement in any given country encompassing elements from each approach.

Figure 6
Differentiated country approaches



Most fragile situations

38. The 2030 Agenda recognizes that addressing fragility is one of the six essential elements for delivering the SDGs, since development outcomes are consistently weaker in fragile situations. Given their structural limitations and challenges – including weak institutions and high vulnerability to renewed conflict – engagements in these countries are inherently risky: incipient gains can easily be reversed. Moreover, failure to address MFS problems imposes costs on neighbouring countries: a strong response from IFAD is thus in the interests of all its Members, as progress in these environments will generate positive spillovers and help protect the development gains made in the stronger performers. In line with this, for example, the Fund has developed the Facility for Refugees, Migrants,

Forced Displacement and Rural Stability (FARMS) initiative to address the rural dimensions of the current refugee crisis.

39. The Fund is committed to sharpening its focus on fragility when mobilizing, allocating and deploying resources. The addition of a vulnerability component to the PBAS formula ensures that allocation of IFAD resources is more sensitive to fragility. Current estimates show that 19 out of the 30 countries IFAD has identified as having MFS (see section VI for further detail) are in the top two quintiles of the IVI. In addition, special focus is being placed on mobilizing supplementary financing for projects in MFS, as and when countries demonstrate both demand and absorption capacity for increased resources beyond those allocated through the PBAS.

40. Country strategies for MFSs are informed by fragility assessments. These strategies account for the direction and pace of governance change in each country, given the heterogeneity of MFSs. Development activities are most likely to succeed in post-conflict transitions or in gradually improving governance contexts, where there is a reasonable level of government capacity to act as a conduit for IFAD's assistance to help implement pro-poor agricultural activities and policies and adhere to basic governance standards. In a prolonged crisis, where government capacity is non-existent or severely constrained, the Fund focuses on maintaining operational readiness to scale up engagement when appropriate. In deteriorating governance scenarios, IFAD focuses on protecting operational assets and incipient gains and on policy engagement, working with other development partners to reduce conflict risk wherever possible.

41. At the operational level, IFAD's approach in these countries focuses on addressing poverty from the perspective of the poor. IFAD's projects in MFSs concentrate on building resilience and capacity to cope with shocks. Specifically, IFAD helps people to withstand such shocks through their own local organizations, rather than relying entirely on government assistance. Under the new strategy, work in MFSs is guided by the following seven principles: (a) risk management and resilience; (b) a focus on root causes (within IFAD's mandate and comparative advantage); (c) gender mainstreaming and targeting; (d) institution-building to promote trust and social cohesion; (e) flexible and responsive resources, instruments and approaches; (f) results measurement and learning; and (g) strategic and complementary partnerships. Partnerships help IFAD manage risks because they provide the means to address root causes of fragility that lie outside IFAD's areas of comparative advantage.

Small island developing states

42. IFAD recognizes the distinct challenges that SIDs face in addressing food security and employment for smallholder farmers and fishers, amidst acute vulnerability to climate change and persistent exposure to disasters and weather-related hazards, further exacerbated by geographic remoteness and dispersion. In these countries, IFAD's engagement is guided by its Approach to Small Island Developing States (2014), which sets out the following priority areas: sustainable production and consumption of nutritious food; climate-change adaptation and mitigation; international niche-market value chains; renewable energy; and the blue economy.

43. A key feature that will distinguish IFAD's operational management approach in SIDs from that used in other contexts will be the pursuit of "multi-country programming" in order to help: (i) reduce the transaction costs of project delivery in SIDs; (ii) exploit economies of scale; (iii) provide a critical mass of production that can open up opportunities in regional and international markets; (iv) facilitate the "scale-out" of successful solutions; and (v) enhance horizontal exchanges and learning opportunities.

44. As noted above, the addition of a vulnerability component to the PBAS formula is an important step in ensuring that the allocation of IFAD's resources recognizes the

needs of SIDS more effectively. Under the IFAD10 PBAS, one quarter of the SIDS are in the first quintile of the IVI. In addition, the minimum PBAS allocation to most of the SIDS is being raised threefold, partially offsetting the high unit costs of preparing and supervising projects in small states.

Middle-income countries

45. The 2014 IOE evaluation synthesis report on IFAD's engagement in MICs stated that: "For the foreseeable future, IFAD will continue to play a relevant role in supporting MICs to reduce rural poverty given its mandate and the significant number of rural poor people and inequality in such countries".[17] As noted above, new loan and DSF grant commitments amounting to US$1.56 billion (53.6 per cent of the total) were approved in IFAD9 for projects in MICs, with LMICs accounting for the lion's share (about 80 per cent of new commitments for MICs in IFAD9).

46. IFAD's work in MICs is guided by its 2011 policy on engagement with MICs.[18] In this context, IFAD strives to enhance its value proposition to MICs in response to their evolving needs in tackling persistent rural poverty and rural-urban inequality through a strategic mix of financial and knowledge products and services. In doing so, appropriate targeting is essential: most MICs have "pockets of poverty" in underdeveloped regions and among particular ethnic and indigenous groups.

47. As countries achieve MIC status, agriculture's importance to the overall economy tends to diminish. In fact, there is a strong inverse correlation between agriculture's share of GDP and GDP per capita.[19] In UMICs, this fact is combined with increased access to capital markets, and decreasing financing from IFAD through the PBAS. Managing this relationship well requires a progressive downward adjustment of the financing along with careful targeting of knowledge services that could boost the Fund's policy influence, in all cases inclusive of significant government contributions, financial and other. In MICs, and again particularly in UMICs, RB-COSOPs are instrumental in adapting an overarching framework of engagement to the reality of the broad diversity in this grouping. Moreover, as the development challenges and demands of MICs evolve rapidly, the need for IFAD to be agile and responsive in its individualized strategies has become increasingly pressing (this need is being addressed by the new country strategy procedures discussed above). The presence of staff in the field also helps shape a better understanding of and responsiveness to country needs.

48. The nature of development in MICs has become more complex, with an increasing role for the private sector in most economies and growing globalization. IFAD supports MICs in strengthening private-sector engagement in the rural sector in order to modernize value chains in response to growing urban demand for food, particularly higher-quality and higher-value products. IFAD has consolidated and expanded multistakeholder approaches and instruments to enhance its catalytic role in mobilizing private investment in the agricultural and rural sector to meet the different needs and priorities of partner countries and its target group. The public-private-producer partnerships (4Ps) approach is a salient example in this regard. Other significant financial and risk management mechanisms supported by IFAD, in collaboration with partners, of potential relevance to all IFAD partner countries

[17] IOE has conducted a series of evaluations, both related to and containing references to MICs. Several recommendations emerged on how to maximize IFAD's impact in MICs, through both financial and non-financial products. These include: taking advantage of country strategic opportunities programmes as an entry point to define IFAD's relationship with MICs; mobilizing alternative funding sources; and increasing partnerships with bilateral and multilateral organizations, including the Rome-based agencies while also strengthening relationships with the private sector.

[18] Document EB 2011/102/R.3/Rev.1.

[19] Cervantes-Godoy, D. and J. Brooks (2008), "Smallholder Adjustment in Middle-Income Countries: Issues and Policy Responses", OECD Food, Agriculture and Fisheries Working Papers, No. 12, OECD publishing, © OECD. doi:10.1787/228583166164.

include: the Financing Facility for Remittances;[20] the Weather Risk Management Facility;[21] and the Platform for Agricultural Risk Management.[22]

49. Most MICs, particularly UMICs, show a widening inequality gap between the top quintile of income and the bottom two.[23] Inequality is particularly high within specific groups of people across countries that historically are weakly positioned and experience discrimination, such as women, indigenous people and poor rural youth. The strengthening of IFAD's focus on cross-cutting issues like gender, nutrition and climate change in an integrated manner helps narrow gaps in well-being through reinforced targeting.

V. Operational level decisions: by what means?

50. This section describes how country strategic principles articulated in RB-COSOPs translate into operational instruments (by what means?), to achieve concrete results. An IFAD priority has been to increase the range of tools and approaches, financial and knowledge products and services that can form part of the package of interventions that it supports in a country. The Fund responds to the marked increase in the diversity of country contexts it operates in, as well as the call from Member States for clearer differentiation in its engagement by country groupings.

Lending

51. IFAD's main financial instrument is sovereign lending for public-sector financing; but increasingly the Fund is expanding and diversifying its financial products to catalyse increased public and private investment in the rural sector. Sovereign loans for public-sector financing remain essential for many LICs and LMICs and MFSs in complementing their efforts to mobilize domestic public funds. For all countries, they will continue to be important as a catalyst for private investment in the agricultural and rural sector, and as a package combined with technical expertise to help governments strengthen their policies and enhance the quality of public investment in the sector.

52. In countries with fragile situations, efforts are under way through the new strategic guidance to design operations with more realistic objectives, in line with local implementation capacities, using relevant organizational and operational approaches to enhance project performance. In addressing the root causes of fragility, operations focus primarily on strengthening natural-resource governance, fostering inclusive community-based organizations and effective local-government service delivery, and enhancing target communities' resilience to the effects of conflict and other shocks. Moreover, increased flexibility is built into operational processes, including simplified project design and supervision procedures that recognize the challenges of working in such situations.

53. In MICs, IFAD's engagement focuses on supporting governments in addressing issues of rural-urban inequality, uneven rural-urban growth, and youth unemployment. In doing so, investment projects can be used to try out new development models and approaches, notably to reinforce the inclusiveness of

[20] The Financing Facility for Remittances is a multi-donor initiative which has co-funded nearly 50 projects in 45 countries for a total of US$38 million. The facility aims to maximize the impact of remittances for the rural poor by expanding access to financial services and offering financial products to remittance recipients through innovative, cost-effective and accessible services. Remittances are a huge potential source of financing expected to grow from the estimated US$0.5 trillion sent in 2016 to US$2.5 trillion by 2020.

[21] The Weather Risk Management Facility initiative launched jointly by IFAD and WFP, promotes the access of vulnerable smallholders to risk management tools such as weather-based index insurance (WII). It conducts global research in best practices for WII programmes to inform international agencies and donors' country programme staff in effectively implementing a WII programme.

[22] The Platform for Agricultural Risk Management (PARM) was launched in 2013 as an initiative developed under the G20, PARM is a multi-donor initiative worth US$7.7 million. PARM helps identify, assess and quantify agricultural risks in partner countries, and develop related strategies for informing public policies, agricultural investment programmes and private sector practices.

[23] Piketty T. (2014), Capital in the Twenty-First Century, Harvard University Press, 2014.

market-driven smallholder development. In addition, to improve its financial services to MICs, IFAD recently amended its General Conditions for Agricultural Development Financing to facilitate lending in currencies other than special drawing rights, i.e. single-currency loans. In SIDS, IFAD's lending focus is mainly on three thematic areas: sustainable small-scale fisheries and aquaculture; opportunities and employment for smallholder agriculture; and environment and climate change.

Grants

54. IFAD's grants programme is large in relative terms and is applied across varied regional and country contexts, and, as per the 2015 Grant Policy, it contributes to global, regional and/or national public goods related to IFAD's mandate. The grant recipients include Member governments, inter-governmental organizations (including United Nations agencies and CGIAR centres), civil society organizations (including NGOs and farmers organizations) and, since 2009, also the private sector. Civil society organizations receive the largest number of grants while research institutions receive the largest share of funding.[24] Indeed, an important finding of the CLE on grant financing is that grants allow IFAD to build partnerships with institutions that have expertise and experience complementary to its own. With the recent requirement that the selection of grant recipients be undertaken through competitive selection, IFAD has been able to further broaden its portfolio of partnerships with centres of excellence around the world.

55. The CLE on innovation and scaling up indicates that grant financing is essential in the early stages of innovation, for scouting and pilot testing where the risk element is high and loans are not the right instruments. Indeed, an important principle of the 2015 Grant Policy is that the focus should be on interventions where grant financing has clear added value and a comparative advantage over regular loans. Grants are used to finance specific activities related to, for example, capacity-building, promoting innovation, knowledge management, scaling up impact and agricultural research.

56. With reference to global/regional grants, IFAD recognizes that opportunities exist to ensure more robust, tangible linkages on the ground between loans and grants, and to enhance the potential for learning from grant activities. Further to the policy, there has been increasing attention to ensuring linkages to lending activities. For this reason, consultation with country programme managers (CPMs) responsible for the countries concerned directly or indirectly is duly assessed at the quality assurance stage.

57. The 2015 Grant Policy requires grants to be properly supervised so as to ensure that they are effectively managed and that learning is maximized. In this regard, grant designs are required to formulate implementation and supervision plans that are adequately resourced, and this is verified during the screening and quality assurance processes. Of course, supervision and implementation support is a challenge when a portfolio is too large. For this reason, the Grant Policy promotes fewer but larger new grants, with the volume of small grants expected not to exceed 10 per cent of the total grant allocation. Finally, decentralization is also helping address the concern of ensuring that grants are appropriately supervised.

Country-level policy engagement

58. An instrumental vehicle for scaling up and leveraging systemic changes in the conditions of poor rural people is country-level policy engagement (CLPE). There are numerous ways in which, directly or indirectly, IFAD pursues or facilitates policy engagement. This translates into a diverse set of activities. While most policy-related activities originate from, and are implemented within, projects or grants, CPMs and in-country officers also undertake activities related to policy engagement

[24] CLE on grants.

outside of these mechanisms. This may take the form of participation in in-country sector working groups or other initiatives, and may or may not be mentioned explicitly in COSOPs.[25]

59. In January 2013, IFAD adopted an action plan for policy engagement. The action plan sets out steps to integrate policy engagement into RB-COSOPs and projects, to introduce (and finance) new products such as policy analyses, and to increase the capacity to monitor and evaluate policy engagement. As such, CLPE – particularly to support enhancement of pro-rural poor policies, strategies, programmes and institutions in MICs – is increasingly either embedded within investment projects or undertaken as a stand-alone activity to complement project financing. In 2016, a CLPE toolkit was developed, which offers guidance to IFAD staff and consultants on how to incorporate CLPE into RB-COSOP design, project design and country programme monitoring and evaluation. One way of gauging IFAD's progress on policy engagement is the client survey, in which 94.59 per cent of countries were rated 4 or better on policy dialogue, exceeding the IFAD10 target of 85 per cent.

Reimbursable technical assistance

60. In 2012, the Executive Board approved an instrument establishing a reimbursable technical assistance programme[26] to serve partner countries seeking only technical support from IFAD. While not exclusively intended for MICs, this instrument is expected to be taken up mostly by countries with larger amounts of domestic resources to devote to development projects in need of know-how – indeed thus far interest in this instrument has come from UMICs. In 2016, revised operational procedures for reimbursable technical assistance was developed encompassing three broad lines of service: operational assistance (mainly for project-related design, supervision and implementation support); analytical and advisory assistance (studies, different types of evaluations, strategies, analysis, or policy position papers); and learning and promotional assistance (conferences, meetings, workshops, training courses, study trips and knowledge exchanges). The first line of service offers countries the chance to buy IFAD's project design and supervision expertise – which is valued by many MICs.

South-South and triangular cooperation

61. In the context of the IFAD9 and IFAD10 replenishment consultations, IFAD committed to further expanding its role in facilitating SSTC, noting the growing importance of this mechanism, especially in MICs. Guided by its recently completed Approach to South-South and Triangular Cooperation,[27] IFAD will undertake a range of SSTC activities in three broad domains: (i) technical cooperation; (ii) regional exchange events; and (iii) investment promotion.

62. In the area of technical cooperation, the Fund supports peer-to-peer learning in the rural development space, by replicating and expanding on particularly good experiences in IFAD's grant and lending portfolio, as well as by building new mechanisms and partnerships. With regard to investment promotion, IFAD seeks to create and leverage new opportunities for promoting the flow of financial resources

[25] A review undertaken in 2016 by the Policy and Technical Advisory Division identifies seven different methods of policy engagement currently in used in IFAD operations. These are: (i) projects/CPMs supporting the scaling up and adoption by national government of successful models and initiatives piloted or tested under IFAD-supported projects; (ii) projects creating space, or a forum, for policy dialogue among national stakeholders; (iii) projects enhancing the capacity of national stakeholders – particularly organizations of rural people – to participate in national policy processes; (iv) the CPM/country programme officer (CPO) participating in the in-country sector working groups of the government and its development partners; (v) projects strengthening the capacity of government agencies to formulate national policies and programmes relevant to smallholder agriculture and rural development; (vi) projects supporting policy analysis and short-term technical assistance for policy formulation; and (vii) projects enabling governments to operationalize at the local level a national policy that has hitherto remained unimplemented.

[26] Document EB 2012/105/R.28.

[27] Document EB 2016/119/R.6.

between the countries of the Global South. IFAD may also experiment with and/or scale up a range of instruments (e.g. finance facilitation, improving access to producer data, and business-to-business cooperation) across regions to promote different kinds of cross-border investment between developing countries. These efforts respect both IFAD's mandate and the principles of SSTC, which include: respect for sovereignty, ownership and independence, equality, non-conditionality, non-interference in domestic affairs and mutual benefit. SSTC is a useful instrument to connect knowledge flows between MICs and LICs with specific activities involving half of all MICs in IFAD10.

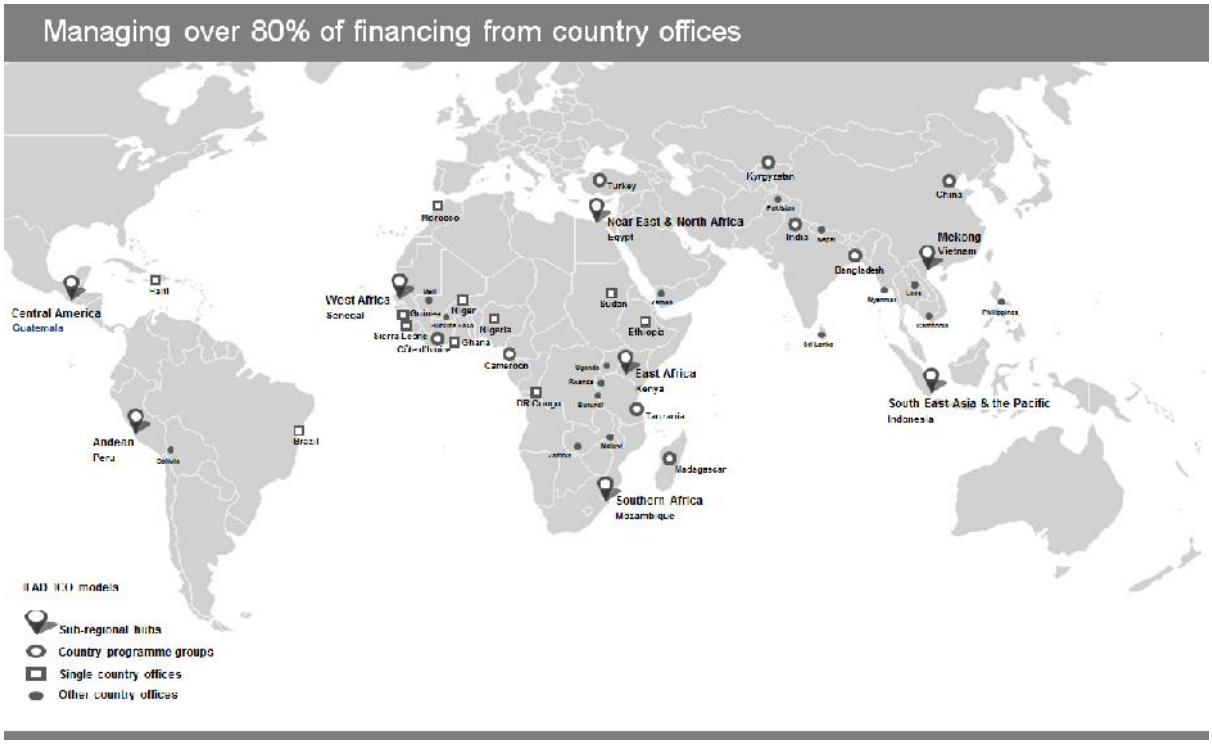
VI. Supporting delivery at the country level

63. IFAD's country operations are supported by a service delivery platform consisting of financial management, human resources management, and information and communications technology systems, and other business support services and processes. Over the past few years, the Fund has given much attention to improving internal business processes, reducing costs and shortening response times. This section describes just a few of the key elements of IFAD's operational support that underpin its ability to tailor and target its services to specific and increasingly varied country contexts.

Decentralization

64. Further strengthening of IFAD Country Offices (ICOs) and the devolution of greater responsibility to the field represents a cornerstone of IFAD's holistic approach to differentiated country approaches. It alters the way in which the Fund interacts with its Members and requires adjustments to internal business processes, including at headquarters. Effective decentralization requires a strong headquarters which sets clear strategic direction, policies and safeguards, and is able to maintain standards and quality, while recognizing that it can deliver its products and services to members and respond to their needs more effectively, by being closer to them. It also plays a stronger role in knowledge management, ensuring widespread dissemination of information and ideas, which should improve qualitatively and quantitatively via streams flowing in from ICOs.

Figure 7
IFAD subregional hubs, country groupings and single ICOs



65. By the end of IFAD11 most major products and services will be planned, prepared and delivered at the country or subregional levels. Thus, programmatic and financial decision making will increasingly be devolved to field offices. Today, the Fund has 40 ICOs serving a total of 77 countries, covering approximately 80 per cent of its total financing (figure 7). Complemented by a range of business process reforms and improvements to project-cycle and portfolio management, further decentralization is expected to help operational teams to: (i) gain a better understanding of local conditions; (ii) use flexibility to align and harmonize policies with other partners, increasing the likelihood of cofinancing; (iii) strengthen the position of local representations in dialogue with national authorities and development partners; and (iv) respond quickly to emerging needs, especially in MFSs.

66. Regarding the latter, a quarter of ICOs are located in MFSs, 58 per cent of them in Africa. This poses significant challenges with regard to country-presence resilience and security. In this context, IFAD's Field Security Operations team will play a key role in managing security risks for staff and ICOs in MFSs, guaranteeing the safety of its personnel and assets while ensuring timely project delivery. During periods of force majeure or crisis, IFAD will ensure that assets are maintained to the extent possible, along with enhanced readiness for re-engagement. In countries under suspension due to conflict, "watching brief" activities will be initiated, so as to maintain some organizational presence and activity with a view to assessing opportunities for re-engagement and its timing.

67. This pivotal agenda is being consolidated and reinforced through implementation of the Corporate Decentralization Plan completed in 2016. Reflecting regional and country specifics, including fragility status, and drawing on the most successful features of the decentralization experience across IFAD, the plan promotes a more coherent and harmonized approach to ICO configuration. It includes three models for ICOs: (i) subregional hubs; (ii) country programme groups; and (iii) single ICOs.[28] It also places ICOs at the forefront of partnership development and management, including with other Rome-based agencies. The identification, development and negotiation of cofinancing, are also increasingly being handled at the ICO level.

68. Increasing decentralization involves a shift from a culture of supervision and implementation support "by mission" to a culture of "continuous supervision" by dedicated staff in ICOs. This facilitates the calibration of the frequency and intensity of supervision efforts to the specificities of country and project situations. As part of these efforts, the Fund is modernizing its supervision procedures to better assess results, promote mid-course corrections and enhance learning across countries and regions. Of particular importance is the follow-up to problem projects in order to address recurrent issues such as fiduciary matters, project management capacity and slow procurement. The Fund is also identifying measures to enhance disbursement performance, such as greater attention to the flow of funds arrangements in project designs and concrete support to governments and project teams during start-up. It will also roll out the Operational Results Measurement System, an IT platform that harmonizes reporting templates from project design through supervision and completion based on logframes.

[28] Subregional hubs will have technical and other staff with expertise in financial management and procurement; and they will act as service centres for all or part of a region and will carry out country-programme functions for a smaller group of countries; country programme groups will pool staff and knowledge for country programme purposes for a number of countries and programmes; and single ICOs will serve only one country. A country may require a single ICO because of its strategic importance or special circumstances (e.g. geographic isolation, specific political concerns or extreme fragility) that make grouping with other countries difficult.

Development effectiveness

69. Building local capacity to steer project and policy implementation for effective development is recognized as a priority across the spectrum of differentiated approaches that the Fund promotes. Significant room for improvement exists in this regard. Many RB-COSOPs are often strong on diagnostics but relatively weaker in proposing a combination of lending and non-lending activities to fill these gaps and transcend the life of individual projects. This is starting to change with the renewed efforts to revamp the centrality of knowledge management in country programmes (described below), and by the introduction of the Development Effectiveness Framework (DEF).[29]

70. A fundamental aspect of development effectiveness is to design operations that propose solutions to the identified problems and that are calibrated to the capacity of implementing partners. This capacity is different in LICs, LMICs and UMICs. Thus the DEF proposes a series of transformations to the operating model to facilitate the process of designing, supervising and evaluating projects, with a view to supplying development solutions that are adaptable to local contexts, and that move away from traditional project management to a results-based culture.

71. With regard to strengthening countries' own systems to manage for results, the Fund is implementing two complementary initiatives funded by IFAD grants. The first aims to develop a tool to assess in-country capacities for results-based programme and policy management, and to develop action plans to address identified gaps through RB-COSOPs. The second aims to provide capacity-building in countries on monitoring and evaluation in rural development through systematic training and skills certification through the CLEAR centres. In addition, the DEF will strengthen the Fund's own self-evaluation authority, incentives and tools; introduce a development effectiveness checklist to ensure compliance and quality of project documents, systematic training for operational staff through an Operational Academy; and pursuing a strategy for impact assessments whereby they are increasingly designed ex ante rather than ex post and are structured to maximize learning and accountability.

Knowledge management

72. Guided by a knowledge management strategy and an action plan (2016-2018), various options in terms of knowledge products and services are available to partner countries depending on need and demand, such as: the use of analytical studies, conferences and cross-country knowledge-sharing events; regional networks; and greater use of impact assessments and evaluations produced by IOE, e.g. thematic, country and project-level evaluations.

73. Engagement in MICs enriches programme design in LICs. Through its engagement with MICs, IFAD has learned about innovative approaches taken by MIC governments to reduce rural poverty, and can then transfer that experience to its work with LICs. On the other hand, for many MICs, IFAD is a source of technical expertise, helping their governments address issues of uneven urban/rural growth, youth unemployment and food insecurity. It does so by testing innovative approaches to rural poverty reduction and employment creation; drawing out and analysing the experience gained from IFAD-supported projects; and assisting governments in developing national policies, strategies and institutions that can build on the lessons learned. But producing knowledge for the consumption of MICs is increasingly demanding: MICs can now draw upon both their own strengthened institutional capacity and international expertise, including that provided by professional advisory firms on a fee-for-service basis.

[29] Document EB 2016/119/R.12.

74. Effective knowledge management requires sophisticated and more dynamic technical expertise provided by highly skilled in-house experts or by in-country partnerships. An important element of sharing lessons of international experience is IFAD's renewed work to enhance staff mobility, particularly in operations. Mobility helps to keep staff abreast of what is going on across a number of countries and exposes staff directly to a range of developing countries thereby allowing them to bring experience from one MIC to another, and from MICs as a group to LICs. Ongoing efforts to establish an Operational Academy as a platform to share and use knowledge are another step in the same direction. Moreover, increased field presence helps to deepen the understanding of Member States' conditions in order to produce better project designs and strengthen supervision and policy engagement.

VII. Areas for further improvement

75. The sections above summarize the overall approaches followed by IFAD Management for specific country groupings. While these approaches provide overarching frameworks, IFAD engagements are tailored on a country-by-country basis through RB-COSOPs. This section outlines a few key areas in which renewed attention will be paid to the questions of Who? What? How? And by What means? in IFAD's holistic approach to differentiated country contexts, in a context of increasingly sophisticated demand for IFAD's services across all country groupings.

Who? Empowering beneficiaries with information

76. Evidence shows that the impact of development assistance works better when the link between beneficiaries and policymakers is strong. This is the case when they can hold policymakers accountable for public services that benefit the poor or when the policymaker cares about the standard of living of poor people. Perhaps the most powerful means of increasing the voice of poor people in policymaking is better information.[30] In this regard, IFAD is committed to improving the transparency of its interventions by, inter alia, ramping up efforts to disclose operational documents (including supervision and completion reports), and complying with the standards of the International Aid Transparency Initiative. This will complement the Fund's long-standing efforts to work closely with its direct beneficiaries to assess priorities for interventions, learn about design and implementation so as to adjust these as necessary, and undertake monitoring and evaluation, all of which contribute ultimately to better development outcomes.

What? Improving the quality of operations

77. Improving project quality entails efforts to strengthen the focus of operations and make them more likely to achieve their development objectives. For MFS, simpler, more straightforward project design has been recognized as a necessity by successive IOE evaluations. In SIDS, high unit costs demand strong and sustained results. But perhaps nowhere is the pressure for higher standards stronger than in MICs: their demands are becoming more extensive and they have choices of support beyond IFAD. For IFAD's work to have a more pivotal demonstration effect across all groupings, a greater proportion of it must reach the highest standards of effectiveness. And systematic evaluations need to quantitatively aggregate this impact and feed lessons into new designs, as intended, through the Development Effectiveness Framework.

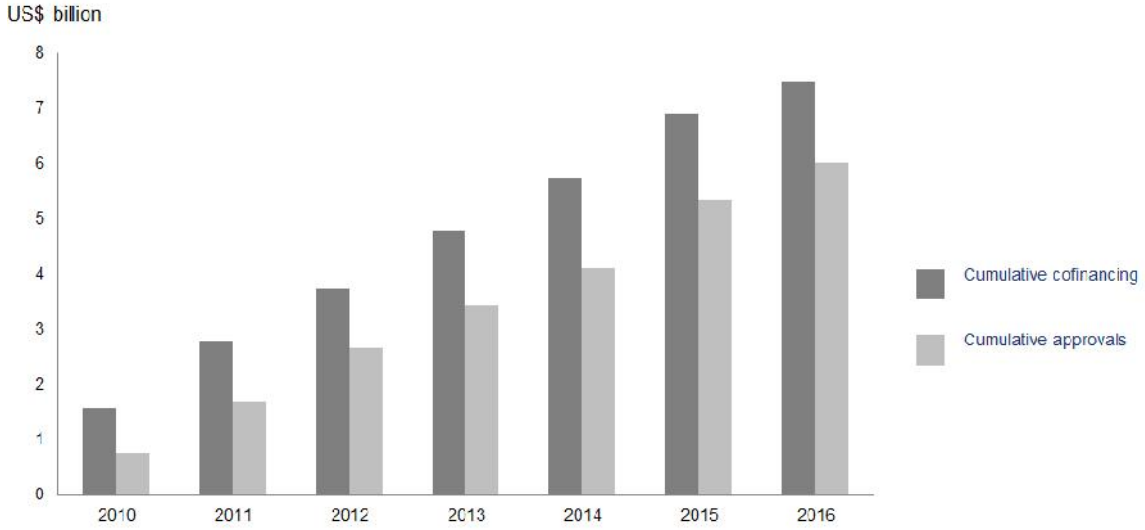
How? Reprioritizing partnerships

78. The 2016 ARRI found that there is scope to build partnerships with a wider range of actors at the country level in the context of COSOPs. IFAD is a relatively small player with regard to volumes of finance at country level, and this is particularly true in MICs even in the agriculture sector. IFAD will need to place partnerships

[30] World Bank. 2003. World Development Report 2004: Making Services Work for Poor People. Washington, D.C.

with other development partners more emphatically at the centre of its delivery model. To bring about sizeable impact, IFAD engagement must affect development processes and projects beyond what it directly sponsors. In this regard, cofinancing requires renewed attention. The cofinancing ratio continues to grow at a moderate pace in relation to fast-increasing commitments (figure 8). The cofinancing ratio for MICs, however, is significantly above the average for overall operations – reflecting comparatively higher domestic resource availability – and shows an upward trend, from 1.3 in 2012 to 2.1 in 2015. Nonetheless, this rate is not without room for improvement, even more so with regard to cofinancing with bilateral and multilateral partners.

Figure 8
Cofinancing pace vis-à-vis rising commitments



By what means? Exploring new financial products

79. This is being done through an interdepartmental working group to explore the feasibility of developing new products. One example is “results-based” lending that ties funding to “outputs” or performance indicators, rather than have financial flows triggered by a country’s “inputs”. The upcoming CLE on IFAD’s financial architecture provides an opportunity to review evidence and advance corporate thinking in this regard.