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A Medium and Long-Term Vision for Development Finance in IFAD

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Foreword from Management

1. As part of the regular discussions with Member States on strategic development, financial, and institutional issues, Management has commissioned this paper with the objective to trigger a conversation about a medium and long-term vision for development finance in IFAD.¹
2. This study is expected to foster a broad reflection and discussion on IFAD's orientation and priorities going forward and inform the discussions towards the Thirteenth Replenishment of IFAD's Resources (IFAD13), including around the following questions:
 - How might IFAD's funding strategy need to evolve in the medium and long term? What are the key questions Member States need to explore in 2022 to determine this? How can these be incorporated into a process of strategic dialogue that informs the IFAD13 priorities and deliberations?
 - As alluded in this paper, climate finance is playing an increasing role in the international landscape and in IFAD's financing. What could IFAD's role be as a climate adaptation and mitigation financier? What would this require Member States to explore in 2022?
 - The paper makes a number of observations and conclusions on trends in development assistance and progress towards the Sustainable Development Goals (SDGs) relative to IFAD's unique mandate. How could IFAD's programme of work and approach to development finance evolve to ensure it continues to maximize its unique value added, in particular with regard to providing assistance to low-income countries (LICs) and lower-middle-income countries (LMICs)? What areas and issues would this require Member States to explore further in 2022?

¹ This paper has been written by Charles Boamah, Kyle Peters and Paul Winters. The opinions expressed here are those of the authors and do not necessarily represent those of the International Fund for Agricultural Development (IFAD).

A Medium and Long-Term Vision for Development Finance in IFAD

Executive summary

1. Progress on ending hunger, a key objective of the 2030 agenda, stalled prior to the COVID-19 pandemic and is now getting worse. Three quarters of the food-insecure and poor are in rural areas and are small-scale producers or engaged in activities closely tied to agriculture. Their livelihoods are increasingly threatened by climate change. There is consensus among development partners that substantially scaled-up and better coordinated support to agriculture, climate adaptation and mitigation, and linked activities are needed to make progress towards SDG 2.
2. Recent reports and analyses consistently point to one conclusion: a concerted accelerated and substantially scaled-up response is needed now to reverse increases in rural poverty and food insecurity and to achieve SDG 2. As the second largest provider of official development assistance (ODA) for agriculture and the only international financial institution (IFI) solely dedicated to agriculture and rural development with a focus on the rural poor, IFAD is uniquely placed to support a reinvigorated effort to achieve SDG 2. Currently, however, IFAD is only able to transfer approximately US\$1.2 billion of support annually to the rural poor in LICs, LMICs and upper-middle-income countries (UMICs), far short of what is needed. For IFAD to maintain its roughly 6 to 10 per cent current share of ODA for agriculture in the required scaled-up response, IFAD will need to double its volume of annual operations to US\$2.4 billion.
3. IFAD's Membership and Management continue to take important steps to expand its operational and financial capacity to support the global effort to achieve SDG 2. Recent examples include the strong Twelfth Replenishment, the increasing yet prudent use of leverage as documented in the Integrated Borrowing Framework (IBF), the decentralization of operational staff for greater effectiveness and other operational and risk management reforms. Recognizing the inextricable link between agriculture and the global climate agenda, IFAD has paid increasing attention to climate financing through its operational programmes and other initiatives (e.g. the enhanced Adaptation for Smallholder Agriculture Programme [ASAP+], the Rural Resilience Programme [2RP]). Such financing sources will increasingly become indispensable for the achievement of IFAD's core mandate.
4. This note is intended to initiate discussions on a longer-term vision of IFAD's role in a reinvigorated effort to reverse recent trends in rural poverty and hunger and to ensure a "climate-smart" approach is adopted to safeguard any gains and promote sustainability. It explores options for financing this vision while ensuring the allocation of borrowed resources is carefully balanced among the three country groups, LICs, LMICs and UMICs, to maximize development objectives and also assure financial sustainability.
5. The measures taken so far to maximize IFAD's financing capacity are helpful, but responding effectively requires IFAD's stakeholders to explore bold and innovative financing and operational approaches. Traditional sources of IFAD financing (donor contributions to IFAD replenishments) and climate financing sources (e.g. the Green Climate Fund, the Adaptation Fund) are integral parts of the singular objective of supporting the rural poor in a climate-smart manner. Without significant increases in these sources, it will be impossible to achieve the desired scale up of IFAD's activities.
6. Other balance sheet related approaches (e.g. more efficient approaches to leveraging and other balance sheet stretching possibilities such as possible first-loss guarantees and blended financing approaches to attract more private capital) can play a role. Non-balance sheet approaches such as the use of returnable capital

invested in funds or special vehicles that finance appropriate parts of IFAD's mandate should also be considered. For example, countries with surplus special drawing rights (SDR) could consider advancing some of such resources as returnable capital.

7. The scaling up needed to achieve SDG 2 requires not only substantial additional financing, but also important improvements in organizational and operational capacity and efficiency. Recent ratings show that IFAD is a leader among its development peers in the quality of its organizational and operational approach. Nevertheless, timely implementation of the commitments made by Management in the IFAD12 Replenishment would strengthen IFAD's capacity to manage a higher and more complex programme of operations.
8. This note, therefore, has the following conclusions:
 - The **current level of IFAD capital falls far short of what is needed** to respond effectively to the call to scale up, notwithstanding the best efforts to optimize current resources.
 - There are **clear limits to leveraging further IFAD's balance sheet**, as reported regularly by Management in the capital adequacy and other reports.
 - **A substantial increase in IFAD equity is necessary for an effective response.**
 - **Non-balance sheet approaches**, such as advances of returnable capital to funds or special-purpose vehicles dedicated to supporting IFAD's mandate, **should also be considered**, given existing fiscal and other considerations in many donor countries.
 - Climate (adaptation and mitigation) is core to IFAD's mandate. Accordingly, funds from **climate financing sources (e.g. Green Climate Fund, Adaptation Fund) should be integral parts of IFAD's financing strategy and maximized.**
 - While IFAD has made important organizational, operational and risk management improvements, **further steps to strengthen IFAD's institutional and financial management capacities are needed to manage a larger programme.**
 - The prudent allocation of a substantially increased IFAD footprint would achieve the twin objectives of long-term financial sustainability and maximization of development assistance to the rural poor in all the country groups, **with an increasing proportion of such assistance going to LICs and LMICs.**

I. Introduction

1. Ending hunger – SDG 2 – is a key objective of the 2030 Agenda. However, since 2015, progress in reducing hunger has stalled and gotten worse under COVID-19 with an estimated 720 million to 811 million people facing hunger in 2020, and an estimated 30 per cent of the global population, or 2.7 billion people, not being able to afford a healthy diet.² Three quarters of the food-insecure and poor are in rural areas and are small-scale producers or in activities closely tied to agriculture. Agriculture, and linked activities, are critical for making progress towards SDG 2.
2. Recognizing the importance of food and agriculture to achievement of the SDGs, the United Nations recently convened the Food Systems Summit (FSS) as part of the United Nations General Assembly. The summit emphasized a food systems approach that highlighted the interconnectedness of food systems to global challenges such as hunger, climate change, poverty and inequality. Among the FSS action areas, a key action track was to advance equitable livelihoods. To advance equitable livelihoods, IFAD's Rural Development Report 2021 highlights the need to increase focus on the midstream of food systems – activities that happen after the farm gate – which is undergoing a transition in developing countries and has a strong potential to generate decent employment.³
3. In considering food systems, climate change has become a particular and growing concern leading to enhanced discussion of agriculture at COP26.⁴ The food system globally generates 21 to 37 per cent of global greenhouse gas emissions⁵ and on its current trajectory by 2050 the sector would generate 70 per cent of the total allowable emissions to keep warming below 1.5 degrees.⁶ Vulnerability to climate change and depletion/degradation of natural resources by small-scale producers is widespread albeit with considerable variation between locations. A growing body of evidence is linking climate risks to rural poverty through loss of productive assets and disincentives to invest.⁷ It is not possible to invest in agriculture without considering climate change adaptation and mitigation to limit vulnerability and identify sustainable paths. The focus on climate change also bring with it the potential to identify climate finance to address the concerns of small-scale producers.
4. IFAD is uniquely placed to support a reinvigorated effort to achieve SDG 2, contribute to the response to climate change, and transform food systems to advance equitable livelihoods. IFAD investments target small-scale producers to improve their productivity, income, and resilience and in its 40-year history, it has developed a set of approaches that have been shown to have an impact. IFAD is also the second largest provider of ODA for agriculture and the only IFI solely dedicated to agriculture and rural development.⁸

² FAO, IFAD, UNICEF, WFP and WHO. The State of Food Security and Nutrition in the World 2020. Transforming food systems for affordable healthy diets. (Rome: FAO, 2021).

³ IFAD. Rural Development Report 2021. Transforming food systems for rural prosperity. (Rome: IFAD, 2021).

⁴ United Nations Climate Change. COP26 Sees Significant Progress on Issues Related to Agriculture. (New York: UN Climate Change, 2021). <https://unfccc.int/news/cop26-sees-significant-progress-on-issues-related-to-agriculture>. Accessed December 16, 2021.

⁵ Shukla, P.R., Skea, J., Calvo Buendia, E., Masson-Delmotte, V., Pörtner, H.-O., Roberts, D.C., Zhai, P., Slade, R., Connors, S., van Diemen, R., Ferrat, M., Haughey, E., Luz, S., Neogi, S., Pathak, M., Petzold, J., Portugal Pereira, J., Vyas, P., Huntley, E., Kissick, K., Belkacemi, M., & Malley, J.(eds.). (2019). Climate Change and Land: an IPCC special report on climate change, desertification, land degradation, sustainable land management, food security, and greenhouse gas fluxes in terrestrial ecosystems.

⁶ Searchinger, T., Waite, R., Hanson, C., Ranganathan, J., Dumas, P., Matthews, E., & Klirs, C. (2019). Creating a sustainable food future: A menu of solutions to feed nearly 10 billion people by 2050. Final report. WRI.

⁷ Hansen, J., Hellin, J., Rosenstock, T., Fisher, E., Cairns, J., Stirling, C., Lamanna C., van Etten, J., Rose, A., Campbell, B., (2018). Climate risk management and rural poverty reduction, Agricultural Systems, Volume 172,2019, Pages 28-46, ISSN 0308-521X, <https://doi.org/10.1016/j.agsy.2018.01.019>.

⁸ Kharas, H. et al., Ending Rural Hunger: Mapping Needs and Actions for Food and Nutrition Security (Washington, D.C.: Brookings Institution, 2015); Dukechita, B. et al. (2020). The Financing Landscape for Agricultural Development: An Assessment of External Financing Flows to Low- and Middle-Income Countries and of the Global Aid Architecture. Duke World Food Policy Center, Duke Center for Policy Impact in Global Health & Open Consultants.

5. During IFAD12, important steps were taken to expand IFAD's operational and financial capacity to support the global community's effort to achieve SDG 2. IFAD completed an operational renewal, including a substantial decentralization of its operational staff to better connect with its clients and partners. IFAD's Management and Executive Board put in place a significantly strengthened financial risk management framework and an IBF that expands IFAD's ability to borrow from sovereign governments to include IFIs and the market in the form of private placements. Two credit rating agencies have awarded IFAD a strong credit rating of AA+. IFAD's donors increased substantially their contributions to IFAD12, providing the highest ever level of contributions to an IFAD Replenishment.
6. This note is intended to initiate discussions on a longer-term vision of IFAD's role in a reinvigorated effort to reverse recent trends in rural poverty and hunger, to ensure a "climate-smart" approach is adopted to safeguard any gains and promote sustainability, and, in particular, to explore options for financing this vision. It addresses specific issues raised at the Executive Board, when it was suggested that prior to discussions on market financing options, there needed to be "a strategic discussion about the institution, its mandate, and its role in the broader international financial architecture" which analysed IFAD's comparative advantage and value addition.
7. The note is structured in two parts. First, it undertakes an examination of the international financing architecture for financing rural development and SDG 2, IFAD's comparative advantage and the role it plays in this international financial architecture, and the levels of financing required to move towards the achievement of SDG 2, including financing levels needed from IFAD to fulfil its role. Second, it examines how IFAD's higher financing levels can be achieved most efficiently, building on the progress already achieved through higher donor contributions, its reshaped financial architecture and ongoing institutional reforms.

II. IFAD's role in the international financial architecture

A. Achieving SDG 2

8. The COVID-19 pandemic has made the achievement of the SDGs even harder. The Sustainable Development Report 2021 states that "for the first time since the adoption of the SDGs in 2015, the global average SDG index score for 2020 has decreased from the previous year."⁹ Specifically, regarding SDG 2, the report notes that before COVID-19 many countries were regressing or improving too slowly on SDG 2, and goes on to state "the lack of progress on SDG 2 (Zero Hunger) has been exacerbated by a rise in the number of people suffering from undernourishment along with a growing share of people who are overweight or obese. COVID-19 has increased hunger and food insecurity in many parts of the world."¹⁰ The message is clear: to achieve SDGs, countries, especially LICs, will need to significantly scale up public investments, and development partners similarly need to substantially scale up and accelerate their development assistance activities.
9. The scale of financing necessary to make progress towards SDG 2 and double the income of small-scale producers (SDG 2.3) in a manner aligned with the Paris Climate Agreement was outlined in a recent report – Ceres2030.¹¹ Ceres2030 is a particularly relevant report since it focuses specifically on financing in IFAD's mandate and offers evidence on what has been shown to be successful in achieving SDG 2.3. The report points to the need to simultaneously: (i) expand donor

⁹ *Sustainable Development Report 2021: The Decade of Action for the Sustainable Development Goals*, United Nations, Jun 14, 2021. Executive Summary.

¹⁰ *Ibid.*

¹¹ Laborde, D., Murphy, S., Parent, M., Porciello, J. & Smaller C. (2020). *Ceres2030: Sustainable Solutions to End Hunger - Summary Report*. Cornell University, IFPRI and IISD.

- resources, (ii) leverage additional resources from governments and elsewhere, and (iii) improve the effectiveness of current resources to achieve global objectives.
10. With respect to financing, the Ceres2030 report is consistent with a number of other recent reports in its call for additional finance in areas linked to SDG 2. An estimated annual US\$300–350 billion increase in total capital investment is needed to finance a food and land-use transformation agenda to reach global targets on climate change and sustainable development.¹² US\$170 billion in additional funds for financial services is estimated to be needed to meet the demand by rural households for agricultural and non-agricultural finance and the finance gap for small and medium-sized enterprises (SMEs) is also wide – US\$100 billion annually in sub-Saharan Africa alone.¹³ While considering different avenues, these and other reports consistently point to the need for additional resources to support achievement of SDG 2.
 11. In terms of effectiveness of current resources, based on scientific analyses published in a series of papers in the *Nature* journals, the Ceres2030 report highlights that interventions are most effective when small-scale producers have access to networks and resources, such as extension services and robust infrastructure, when they create integrated portfolios of interventions rather than seek improvements in isolation, and when they are designed to meet complex objectives, such as the marketability of crops, rather than focused on single objectives, such as climate resilience or resistance to pests.
 12. Based on a systematic review of the literature, the Ceres2030 report highlights three areas which the evidence suggests that investment is most needed for facilitating achievement of SDG 2.3 and 2.4: (i) empowering the excluded; (ii) investments on farm; and (iii) investments in food on the move. Within these three areas, 10 recommendations for investment are provided based on the available evidence. Table 1 notes the 10 recommendations and provides an assessment of IFAD’s work in these areas.
 13. Clearly, IFAD is not in a position to take on all of the recommendations of Ceres2030, but as seen in table 1 the evidence on what works and where investments are likely to be successful have significant overlap with IFAD’s ongoing efforts. It suggests that IFAD’s approach to supporting achievement with SDG 2.3 and 2.4 is consistent with the evidence of what works. It also suggests that IFAD’s contribution to total ODA for agriculture, currently between 6 and 10 per cent, will need to be maintained for the achievement of SDG 2.

Table 1

Ceres2030 10 recommendations and IFAD’s programme

<i>Recommendation</i>	<i>Ceres2030 and IFAD programme</i>
<i>Empowering the excluded</i>	
1) Enable participation in farmers’ organizations	This is a clear area of IFAD comparative advantage. Creating and supporting farmers’ organizations – which are found to be associated with positive income effects in 57 per cent of cases reviewed by Ceres2030 – has been fundamental to IFAD’s approach to working with small-scale producers. Whether needing to meet market quality and timing standards in value chain projects or managing community-based irrigation systems, creating and supporting farmers’ organizations is fundamental to success.
2) Invest in vocational programmes for rural youth	Rural youth have been included in IFAD’s work for some time, but have received greater attention in recent years as a new IFAD mainstreaming theme and are increasingly becoming an area of comparative advantage. Vocational training of youth, which Ceres2030 finds promising for increasing employment and wages, is a key element of IFAD’s strategy and increasingly employed.

¹² Food and Land Use Coalition, *Growing Better, Ten critical transitions to transform food and land use*, (London: UK, FOLU, 2019).

¹³ Mastercard Foundation and ISF Advisors. *Pathways to Prosperity: 2019 Rural and Agricultural Finance State of the Sector Report*, (Mastercard Foundation and ISF Advisors, 2019).

3) Scale up social protection programmes	Scaling up social protection programmes is not in IFAD's comparative advantage and should be left to larger development finance organizations. But IFAD can enhance market access and credit availability in the presence of social protection programmes enhancing the benefits of a social protection approach. In fact, Ceres2030 found that social protection works best when it creates a bridge to productive employment and overcomes market, education and credit constraints.
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On farm

4) Investment in extension services	IFAD's comparative advantage in this area is in providing extension support to small-scale producers to meet complex objectives from climate change adaptation practices to linking farmers to value chains. IFAD-supported projects collaborate with various public sector (e.g. extension agents, community-based facilitators, lead farmers) and private sector (e.g. NGOs, district farmers' organizations, agro-dealers) actors to deliver pluralistic extension services along the value chain.
5) Support sustainable practices that are economically viable	Eighty per cent of IFAD's projects support value chain development with the objective of sustainable and profitable inclusion of its target groups (e.g. small-scale producers, women, youth, indigenous peoples). Ceres2030 indicates the strongest motivation to adopt and maintain sustainable practices is when farmers perceive positive outcomes of these practices for their farm or the environment.
6) Support adoption of climate-resilient crops	As noted under point 4, IFAD has a comparative advantage in providing extension support to small-scale producers. Part of this is investing in national agriculture research programmes to develop new climate-resilient varieties, new nutrient-dense varieties and to produce higher classes of seed that can be purchased and multiplied by commercial seed companies and local seed production groups. Ceres2030 notes that small-scale producers will use climate-resilient crops to cope with stresses such as drought, heat, flooding, salinity, and changes to the growing season.
7) Research and scale up farm level interventions in water-scarce regions	IFAD supports research through its grants, but its greater comparative advantage is linking that research to field activities. IFAD invests in watershed conservation and rehabilitation, which aims to facilitate water use and conserve water and protect against land erosion, siltation of water bodies, floods, storm surges, etc. Ceres2030 notes promising areas that remain underexplored for small-scale producers including digital solutions and livestock in mixed farming systems, which IFAD could further explore.
8) Improve quantity and quality of livestock feed	IFAD has a comparative advantage of livestock projects for small-scale producers and through livestock development projects, promotes and supports forage and feed production with small-scale producers as a means to sustainably intensify production and increase productivity. Ceres2030 notes a bias towards understanding the technicalities of livestock feeding while not paying enough attention to how technologies fit into farm practices. IFAD considers farmer practices but must ensure that it consistently does so.

Food on the move

9) Reduce post-harvest loss by investing in storage	As part of an emphasis on value chain development, IFAD has increasingly been investing in the improvement of post-harvest capacities essential to small-scale producers, disbursing an average of over US\$100 million per year to upgrading post-harvest infrastructure, equipment and capacities. Ceres2030 confirms that several storage interventions are effective at reducing post-harvest losses and these interventions can be successful when combined with interventions such as post-harvest training, finance, marketing, organization, governance, policies, and infrastructure interventions.
10) Support SMEs through investment in infrastructure, regulation, etc.	IFAD has a long track record of working with SMEs through its public-private-producers partnerships model, which brings benefits to both small-scale producers and private sector businesses, and is expanding this interaction through channelling private capital into rural economies to complement government efforts. The approach is consistent with evidence which shows that SMEs are successfully serving farmers in low- and middle-income countries, particularly in Africa, and are correlated with technology adoption and higher productivity.

14. The specific areas of investment and recommendations from Ceres2030 are consistent with the priorities expressed by borrowing countries themselves. A recent study by the Overseas Development Institute (ODI) notes that developing countries continue to believe that investment in agriculture and rural development remains vital and its importance will be even greater in recovery from COVID-19.¹⁴ Governments seek projects and programmes to support rural transformation,

¹⁴ Prizzon, A., Chen, Y., Jalles d'Orey, M.A. et al. (2020) *External finance in rural development: a synthesis of country perspectives*. ODI Report. London: ODI.

including agriculture value chain development, rural basic infrastructure, agriculture technologies and climate-resilient agriculture practices. ODI indicates countries want these investments to address needs such as increased productivity and profitability of crops to improve rural livelihoods and create more jobs.

15. The Ceres2030 and ODI results reflect broader thinking about rural transformation. As countries move from low income to middle income and high income, the rural economy transforms. Agriculture's share of GDP declines as manufacturing and services become more important. Agriculture shifts from being a primary employer to a driver of rural economic growth and poverty reduction. The non-farm economy becomes more important as productivity rises and farms become increasingly linked to urban and global markets increasing opportunities to invest midstream of food systems to generate decent employment.¹⁵ Consistent with Ceres2030 findings, this transformation requires more than gains in single objectives, such as agricultural productivity, but achievement of complex development objectives including improvements in income, food security, resilience, sustainability and nutrition.
16. While rural transformation is seen across a range of countries, the way it occurs will determine if this process is inclusive and sustainable. The evidence consistently shows that inclusion and sustainability will not happen automatically but must be made to happen.¹⁶ Overall, this points to a two-pronged approach to inclusive and sustainable rural transformation: (i) broader interventions to ensure rural transformation, and (ii) targeted interventions to reach poorer and marginalized populations ensuring inclusion.
17. Coordinated and collaborative interventions within the international aid architecture for agriculture is necessary to support this two-pronged approach. The activities of the World Bank, the African Development Bank (AfDB) and others are critical for fostering this broader rural transformation. But, there remains a gap in the strength of the effort to support targeted interventions to support SDG 2. A recent Chatham House report states that most of the "Big Seven" important global institutions in food and agriculture¹⁷ do not focus on SDG 2 as their approaches emphasize the importance of other areas – climate, trade, rural infrastructure and education – in achieving this rural transformation.¹⁸ But it goes on to note that IFAD is taking a leading role in achieving SDG 2.3 and 2.4, by playing a niche role focusing on activities that target small-scale producers to improve their productivity, income and resilience. Focusing on vulnerable target groups in remote areas across its range of countries (LICs, LMICs, and UMICs), IFAD's projects are designed to meet complex objectives, such as value chain development to enhance small-scale producer income.
18. This outline of comparative advantage in the international architecture for agriculture and rural development is consistent with the recent findings of a report prepared by Duke University.¹⁹ The report states that "IFAD should continue to focus on its critical role in the global financing architecture through its support to smallholder agriculture for which it has developed a recognized and valuable expertise."²⁰ The report highlights three key strengths of IFAD: (i) its focus on small-scale producers and poor vulnerable rural communities; (ii) the complementarity of its development assistance to broader large-scale sectoral

¹⁵ IFAD. Rural Development Report 2021. Transforming food systems for rural prosperity. (Rome: IFAD, 2021)

¹⁶ IFAD. (2016). *Rural Development Report 2016: Fostering inclusive rural transformation*. Rome, IFAD; FAO. (2017). *The State of Food and Agriculture 2017. Leveraging food systems for inclusive rural transformation*. Rome.

¹⁷ The 'Big Seven' are the three Rome-Based Agencies (FAO, WFP and IFAD), the Consultative Group for International Agricultural Research (CGIAR), the World Bank, the Global Agriculture and Food Security Program (GAFSP), and the AfDB.

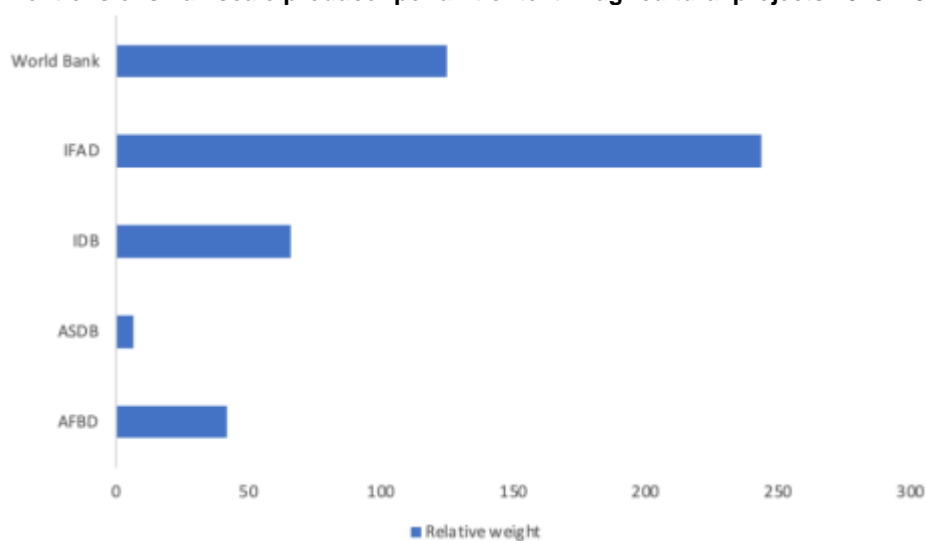
¹⁸ Rampa, F., Dekeyser, K., Alders, R., Dar, O. (2019). *The Global Institutional Landscape of Food and Agriculture: How to Achieve SDG 2*, Chatham House; Discussion Paper No. 265, December 2019. (p.5)

¹⁹ Dukechita, B. et. al. (2020). *The Financing Landscape for Agricultural Development: An Assessment of External Financing Flows to Low- and Middle-Income Countries and of the Global Aid Architecture*. Duke World Food Policy Center, Duke Center for Policy Impact in Global Health & Open Consultants.

²⁰ *Ibid.* page 73.

- projects of multilateral and regional banks; and (iii) its strong consultative processes with farmers groups and indigenous peoples.
19. This evolving division of labour in the international architecture is increasingly recognized in the strategic approaches of the key institutions operating in food and agriculture. The AfDB is focusing its role in agriculture and sustainable development on agriculture-related rural infrastructure, agro-industry development, climate change adaptation and natural resources management, which it recognizes as the AfDB's comparative strength and is in line with its envisaged division of labour among development partners. In its Feed Africa Strategy, IFAD is explicitly referenced as being in a better position to intervene in certain parts of the value chain.²¹ Similarly, the Asian Development Bank (ADB) notes that IFAD has expertise in agriculture technology and extension, inclusive financial services, value chain development, and skills development.²² Its operational plan commits the ADB to deepen its partnership with IFAD as it has proven beneficial to ADB developing member countries in mobilizing cofinancing and skilled expertise as well as knowledge-sharing.²³
 20. IFAD's particular niche in working with small-scale producers is shown in figure 1. The figure reports on a text analysis of loans related to agriculture and rural development financed by key IFIs during 2015 through June 2021 (except IFAD where currently only loans from 2015–2018 are included). This analysis identifies mentions of small-scale producers, or similar terms like smallholder used per total unit of text. This is a common approach to highlight the emphasis placed on specific topics within activities.
 21. The results show that small-scale producers are mentioned twice as much in IFAD projects compared to the World Bank, four times as much than the Inter-American Development Bank (IDB) and five times as much as the AfDB. The results found through the analysis of project documents are consistent with IFAD's noted comparative advantage. IFAD focuses on small-scale producers more than other IFIs and complements their efforts to achieve broader rural development objectives.

Figure 1

Mentions of small-scale producer per unit of text in agricultural projects 2015–2021: IFIs

Source: Authors' calculation²⁴

²¹ African Development Bank. (2016). *Feed Africa Strategy for Agricultural Transformation in Africa 2016-2025*. Abidjan.

²² *Operational Plan for Agriculture and Natural Resources: Promoting Sustainable Food Security in Asia and the Pacific in 2015–2020*, September 2015, p. 9.

²³ *Ibid.* p. 18.

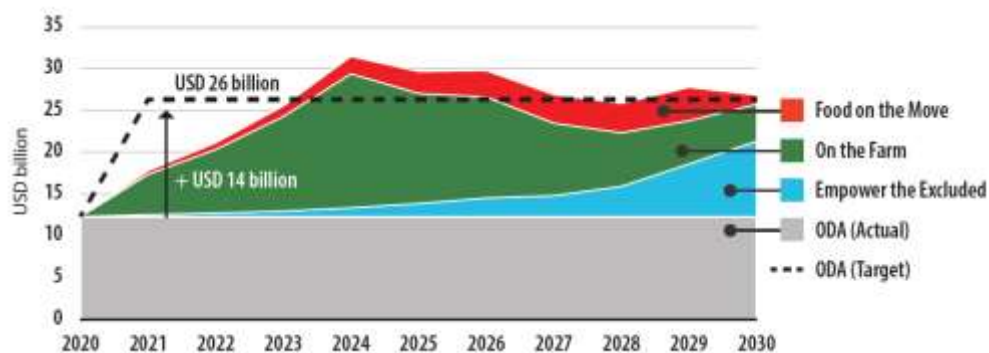
²⁴ The text analysis was done with the support of Eric Morgan and Meghan Howatt, University of Notre Dame.

22. Similarly, IFAD's cofinancing with IFIs over the past several years validates the findings about IFAD's comparative advantage and its critical role in connecting the broader rural transformational activities of the multilateral development banks (MDBs) directly to small-scale producers and farmers' organizations.²⁵ World Bank operational documents note "IFAD's worldwide experience with community agriculture and linkages to markets and finance will support the beneficiaries"²⁶ and, "IFAD has extensive international experience in designing, implementing, and financing rural development projects with a focus on small-scale producers and food losses reduction."²⁷
23. For this paper, 14 recently cofinanced operations were examined and the division of labour in practice analysed. This analysis revealed that IFAD is playing an important role complementing the other MDBs active in the agriculture sector, supporting the last mile of interventions to target vulnerable small-scale producers. IFAD's expertise in working with small-scale farmers, farmer cooperatives, inclusive rural finance and village-level community and infrastructure development is widely recognized in the operational approaches of the other MDBs. Also, its ability to target specific small-scale producers and village communities is noted in most of these cofinanced operations.

B. Financing SDG 2

24. The annual financing gap to end hunger and double incomes of small-scale producers in low- and middle-income countries is estimated at US\$33 billion per year (US\$19 billion of government funding and US\$14 billion of donor funding), according to the Ceres2030 report. The additional US\$14 billion of donor funding implies a more than doubling of the current annual donor financing of approximately US\$12 billion.
25. The total donor amount is broken down in the three areas as (i) US\$3 billion per year (21 per cent) to empowering the excluded; (ii) US\$9 billion per year (62 per cent) investments on farm; and (iii) US\$2 billion per year (14 per cent) investments in food on the move. As shown in figure 2, the expectation is that initial spending will focus on investments on farm, but that increasingly this should shift towards greater investment in food on the move and towards empowering the excluded as the global community seeks to achieve SDG 2.3 and 2.4. This suggests IFAD investments continuing to shift towards more empowerment of the excluded and food on the move over the next decade.

Figure 2
Funding gap over time and by category of intervention



Source: Ceres2030 (2020)

²⁵ It is important to note that in the IFAD11 and IFAD12 Replenishments, IFAD set ambitious targets for international cofinancing of its operations, and the evidence to date is that the targets set under IFAD11 are being met, if not exceeded.

²⁶ *Samoa Agricultural & Fisheries Productivity and Marketing Project (SAFPROM)*, International Development Association, June 11, 2019, p.26.

²⁷ *Guatemala: Responding to COVID-19: Modern and Resilient Agri-food Value Chains (P173480)*, World Bank, December 7, 2020, p. 46.

26. Table 2 provides a breakdown of the distribution of the Ceres2030-recommended additional donor assistance for achieving SDG 2.3 and 2.4 by region and by country income category and estimated IFAD funding to the same categories during IFAD11. Note that Ceres2030 is focused on **additional** disbursements of donor funds and IFAD funding refers to current commitments. The comparison should be seen as indicative of how IFAD compares to Ceres2030 estimates and how it should use additional funding going forward.
27. As seen in table 2, Ceres2030 finds that 58 per cent of the incremental funds should go to LMICs and 35 per cent to LICs. For LICs, the bulk of incremental funding (90 per cent) should be devoted to Africa. Among the LMICs, half of the incremental funds should go to South Asia and 30 per cent to sub-Saharan Africa. Overall, Ceres2030 estimates that half of donor additional funds should go to sub-Saharan Africa.
28. The comparison suggests that IFAD funding is largely consistent with the Ceres2030 estimated distribution of additional donor funds. If IFAD is to expand its programme of loans and grants (PoLG), adjustments to improve the focus on SDG 2.3 and 2.4 would imply an increase in funding to South Asia and less of an emphasis on UMICs, while continuing to fund the full range of developing countries.

Table 2

Ceres2030 estimated investments and IFAD11 investments by region and country income category
(Billions of United States dollars / percentage)

	LIC	LMIC	UMIC	Grand total
<i>Ceres2030</i>				
Europe and Central Asia	0.00 (0.0%)	0.07 (0.5%)	0.02 (0.1%)	0.08 (0.6%)
Middle East and North Africa	0.21 (1.5%)	0.56 (4.0%)	0.38 (2.7%)	1.14 (8.0%)
East Asia and Pacific	0.00 (0.0%)	1.02 (7.2%)	0.04 (0.3%)	1.06 (7.5%)
Latin America and Caribbean	0.06 (0.4%)	0.09 (0.6%)	0.31 (2.2%)	0.45 (3.2%)
South Asia	0.19 (1.3%)	4.14 (29.2%)	0.02 (0.1%)	4.36 (30.8%)
Sub-Saharan Africa	4.55 (32.1%)	2.40 (16.9%)	0.11 (0.8%)	7.07 (50.0%)
Grand total	5.01 (35.4%)	8.27 (58.4%)	0.89 (6.3%)	14.17 (100%)
<i>IFAD11</i>				
Europe and Central Asia	0.00 (0.0%)	0.11 (3.2%)	0.04 (1.3%)	0.15 (4.4%)
Middle East and North Africa	0.02 (0.7%)	0.13 (4.0%)	0.04 (1.2%)	0.20 (5.9%)
East Asia and Pacific	0.00 (0.0%)	0.20 (6.1%)	0.14 (4.2%)	0.34 (10.3%)
Latin America and Caribbean	0.00 (0.0%)	0.07 (2.1%)	0.18 (5.4%)	0.25 (7.6%)
South Asia	0.05 (1.5%)	0.53 (16.0%)	0.01 (0.1%)	0.59 (17.6%)
Sub-Saharan Africa	1.21 (36.5%)	0.58 (17.5%)	0.01 (0.2%)	1.80 (54.2%)
Grand total	1.29 (38.8)	1.62 (48.8%)	0.41 (12.4%)	3.32 (100.0%)

Source: Ceres2030 (2020) and IFAD.

29. This analysis of the overall ODA funding gap in agriculture, the sectoral distribution of Ceres2030 incremental ODA (figure 2) and IFAD's comparative advantage, and the regional/income classification (table 2) suggest that a reasonable estimate of IFAD's fair share of the required additional annual ODA would be between 6 and 10 per cent. This translates into US\$800 million to US\$1.4 billion annually, essentially doubling the current level of disbursements. This estimate is consistent with the ambition expressed during IFAD12 Consultations to double IFAD's impact by 2030 and with the IFAD12 Replenishment agreement that IFAD would work in even closer collaboration with other relevant development partners and in the specific areas in which it has a comparative advantage.
30. Supporting the international community in achieving the SDGs, especially SDG 2, supporting calls for food system transformation, expanding its role in directing

climate finance to small-scale producers, and achieving the ambition set out in IFAD12 would require IFAD to expand its operational footprint – that is, its PoLG. This would allow IFAD to expand its impact, while continuing to focus on small-scale producers and the rural poor, particularly in LICs and LMICs where many of the poorest rural people live and where capacities to finance investments in SDG 2 and to address climate change are most limited. This expansion would be possible only through a combination of measures, including acceleration in the current pace of project implementation and disbursements and, most importantly, through a substantial increase in IFAD’s capacity, evidenced by a substantial increase in the PoLG.

C. Utilizing the expanded capacity

31. Consistent with the Ceres2030 estimated distribution of investments (see table 2), the bulk of the benefits of an expanded PoLG should accrue to LICs and LMICs, largely in sub-Saharan Africa and South Asia. While UMICs also benefit in absolute terms as a result of an increase in the overall financing envelope through increased leveraging, their allocation would be lower in relative terms. Table 3 below summarizes the estimated IFAD12 distribution of the PoLG by country income group and by financing source and the potential distribution of an expanded PoLG.

Table 3

PoLG by country income groups and by financing source: approved IFAD12 versus expanded
(Millions of United States dollars)

	Approved IFAD12 PoLG ^a				EXPANDED PoLG (DOUBLING) ^b			
	CORE	BORROWING	TOTAL	%	EQUITY	BORROWING	TOTAL	%
LICs	971	81	1 052	31	2 085	162	2 247	33
LMICs	1 314	498	1 812	54	2 485	1 295	3 780	56
UMICs		512	512	15		725	725	11
TOTAL	2 285	1 091	3 376		4 570	2 182	6 752	

^a Source: Approach for the Performance-Based Allocation System and the Borrowed Resource Access Mechanism (BRAM) in IFAD12, EB 2022/S12/R.2. The approved “Management option” is presented above.

^b This is a scenario of a doubling of the PoLG. Under this scenario, the increment in the PoLG of US\$3.376 billion (doubling amount) would be allocated to the country groups based on the suggested Ceres2030 proportions: 35.4 per cent LICs, 58.3 per cent LMICs and 6.3 per cent UMICs. As a result, the overall percentage allocation to UMICs would decrease from the current 15 to 11 per cent in the medium term and continue to trend downward towards 7 per cent. It is assumed that LICs would have the capacity to absorb a very modest amount (i.e. an additional US\$81 million only) of the increased BRAM resources enabled by the increase in core resources.

32. As table 3 shows, an expanded PoLG to UMICs would be funded from borrowed funds governed by the BRAM, while support to LMICs and LICs continue to be financed through a combination of core resources (following the performance-based allocation system) and borrowed funds under the BRAM, as appropriate.
33. The allocation of borrowed resources would be carefully balanced among the three country groups to maximize development objectives and also assure financial sustainability. As also shown in table 3, in the expanded PoLG scenario, approximately two thirds of all borrowed resources would be used to support the poorest and most vulnerable countries (i.e. LICs and LMICs), leaving a third of such resources for the support of poor rural communities in UMICs (compared to 53 per cent/47 per cent in IFAD12). This delicate balance is important to the overall quality of IFAD’s assets, a key consideration for the rating agencies. Since exposures to UMICs typically attract lower capital charges (due to higher credit ratings and lower concessionality), the lower allocation of new lending to UMICs based on the Ceres2030 distribution would result in substantially larger allocations or uses of new risk capital for the benefit of LICs and LMICs. Reasonable levels of UMIC lending, therefore, would allow the possibility of absolute increases in the lending levels to LICs and LMICs, while protecting the credit rating of IFAD.

34. IFAD's strong credit rating ensures that IFAD's lending rates continue to be significantly less than the rates these countries obtain on the market, as suggested by the spreads currently paid by those with some market access. There would therefore be an overall net positive effect on the debt service burdens of all countries, LICs, LMICs and UMICs.
35. Following the IBF, borrowed funds will be obtained at rates consistent with IFAD's credit rating and market experience. As such, the cost of this capital will likely be at rates above current ordinary terms as these terms are based on International Bank for Reconstruction and Development (IBRD) funding costs and margins, which reflect IBRD's market access and experience, and its superior credit rating. For LMICs, this would imply slightly higher financing terms, although the margins are not expected to be significantly higher. For UMICs, closing off longer maturities will limit the subsidization implicit in their borrowing at long maturities. For LICs eligible for non-concessional debt, slightly more generous financial terms than LMICs would be possible through either cross-subsidization and/or blending (i.e. using equity). Various combinations of spreads and maturities can be considered to maximize operational impact, while minimizing adverse effects on debt sustainability.
36. With a careful financial strategy that recognizes the twin objectives of maximization of development objectives and long-term financial sustainability, it is possible for IFAD to expand its resources and utilize those expanded resources in a manner that maintains its mandate to support the rural poor particularly in LICs and LMICs.

III. Financing IFAD's role in the international financial architecture

A. Expanding IFAD's financial capacity – possible sources

37. Since many of the investments required to achieve SDG 2 described above have a social objective (inclusion) and there are concerns over financial returns, the ODI study indicates that countries prefer funds on grants or concessionary terms for the sector. This type of funding is particularly valued by LICs and LMICs who, the ODI report indicates, value concessional finance more than technical assistance and policy dialogue. UMICs, in contrast, indicate a more pronounced preference for technical assistance and policy advice.²⁸
38. Although a preference for concessional finance is noted, this does not mean that countries are unwilling to borrow for agriculture on ordinary terms. In fact, a study by the Center for Global Development (CGD) indicates that harder terms do not diminish the appeal of agricultural investment, but do tend to lead to a reallocation of country portfolios (and country demand) within agriculture to favour a different mix of agriculture investments, characterized by greater commercial orientation and greater focus on agriculture-supporting infrastructure.²⁹ These areas are consistent with many of the investments Ceres2030 points to as having a high return and in line with how IFAD has been reshaping its portfolio and operations over the past several years.
39. The implications for IFAD are clear. While replenishment contributions remain the bedrock of IFAD's financing, such resources at current levels will fall far short of the role IFAD needs to play in closing the funding gap for SDG 2 and in realizing the ambition of doubling IFAD's impact by 2030. As Ceres2030, the ODI Report, the Duke Report and many other observers have emphasized, leveraging sustainably IFAD's core resources is required to make any significant dent in the financing gap. In that regard, the positive result of the IFAD12 replenishment, its AA+ credit rating and its recent reaffirmation by Fitch, the recent adoption of an IBF and the

²⁸ Prizzon, A., Chen, Y., Jalles d'Orey, M.A. et al. (2020) *External finance in rural development: a synthesis of country perspectives*. ODI Report. London: ODI.

²⁹ Morris, S. and Lu. J. (2019). *Lending Terms and Demand for IFAD Projects*. CGD Policy Paper 160. Washington, DC: Center for Global Development.

ongoing strengthening of the risk management environment put IFAD in a stronger position to use its comparative advantage to contribute to the achievement of SDG 2 and related climate goals.

40. The key challenge is to agree on a pathway to sustainably support the scaling up of IFAD's resources. Greater attention to programme design and effectiveness will contribute to increased impact. However, as shown in table 3 earlier, the bulk of the expected doubling will have to come from a combination of an increase in IFAD's core resources and the efficient leveraging of the increased equity. Other financial innovations that stretch IFAD's balance sheet or expand IFAD's overall financing capacity should also be considered. The different financing modalities, to be considered and optimized in mutually reinforcing combinations, are summarized below:

- a. **Additional donor resources.** The increase in donor resources in IFAD12 consolidates the view that such resources will continue to constitute the bedrock of IFAD's financing capacity. The key questions are the size of the increases that can be reasonably expected in future replenishments and how such future replenishments measure up against financing needs that are consistent with IFAD's role in the international architecture and with closing the financing gap for SDG 2. Multiple channels for augmenting donor resources need to be examined, including bond issuance against future expected contributions, substantially increased concessional partner loans, early repayments and other forms of equity enhancements.
- b. **Leveraging IFAD's balance sheet.** The recently approved IBF provides a strong foundation for prudently leveraging IFAD's balance sheet for greater assistance to LICs, LMICs and UMICs. While all countries, particularly LICs and LMICs, prefer grant financing, the limited availability of such financing necessarily means that certain unmet SDG 2 needs, particularly those with higher financial returns such as value chain investments and small-scale rural infrastructure (e.g. storage, roads, irrigation) to facilitate commercialization will need to be financed with loans or a blending of loans and grants, with due regard to debt sustainability considerations.

Over time, IFAD will need access to the full range of tools to assure greatest efficiency in leveraging its balance sheet. The IBF currently allows borrowings from sovereigns and IFIs as well as private placements. The full toolkit for highly rated borrowers, such as IFAD, typically includes market borrowing. Utilizing market borrowing would result in greater efficiency in obtaining market resources, permit a more diversified investor base and greater flexibility in liquidity management. The issuance of green and other theme bonds would be consistent with IFAD's commitment to the climate agenda and also help further diversify IFAD's investor base.

However, IFAD's ability to leverage further its balance sheet has limitations especially without further increases in equity. A key assumption in Fitch's rating of IFAD is that the debt-equity ratio will remain limited to 50 per cent in the medium term, compared to the current internal prudential limit of 35 per cent. The maximum 50 per cent debt-equity ratio assumed by Fitch means that at the current level of equity of approximately US\$7 billion and holding all other risk-related and liquidity considerations constant, the headroom for additional borrowing amounts to only approximately US\$2.3 billion. This falls well short of the borrowing necessary to support a doubling (or even a significant expansion) of the PoLG. Therefore, given the 50 per cent debt to equity ratio ceiling, increased operational activity beyond the volume implied by the currently available borrowing headroom would be possible only if there is an increase in equity. This could happen through an increase in replenishment contributions, or through capital increases.

Other balance sheet stretching opportunities to explore include possible first-loss guarantees and interest buy-downs, to attract substantial private capital to worthy projects and programmes, particularly in LICs and LMICs. Initiatives such as these would need to be built on a track record of performance in lending to the private sector, which is currently only at a nascent stage. Further progress in the successful implementation of the Private Sector Financing Programme would likely be required before these options can be fully exploited.

- c. **Expanding IFAD's capacity.** In an ideal world, having agreed on IFAD's role in meeting SDG 2, member countries would increase IFAD's equity to the extent necessary to support such role. However, known budgetary and other constraints make it imperative to explore other approaches that could support the defined role of IFAD in a sustainable manner. There are also several available options which may offer the opportunity to expand IFAD's operational reach further.
- **Returnable capital.** Donor countries could invest in funds managed by IFAD to support clearly defined aspects of its mandate. Such funds would remain the assets of contributing countries and are therefore to be ultimately returned to such countries with a defined rate of return. Due to borrowing headroom limitations described earlier, such funds would not be on the balance sheet of IFAD, but rather held in trust funds with IFAD as the administrator. Since such off-balance sheet funds finance aspects of IFAD's core operations, they would offer the same operational effect and impact as core resources. Examples of managed funds include the Managed Co-lending Portfolio Program at the International Finance Corporation, the Africa Growing Together Fund at the AfDB, and the China Co-Financing Fund for Latin America and the Caribbean at the IDB.
 - **Reallocated SDR.** Countries with surplus SDR could consider investing some of such surplus SDR in the proposed returnable funds. Such funds could attract the same rate of return as paid by the contributing countries to the International Monetary Fund and therefore would be cost neutral over time. While the contributing countries will bear the credit risks from the investments in the funds, such risks would be substantially mitigated through enhanced diligence in project selection and, if necessary, suitable credit loss guarantee arrangements. A modest investment of between US\$5 billion and US\$10 billion of returnable capital would enable a substantial portion of the increase of projects financeable with loans. Countries with surplus SDR may also consider channelling some of such funds through the balance sheet of IFAD in the form of concessional partner loans.
 - **Climate finance.** Currently less than 2 per cent of global climate finance goes to support small-scale agricultural producers.³⁰ This is woefully inadequate, given agriculture's centrality to the global climate agenda and the disproportionately large impact of climate change on small-scale agricultural producers. IFAD's strong commitment to the global climate agenda (adaptation and mitigation) is evidenced by the ongoing efforts (e.g. the ASAP+, 2RP initiatives) and the strong climate finance commitments expected to be honoured during the Twelfth Replenishment cycle. IFAD's efforts to obtain substantially larger volumes of resources from global climate funds (e.g. the Green Climate

³⁰ Chiriac, S., Naran, B. and Falconer, A. (2020). Examining the Climate Finance Gap for Small-Scale Agriculture. London: Climate Policy Initiative.

Fund and the Adaptation Fund) could be expanded and deserves strong support by member countries.

B. Ensuring IFAD is fit for purpose

41. To complement and support this sizeable expansion in IFAD's operational activities, IFAD's Management needs to do more to increase IFAD's operational efficiency. During IFAD11, Management undertook considerable institutional and operational reforms, including a significant decentralization of its staff and activities, as well as increased collaboration and cofinancing with its international development partners. These reforms have already yielded significant benefits, as evidenced by the overall favourable external assessments of IFAD's effectiveness (see box 1).
42. During the IFAD12 consultations, Management acknowledged the need to do more to further strengthen IFAD's capacity to efficiently manage a higher and more complex programme of operations. Management also noted it had developed and the Executive Board approved a People, Processes and Technology Plan (PPTP) in April 2020 to ensure that IFAD has sufficient human resources, efficient corporate processes and technological solutions to expand and deepen its development results.
43. The "people" element is critical. The PPTP's current focus on reskilling/upskilling and better talent management (and associated systems) is important, but the analysis in this paper illustrates both the urgency of expanding IFAD's operational activities and the areas within which IFAD engages in the rural development space. More will need to be done to expand IFAD's technical capacity both in Rome and in the country offices to enable IFAD to deliver a greatly expanded PoLG and to support newly emerging IFAD activities in rural and community infrastructure, value chain development and the rural private sector. Without an increased capacity in these areas, even with an enhanced financial capacity, IFAD will unlikely be able to deliver in the manner and speed which is required to make a significant impact on SDG 2.
44. The "processes" element of the agenda is also important, as reform of processes will free resources to direct towards both financial and operational management. IFAD already, due to its small size, has a very high administrative cost ratio, which makes it difficult to prioritize budget to increase development impact. Past studies have shown that too many of IFAD's processes are still manual and can be reformed in line with good practices at other comparable IFIs, where process reforms have simplified documentation, controls and checking. One important area is disbursement policies and procedures, where reforms would reduce the amount of resources that are dedicated to these activities. This would allow IFAD to take full advantage of system reforms already in place, e.g. the client portal and a risk-rating system, thereby reducing its reliance on a manual transactions-based approach. Similarly, the ongoing analysis and reforms of other manual administrative processes should be accelerated and broadened, which will help free the resources necessary to expand the operational programme and finance it. On the finance side, Management has also undertaken a number of recent steps to strengthen IFAD's financial management to prepare for increased borrowing activities and to support its strong credit rating. Going forward, Management plans to continue to strengthen its financial capacity through enhancing the asset and liability management (ALM) systems and practices, consistent with the evolution of IFAD's balance sheet. In that regard, a new ALM framework will be operationalized in 2021, as well as consolidating and strengthening the risk management system. These actions together with other tools available to the Executive Board, will enhance its ability to exercise oversight of enterprise risks in general and on IFAD's finances in particular.

Box 1

External assessments of IFAD's effectiveness

A number of institutions publish assessments of the effectiveness of ODA. Most of these assessments are based on indicators found by the Global Partnership for Effective Development Co-operation to enhance sustainable development.³¹ The two most recent assessments (published in 2021 and 2019 respectively) rate IFAD's effectiveness as an official aid agency highly.

The most recent comparative assessment was issued by CGD in May 2021. This index – the **Quality of Official Development Assistance (QuODA)** – “measures and compares providers of ODA on quantitative indicators that matter most to development effectiveness and quality.”³² Its assessment is organized across four dimensions: prioritization; ownership; transparency and untying; and evaluation. The chart below compares IFAD's assessment with the other IFIs that are included in the CGD QuODA study. The key finding is:

“The International Fund for Agricultural Development (IFAD) ranks 1st on QuODA overall. It ranked in the top 10 for each of the four dimensions and 1st on Transparency & Untying. IFAD ranks 4th on both the Ownership and Evaluation dimensions, owing to strong alignment with partner country objectives and high-quality evaluation systems. It ranks 7th on Prioritization, and scores well on measures of poverty focus and the share of ODA that reaches partner countries.”³³

IFAD's **leads all official development agencies in the transparency and untying** dimension, reflecting its sound reporting to the international transparency initiative and that its aid is 100 per cent untied. Importantly, IFAD **scores the highest of all international organizations on evaluation, scoring particularly high on results-based management.** Evaluation is a key area for donors as independent evaluation and results-based management are **key oversight mechanisms ensuring accountability for the use of donor's resources.** Its relatively low ranking on prioritization reflects its low score on providing support to global public goods, which in part reflects its mandate and mission to focus on small-scale producers and food security.

Quality of ODA scores - agencies (selected)

The Multilateral Organization Performance Assessment Network (MOPAN) is a network of 18 countries that assesses the performance of major multilateral organizations, and its secretariat is hosted by the Organization for Economic Cooperation and Development (OECD). MOPAN's methodological approach assesses multilateral institutions' performance in five performance areas: the first four measure organizational effectiveness according to strategic, operational, relationship and performance management, and the fifth measures results. These areas are further subdivided into 12 performance indicators.

The latest IFAD performance assessment was for 2017-2018 and published in April 2019.³⁴ The key findings were:

- **“The assessment finds that IFAD is an agile, responsive and well-performing organisation.** The Fund's strategy, organisational architecture and operating model are all very well geared to deliver IFAD's mandate and are sufficiently flexible to adapt to the changing global context and to member states' evolving needs and priorities.
- **... The Fund consistently makes positive contributions to reducing rural poverty and continues to deliver results that are highly relevant to its member states' needs and priorities.** Sustainability and efficiency remain, however, areas for improvement, although the assessment team noted a positive trend.
- **IFAD's results culture is strong and growing stronger, and the evaluation and accountability functions continue to be robust...** Where outlooks could be stronger – notably on speed of disbursement – **IFAD is making progress or is actively addressing the institutional shortcomings that have been linked with comparatively weaker performance.** A major reform process is on-going, including decentralisation for redeploying IFAD's resources at regional and country levels.”³⁵

This assessment identifies five key strengths: (i) a clear mandate supported by a well-articulated strategic framework that is aligned with the 2030 Agenda; (ii) regular, intensive consultation processes that ensure a responsive, relevant organization; (iii) a transparent, well-defined approach to resource allocation; (iv) a strong institutional focus on results that is underpinned by a well-developed results infrastructure; and (v) clear progress towards results-based budgeting. It also notes five areas for improvement: (i) speed of disbursement remains to be improved; (ii) institutional capacity analysis should be strengthened; (iii) shortcomings in targeting strategies weaken IFAD's approach: (iv) measurement of knowledge work needs to be enhanced; and (v) integration of performance data and lesson learning could be more systematic. It should be noted that IFAD

³¹ See OECD, DAC, <https://www.oecd.org/dac/effectiveness/>.

³² See Ian Mitchell, Rachael Calleja, and Sam Hughes, *The Quality of Official Development Assistance*, Center for Global Development, see <https://www.cgdev.org/sites/default/files/QuODA-brief-2021.pdf>.

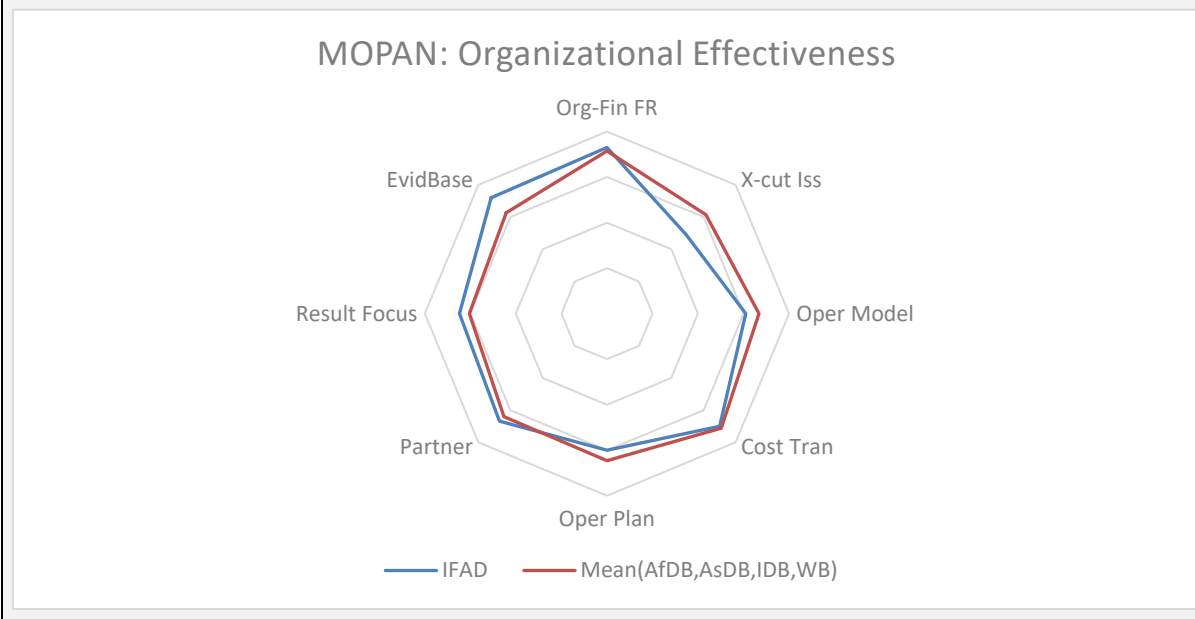
³³ *Ibid.* p. 2.

³⁴ See [IFAD Report.pdf \(mopanonline.org\)](#)

³⁵ *Ibid.* Executive Summary, p.7.

has subsequently sped its disbursements and agreed during the IFAD12 Replenishment to revise its targeting policy framework.

The chart below compares IFAD's ratings in the latest MOPAN assessment on organizational effectiveness with the mean of the ratings for the AfDB, the ADB, the IDB and the World Bank.³⁶ These comparator institutions have large portfolios of both concessional and non-concessional finance. IFAD compares favourably with these other institutions, with slightly lower ratings on organizational and financial frameworks and cross-cutting issues, and higher ratings on partnerships, results focus and evidence base. It is of note that these surveys were completed prior to the recent reforms of the operating model (including decentralization) and of IFAD's financial architecture.



IV. Concluding remarks

45. Given the evidence from Ceres2030 and elsewhere, focusing on its niche and comparative advantages described earlier, IFAD needs to continue to expand and leverage its resources as well as improve the effectiveness of resource use. Given its focus on the rural poor, IFAD is a critical and necessary piece of the international development finance architecture, but it must evolve its tools and processes to maximize synergies with the efforts of other institutions, notably the World Bank and the regional development banks.
46. The doubling of ODA to agriculture widely considered necessary to achieve SDG 2 will happen only if each party in the development finance architecture, including IFAD, scales up its operations. For IFAD, leveraging of the balance sheet will contribute to the scaling up. Nevertheless, the bulk of the resources required to double or significantly expand IFAD's operational activities will require a substantial increase in IFAD's equity (via replenishment contributions or capital increases). Member States should also consider the suggested additional financing approaches (e.g. provision of returnable funds, strong advocacy for increased allocation of global climate finance to support small-scale agricultural producers), where appropriate, to accompany future additions to IFAD's equity. The benefits of a substantially increased IFAD footprint would accrue to the rural poor in all the country groups, with an increasing proportion going to LICs and LMICs. The prudent allocation of the increased resources, especially borrowed resources, among LICs, LMICs and UMICs would help achieve the twin objectives of maximization of development objectives and long-term financial sustainability.

³⁶ This analysis is based on the detailed assessments of these five institutions. Note that detailed ratings are not available for the result criteria for three of the five institutions (AfDB, IDB and the World Bank) so this has been excluded from the chart.