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Investing in rural people

IFAD's Cofinancing Strategy and Action Plan

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Abbreviations and acronyms

ABC	Agribusiness Capital [Fund
AfDB	African Development Bank
AOI	Agriculture Orientation Index
APR	Asia and the Pacific
AsDB	Asian Development Bank
AVP	Associate Vice-President
COSOP	country strategic opportunities programme
CPM	country programme manager
ESA	East and Southern Africa
FFR	Facility for Remittances
GEF	Global Environment Facility
GRIPS	Grants and Investment Projects System
ICO	IFAD Country Office
IDA	International Development Association
IDB	Inter-American Development Bank
IOE	Independent Office of Evaluation of IFAD
LAC	Latin America and Caribbean
LIC	low-income country
MDB	multilateral development bank
ODA	official development assistance
PBAS	performance-based allocation system
PMD	Programme Management Department
PRM	Partnership and Resource Mobilization
SDG	Sustainable Development Goal
WCA	West and Central Africa

Executive summary

1. IFAD's cofinancing strategy and the related action plan are grounded in a clear medium- to long-term vision for IFAD's role as an assembler of development finance, as envisaged in the business model for the Eleventh Replenishment of IFAD's Resources (IFAD11). This strategy and action plan aim to support IFAD's cofinancing efforts to reach the targets set during the IFAD11 Consultation.

2. The strategy envisions cofinancing as a means to an end, with benefits that go far beyond additional financing. Cofinancing allows for greater impact on poor rural people by increasing the number of beneficiaries reached, and it is a source of fruitful partnerships and knowledge exchange, creating opportunities for governments and development partners to align their strategies for more effective development solutions.

3. In line with IFAD's vision, reflected in the Transition Framework and the new business model, Members are expected to make the utmost effort to provide counterpart financing for all IFAD-supported projects, commensurate with their financial status.

4. With regard to domestic cofinancing, IFAD will focus most on government cofinancing, which is a clear demonstration of government commitment and ownership and a reliable predictor of sustainability. Cofinancing with key national partners will be sought at the early stages of country strategic opportunities programme (COSOP) or project design, and engagement with beneficiaries will be strengthened.

5. IFAD will strive to move to a programmatic approach that fits into national agricultural development planning, and to gain greater leverage through the design of larger and simpler projects, which have proven to attract more cofinancing.

6. With regard to international cofinancing, IFAD will emphasize sustained, systematic partnerships with selected multilateral and bilateral organizations based on complementarity of interventions. Current memorandums of understanding with key partners will be supplemented with monitorable regional-level action plans, which will include identifying joint financing opportunities after pipeline exchange, and agreeing on next steps and milestones.

7. COSOPs will become repositories of country-level engagement plans that will identify the key partners, their role in IFAD's projects/programmes and the expected resources to be leveraged. IFAD's enhanced country presence will be key to sustaining the cofinancing agenda through continuous interaction with governments and partners on the ground.

8. IFAD will strive to replicate successful models that allow for lower transaction costs and will increase flexibility in specific cases by adapting its approval processes, procedures and timing to fit better with partners' procedures and processes. Drawing on successful experience and learning from other international financial institutions, IFAD will pursue pooled facilities such as multi-donor trust funds to minimize transaction costs.

9. The cofinancing agenda will be sustained at all levels with clear actions and responsibilities, as set out in the action plan (see annex I). Regional directors will be responsible for reaching the established regional targets; within each region, indicative country-level targets will be applied flexibly and will serve to guide COSOP discussions.

10. The success of the cofinancing strategy will depend on effective implementation with the engagement of all involved divisions. The action plan builds on the key dimensions of the resource mobilization framework, with clear roles and responsibilities for all parties. Many units at headquarters will provide institutional support, particularly in the measurement of in-kind contributions based on the

technical note provided in appendix I. Operational training to support implementation will be provided as part of the resource mobilization module of the IFAD Operations Academy.

IFAD's Cofinancing Strategy and Action Plan

I. Background

1. The Addis Ababa Action Agenda, the Sustainable Development Goals (SDGs), the African Union's Agenda 2063 and the Paris Declaration on Aid Effectiveness all recognized that domestic resource mobilization from the public and private sectors is necessary for sustainable poverty eradication. This is in line with IFAD's vision as reflected in the Transition Framework and new business model for the Eleventh Replenishment of IFAD's Resources (IFAD11), which envisage that Members will make the utmost efforts to provide counterpart[1] financing for all IFAD-supported projects, commensurate with their financial status.

2. To maximize IFAD's contribution to the SDGs, one of the main areas of the reform of IFAD's business model under IFAD11 is for IFAD to become an assembler of development finance in addition to its role as a direct lender. IFAD has committed to an ambitious cofinancing target for IFAD11: an overall ratio of 1:1.4 – with 1:0.8 for domestic cofinancing and 1:0.6 for international cofinancing. This reform is in line with the trend in many international financial institutions (IFIs) of catalysing and mobilizing financial resources for development as a core component of their long-term strategies.[2]

3. Recent trends show an increase in official development assistance (ODA) for agriculture,[3] especially from such bilateral donors as Canada, France, Germany, Japan, the Netherlands, Republic of Korea, the United Arab Emirates, the United Kingdom and the United States. Multilateral organizations such as the African Development Bank (AfDB), Asian Development Bank (AsDB), European Union, Inter-American Development Bank (IDB) and World Bank are also potential continuing sources of financing for agriculture and rural development (see annex II for details).

4. A widespread recognition that the transformation of rural areas and of the agriculture sector in general is crucial for attaining the SDGs has revived IFIs' interest in investing in this sector. IFAD's comparative advantage and unique expertise in working with smallholders and marginalized groups in remote rural areas make it the cofinancing partner of choice for such investments.

5. As the Corporate-level Evaluation on IFAD's Financial Architecture concluded, cofinancing enables the Fund to expand the number of beneficiaries covered, encourages knowledge exchange among cofinanciers, improves aid coordination, facilitates policy engagement with governments and provides opportunities to scale up successful experiences for greater impact.

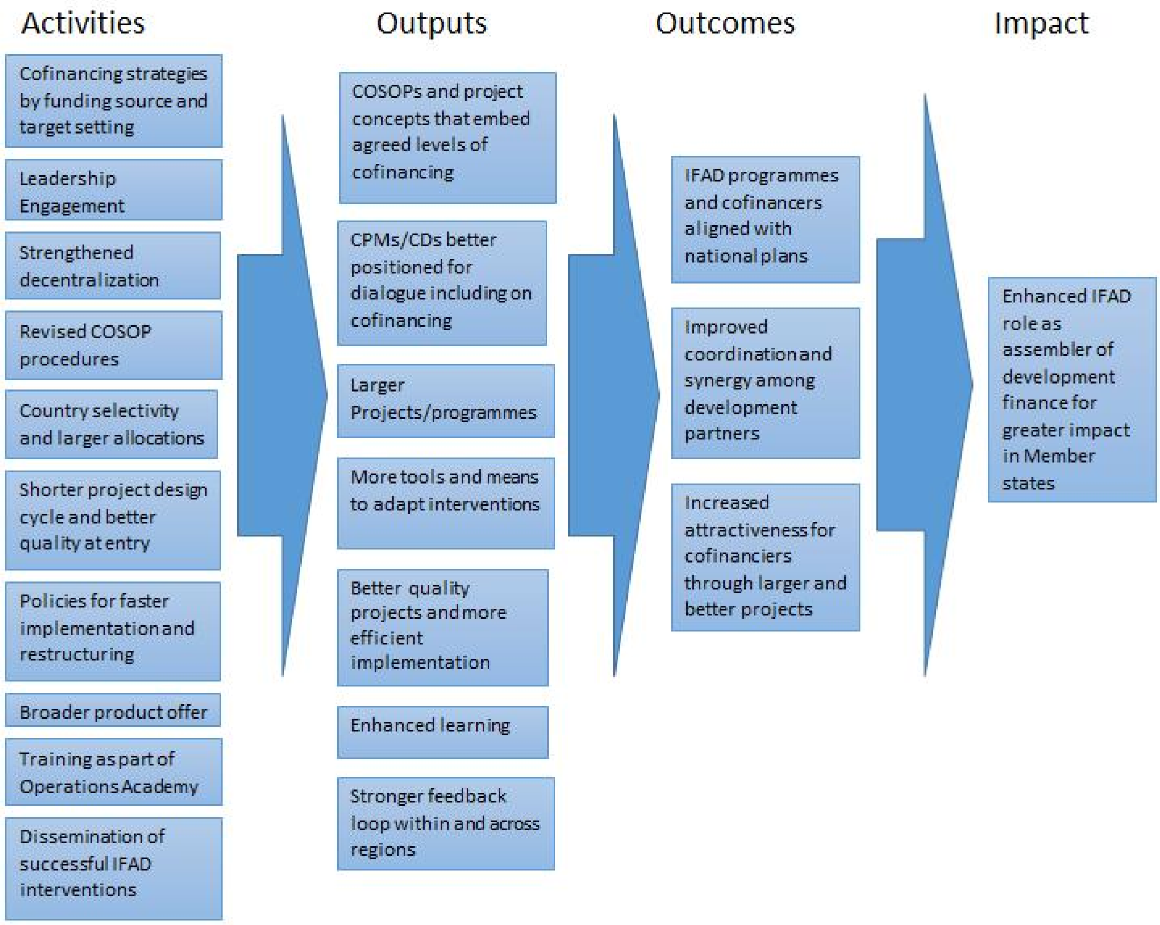
6. Cofinancing is a key pillar of IFAD's Transition Framework, which defines the guiding principles of its engagement with borrowing countries on the basis of differentiated country contexts and stage of country transition. The methodology for cascading corporate targets into regional and indicative country targets is aligned with this recognition of countries' diverse needs.

7. Several major reforms and initiatives proposed under IFAD11 support IFAD's role as an assembler of development finance: enhanced decentralization, with stronger links to headquarters to guarantee dissemination of critical knowledge; revised procedures for country strategic opportunities programmes (COSOPs); enhanced country selectivity; a shorter project design cycle and more focus on project

[1] In this context, counterpart financing is used as synonym for government cofinancing.
[2] See *Asian Development Bank Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*; and International Development Association (IDA), *Additions to IDA Resources: Eighteenth Replenishment Towards 2030 – Investing in Growth, Resilience and Opportunity*.
[3] Source: Organisation for Economic Co-operation and Development (OECD) database on ODA.

quality, which are proven to be positively correlated with increased cofinancing and efficient implementation achieved through a number of new policies and tools. The simplified theory of change (figure 1) highlights how these efforts lead to greater impact on the ground.

Figure 1
Theory of change for strengthening IFAD's role as assembler of development finance for greater impact



II. Basis for the strategy

8. Recent trends in IFAD cofinancing, which has declined from a ratio of 1:1.15 in IFAD9 to 1:0.86 in IFAD10, call for a more strategic approach to cofinancing. This strategy is built upon an analysis of IFAD's cofinancing experience and the lessons that can be drawn from it. Its development was informed by an in-depth quantitative analysis of the determinants of cofinancing[4] and by the insights of staff and managers gathered through consultations and a survey. The strategy also draws on cofinancing-related lessons from other multilateral development banks (MDBs).

A. Analysis of IFAD experience

Results of analytical study

9. An analysis of IFAD's cofinancing experience helped to identify the important drivers of domestic and international cofinancing (annex III). The highlights of this analysis are discussed in the following paragraphs.

[4] The results of this study were presented at the first and second meetings of the Working Group on the Transition Framework, where the main elements of the cofinancing strategy were endorsed.

(a) Domestic cofinancing

(i) The most important sources of domestic cofinancing are governments, followed by beneficiaries and domestic financial institutions. Domestic cofinancing declined from US$2.3 billion mobilized during IFAD9 to US$1.8 billion under IFAD10,[5] largely because of reduced government cofinancing.

(ii) The level of domestic cofinancing is positively correlated with a country's income level and many other factors, including: (i) project size; (ii) the presence of an IFAD Country Office (ICO); (iii) IFAD's performance as a development partner; (iv) project performance; (v) the number of project financiers; and (vi) the level of international cofinancing. As expected, a negative correlation was found between domestic cofinancing and fragility or vulnerability. IFAD's core resources are increasingly focused on fragile situations specifically to supplement reduced government capacity.

(b) International cofinancing

(i) International cofinancing also dropped sharply from US$1.7 billion in IFAD9 to US$905 million[6] in IFAD10, driven by a decline in the cofinancing provided by AsDB, European Union and World Bank.

(ii) The level of international cofinancing is positively correlated with such factors as: (i) the presence of an ICO; (ii) the number of projects managed by a country programme manager (CPM); (iii) project size; and (iv) level of domestic cofinancing. A correlation was found between international cofinancing and countries' income levels, political stability and institutional capacity.

10. The analysis leads to the conclusion that expanding cofinancing requires a strategy that is differentiated by each source of domestic and international financing. It also highlights the imperative of tailoring IFAD's approach to specific regional and country contexts.

Insights from IFAD staff

11. Consultations and a survey of staff point to a number of opportunities for advancing IFAD's cofinancing agenda.

(a) Domestic cofinancing

12. Fiscal space, ownership and the commitment of country decision makers are key factors that influence the level of government cofinancing. Opportunities are most likely to arise when IFAD engages at the appropriate level with ministries, including those other than ministries of agriculture – particularly finance. A stronger alignment of IFAD's project objectives with government priorities and timely integration with government plans and budgets are crucial.

13. Planning, using a programmatic approach that spans performance-based allocation system (PBAS) cycles, along with larger PBAS allocations, also leads to expanded cofinancing.

(b) International cofinancing

14. International cofinancing brings significant advantages and contributes to greater impact. However, working with multiple multilateral donors raises transaction costs in having to liaise individually with several counterparties because various cofinanciers have different programming cycles, processes and requirements.

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[5] Accounts for 2018 estimated domestic cofinancing pipelines as of 28 June 2018.
[6] Accounts for 2018 estimated international cofinancing pipelines as of 28 June 2018.

15. IFAD's experience with financing facilities such as the Spanish Food Security Cofinancing Facility Trust Fund (Spanish Trust Fund) has shown very encouraging results.[7] Across regions, this fund proved to be an efficient tool for providing additional financing to IFAD's projects—a tool that was aligned with the Fund's own processes.

(c) Internal constraints to resource mobilization

16. Mobilizing resources through both domestic and international cofinancing increases the demands on CPMs' time. IFAD's new decentralized structure will address this issue by strengthening technical and administrative support to country directors and CPMs in the field, allowing them to focus on policy dialogue and partnership building. Stronger support from headquarters will include broad dissemination of the potential impacts of IFAD projects and programmes and the selected engagement of directors of operations and technical divisions in dialogue related to COSOPs, projects and programmes.

Lessons from other multilateral development banks[8]

17. While other MDBs do not have stand-alone cofinancing strategies,[9] lessons can be learned from evaluations of other MDBs' experiences with cofinancing and trust funds:

(a) The World Bank has long recognized that trust funds provide substantial and predictable multi-year funding. To streamline governance and reporting arrangements and to reduce transaction costs, all trust funds are managed by the World Bank following its own procedures, and new trust funds are pooled, "umbrella" (multi-donor and multi-recipient) facilities.

(b) AsDB's Financing Partnership Strategy notes that financing partnerships generate operational efficiencies by sharing knowledge, resources and risks. In addition, an AsDB evaluation found that leveraging cofinancing in projects must be driven by strategic goals set forth in country strategies.[10]

18. The experiences of other MDBs suggest that IFAD should continue pursuing trust funds, with a focus on multi-donor funds.

19. With a heightened emphasis on mobilizing resources from the private sector, a number of MDBs (the Asian Infrastructure Investment Bank, AfDB, AsDB, the European Bank for Reconstruction and Development, the European Investment Bank, IDB, the Islamic Development Bank, the New Development Bank and the World Bank Group) have formed a working group to jointly develop an approach for mobilizing private financing on a large scale.[11] IFAD is participating in this group's deliberations to learn from the approach being developed.

III. The strategy

A. Vision and principles

20. Assembling development finance for greater impact. The vision that underpins this cofinancing strategy is that of IFAD as an assembler of development finance on a significantly larger scale than its role as a direct lender. The primary objective of the strategy is to achieve greater impact for poor rural people.

[7] Although the impact of the Spanish Trust Fund has not yet been evaluated, a number of positive results have been noted: (i) more people receiving services; (ii) common property resources under improved management practices; (iii) construction and rehabilitation of land under irrigation schemes, livestock and drinking water systems, storage, marketing and processing facilities, and roads; (iv) more people trained; and (v) community and marketing groups formed and strengthened.
[8] It should be noted that there is no common definition of cofinancing across MDBs: the World Bank, IDB and AsDB do not define government financing as cofinancing, instead referring to it as "counterpart funds". AsDB did, however, include a cofinancing framework in its Strategy 2020.
[9] Only AsDB has a cofinancing strategy, which was elaborated in 1995.
[10] See the *Independent Evaluation of the Effectiveness of Asian Development Bank Partnerships* (2016).
[11] See the *Joint MDB Statement of Ambitions for Crowding in Private Finance* (2017).

21. Focus on results and sustainability. This strategy follows key principles adopted at the Busan High-Level Forum on Aid Effectiveness.[12] It specifically focuses on results and sustainable impact, drawing on the knowledge and development experience of countries and all development partners.

22. Complementarity. The strategy emphasizes not only leveraging financial resources, but also ensuring the complementarity of contributions and benefiting from the expertise that domestic and international cofinanciers can bring to IFAD-funded development interventions. In pursuing complementarity, IFAD will ensure the proactive management of reputational risks that could arise from pursuing joint initiatives with partners, especially private sector partners.

23. Action plans for international cofinancing. IFAD already has memorandums of understanding (MoUs) with many international cofinancing partners, and it will seek to develop others where relevant. All such MoUs will be complemented with specific monitorable action plans that will identify agreed projects for cofinancing, based on regular exchanges of pipelines and next steps for engagement at national level.

24. Country-specific approach. The strategy is based on the recognition that country-specific circumstances are key drivers of cofinancing, and that it is important to seek the right balance between the efforts of recipient governments and those of international partners. All COSOPs will include a strengthened focus on cofinancing by reflecting, in line with the engagement plans, the key partners, the foreseen resources and their role in IFAD's projects/programmes throughout the COSOP cycle. Internally, the indicative country targets will underpin the dialogue. In line with IFAD's revised COSOP guidelines, cofinancing will be one of the three elements of the resource envelope of a country, in addition to IFAD's lending/grant envelope and estimated funding for non-lending activities.

25. Strengthened institutional support and clear roles for effective implementation. The strategy emphasizes effective implementation, with specific actions and increased efforts from all parties set out in engagement plans, as discussed in section IV below and in the action plan (annex I). The partnership framework to better plan, implement and monitor the outcomes of partnerships — an IFAD11 commitment[13] — will guide the implementation of the engagement plans.

B. Framework for resource mobilization

26. Definition of cofinancing. IFAD defines cofinancing as financing from any source in support of – and in association with – an IFAD-funded project or programme. Cofinancing covers, but is not limited to, financing provided by governments (defined by some institutions as counterpart funding), beneficiaries, multilateral and bilateral development partners, the private sector and foundations. It can take the form of both cash and in-kind contributions.[14]

27. In its resource mobilization efforts, IFAD will apply a clear framework to support a systematic (instead of ad hoc) approach to partnerships that are identified as key at early stages of COSOP and project preparation. The framework consists of the following elements:

    (a) Identify key cofinancing opportunities at regional and country levels;

    (b) Engage with partners at multiple levels through the development of engagement plans for each key partner at the institutional and country levels

[12] *See* www.oecd.org/dac/effectiveness/49650173.pdf.
[13] IFAD11 commitment 3.5, monitorable action 32.
[14] This definition is in line with the OECD definitions of "mobilization" and "leveraging", which are only specified for the private sector but can be applied to any source of cofinancing. See OECD, "Amounts Mobilised from the Private Sector by Official Development Finance Interventions" (2016).

to sustain a systematic approach and increase IFAD's presence and visibility in key partners' operations and events;

(c) Adopt a single, unified approach to measuring and monitoring cofinancing at different project phases; and

(d) Communicate, in line with the IFAD11 visibility commitment,[15] successful results from cofinancing partnerships and IFAD-funded interventions to motivate donors' commitment and maintain good relationships.

C. IFAD's strategic approach by funding source

Domestic cofinancing

(a) Governments

28. Government contributions represented 60 per cent of total domestic cofinancing between 2007 and 2017. Almost all ongoing IFAD-supported projects already receive domestic cofinancing, mainly from governments. IFAD will focus most on government cofinancing, which is a clear demonstration of government commitment and ownership, a sign of post-approval readiness and a reliable predictor of sustainability – an important principle of the strategy.

29. With regard to governments, the strategic focus will be on the following areas:

(i) Engage with all relevant counterparts at the national level. IFAD will foster national dialogue that includes not only ministries of agriculture but also ministries of economy, planning and finance, which are key decision makers on national budget allocations. These discussions will be supported by country-specific information regarding fiscal space, debt level, financing terms, priority given by governments to agricultural expenditures (Agriculture Orientation Index) and track record of official development finance to agriculture (see annex II for a sample of such information).

(ii) Engage as early as possible to align COSOPs and the cofinancing agenda with national plans. The most important entry points for this dialogue are at: (i) COSOP design; and (ii) preparation of the project concept note. IFAD's enhanced country presence will be a key driver of its early engagement. This dialogue will be supported internally by regional and indicative country targets (see annex IV).

(iii) Support dialogue with governments at all levels, from national to local, using evidence of successful IFAD-funded projects and programmes as a powerful tool to attract cofinancing from governments.

(iv) Move towards a more programmatic approach and larger, simpler projects. IFAD will strive to move to more long-term programmatic investments covering multiple PBAS cycles and to design larger projects,[16] which have proven to attract more cofinancing. Country selectivity during IFAD11 will allow for an increase in the average country allocation. The programmatic results-based lending pilot will be an important entry point.

(b) Beneficiaries

30. Beneficiaries are the second largest source of domestic cofinancing (19 per cent) and are important partners for creating impact. Because they bring unique knowledge and experience, their engagement promotes buy-in and sustainability of project outcomes. IFAD will build on its successful track record of working with beneficiaries and their organizations to focus on two areas:

[15] IFAD11 commitment 3.5, monitorable action 33.
[16] An in-depth study on IFAD's disbursement performance also evidenced that larger projects show better disbursement trends (see IFAD Research Series, issue 14: https://maintenance.ifad.org/web/knowledge/publication/asset/39317975).

(i) Increase beneficiaries' engagement as development partners in project design and monitoring. This effort will be supported by the citizen engagement strategy being developed for IFAD11 to identify key entry points for beneficiary engagement.

(ii) Strengthen efforts to create enabling conditions for harnessing remittances as a source of financing for agriculture and rural development. IFAD's Financing Facility for Remittances (FFR) can increase beneficiaries' participation in IFAD operations by providing cofinancing for IFAD projects focused on remittances and migrants' investments.[17] It also creates indirect benefits by financing innovative solutions that facilitate transfers at low cost and expand recipients' access to a broader range of financial services.

(c) Domestic financial institutions

31. Development finance institutions contributed approximately 11 per cent of domestic cofinancing in the past 10 years. With a long history of working with these institutions, IFAD is well positioned to integrate them further into its domestic cofinancing efforts.

32. A lack of access to essential financial services—savings, credit and insurance—is one of many challenges smallholder farmers face. For poor producers attempting to increase their incomes and build resilience by moving from subsistence to market-oriented production, affordable financial options tailored to their needs are vital.

(i) With regard to domestic financial institutions, IFAD's strategic focus will be on credit enhancement and risk mitigation. IFAD has a wealth of experience in crowding in contributions from domestic financial institutions (see box 1). to reduce the risks of partnership with smallholders, IFAD will continue exploring new mechanisms and incentives for credit enhancement and risk mitigation.

Box 1

Kenya: Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT)

This programme aims to increase rural incomes through improved production, productivity and marketing by providing poor rural households with enhanced and sustainable access to a broad range of financial services, coupled with capacity-building.

It includes the establishment of two facilities aimed at de-risking and facilitating the provision of financial services in rural Kenya:

(i) The Risk-Sharing Facility

This facility was designed for commercial banks such as the Equity Bank, K-Rep Bank (now Sidian Bank), Family Bank and Cooperative Bank of Kenya, which have access to liquidity but need to enhance their risk appetite for delivering financial services to rural Kenya. Intended for leveraging commercial funds for onlending, the Risk Sharing Facility is expected to be utilized between 5 and 10 times during the lifecycle of PROFIT.

(ii) The Credit Facility

This facility is for deposit-taking micro-finance institutions and other institutions that are transforming into banks. To complete this transformation, these institutions need access to funds in the short to medium term to expand their rural and agriculture portfolios. The facility consists of a line of credit, which is used as an incentive for these institutions to deepen their outreach, especially in neglected areas of Kenya. In 2013, the facility loaned about US$6 million for micro-finance institution onlending to specific value chains. Project data show that these institutions were able to loan approximately US$9 million to smallholders by September 2017 (about US$3 million more than the funds loaned by the project to the micro-finance institutions).

PROFIT funds are expected to introduce systemic changes in the way commercial banks view lending to the rural and agriculture sectors, resulting in a sustainable flow of resources to these sectors – even after the end of the project.

[17] A successful example of leveraging the FFR experience to attract cofinancing from external investors – while crowding in migrants' investments – is the "Enhancing Food Security in the Horn of Africa through Diaspora Investment in Agriculture" project implemented through IFAD's Diaspora Investment in Agriculture initiative. FFR provided critical technical assistance to the establishment of the Somali AgriFood Fund.

International cofinancing

(a) Multilateral partners

33. Multilateral partners – predominantly AfDB, AsDB and the World Bank – accounted for 65 per cent of international cofinancing over the past decade. However, contributions from these partners have fluctuated widely, generating uncertainty about the ad hoc nature of such support (see annex III).

34. IFAD has several MoUs in place with these organizations and is making efforts to reinvigorate its engagement with other partners such as the West African Development Bank, the Development Bank of Latin America, the European Union, IDB, the Islamic Development Bank and the OPEC Fund for International Development. The strategic focus with multilaterals will be on the following areas:

(i) Pursue complementarity of interventions with larger IFIs. In light of its focus on smallholder farmers, IFAD will increase its efforts to complement the financing of other IFIs for initiatives such as large-scale irrigation projects. Box 2 shows a successful example of this model.

Box 2
Indonesia: Integrated Participatory Development and Management of the Irrigation Project (IPDMIP)

- **Strong alignment with government priorities**

As part of Indonesia's National Medium-Term Development Plan 2015-2019, the Government of Indonesia aimed for the country to achieve self-sufficiency in key staple foods, including rice, by 2017. In support of this goal, it committed to rehabilitating 3.2 million hectares of degraded irrigation systems. This commitment placed considerable focus on agriculture and water, with calls for both the public and private sectors to engage in comprehensive and collaborative responses.

IPDMIP was designed to contribute to the Government's priorities by (i) increasing rice production for food security; (ii) developing higher-value crops to improve rural nutrition and livelihoods; and (iii) promoting more productive irrigation infrastructure.

Although implementation has not reached an advanced stage, the project design is innovative.

- **Complementarity of IFAD's intervention with AsDB**

The project approach built on the past experiences of AsDB and IFAD and on knowledge generated in Indonesia to strengthen the links between agriculture (IFAD's main intervention area) and the rehabilitation of irrigation systems (AsDB's main intervention area) to reduce poverty and contribute to national development targets. This partnership enabled the Government to leverage the comparative advantages of both development partners in a complementary manner.

- **Cofinancing with AsDB**

IFAD provided US$100 million consisting of a US$98.5 million loan and US$1.5 million grant. AsDB provided US$600 million to improve irrigation infrastructure, irrigation systems management and related policy and institutional frameworks. The Government's contribution one year after the entry into force was approximately US$1 billion (compared to US$102 million at project appraisal).

(ii) Sustain partnerships through enhanced country presence. IFAD will take the lead in setting up and coordinating regional donor groups focused on agriculture and smallholder farming. These efforts will be supported by efforts at headquarters to develop country-by-country maps of potential cofinanciers.

(iii) Increase flexibility to adapt to key, larger partners. IFAD will enhance its efforts to include partners in design missions and will increase its flexibility in adopting key partners' reporting formats, especially when those partners provide more financing than IFAD. A successful example of such a model is presented in box 3.

Box 3
Bangladesh: Coastal Climate-Resilient Infrastructure Project (CCRIP)

CCRIP, approved by IFAD's Executive Board in 2013, demonstrates how, when operations are aligned with national priorities, proactive cooperation among development partners can result in cofinancing focused on complementarity and harmonization. Most importantly, it presents a model for overcoming the procedural bottlenecks that create challenges for cofinancing IFAD's operations.

CCRIP merges two projects: the Sustainable Market Infrastructure for Livelihoods Enhancement Project (SMILE) designed by IFAD, and the Climate-Resilient Infrastructure Improvement in Coastal Zone Project designed by AsDB and KfW Development Bank. The subsequent World Bank-funded Coastal Embankment Improvement Project complements CCRIP.

Aligned with the Government's Sixth Five-Year Plan, the project identifies rural roads and markets, agriculture, livestock and community-based fisheries as focus areas for pro-poor growth.

Functionally, CCRIP operates as one project with three distinct sub-components funded by IFAD (roads, bridges and small markets), AsDB (roads, bridges, growth centers and large village markets), and KfW (cyclone shelters and knowledge management).

A single project management office in Dhaka (with additional offices in each region covered by the project) is responsible for coordinating all project activities while respecting each organization's procurement and financial management guidelines. IFAD, AsDB and KfW jointly monitor and supervise the project.

The August 2017 mid-term review of the project rated overall implementation progress as satisfactory.

(iv) Leverage the "sequencing model". IFAD has experience with multiple-phase projects, which lead to increasing cofinancing (see box 4). It will continue to explore the model of bringing in large-scale cofinancing based on successful innovative pilot projects.

Box 4
Ethiopia: Pastoral Community Development Project III (PCDP III)

Together, PCDP I, PCDP II and PCDP III constitute a "best practice" example of cofinancing through a sequence of operations, with increased cofinancing in each phase. They are also a good example of a project in which IFAD, with its core competency in community-driven development approaches and supporting livelihood components, complemented the approach of a cofinancier.

The pilots in phase 1 were generally successful and established performance triggers for completion and transition to phase II. At the completion of PCDP-I, IFAD loans totaled US$20 million, IDA had contributed US$30 million in grants and the Government contribution was US$10 million. PCDP-II became effective in October 2008 and was closed on schedule on 31 December 2013. The financing leveraged at completion totaled US$37 million from IFAD, US$75 million from IDA and US$14 million from the Government.

PCDP-III has built on the success of the previous two projects and continues to integrate community-driven development approaches into government processes. The total investment and incremental recurrent project costs are estimated at US$217 million. IFAD is providing US$95 million, IDA has committed US$100 million and the Government and beneficiaries are financing the remainder.

(b) Global facilities: multilateral environment and climate funds

35. IFAD has established an impressive track record in mobilizing supplementary funds from global environment and climate funds, including the Global Environment Facility (GEF), Least Developed Countries Fund, Special Climate Change Fund and Adaptation Fund. In 2016 IFAD was also accredited to receive funding from the Green Climate Fund. Environmental and climate finance grew tenfold from US$54 million in IFAD8 to US$586 million during IFAD10. In the IFAD11 period, the Fund will ensure that 100 per cent of projects mainstream climate concerns and that at least 25 per cent of IFAD's programme of loans and grants is specifically climate-focused.

36. In December 2018 IFAD will present to the Executive Board a revised strategy and action plan on environment and climate change, establishing resource mobilization as a priority action area and identifying environment and climate change cofinancing targets through to 2025. These targets will be based on IFAD's

comparative advantage at the global level, country and IFAD programming needs, alignment with the various funds' objectives, and the need for efficiency.

(c) Bilateral organizations

37. Bilateral organizations contributed 17 per cent of IFAD's international cofinancing over the last 10 years. The Spanish Trust Fund alone accounted for 64 per cent of bilateral cofinancing, and 13 other bilateral organizations contributed the rest. Bilateral organizations also continue to play a key role in financing knowledge-transfer activities.

38. The strategic focus with bilateral organizations will be in three areas:

(i) Selectively engage with key partners. At regional level, IFAD has developed good knowledge about bilateral partners' "cultures" and interests. A mapping exercise will inform dialogue with these partners and enable IFAD to focus on the bilateral organizations that, on the basis of their priority areas and positive track record, have been identified as the most suitable partners, also in consideration of their interest and focus on the IFAD11 mainstreaming themes of youth, gender, climate and nutrition.

(ii) Focus on "pooled" arrangements. In light of the success of the Spanish Trust Fund, IFAD will vigorously pursue similar pooled facilities with other bilateral donors, potentially differentiated by countries and areas of interest. Focusing on multi-donor trust funds is expected to reduce transaction costs.

(iii) Leverage the newly established South-South and Triangular Cooperation (SSTC) and knowledge-management centers. As a major contributor to the SSTC knowledge-sharing initiative, IFAD designed, funded or facilitated nearly 150 SSTC activities between 2009 and 2014.[18] This involvement supports IFAD in pursuing emerging donors and initiatives. Under the SSTC umbrella, IFAD will seek to expand financing by bilateral organizations for knowledge transfer and technical assistance.

(d) Foundations

39. A recent study conducted by the OECD found that 130 of the world's most active private philanthropic foundations contributed US$24 billion to development between 2013 and 2015, with the Bill & Melinda Gates Foundation accounting for 49 per cent of this total. IFAD will continue to focus on the following areas:

(i) Select strategic funding facilities that are aligned with foundation priorities. Such facilities include the Agribusiness Capital (ABC) Fund's technical assistance fund, the second phase of the Adaptation for Smallholder Agriculture Programme, and the Indigenous Peoples Assistance Facility, which allow foundations to co-invest and benefit from the framework put in place by IFAD.

(ii) Position IFAD as a partner of choice for foundations through strategic knowledge events. IFAD will host a number of learning and partner events on issues aligned with foundation priorities: women's economic empowerment, data for SDG 2, post-harvest losses and waste, climate adaption and rural youth employment.

The private sector

40. It is widely recognized that ODA and domestic resource mobilization will not be enough to finance the ambitious SDGs.[19] IFAD's data show a very modest private-sector contribution of approximately 5 per cent to its development efforts over the past 10 years. However, private-sector contributions tend to materialize during

[18] See EB 2016/119/R.6, IFAD's *Approach to South-South and Triangular Cooperation*.
[19] See *From Billions to Trillions: Transforming Development Finance*.

project implementation rather than at the approval stage. Enhanced measurement using improved monitoring and evaluation systems will be critical for tracking these contributions more accurately while attempting to capture the distinction between direct and indirect mobilization as defined in the reference guide of the MDBs' Task Force on Private Investment Capitalization.[20]

41. IFAD will participate in the global debate among MDBs to increase private financing, as summarized in the 2017 Joint MDB Statement of Ambitions for Crowding in Private Finance, and to explore methods of estimating the amount of private investment catalysed through case studies by joining the MDB Task Force on Private Investment Capitalization.

42. The cofinancing agenda will benefit from the new IFAD11 private sector strategy to be presented to the Executive Board for approval in 2019. One of the goals of the strategy is to leverage additional financing from the private sector, both at the corporate level and at the country programme level, including mobilizing private sector funding through social impact funds as well as co-lending facilities. The strategy will also describe the required due diligence process to ensure mitigation of reputational and operational risk in engaging with new private sector counterparties.

43. The private sector strategy will propose additional means to leverage funds from the private sector. IFAD also will continue strengthening its engagement with the private sector through such mechanisms as the following:

(i) Scale up the successful model of the public-private-producer-partnership (4P) approach. The 4P approach[21] has proven successful in leveraging private-sector contributions, including through value-chain platforms. Through shared engagement plans, this approach also has the advantage of enabling the measurement and monitoring of private-sector contributions from the project design stage and increasing their reliability throughout implementation.

(ii) Leverage existing networks. Engage with partners through networks such as the Consultative Group to Assist the Poor and the Smallholder and Agri-SME Finance and Investment Network, along with national and regional innovation platforms[22] and rural development forums.

(iii) Leverage the ABC Fund's Technical Assistance Facility. The innovative ABC Fund helps mitigate the constraints smallholder farmers and rural small and medium-sized enterprises face in accessing finance, facilitating their access to needed capital.[23] The Technical Assistance Facility component helps rural farmers build business skills and learn about entrepreneurship, further enhancing the attractiveness of IFAD projects to private investors.

IV. Measurement and monitoring

44. Cofinancing is first captured in the project costing tables and the economic and financial analysis. These inputs, the basis for the financial agreement with the borrower, are reflected in IFAD's Grants and Investment Projects System (GRIPS), which is the entry point for measuring and monitoring cofinancing. To strengthen

[20] See http://documents.worldbank.org/curated/en/495061492543870701/pdf/114403-REVISED-June25-DocumentsPrivInvestMob-Draft-Ref-Guide-Master-June2018-v4.pdf.
[21] IFAD's innovative 4P model takes a systematic approach to involving the local private sector, together with smallholder farmers and their organizations, as equal partners in IFAD-supported projects.
[22] See CGIAR, Innovation platforms practice brief 1: https://assets.publishing.service.gov.uk/media/57a08a2840f0b652dd0005bc/Brief1.pdf.
[23] See Statement by the President of IFAD, at the Seeds & Chips Global Food Innovation Summit: www.ifad.org/web/latest/speech/asset/40293533.

cofinancing measurement and monitoring, IFAD will take the following steps at the design stage and during implementation:

(i) Upgrade existing monitoring and reporting systems to capture all sources and categories of cofinancing, and enable updates during implementation. The upgraded systems will disaggregate cash and in-kind cofinancing and will lead to assessment during design stage and monitoring and reporting during implementation. An enhanced monitoring system will signal shortfalls in the delivery of cofinancing.

(ii) Strengthen staff awareness. Project staff will learn about the importance of the upgraded systems and will be trained in their use.

(iii) Update guidelines and procedures. IFAD will revise its supervision and implementation support guidelines, its guidelines for economic and financial analysis and its project implementation manual to ensure proper accounting and monitoring of cofinancing, including in-kind contributions.

45. Monitoring beyond numbers. IFAD will track progress in implementing this strategy by monitoring cofinancing levels and – more importantly – increased impact in Member States. This will include monitoring the greater reach of projects and the increased numbers of total beneficiaries that are enabled by cofinancing. In addition, the creation of a “resource partner matrix” will allow tracking the performance of cofinancing partners, particularly international cofinanciers. This approach, together with the IFAD11 commitment to develop and implement a framework to strategically plan and monitor IFAD’s partnerships at country, regional, global and institutional levels, will allow for feedback loops to evaluate where to focus resources and where efficiency considerations indicate that disengagement would be preferable.

V. Roles and responsibilities

46. The successful implementation of the action plan will depend on establishing clear roles and responsibilities within the Fund.

A. Role of IFAD leadership

47. IFAD’s leadership will set the tone, motivating staff to increase their focus on cofinancing.

48. Leadership will also engage with governments and other development partners at the highest levels, taking advantage of relevant forums to intensify the dialogue around cofinancing.

B. Role of the Programme Management Department

49. The Associate Vice-President (AVP) of the Programme Management Department (PMD), along with the directors from operations and technical divisions, will be responsible for (i) defining a global and regional strategy, which will be updated with each replenishment cycle; and (ii) engaging with governments and development partners, supported by donor mapping and country-level data. engagement plans focused on key partners will guide regular engagement at all levels, including identifying key institutional-level meetings, milestones expected from cofinancing partnerships, and the foreseen schedule of events and venues to sustain country-level engagement. For stronger accountability, cofinancing efforts will be explicitly included in the objectives and performance evaluations of the AVP PMD, regional directors, country directors and CPMs.

50. Regional directors will be responsible for reaching the established regional targets; within each region, indicative country-level targets will be applied flexibly and will serve to guide regular COSOP discussions.

51. Advocacy for cofinancing with Member States and partners will be the responsibility of the AVP PMD and regional directors at headquarters. Regional directors will also play an important role in supporting country directors and CPMs in national dialogue with ministers of agriculture, economy, finance and planning.

C. Role of country directors and CPMs

52. In line with IFAD's enhanced business model, country directors and CPMs, supported by finance officers, will play a key role in developing the engagement plans at COSOP level through country-level dialogue, including with ministry representatives, and will participate in development forums.

53. Country directors and CPMs will also be responsible for identifying partners and engaging with them early in COSOP and project design to agree on the appropriate levels of cofinancing. They will strengthen relationships with cofinanciers through regular interaction and exchange of opportunities for joint programme and project design.

D. Institutional support

54. It is of key importance that a balanced level of responsibilities in carrying out this agenda is sought between IFAD Country Offices and headquarters. With the full support of several units at headquarters, IFAD will leverage its enhanced decentralization model to expand cofinancing.

55. Regional economists and portfolio advisors, supported by the Partnership and Resource Mobilization Office (PRM), will play a pivotal role in mapping donors at the country and regional levels and identifying priority intervention areas as a basis for selecting the most strategic cofinancing partners.

56. Along with the Strategy and Knowledge Department, the Global Engagement and Multilateral Relations Division, the Communications Division and the Environment, Climate, Gender and Social Inclusion Division (ECG), PRM will support the cofinancing agenda by analysing, documenting and disseminating the impacts of IFAD interventions to make the case for providing cofinancing.

57. PRM will continue to lead IFAD's corporate partnership agenda by pursuing opportunities for trust funds, supplementary financing and other pooled facilities in collaboration with regional divisions.

58. ECG, as the focal point for the global climate and environment funds, will continue to facilitate access to these resources, ensuring alignment with the funds' own objectives and standards.

59. The Financial Management Services Division and the Operational Policy and Results Division, supported by the Information and Communications Technology Division, will undertake the system enhancements needed for adopting a single-measurement approach to measuring and monitoring cofinancing.

60. FMD and the Office of the General Counsel will ensure flexibility to harmonize agreements, processes and reporting formats with those of cofinanciers, especially when IFAD joins larger operations.

Action plan for effective implementation

The action plan builds on the key dimensions of a resource mobilization framework and defines the roles and responsibilities of parties involved, the measurement and monitoring actions. While IFAD will fully leverage its enhanced decentralization model to advance its resource mobilization agenda (especially domestic resources), several units at headquarters will support the IFAD Country Offices in their efforts to expand cofinancing. Such institutional supports include measures and efforts ranging from technical assistance and system supports to the development of effective communication plans.

Actions/Roles	*Responsibility*[a]	*Timeframe*	*Institutional supports*[b]
IDENTIFY key cofinancing opportunities at regional and country level			
Action 1: Strengthen country context analyses (a) Conduct a review of development frameworks at national and regional levels as part of the country strategic opportunities programme (COSOP) preparation processes to better fit IFAD interventions into broad national/regional plans. (b) Undertake a yearly analysis of countries' fiscal space, level of indebtedness and government flows to agriculture to evaluate the national resource mobilization capacity leaning on International Monetary Fund/World Bank/ Organisation for Economic Co-operation and Development data.	Regional economists/ portfolio advisors	Beginning of calendar year and at COSOP preparation	Provide technical assistance and supporting documentation for review and analysis **(OPR/FMD)**
Action 2: **Develop a map of potential cofinanciers** at country, regional and global levels to identify priority intervention areas as well as their funding modalities/schemes, administrative procedures and complementarity with IFAD's mandate to feed into business and engagement plans.	Regional economists/ portfolio advisors	Q1 2019 and updated periodically	Facilitate access to information on IFAD's partnerships, memorandums of understanding (MoUs) and supplementary funds arrangements by country and based on their financing priorities and modalities **(PRM);** Enhance engagement with global climate change and environment funds **(ECG)**
Action 3: Develop a "resource partner matrix" to allow for comparison among potential cofinanciers based on the costs, benefits and risks to prioritize and select key cofinancing partners**.**	Regional economists/ portfolio advisors	At COSOP preparation, covering the COSOP period	Facilitate access to information on IFAD's partnerships, MoUs and supplementary funds arrangements by country and based on their financing priorities and modalities **(PRM);** Enhance engagement with global climate change and environment funds **(ECG)**

[a] AVP – Associate Vice-President; CD – country director; CPM – country programme manager; RD – regional director.
[b] COM – Communications Division; ECG – Environment, Climate, Gender and Social Inclusion Division; FMD – Financial Management Services Division; GEM – Global Engagement and Multilateral Relations Division; HRD – Human Resources Division; ICT – Information Communications Division; LEG – Office of the General Counsel; OPR – Operational Policy and Results Division; PRM – Partnership and Resource Mobilization Office; PMI – Sustainable Production, Markets and Institutions Division; PMD – Programme Management Department; SKD – Strategy and Knowledge Department.

Actions/Roles	*Responsibility*[a]	*Timeframe*	*Institutional supports*[b]
Action 4: Identify the most suitable types of funding agreements or funding facilities compatible with IFAD's rules and procedures.	PRM	Continuous	Provide technical assistance on the financial and policy implications **(FMD, LEG, OPR)**
Action 5: Enhance focus on cofinancing at earliest stage of COSOP development, project design and in design review process.[c]	AVP PMD/RDs	Throughout design process	Provide technical advice **(PMI, ECG)** Increase focus on cofinancing during review process **(AVP, RDs, OPR)**
Action 6: Leverage the Operations Academy to disseminate information on cofinancing targets, discuss internal challenges, enable peer learning on engagement plans to reinforce capacity for resource mobilization	OPR	Q4 2018	Support the development of the model **(CDs, FMD, PMI, ECG)**
ENGAGE with selected partners at multiple levels through effective dialogue from headquarters and IFAD Country Offices to sustain systematic partnerships and increase IFAD's presence and visibility in key partners' operations and events			
Action 7: Develop engagement plans for key selected partners to accompany MoUs (a) At institutional level, action plans will guide: • Identification of development forums, including innovation platforms and multilateral development bank (MDB) working groups, to foster expanded cofinancing and private investments in IFAD projects. • Steps to strengthen global policy dialogue with key high-level officials to advocate for financing, including climate financing, by highlighting its importance for smallholders. • Potential to set up regional coordination groups with agricultural focus. (b) At country level, COSOPs will identify: • Identification of key partners over COSOP period. • Roles of key partners throughout the COSOP period (including options for joint design). • Venues and timing for in-country joint planning meetings and for structured periodic exchange of pipelines. • Expected resources to be leveraged.	AVP PMD, RDs, ECG (institutional level) RDs/CDs/CPMs (country level)	At each replenishment cycle (institutional level) At COSOP preparation, covering the COSOP period (country level)	Identify the key communication means and channels and provide assistance to adapt the message to be conveyed **(OPR, PRM, GEM, COM)**

[c] This may include early consultations with counterparts and dedicated "adjustments" to design (e.g. risk mitigation measures for development finance institutions, finding synergy with international donors focus areas, engaging beneficiaries, etc.)

Actions/Roles	*Responsibility*[a]	*Timeframe*	*Institutional supports*[b]
Action 8: Enhance importance of cofinancing in COSOP preparation with governments involving all relevant ministries, such as agriculture, economy, finance and planning.	CDs, CPMs with support from AVP PMD/RDs	At COSOP preparation	Send a clear signal on the focus on cofinancing **(AVP PMD, RDs, OPR)**
Action 9: Include cofinancing as a topic of discussion in existing MDB working groups (e.g. Managing for Development Results Working Group) in which IFAD participates.	Focal points for respective working groups	At beginning of each calendar year	Provide assistance in identifying and targeting key events, forums and platforms and facilitate participation **(GEM, PRM, PMI, OPR)**
Action 10: Assign a resource mobilization focal point in PRM to each region.	AVP PMD/RDs	TBD	**PRM and HRD**
ADOPT a single measurement and monitoring approach for cofinancing at different project phases underpinned by systems and support from headquarters			
Action 11: Update supervision guidelines and TORs for economists, technical specialists and finance officers to incorporate relevant aspects of measurement, monitoring and reporting of cofinancing (disaggregated by cash and in-kind resources).	OPR, CPMs	Ahead of each mission	Provide technical inputs to the development of the terms of reference **(FMD, regional economists, OPR)**
Action 12: Agree at design stage on joint requirements for reporting, audits, financial statements in order to overcome procedural bottlenecks.	CDs/CPMs	At design	Provide technical support **(PMI, FMD, LEG)**
Action 13: Strengthen tracking of cofinancing by including relevant breakdowns in systems and dashboards and linking with current systems (Operational Results Management System, Financial Management Dashboard, Grants and Investment Projects System). Implement the MDB methodology for tracking of climate finance.	OPR, ECG	Q1 2019	Provide systems support and appropriate procedural adjustments **(ICT and FMD)**
Action 14: Periodically review the indicative regional and country targets to support reaching the corporate targets.	RDs/CDs	Yearly	Provide technical assistance and procedural guidance **(OPR)**
COMMUNICATE, on a targeted and strategic basis, successful results achieved from cofinancing partnerships and IFAD's interventions to motivate donors' commitment and maintain good relations			
Action 15: Showcase successful examples of cofinancing externally at global and national events and internally (e.g. at portfolio stocktaking events) for cross-fertilization within and across regions.	RDs	Continuous	**COM, OPR, ECG**
Action 16: Create internal incentives by including cofinancing in staff objectives and the performance evaluation system, recognizing and rewarding staff for the most successful	Leadership	Annual, starting in 2019	**COM**, for event and dissemination

Actions/Roles	*Responsibility*[a]	*Timeframe*	*Institutional supports*[b]
cofinancing efforts (e.g. award, price).			
Action 17: Prepare and disseminate evidence-based analysis of the impact of IFAD's cofinanced projects to support dialogue at country level and in COSOP discussions.	SKD, OPR	Regularly	Carry out dissemination on the impact of IFAD interventions to make case for cofinancing with IFAD **(COM, PRM)**
Action 18: Ensure external participation (Rome-based agencies, development partners) at corporate stocktaking events where results achieved through financing partnerships are highlighted.	OPR	Continuous	Support event organization **(COM)**

Overview of donors and government spending on agriculture
of donors and government spending on agriculture

Table 1
Commitments of official development finance for agriculture, forestry, fishing, and rural development by recipient region, 2012-2016*
(Constant 2016 millions of United States dollars)

Donor	*Africa*	*Americas*	*Asia*	*Europe*	*Oceania*	***Total****
Canada	802	194	134	47	-	**1 177**
France	750	134	405	279	15	**1 583**
Germany	1 500	369	872	31	6	**2 778**
Japan	1 187	208	2 487	9	77	**3 968**
Republic of Korea	205	79	811	-	8	**1 103**
Netherlands	761	17	106	-	-	**884**
United Arab Emirates	960	-	26	137	-	**1 123**
United Kingdom	495	162	231	-	-	**888**
United States	2 600	957	1 917	48	-	**5 522**
African Development Bank	2 170	-	-	-	-	**2 170**
Asian Development Bank	-	-	2 438	-	6	**2 444**
European Union institutions	3 302	611	1 628	1 720	95	**7 356**
IFAD	1 869	331	1 572	69	29	**3 870**
Inter-American Development Bank	-	1 715	-	-	-	**1 715**
World Bank	5 829	1 590	8 109	393	105	**16 026**

* Source: OECD database as at 3 July 2018

** Totals exclude unspecified official finance recipients.

Table 2
Commitments of official development finance for agriculture, forestry, fishing, and rural development in developing countries
(Constant 2016 millions of United States dollars)

Donor	*2012*	*2013*	*2014*	*2015*	*2016*	*2012-16*
Canada	209	276	213	288	225	1 211
France	396	393	386	499	607	2 282
Germany	455	609	971	994	1 006	4 034
Japan	735	881	761	955	712	4 045
Republic of Korea	374	191	271	170	135	1 142
Netherlands	535	404	97	187	179	1 402
United Arab Emirates	82	295	460	287	-	1 123
United Kingdom	203	211	225	485	187	1 311
United States	1 193	1 519	1 328	1 506	1 213	6 759
African Development Bank	193	386	299	795	497	2 170
Asian Development Bank	644	714	271	398	417	2 444
European Union institutions	1 788	1 928	786	1 427	2 038	7 967
IFAD	726	650	572	1 254	668	3 871
Inter-American Development Bank	270	311	340	189	606	1 715
World Bank	3 792	2 985	3 047	3 833	2 368	16 025

Table 3
Agriculture Orientation Index (AOI)* of Government expenditures per country in each region (2000-2017 average)

Region	Average AOI	Region	Average AOI
Asia and Pacific region	**0.32**	**East and Southern Africa**	**0.44**
Afghanistan	0.17	Angola	0.21
Bangladesh	0.40	Botswana	1.60
Bhutan	0.61	Burundi	0.07
Cambodia	-	Comoros	-
China	0.27	Eritrea	-
Timor-Leste	0.64	Ethiopia	0.26
Fiji	0.28	Kenya	0.15
India	0.35	Lesotho	0.42
Indonesia	0.11	Madagascar	0.28
Kiribati	-	Malawi	0.46
Democratic People's Republic of Korea	-	Mauritius	0.90
Lao People's Democratic Republic	-	Mozambique	0.20
Maldives	0.18	Namibia	0.44
Mongolia	0.31	Rwanda	0.14
Myanmar	-	Seychelles	0.82
Nepal	0.22	South Sudan	-
Pakistan	0.09	Eswatini	-
Papua New Guinea	-	United Republic of Tanzania	
Philippines	0.37	Uganda	0.15
Samoa	0.25	Zambia	0.54
Solomon Islands	0.15	Zimbabwe	-
Sri Lanka	0.58		
Thailand	0.58		
Tonga	-		
Viet Nam	0.14		
Latin America and Caribbean	**0.30**	**Near East, North Africa and Europe**	**0.37**
Argentina	0.14	Albania	0.11
Belize	-	Algeria	0.51
Bolivia (Plurinational State of)	0.66	Armenia	0.17
Brazil	0.12	Azerbaijan	0.48
Chile	0.51	Bosnia and Herzegovina	-
Colombia	-	Cyprus	1.30
Costa Rica	0.50	Djibouti	
Cuba	-	Egypt	0.16
Dominica	-	The Former Yugoslav Republic of Macedonia	-
Dominican Republic	0.44	Georgia	0.20
Ecuador	0.12	Iraq	-
El Salvador	0.13	Jordan	0.23
Grenada	0.31	Kyrgyzstan	0.13
Guatemala	0.23	Lebanon	0.08
Guyana	-	Republic of Moldova	0.38
Haiti	-	Montenegro	0.09
Honduras	-	Morocco	0.02
Jamaica	0.23	Palestine	-
Mexico	-	Romania	0.68
Nicaragua	-	Somalia	-
Panama	0.39	Sudan	-
Paraguay	0.13	Syrian Arab Republic	0.23
Peru	-	Tajikistan	-
Saint Lucia		Tunisia	0.78
St Vincent and the Grenadines	0.41	Turkey	0.44
Suriname	-	Uzbekistan	0.71
Uruguay	0.18	Yemen	-
Venezuela (Bolivarian Republic of)	-		

Region	Average AOI
West and Central Africa	**0.27**
Benin	0.07
Burkina Faso	0.03
Cameroon	-
Cabo Verde	0.57
Central African Republic	0.04
Chad	-
Congo	0.37
Democratic Republic of the Congo	0.24
Côte D'Ivoire	0.15
Equatorial Guinea	0.97
Gabon	-
Gambia (The)	
Ghana	0.04
Guinea	-
Guinea-Bissau	0.18
Liberia	0.04
Mali	0.49
Mauritania	-
Niger	-
Nigeria	0.14
Sao Tome and Principe	0.47
Senegal	-
Sierra Leone	-
Togo	-

* The AOI for government expenditures is used to track SDG 2 target 2a. Defined as the agriculture share of government expenditures, when it is greater than 1, it reflects a high orientation towards the agriculture sector, which receives a higher share of government spending relative to its contribution to economic added value. An AOI of less than 1 reflects a low orientation to agriculture, while an AOI equal to 1 reflects a government's neutral orientation to the agriculture sector (https://unstats.un.org/sdgs/metadata/files/Metadata-02-0A-01.pdf; https://unstats.un.org/sdgs/metadata).

Summary of results from the analysis on IFAD cofinancing

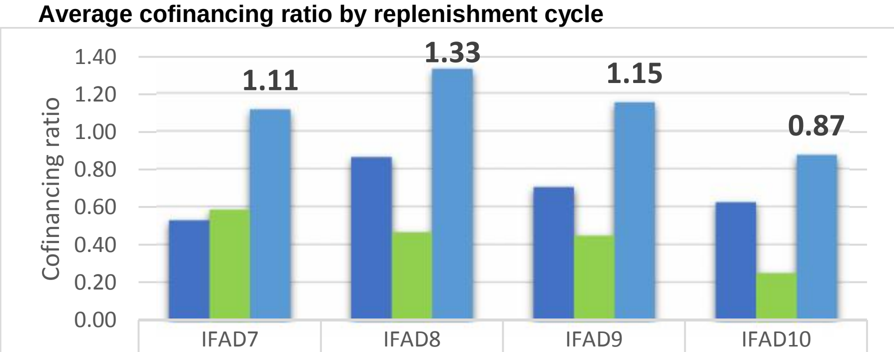
1. This annex is an excerpt of the documents “Preliminary Results from the Analysis on IFAD Cofinancing” (TFWG 2018/1/W.P.4) and “Additional Results from the Analysis on IFAD Cofinancing and Main Elements of the Cofinancing Strategy” (TFWG 2018/2/W.P.4). The full study will be published as part of IFAD’s research series.

I. Historical patterns in IFAD Cofinancing

A. Cofinancing by replenishment cycle

2. Figure 1 shows that the highest domestic cofinancing ratio (DOM) achieved was in the Eighth Replenishment of IFAD’s Resources (IFAD8) whereas IFAD7 recorded the highest international cofinancing ratio (INT). This may be attributable to the 2008-2012 international food crisis and the launch of the Spanish Food Security Cofinancing Facility Trust Fund driving donors’ contributions to IFAD’s projects.

Figure 1
Average cofinancing ratio by replenishment cycle



	IFAD7	IFAD8	IFAD9	IFAD10
DOM	0.53	0.86	0.71	0.62
INT	0.59	0.47	0.45	0.25
TOT	1.11	1.33	1.15	0.87

Source: Grant and Investment Projects System (GRIPS) financing data as of 21 March 2018 (excluding data to be determined).

B. Regional differences in cofinancing

3. Figure 2 shows that over the past 20 years, the Asia and Pacific (APR), and Latin America and Caribbean (LAC) regions have recorded the highest domestic cofinancing ratios, contributing approximately US$0.80 for each dollar of IFAD financing in the regions.

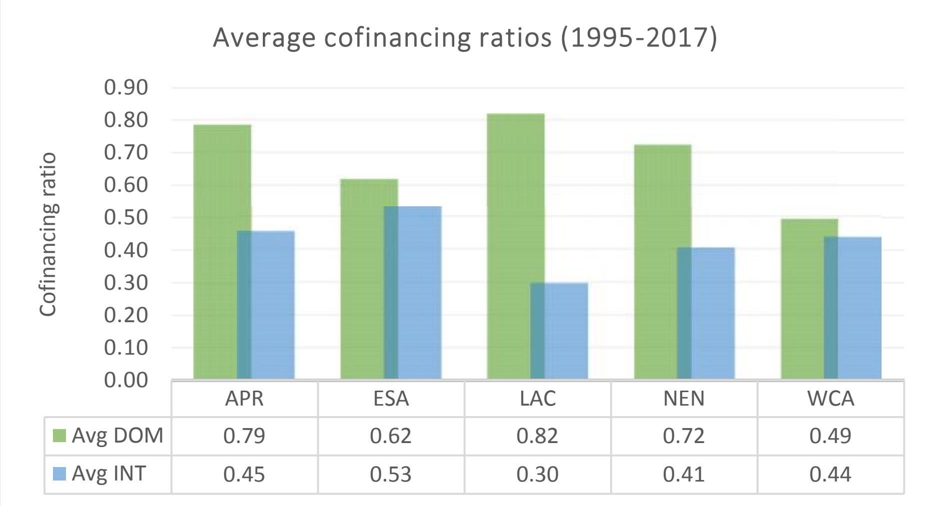
4. This pattern is reversed for international cofinancing. The data show that, in the past 20 years, the top regions leveraging international resources were East and Southern Africa (ESA), and West and Central Africa (WCA).

5. West and Central Africa recorded the lowest domestic cofinancing ratio on average in the period between 1995 and 2017. Internal consultations revealed that this could reflect the fact that most countries in the region are low income and face budgetary limitations. Furthermore, the highly constrained economic conditions of most countries in the region and significant insecurity, especially in Sahelian countries, may have reduced their prospects for domestic cofinancing.

6. Latin American and the Caribbean had the lowest international cofinancing ratio on average between 1995 and 2017. This was partly explained during internal consultations by the high volatility of donors’ contributions in the region. Another

major constraint to resource mobilization in LAC is a shift in national priorities from rural to urban development as the region undergoes increasing urbanization.

Figure 2
Average domestic and international cofinancing ratios by region 1995-2017



Source: GRIPS total approved financing data as of 2 May 2018 (excluding data to be determined).

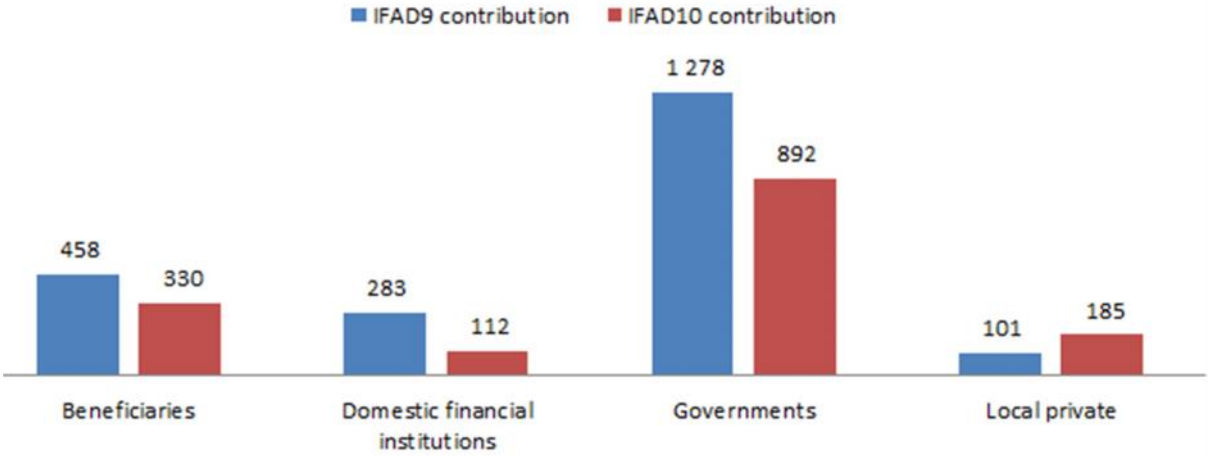
C. Sources of cofinancing in IFAD projects

7. An analysis performed of a cohort of projects approved in the past 20 years shows a domestic cofinancing ratio of 0.72 and an international ratio of 0.52. While these ratios are encouraging, the latest trends show a decline.

8. Between 1995 and 2017, 93 per cent of total domestic cofinancing came from governments, beneficiaries and domestic financial institutions. Not-for-profit organizations contributed the highest average amount (in millions of United States dollars) but their contributions represented only 2 per cent of the total domestic cofinancing leveraged during the period. Figure 3 below compares the amounts of domestic cofinancing mobilized from the top sources between IFAD9 and IFAD10. The data show that domestic cofinancing slightly declined over the last two replenishment cycles from US$2.3 billion mobilized during IFAD9 to US$1.8 billion in IFAD10 (including the 2018 pipeline as of 28 June). This decline was driven by the substantial decrease in cofinancing from governments and cofinancing from domestic financial institutions.

9. Drawing on the information gathered from an extensive internal consultation, it is clear that the main reasons explaining the shortcomings in domestic resources mobilization are in many cases related to countries macro-economic conditions (fiscal space, level of indebtedness, poverty rate, fragility, etc.), the political priority given by the government to agriculture and rural development, as well as factors related to IFAD internal institutional and operational processes (i.e. project design processes, the quality of in-country networks/relationships built, IFAD visibility and the effective communication of project performance, alignment with national plans, engagement with the relevant national counterparts as well as the weak articulation of IFAD comparative advantage among other development partners present in the countries).

Figure 3
Evolution of the top domestic partnerships
Millions of United States dollars



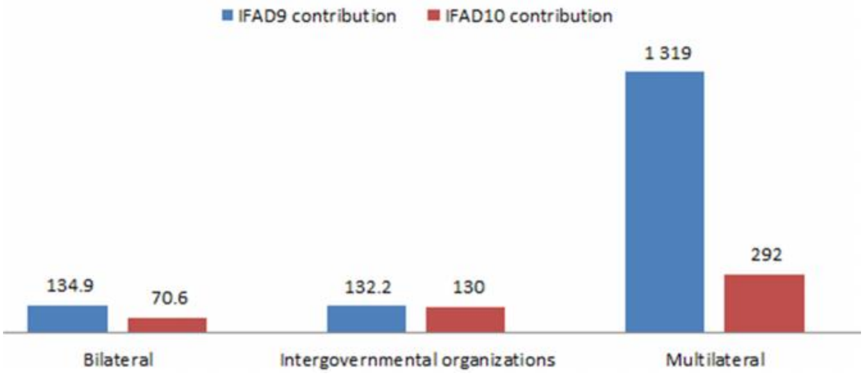
Source: GRIPS total approved financing data as of 28 June 2018.

10. International cofinancing was mainly driven by multilateral, bilateral and intergovernmental organizations, with multilateral contributions accounting for 59 per cent of total international cofinancing leveraged between 1995 and 2017. ”Basket funding” made an exceptionally high average contribution, although the share of this contribution within the total international cofinancing leveraged was only 2 per cent.

11. Figure 4 compares the amounts of international cofinancing mobilized from the top sources between IFAD9 and IFAD10. It shows that between IFAD9 and IFAD10, the total international cofinancing amount dropped sharply from US$1.7 billion mobilized in IFAD9 to US$905 million in IFAD10 (including the 2018 pipelines as of 28 June). This decline was driven by a decrease in contributions from large donors such as Asian Development Bank (AsDB), the European Union and the World Bank.

12. Shortcomings in international cofinancing mobilization in IFAD context, as revealed by internal consultations, were attributed to insufficient consultations with other development partners to define common areas of interest, constraints linked to approval processes of donors’ budgetary allocations, a lack of flexibility and alignment with donor processes such as reporting requirements, inadequate communication and networking with international partners, and the absence of an assessment and monitoring framework for cofinancing partnerships.

Figure 4
Evolution of IFAD’s top international partnerships
Millions of United States dollars



II. Analysis of the drivers of cofinancing

13. Most studies on aid allocation rely on country-related macroeconomics variables and project-related variables to explain the drivers of cofinancing. In addition to these macroeconomic factors, this study considered explanatory variables under IFAD's direct control.

A. Country-related variables

Income level variables

14. The results of a panel regression analysis regarding the effect of income on cofinancing are presented in table 1. The coefficients represent the size of the estimated effect of each variable. For example, being in the low-income country (LIC) category lowers a country's domestic cofinancing ratio by an estimated 29 per cent.

Table 1
Income variables

	Country factors			
Variables	*Domestic ratio*		*International ratio*	
	Impact	Coefficient [a] (%)	Impact	Coefficient [a]
Income effect				
Gross national income per capita growth	+	2**	Not significant (NS)	(0.012)
LIC	-	(29)***	NS	0.02
Upper-middle-income country	+	34***	-	(0.35)*
GDP growth	-	(3)***	+	0.03**

[a] International ratio is specified in level form, hence the coefficients represent the absolute incremental value of the ratio. Domestic ratio is specified in a logarithmic form, hence the coefficients are in percentages.
Note: (*) indicates the statistical significance level of the coefficient (*** p<0.01, ** p<0.05, * p<0.1).

Fragility

15. The regression analysis confirmed the assumption that fragility [24] is negatively correlated with domestic cofinancing, which was 30 per cent lower in countries with fragile situations than in countries without fragile situations. On the other hand, fragility appears to be positively correlated with international cofinancing, but this relationship is not significant. In addition, while international cofinancing is also positively correlated with the total number of people affected by natural disasters, this relationship is not statistically significant.

16. The data show that international cofinancing is significantly lower in countries experiencing conflicts or experiencing high exposure to natural disasters. This result points to the conclusion that fragility embeds both a risk and a humanitarian need that affects foreign aid allocation. While the humanitarian dimension has a positive effect on international cofinancing, fragility and its associated risks have a negative impact.

[24] As per the OECD Harmonized List of Fragile Situations.

Table 2
Fragility variables

	Country factors			
Variables	*Domestic ratio*		*International ratio*	
	Impact	Coefficient (%)	Impact	Coefficient
Fragility effect				
Country with fragile situation	-	(30.4)***	NS	0.169
Country affected by natural disaster	+	3.12e-07**	NS	1.81e-09
Occurrence of natural disaster	+	2.30***	-	(0.0221)*
State conflict	NS	(0.105)	-	(0.287)**

Note: (*) indicates the statistical significance level of the coefficient (*** $p<0.01$, ** $p<0.05$, * $p<0.1$).

B. Project-related factors

17. Findings on the effect of project size are presented below. The project size variable was included by clustering projects into small (total budget <= US$18.8 million), medium (US$18.8 million< total budget < US$49.12 million) and large projects (total budget >= US$49.12 million). This categorization is based on the following distribution:

Small project = total budget <= US$18.8 million (25th percentile)

Medium project = US$18.8 million < total budget < US$49.12 million

Large project = total budget >= US$49.12 million (75th percentile)

18. The analysis clearly shows that small projects tend to attract significantly less domestic cofinancing than larger ones.

Table 3
Selected project variables

	Project-related factors			
Variables	*Domestic ratio*		*International ratio*	
	Impact	Coefficient (%)	Impact	Coefficient
Project size				
Small project size	-	(0.3)***	-	(0.22)**

Note: (*) indicates the statistical significance level of the coefficient (*** $p<0.01$, ** $p<0.05$, * $p<0.1$).

19. Regarding the link between project performance and cofinancing, the analysis shows that projects receiving a “satisfactory” rating (level 4) on overall achievement performance have higher cofinancing ratios on average. In addition, the disbursement rate was also found to have a strong positive correlation with the cofinancing ratio.

Figure 5
Correlation between project performance and total cofinancing ratio

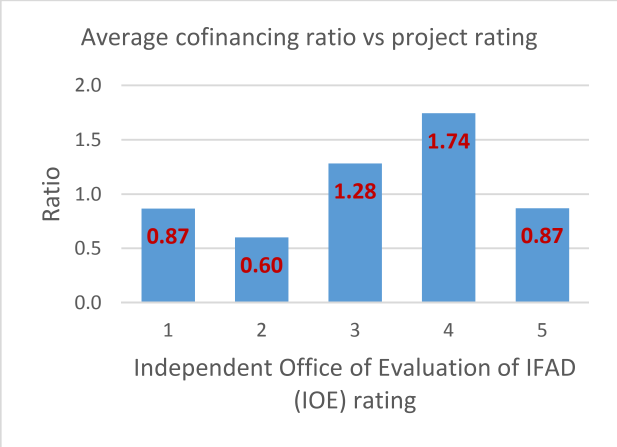


Table 4

Variable	*Total cofinancing ratio*
Disbursement (%)	0.0124***
	(0.004)
Observations	62
R-squared	0.15

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

C. IFAD-related factors

20. The data show that the higher the value of the portfolio managed by one country programme manager (CPM), the higher the domestic cofinancing. One way to interpret this is that IFAD's presence in a country is more relevant – and more in line with government's priorities – in these countries, so it is therefore more likely to attract domestic cofinancing. In addition, the more experienced the CPM in a country, the higher the domestic cofinancing ratio. In fact, with every additional year of experience acquired in a country, the domestic ratio increased by 4 per cent on average – a significant marginal effect.

21. The presence of IFAD Country Offices (ICOs) also appears to positively drive the cofinancing ratio, especially for international cofinancing.

Table 5
Selected IFAD-related variables

	IFAD-related factors			
Variables	*Domestic ratio*		*International ratio*	
	Impact	Coefficient (%)	Impact	Coefficient
CPM profile				
CPM experience	+	0.0378**	NS	(0.0128)
Number of projects managed	NS	(0.0246)	+	0.0448*
Value of portfolio managed	+	1.14e-09**	-	(2.98e-09)***
ICO presence	NS	0.0903	+	0.242*

Note: (*) indicates the statistical significance level of the coefficient (*** p<0.01, ** p<0.05, * p<0.1).

D. Drivers of cofinancing disbursed at completion

22. For 81 per cent of the projects analysed (106 out of 131), the total cofinancing amount disbursed at completion was different from the amount committed at approval. Among these projects, 56 per cent disbursed a total cofinancing lower

than the amount approved, while 44 per cent disbursed total cofinancing higher than the amount approved.

23. This section presents the results of the econometric analysis explaining variations in cofinancing amounts between approval and completion. The results show that the following considerations are critical to ensure that committed cofinancing is disbursed during projects:

(i) Attention must be paid to country-specific characteristics.

24. Low-income countries may face more challenges in maintaining the initial development funds invested in IFAD-supported projects. In contrast, countries with fragile situations drive on average more financing at completion than that initially committed. Large countries and countries recording strong economic growth receive relatively few additional contributions from donors than those initially committed.

Table 6
Effect of country-related factors on disbursed cofinancing

Country factors		
Variables	Probability of increase	Probability of decrease
LIC (if LIC = 1, Otherwise = 0)	-2.14*	2.25**
	(1.17)	(1.08)
Democracy Index	-4.15	8.29**
	(3.88)	(3.77)
Country with most fragile situation	3.32**	-1.16
	(1.40)	(1.01)
Population density	-0.004*	0.004*
	(0.002)	(0.002)
GDP growth (%)	-0.35**	0.42**
	(0.17)	(0.17)
Government expenditure growth (%)	0.04	-0.08**
	(0.03)	(0.04)
East and Southern Africa region	3.41**	-4.35***
	(1.35)	(1.36)
Number of observations	129	129

Standard errors in parentheses.
*** p<0.01, ** p<0.05, * p<0.1

(ii) Most importantly, how well the projects are designed and implemented and how large they are matter.

25. Projects rated as highly satisfactory regarding their relevance, effectiveness, efficiency, innovation, scaling up and mainstreaming of cross-cutting issues such as gender, climate and environment create more favorable incentives for additional contributions from donors during the implementation. This is corroborated by the positive significant coefficient of the IOE performance rating variable in column 1 and the negative coefficient in column 2 of table 7 below. Large projects are less likely to disburse cofinancing at completion higher than that initially committed while projects with low environmental risks are more likely to drive additional contributions at completion. According to these findings, infrastructure projects tend to attract more cofinancing on average during implementation than others.

Table 7

Effect of project-related factors on disbursed cofinancing amount

Project factors		
	(1)	(2)
Variables	Probability of increase	Probability of decrease
Overall project achievement (rating)	1.37**	-0.93*
	(0.63)	(0.55)
Share of project budget to infrastructure (%)	0.56*	-0.63*
	(0.33)	(0.33)
Share of project budget to financial services (%)	-0.15	0.13
	(0.14)	(0.14)
Share of project budget to “soft” activities (%)	-0.10	0.34
	(0.33)	(0.36)
Small-size project	-0.27	0.64
	(0.66)	(0.74)
Large-size project	-4.08***	4.53**
	(1.36)	(1.77)
Number of observations	129	129

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Methodology for cascading corporate cofinancing targets

1. The Eleventh Replenishment of IFAD's Resources (IFAD11) cofinancing target is a ratio of 1:1.4, with domestic and international ratios set at 1:0.8 and 1:0.6 respectively. In line with the IFAD11 Report,[25] the IFAD11 cofinancing target will be cascaded into regional targets according to the regional context and reflected in country strategic opportunities programmes (COSOPs). The methodology for accomplishing this has been shared with regional directors and endorsed by the Working Group on the Transition Framework.

2. This methodology builds upon the recognition of country-specific circumstances as reflected in historical performance, but also reflects IFAD's vision that all countries should make the utmost effort to provide domestic resources, commensurate with their income status.

3. It is understood that regional targets are not a new IFAD11 commitment, but a tool for internal accountability, and that the country-level targets are indicative. Ranges will be provided to guide the country directors' discussions when developing COSOPs.

4. Country targets to be cascaded into COSOPs will be set in consultation with the government and will take into account the nature of the projects proposed in the COSOP, the government's objectives and the country's fiscal situation.

5. Regional directors will be responsible for the achievement of regional targets, guided by the indicative country targets.

6. The methodology is based on the following three steps:

   (i) Using the IFAD11 preliminary allocations by region and country, calculate the amount of domestic and international cofinancing as if the last three-year average ratio will be repeated. The resulting amount represents what would be leveraged if every country is be able to maintain the ratio achieved in the last three years (i.e. 2015-2017).

   (ii) Calculate the additional amount needed to reach the domestic and international targets for IFAD11.

   (iii) Determine the additional amount needed in every region based on the proportion of their IFAD11 allocations as per the performance-based allocation system (PBAS). For example, if Latin America and the Caribbean has an allocation of 7 per cent, then it should be responsible for approximately 7 per cent of the needed increase in cofinancing.

[25] The Report specifies that: "For IFAD11 specific counterpart funding targets will be agreed with governments during preparation of project concept notes, aiming towards the aggregate 1:0.8 domestic cofinancing target. Targets will be benchmarked by country income status, while taking the domestic fiscal situation and broader economic environment into account."

7. The regional targets are then cascaded into indicative country targets through the following steps:

   (i) Start with any country's three-year average.

   (ii) Assume that the increase needed by region will be absorbed in the following way:

      (a) 90 per cent of the required increase will be absorbed by all countries;

      (b) 10 per cent of the increase required will be absorbed:

         - For domestic cofinancing by the best performers, excluding countries with most fragile situations; and

         - For international cofinancing by the best performers.

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Investing in rural people

Technical Note on In-kind Contributions

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Working Group on the Transition Framework — Second Meeting
Rome, 28 June 2018

For: Information

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Abbreviations and acronyms

AWPB	Annual Work Plan and Budget
IFAD	International Fund for Agricultural Development
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
PIM	Project Implementation Manual

Technical Note on In-kind Contributions

Recommendation

1. The Working Group on the Transition Framework is invited to analyse and subsequently endorse the main elements of this document, as contained in paragraph 8. It is intended that the main elements be incorporated into the related strategy, which will be finalized later in the year.
2. In addition, the Working Group is asked to endorse the main concepts introduced in this document, which reflect in-kind contributions in the context of the cofinancing strategy and which address:
   - A broad definition of the elements defining in-kind contributions, including tax exemptions. This definition incorporates considerations found in that of the OECD, but also contains broader factors and elements.
   - The different implementation arrangements to reflect in-kind contributions during a project's life cycle – from design to the implementation and completion stages, including systems that will reflect the monitoring and reporting of the in-kind contribution.
   - The proposed approach to enhancing transparency and public access to information as to how in-kind contributions support project implementation and reflect the ownership of governments and implementing partners, to mobilize domestic resources, including beneficiaries and the private sector, through parallel cofinancing.
   - The mitigation actions considered to address risks related to in-kind contributions.

I. Definitions

1. Borrower means a Member State that receives a loan and is designated as such in the financing agreement.

2. Entity means a project or programme that has been provided with financing by or through IFAD, by means of a loan and/or grant.

3. Eligible expenditure means project expenditures that may be financed under an IFAD-financed grant or loan pursuant to section 4.08 of the General Conditions for Agricultural Development Financing.

4. Financial engineering instruments refers to the fact that as part of an investment activity, the project may finance expenditure in respect of an operation comprising contributions to support financial engineering instruments for enterprises, primarily small and medium-sized, such as venture capital funds, guarantee funds and loan funds, and for guarantee or rural finance development funds.

5. In-kind domestic cofinancing or in-kind contribution is a non-cash contribution in the form of a good, work or service that provides support for both non-profit and for-profit organizations. It may consist either of the direct provision of a tangible asset to the project, or of an expenditure incurred directly by the contributor, benefiting the project and facilitating the meeting of its objectives. In-kind domestic cofinancing or contributions include: (i) goods; (ii) works; (iii) use of

services and facilities (for example, office space); (iv) professional services or expertise in the form of staff time; (v) provision of or access to equipment and special materials; and (vi) exemptions from tax that would otherwise need to be paid by the project in order to carry out its activities. In-kind contributions represent a stream and-or source of revenue, and although they are not monetary, they may represent a significant portion of the project's revenue.

6. Non-exchange transactions refer to the fact that an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without receiving approximately equal value in exchange.

7. Recipient means a Member State or other entity that receives a grant and is designated as such in the grant agreement.

8. Grant means a grant that is subject to the IFAD Policy for Grant Financing[26] and grants financed by supplementary funds,[27] as follows:

- Type A grants, which are:
  - (i) Large grants (greater than and including US$500,001 or equivalent);
  - (ii) Small grants (up to and including US$500,000) that are assessed as medium- or high-risk, as determined by IFAD;[28]
  - (iii) EU-funded grants.
- Type B grants, which are small grants (up to US$500,000 or equivalent) that are assessed as low-risk, as determined by IFAD;
- Type C grants, which are grants in any amount provided to United Nations agencies and multilateral development banks.

II. Introduction and scope

9. Increasingly, IFAD-financed projects assemble financing from different sources, including counterparts, beneficiaries and implementing partners, and from supplementary funds.

10. Note that while eligible expenditures for IFAD financing need to be incurred and paid by the transfer of assets, usually in cash form, it is foreseen that other types of project financing may be made in non-cash form, including in-kind contributions. These are in fact eligible to be considered as part of the total value of a project. It may be considered that project value is underestimated without a full attribution of non-cash contributions by government, beneficiaries and other stakeholders.

11. Based on the above, it is fundamental that – when material and relevant – in-kind contributions to projects be reported, in addition to cash contributions. This is for various reasons, including:

(a) When factored into the project budget, in-kind contributions provide the real and effective cost of a project;

(b) In-kind contributions may be the only or main contribution that a Borrower/Recipient is able to make to a project;

(c) In-kind contributions demonstrate to donors that Borrowers/Recipients of IFAD financing are significant contributors to projects;

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26 As approved by the Executive Board at its 114th session of 22 and 23 April 2015. Although subject to the Policy, contribution agreements – including micro-grants (up to and including $75,000 or equivalent) – are not subject to financial reporting and audit requirements.

27 Any specific provisions required by the donor in relation to financial reporting and auditing are reflected in the grant agreement.

28 Effective as of 1 January 2018, small grants assessed as either high- or medium-risk are considered Type A.

(d) In-kind contributions will be included in the cofinancing ratio and will translate the real contribution of the Borrower/Recipient to the project, in addition to the contribution in cash.

12. Currently, in-kind contributions are not systematically recognized as part of the overall financing of IFAD-funded projects. This is for various reasons, including; (i) technical complexities in valuation and reliable measurement; (ii) the project and IFAD's historical lack of understanding of the importance of providing this data; (iii) uncertainty as to the effective implementation of this type of contributions; (iv) reluctance by auditors to provide their assurance as to amounts included in the financial statements; and (v) a lack of effective monitoring and reporting. Without reliable and timely reporting of these assets, it is not possible to fully ascertain a project's economic resources and activities, making financial statements imperfect and reporting of cofinancing incomplete.

13. This technical note is applicable to directly supervised IFAD-funded projects and grants. Where supervision arrangements are in place with a cooperating institution (CI), IFAD will assess the CI's financial reporting and audit arrangements to ensure adequacy and alignment, to the extent feasible, with this technical note.

III. Objectives

14. This technical note will allow IFAD to enhance its capabilities as an assembler of development finance. It provides clear guidance at the design, implementation and auditing stages of the life cycle of a project as to the recognition, measurement and reporting of in-kind contributions as part of domestic cofinancing. It will allow a systematic monitoring of in-kind contributions and enhance IFAD's ability to fully report on the mobilization of these resources.

15. The purpose of this technical note is to provide guidance on the definition of cofinancing in kind, the criteria for eligibility, and its recognition, measurement and reporting in the financial reporting of IFAD-financed projects and grants.

16. This technical note provides the guiding principles and methods to be applied in the recognition, measurement, reporting and disclosure of in-kind contributions. It is expected that these will be embedded in related procedures to be used as of IFAD11 onwards by the IFAD workforce, including both operational and financial staff and consultants involved in the design and supervision of projects. It will also be a source for the provision of advice to projects and ministries in setting up accounting systems, manuals and financial reporting, as well as for auditors in performing their work. It is vital that the importance of systematically monitoring and reporting in-kind contributions be highlighted at the earliest stage in the project cycle, in particular so as to be included in cost tabs, negotiations and accounting systems and manuals, and auditors' terms of reference. It is expected that there will be individual cases where further consultation as to the method of valuation and reporting may be required. In such cases, methods of recognition, measurement and reporting should be agreed with the financial management focal point of the project (Financial Management Services Division).

IV. Recognition of in-kind domestic cofinancing

17. The contribution by an individual, unit or organization, of a service or product to an IFAD-funded project free of charge, is classified as in-kind contribution. All in-kind costs must be eligible, actual, evidenced and essential to the delivery of the project.

18. An in-kind contribution may be considered as incurred expenditure by government, beneficiaries or other implementing partners for the implementation of operations, under the conditions outlined below:

(a) The eligibility rules must be drawn up on the basis of the agreed AWPB and the project's costs;

(b) The amount of expenditure must be material, relevant and duly justified by supporting documents having equivalent probative value to invoices, without prejudice to provisions set out in specific national regulations;

(c) In the case of in-kind contributions, the cofinancing from the contributor must not significantly exceed the total eligible expenditure planned for the project, when excluding the value of such contributions.

19. All in-kind contributions are recognized as assets and revenue when it is probable that the future economic benefits or potential service will flow to the entity and the fair value of the assets can be measured reliably.

20. Goods in-kind are assets transferred to or used by an entity in a non-exchange transaction, without charge, but may be subject to stipulations. Examples may include:

(a) Tangible goods;

(b) Use of services and facilities;

(c) Provision of or access to equipment; and

(d) Special materials.

21. Where "goods in-kind" are received or there is a binding arrangement to receive the goods without any condition, revenue is recognized simultaneously with asset recognition.

22. Conditions attached to the goods do not affect the asset price, since market participants would not normally consider these conditions.

23. "Services in-kind" are services provided by individuals and institutions to public-sector entities in a non-exchange transaction. Examples may include:

(a) Professional services provided by a third party who holds a recognized and relevant professional qualification;

(b) Expertise in the form of staff dedicated to the project by the borrower; and

(c) Tax exemptions.

24. Considering the nature of the assets related to services in kind, and the fact that they are immediately consumed, a transaction of equal value should be recognized in order to reflect the consumption of these services in kind.

25. An entity shall recognize a tax exemption as an in-kind contribution when the taxable event occurs and the asset recognition criteria are met. The reporting entity analyses the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied. For example:

(a) The taxable event for value added tax is the purchase or sale of taxable goods and services during the taxation period;

(b) The taxable event for customs duty is the movement of goods or services subject to duty across the customs boundary.

26. When a government provides an entity with the benefit of tax exemption or covers the taxes related to the purchase of goods, works and services, the amount related to the exempted taxes should be considered as the government's in-kind contribution.

27. Exclusions: When activities do not address the specific objectives of a project, they should not be considered as in-kind contributions. These activities may include:

(a) Passive attendance at training courses, meetings, seminars and the like (which is to say, attendance with no input, as a member of the audience or group);

(b) Provision of pre-existing data/expertise/knowledge/tools (i.e. not generated over the duration of the project) that are publicly available free of charge; and

(c) Provision of all possible in-kind contributions items. If these are already paid, and the payment documents can be presented, provided that the purchase date is within the project duration. (As such, these items are then treated as cash cofinancing).

28. An in-kind contribution in respect of financial engineering instruments should be treated as expenditure paid at the time of the constitution of the fund(s), in those cases in which all of the criteria listed in (a),(b) and (c) below are met:

(a) They consist in the provision of land or real estate, equipment or materials; research or professional activity or unpaid voluntary work (including unpaid professional services);

(b) Their value can be independently assessed and audited;

(c) In the case of the provision of land or real estate, the value is certified by an independent qualified valuer or duly authorized official body;

(d) In the case of unpaid voluntary work, the value of the work is determined taking into account the amount of time spent and the normal and reasonable hourly and daily rate for the work carried out.

29. Discounted sales of equipment and the discounted provision of services or advice (e.g. solicitors, accountants' or small and medium-sized enterprises staff time) are ineligible.

V. Measurement of in-kind domestic cofinancing

30. In-kind contributions should be recognized at fair market value. "Fair market value" is defined as the agreed-upon price in an open and unrestricted market between knowledgeable and willing parties who are dealing at arm's length and who are fully informed. The fair market value is the price an entity would be expected to pay in such circumstances, after normal and educational discounts.

31. Tax exemptions should be recognized at their market value, which is equal to the gross amount of taxes corresponding to the goods or services purchased.

32. Legal restrictions fall into one of two categories – those that affect the entity, and those that affect the asset. Legal restrictions that affect the entity – such as a limitation prohibiting the sale of the goods – do not impact the underlying assets' fair value, because a hypothetical buyer would not consider them in a purchase decision. On the other hand, legal restrictions that limit the sale of contributions in kind to certain markets may affect the assets' fair value. For example, government vehicles put at the disposal of the project for the limited time of the project's implementation will limit the use of the vehicles, and this would be taken into consideration by a hypothetical buyer, thus potentially affecting their value. Projects should consider any legal restrictions that affect the asset when making fair value determinations.

33. In all cases, it is fundamental that the basis of measurement be determined in advance of recording and reporting, as it will be subject to external audit. Advance consultation may be made with the auditors, where relevant, or advice sought from IFAD, in order to facilitate a smooth audit process. Elements of valuation are contained in annex I.

VI. Reporting and disclosure of in-kind domestic cofinancing

34. It is the ultimate responsibility of the project to ensure that the reported fair market value for all items involving an in-kind contribution be reasonable and correctly and fully disclosed in its financial statements.

35. The Project Implementation Manual (PIM) shall include clear guidelines that describe the accounting principles and methods used, to ensure that the value of in-kind cofinancing is accurately and timely stated. The basis and method of evaluating in-kind contributions shall be compliant with internationally recognized accounting standards and should be disclosed in the project's audited financial statements. It should be noted that in the event that national standards are used, the auditors will need to ensure the appropriateness of such treatment, in line with the underlying basis of accounting used in the project's financial statements.

36. An entity is encouraged to develop detailed and transparent valuation policies. An entity should seek valuation methodologies that exercise reasoned judgment in their interpretation of the "fair value" concept and their selection of source data when determining values. All relevant supporting documents that certify the value of in-kind contributions should be prepared by the project team and filed, in order to provide a clear audit trail.

37. The amount of the in-kind contribution should be reported according to the accounting principles agreed upon by the cofinanciers in the legal agreement or by-laws of the country. These principles may rely on the cost actually incurred by the contributor, or on standard cost equivalents defined, in order to ensure fairness among partners.

38. Drawing on the underlying principles in IPSAS accrual basis and IFRS, an entity shall disclose the following in the general purpose financial statements, either on their face or in the respective notes:

    (a) The amount of in-kind contributions or revenue from non-exchange transactions recognized during the period, by major classes, with taxes and transfers shown separately;

    (b) The amount of receivables recognized in respect of non-exchange revenue;

    (c) The amount of assets recognized that are subject to restrictions, and the nature of those restrictions.

39. An entity shall disclose the following in the notes to the financial statements:

    (a) The accounting policies adopted for the recognition of in-kind contributions or revenue from non-exchange transactions;

    (b) For major classes of in-kind contributions or revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;

    (c) For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and

    (d) The nature and major classes of in-kind contributions received by the entity related to the funded project.

40. If the entity applies the IPSAS cash basis, all the information mentioned in paragraphs 30 and 31 and related to in-kind domestic cofinancing should be disclosed in the notes to the financial statements.

VII. Risks related to in-kind domestic cofinancing

41. At design level and during the project's implementation, the finance officer, in collaboration with the project team, should regularly assess the related risk in order to monitor the timely and correct allocation of in-kind contributions.

42. Several typologies of risks can affect the recording and reporting of the in-kind contribution and its role in enhancing the project's performance, such as: risks related to the environment; scientific and technical risks; risks concerning manufacturing; and human and organizational risks. Annex IV of this document includes some guidance regarding the types of risks to be considered and monitored during the project life cycle.

Elements of valuation of in-kind domestic cofinancing

		In-kind contribution category	***Eligible elements in fair value calculation***	***Non-eligible elements in fair value calculation***
Goods in kind	Fixed Assets	Use of land	If the contribution of land is within the project implementation period and is sufficient to fully reach the planned results and impact, the full price of the land plot may be shown, supported by official document or data with evidence of the price (Land Registration Certificate; Department of Statistics or other official institutional document). If the contribution of the land is only for the duration of the project, use the official rent price per month, multiplied by the number of months. Price calculation should be supported by official documents and/or rental agreement, or evidence of actual use by the project or other similar documentation.	If the use of land is not exclusive to the project, only that part dedicated to the project should be reflected in the cost used to value the contribution.
		Use of vehicles	Average cost per month or day at the official rent; price specific for that locality, multiplied by the number of days/months used, Amortization of the vehicle is calculated as follows: • subtract the fuel cost per km from the UN/national official rate used for private travel in that country per km; • multiply the number by the approximate number of km to be driven during the project. If fuel is also shown as in-kind, use the full cost at the UN official/national rate for private travel per km, multiplied by the total distance driven during the project.	
		Equipment, materials and supplies (for example, computer and electronic communications, plant and machinery)	If the contribution is with used equipment, materials and supplies, they are to be valued at: • fair market value; • Institution book value. If the contribution is with new equipment, materials and supplies, they are to be valued at: • the selling price to most-favoured customers (if stock item); • cost of manufacture (if one-of-a-kind). If with loaned equipment, material and supplies, valuation is to be based on: • rental equivalent based on depreciation; • rental equivalent at highest-volume rate. If the use is partial, straight-line depreciation of the full cost of the asset for the duration of project	Equipment, material and supplies at list price or discounted list price Rental equivalents exceeding accepted values had the equipment been donated or sold Development costs
		Use of buildings, meeting rooms, spaces or facilities	Donated meeting rooms, space or facilities for which a rental fee is usually charged. The space used should be specifically related to and necessary for the project.	

	In-kind contribution category	Eligible elements in fair value calculation	Non-eligible elements in fair value calculation
			Development costs of new software and new technologies that go beyond the scope of the project
Goods in kind / Intangible Goods	Use of software, new technologies and databases	Market price of asset/software for project duration Cost of purchasing licences needed for the project, if not already provided by the institution Development cost of new technologies related to the project	
	Dissemination of results	Cost depreciated over the duration of project	
	Travel and subsistence costs	Reasonable out-of-pocket travel and subsistence expenses for work that is directly devoted to the funded project. Use of air miles points to pay for travel and subsistence. Reasonable conference travel costs related to the funded project. Conference registration fees, or a proportion of these fees if only part of the conference focuses on issues or topics related to the project.	Costs to cover conference fees, travel, hotels, food, etc., to attend events, meetings, etc. that are unrelated to issues or topics related to the project.

	In-kind contribution category	Eligible elements in fair value calculation	Non-eligible elements fair value calculation
Services in-kind	Employees' salaries	Actual portion of salary cost of the staff assigned to fulfil duties specifically related to and necessary for the project.	Salaries and expenses of management activities not directly related to the project. Payments to the project director, co-applicants and/or collaborators as consulting fees (additional to basic salary). Salary and expenses for administrative support staff.
	Labour such as professionals, experts, volunteers, workforce from the beneficiaries	Fees for consulting and/or technical expertise directly related to the funded project at daily market rates in the country or area, calculated per day or per month, for example, number of days x market value per day	Fees not related to the project
	Partner remuneration	Salary and benefits of partner institution employees (not those of the host institution) when they undertake activities related directly to the project	Overhead based on the salary and benefits of partner institution employees.
	Faculty remuneration	Actual costs to the institution for release time from teaching duties (for example, the cost of hiring a sessional instructor for course release may be counted).	Payments to the project director, co-applicants and/or collaborators as consulting fees (additional to basic salary).
	Tax exemption	Total of taxation and tariff obligations forgiven.	

Example of in-kind domestic cofinancing at the design phase

1. During the design of the Resilient Land and Resource Management Project (RELAP) in West Bank and Gaza, the economist had developed ten models to represent the planned activities, organized under three main types of interventions: (i) resilient land development activities for orchards (four models); (ii) other resilient land development models: wadis, rangeland and integrated livestock system; and (iii) activities financed via grants: sheep breeding, bee-keeping and mushroom cultivation.
2. The models show that the total labour contributed by beneficiaries and valued at US$14 per day (local wage) is worth US$10.7 million (or 26 per cent of total project costs). If only the additional work required to implement IFAD's proposed activities is considered, then this represents 11 per cent of total project costs (as per table 1).

Table 1

RELAP EFA tables quantifying family labour

	PY1	PY2	PY3	PY4	PY5	PY6
Total family labour (USD)	-	705 514	1 695 271	2 490 888	2 911 959	2 922 956
Incremental family labour (USD)	- 1 020 307	- 314 793	674 964	1 470 581	1 891 652	1 902 649
Project costs (USD)						
Component 1	17 684	5 361 441	7 048 265	6 980 524	5 068 841	194 275
Component 2	208 724	3 140 185	4 370 591	1 487 538	151 429	3 308
Component 3	719 390	976 269	616 247	462 332	332 305	244 655
D. Project Management	751 858	590 890	624 025	598 236	608 628	815 057
Total costs (USD)	1 697 655.57	10 068 785.20	12 659 127.46	9 528 630.08	6 161 202.95	1 257 295.00
(A) Total Family Labour over project years usd	10 726 587			family labour per/day	60	NIS
(C) Total incremental family labour	4 604 746			family labour per/day	14.2	USD
(B)Total project cost USD	41 372 696					
A/B	26%					
C/B	11%					

3. These estimates could also be presented by type of activity, showing which intervention will require greater contribution from the beneficiaries.
4. On the other hand, government's contributions in terms of provision of services and facilities – such as the use of office space, provision of vehicles and seconded staff as well as tax exemption – should also be considered and quantified as in-kind contribution.
5. In the case of RELAP, the total government in-kind contribution was estimated at 16 per cent of total project costs.
6. This means that the total in-kind domestic contribution accounted for almost 27 per cent of total project costs, based on the conservative (incremental) estimate for the contribution from the beneficiaries of 11 per cent of total project costs, plus the 15 per cent from the government. Both contributions were presented in the Costab as reflected in table 2 below.

Table 2: Resilient Land and Resource Management Project (RELAP): Costab by components and financiers (US$ '000)

	The Government in kind		The Government in cash		IFAD GRANT		OFID		GCF		Other entities		Beneficiaries in kind		Beneficiaries in cash		Village council		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
Climate resilient land development																			
1. Climate adapted land devel-opment approaches	110	15.2	-	-	223	30.7	60	8.2	60	8.2	273	37.6	981	0.6	-	-	-	-	1 708
2. Resilient land development	3 389	16.0	646	3.1	1 160	5.5	845	4.0	8 810	41.6	2 106	9.9	3 619	17.1	604	2.9	-	-	21 179
3. Investment in agricultural roads	443	16.0	-	-	66	2.4	-	-	-	-	2 017	72.9	-	-	-	-	240	8.7	2 766
ubtotal	3 941	16.0	646	2.6	1 449	5.9	905	3.7	8 869	36.0	4 396	17.8	3 619	14.7	604	2.4	240	1.0	24 671
Market linkages for the rural poor																			
1. Rural bulking of agricultural products	682	16.0	-	-	1 269	29.8	-	-	-	-	2 312	54.2	-	-	-	-	-	-	4 263
2. Inclusive entrepreneurship development support	95	1.9	-	-	103	2.0	-	-	3 032	59.5	1 193	23.4	-	-	676	13.3	-	-	5 098
ubtotal	777	8.3	-	-	1 373	14.7	-	-	3 032	32.4	3 504	37.4	-	-	676	7.2	-	-	9 362
Public services for upscaling resilient agricultural land use	351	10.5	-	-	-	-	-	-	3 000	89.5	-	-	-	-	-	-	-	-	3 351
Project Management	1 483	37.2	520	13.0	1 744	43.7	44	1.1	99	2.5	99	2.5	-	-	-	-	-	-	3 989
tal PROJECT COSTS	6 552	15.8	1 166	2.8	4 566	11.0	950	2.3	15 000	36.3	8 000	19.3	4 600	11%	1 280	3.1	240	0.6	41 373

overnment in kind contribuition net of taxes	1 273
overnment in kind contribuition % of the total cost	3.1%

Example of in-kind domestic cofinancing in financial reporting

1. In-kind domestic cofinancing could be reported in the face of financial statements.
   - According to the International Public Sector Accounting Standards (IPSAS) cash basis, the in-kind contribution will be reported in the notes to the financial statements. The additional disclosures encouraged[29] provide an example of disclosure in paragraphs 2.1.90(f) and 2.1.91.
   - According to the IPSAS accrual basis and IFRS, the in-kind contribution should be reported in the financial statements as assets (in the balance sheet statement) and non-cash income (in the profit and loss statement). Additional detailed information related to the accounting policies for in-kind contribution should be provided in the notes to the financial statements.
2. The notes to the financial statements of the Small Irrigation and Market Access Development Project in the Nippes and Goavienne Region financed by IFAD in Haiti show this reporting of in-kind domestic cofinancing:

   "The Government of Haiti's in-kind contribution was identified and assessed as follows:
   - The licence rights to use the financial and accounting software provided by the Ministry of Agriculture; the net value at the date of transfer of the right of use of the licence to the project was considered at fair market value. The annual amortization of the net value over the number of years of the project was considered to be annual in-kind contribution.
   - The use of the Ministry's offices devoted full time to the project's implementation team;
   - The use of office and IT equipment provided by the Ministry of Agriculture; the net value at the date of transfer of the right of use of equipment to the project was considered at fair market value. The annual amortization of the net value over the number of years of the project was considered to be annual in-kind contribution.
   - The vehicles and equipment (cars and motorcycles used by the supervisors);
   - The contribution in taxes: This contribution amounts to the total of tax exemptions granted to the project on the purchase of three vehicles and three motorcycles.
   - The salary of staff dedicated part-time to the project: The use of timesheets to determine the actual time devoted to the project, considering total gross regular salary (without bonuses).

   The table below summarized the cumulative in-kind contribution of the Government of Haiti for the period from 2015 to 2018:"

Description	***Amount in United States dollars***
Licence for accounting and financial software	36 492
Office space	9 655
Office and IT equipment	15 700
Vehicles and equipment	50 355
Salaries of part-time staff	17 127
Tax exemptions	102 877
Total	**232 206**

[29] IPSAS: *Financial Reporting under the Cash Basis of Accounting;* Appendix additional Disclosure; November 2017 https://www.iaasb.org/system/files/publications/files/Cash-Basis-IPSAS-2017.pdf

Examples of risks related to in-kind domestic cofinancing

Category of risk	***Description***
Human and organizational risks	• Lack of experience and/or understanding on the part of the project manager and staff • High turnover of project manager and staff • Project team is unaware of codes, or regulations and lacks experience in quality assurance issues • Inadequate, weak or inconsistent procedures for internal controls • Missing or incomplete reporting to IFAD and auditors • Human conflict or poor negotiations with the contributors • Decision-making by the project team and steering committee takes too long • Dissemination of false or inaccurate information • Lack of transparency
Project execution risks	• Inadequate choice for a contribution/contributor • Unexpected withdrawal of the contributor from the project • Contributors' lack of motivation or reluctance to accept project alterations • Underestimation of the workload or contribution required to fulfil project requirements • Low level of the quality assurance systems, including those of a technical, accounting and reporting nature • Languages and cultural barriers that affect understanding of requirements • Legal issues and conflicts
Technical risks	• Project requirements are not clearly expressed or communicated • Missing or incomplete specifications • Difficulty in implementing due to procedural complications • Components and products that are not viable • Qualifications, official documentations, and required permissions are outdated or unsuitable
Environmental risks	• Instability of project requirements • Difficulties in partnerships and collaborations • Delays in procurement procedures • Regulatory changes, for example safety and environmental • Administrative and technical errors • Project acceptance by the social and human environment • Risk of incidents of a natural or political nature

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