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Investing in rural people

## **Utilization of Resources under the IFAD Regular Grants Programme for the Implementation of the Private Sector Engagement Strategy and Other New Initiatives**

### **Note to Executive Board representatives**

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**For: Approval**

## Recommendation for approval

The Executive Board approves that a maximum of US\$25 million from the regular grants programme be set aside to support COVID-19 response activities related to:

- (a) Non-Sovereign private sector projects seeking to preserve the income and jobs of, and alleviate the effects of the ongoing crisis on, rural small-scale producers; and
- (b) Projects to build rural resilience, including resistance to climate, financial and other shocks.

All private sector projects under subsection (a) above financed from this amount, so earmarked, will be submitted to the Executive Board for approval pursuant to the Private Sector Framework; and projects under subsection (b) above will follow IFAD's existing procedures. In order to expedite approval, voting by correspondence may be used as an approval modality by the Board, in lieu of the lapse-of-time procedure and in-session discussion.

## I. Background

1. At its 127<sup>th</sup> session in September 2019, the Executive Board approved the IFAD Private Sector Engagement Strategy (PSS) for the period 2019-2024.<sup>1</sup> The PSS seeks to: (i) mobilize private funding and investments in rural micro, small and medium-sized enterprises and small-scale agriculture; and (ii) expand markets and increase income and job opportunities for IFAD's target groups. An action plan to implement the PSS was also developed, including four main areas of action: (i) institutional set-up, capacity-building and training; (ii) operational policies and guidelines; (iii) systems and processes; and (iv) cooperation and outreach.
2. In addition, as part of IFAD12: Strategic Directions<sup>2</sup> considered at the first session of the Twelfth Replenishment of IFAD's Resources (IFAD12) Consultation held in February 2020, IFAD undertook a commitment to double its impact by 2030, by consolidating its country-level programmatic approach and strengthening its ability to assemble finance through different instruments. As part of the intended expansion of its overall programme of work and development impact, IFAD will undertake additional complementary actions and initiatives, such as the creation of the Adaptation for Smallholder Agriculture Programme + (ASAP+), which will provide primarily grant-based climate finance, particularly to low-income countries where climate change is a key underlying cause of food insecurity.

## II. Proposed utilization of resources under the regular grants programme

3. Implementing the PSS will require financial resources to support the underlying private sector operations. In this regard, Management proposes that a portion of the resources available as part of the IFAD11 allocation for the regular grants programme be used for this purpose. It is also proposed that funds be set aside to implement other initiatives to be established during the transition towards IFAD12. One example is ASAP+, mentioned above, which is currently being prepared for presentation to the Executive Board for approval.
4. On private sector engagement in particular, it is acknowledged that the global economy may slow down significantly in the coming months, with the possibility of a deep recession in the near future. This may lead to governments having to focus on countercyclical policies, as well as on health measures. Ensuring continuity in

<sup>1</sup> See document EB 2019/127/R.3.

<sup>2</sup> See document IFAD12/1/R.6.

IFAD's support to rural poverty alleviation through private sector engagement will be a key priority under these evolving circumstances.

5. To this end, Management proposes to utilize US\$25 million from the IFAD11 allocation for the regular grants programme to support the implementation of private sector operations under the PSS and other initiatives to be introduced during the transition towards IFAD12, such as ASAP+.
6. The proposed utilization of such resources will not compromise the achievement of the objectives of the regular grants programme. First of all, the proposed amount of US\$25 million accounts for only about 13 per cent of the overall allocation to the regular grants programme for IFAD11.
7. Moreover, IFAD has recently taken steps to increase the efficiency of the regular grants programme by maximizing the value for money of grant-funded proposals, inter alia, by lowering the ceiling for individual grant projects and encouraging the leveraging of cofinancing. The principle of reducing the size of individual proposals is also consistent with some of the key principles informing the ongoing revision of the regular grants policy – including enhancing synergies among the different instruments and programmes at IFAD's disposal, with specific reference to the PSS and ASAP+. Finally, opportunities for engaging with the private sector are included among the thematic areas targeted by the regular grants programme under IFAD11 – this priority will continue to be served through support for the PSS and related pipeline. While the PSS will have a broader scope and coverage than the regular grants programme, efforts will be made to ensure synergies and avoid overlaps between the two instruments.
8. The proposed utilization of US\$25 million from the regular grants programme will take the form of a one-off contribution. This ad hoc measure is required to start up an initial project pipeline for private sector operations, and potentially for ASAP+ activities. Moving forward, funding for the PSS will continue to be secured according to the modalities foreseen in the PSS document: (i) for IFAD11, by raising new resources such as the recently mobilized grant from the Swiss Agency for Development and Cooperation; (ii) for IFAD12 and beyond, in addition to own fundraising efforts from supplementary sources from both traditional donors and private sector investors, IFAD may consider embedding contributions from Member States through the replenishment process, should the Private Sector Financing Programme be approved under the IFAD12 Consultation. Member States may also be invited to make additional contributions to ASAP+ as part of IFAD12, should the programme be approved.
9. Resources from the regular grants programme will be used in accordance with the provisions set forth in the PSS and any other policies and strategies relevant to the initiatives to be supported with such resources. In particular, the Executive Board will maintain the authority to approve all private sector operations that call for provision of financing to or through private sector entities.
10. Possible risks related to using resources from the regular grants programme were considered prior to the development of this proposal. Risks inherent to reducing resources available for regular grants are summarized and assessed in paragraphs 6 and 7. In addition, the proposal to utilize regular grants resources responds to the risk of IFAD being unable to operationalize the PSS, pending formal approval of the non-sovereign private sector financing framework by the Executive Board in April 2020.
11. The Audit Committee is invited to review this proposal and, with any enhancements it may deem appropriate, recommend its approval by the Executive Board in April 2020.