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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Executive Board – Eightieth Session

Rome, 17-18 December 2003

IFAD POLICY FOR GRANT FINANCING

1. In the light of the Executive Board deliberations on document EB 2003/80/R.5, the following supplementary issues were discussed and agreed in a meeting of Convenors and Friends with representatives of all lists.

- A. The proportion of allocations between the two grant windows – the basis for the competitive process (paragraphs 35 and 45)

2. The Executive Board consensus is to accept a 50-50% split between the two windows (within the 10% of the programme of work (POW) allocated for grants). This reflected the view that IFAD should build on the successes of its grant programme to date, especially in such areas as pro-poor research. Where this involves international centres, the practice will continue to be the commissioning of specific pro-poor innovation.

3. A competitive system would apply to each of the two windows, i.e. the most relevant criteria vis-à-vis the competition would determine the most effective and efficient grant investments according to the objectives of the two windows (paragraphs 36-41). This would be driven by a results-based assessment focusing on impact-oriented monitoring and evaluation, logframe outputs, etc., within the overall Framework for a Results Management System (document EB 2003/80/R.6).

- B. The relationship between the country-specific window and the PBAS and PDFF

4. The performance-based allocation system (PBAS) would apply to all recipient countries and determines the country-financial envelopes (all forms of assistance). The country-specific priorities including, in particular, capacity-building needs, would be the key determinant of country-specific grants, reflecting COSOP analysis and evolving PBAS understanding and learning.

5. Grants under this window will benefit from the PBAS assessment of the policy and institutional environment. In turn, the capacity-building of pro-poor policy and institutions will be a key issue to be addressed by these grants and will contribute to improving the impact of loans. This will evolve following the adoption of the PBAS from 2005.

6. It was confirmed that the Programme Development Financing Facility (PDFF) – approximately 2.5% of the POW – is part of the country-specific window as stated in paragraph 39 of the document.

C. Perspectives for regional distribution of grants

7. This would be driven by the two grant window portfolios, which are to have 50/50 shares of the total. The global and regional window will be driven by value for money – of the most effective grant investments to deliver the two strategic objectives (paragraphs 28-34). All regions stand a similar chance of obtaining grants under this window. In the country-specific window, in 2004 (and in 2005, as previously agreed for the PBAS (document EB 2003/79/R.2)) the regional grant distribution will reflect the regional loan shares. The regional aggregates for the country-specific window will reflect the application of specific selection criteria, focusing, in the main, on capacity-building.

D. Additional information requested

8. The Executive Board requested further clarification on the following two issues:

- (i) *The impact of the increase of the level of the grant programme as a percentage of the POW – from 7.5% to 10%.*

9. The impact of the increase in the level of grant financing to 10% of the POW (loans and grants) was analysed. The impact of the higher level of IFAD grant financing from the year 2004, on both investment income and on lending reflows (in the aggregate), is modest. The financial model used was the same as the one used to depict the resource projections presented to the Consultation on the Sixth Replenishment of IFAD Resources in December 2002. The reduction is on the order of USD 0.15 million by the end of the Sixth Replenishment period (2004-2006). The impact is cumulative and progressively heavier in the future periods, for a total liquidity shortfall of USD 10.2 million by the end of the Eighth Replenishment period, i.e. 2012.

- (ii) *The proposal to increase the small grant ceiling to USD 200 000*

10. General support was expressed but a number of Executive Board Directors asked for further clarification. The proposed increase of delegated authority to USD 200 000 (with a report of such approvals to the Board on an annual basis) is based on several reasons, including, *inter alia*, improved efficiency in processing, which is an important consideration especially where swift and timely intervention is critical. The advent of the country-specific window will probably increase the proportion of operations in the USD 100 000-USD 200 000 range, interacting directly with the loan portfolio (following discussion with IFAD's regional divisions) which, should the current policy remain, would result in an inordinate increase in the number of grants to be processed for the Board.

E. Recommendation and future reporting to the Executive Board

11. The Executive Board agrees to adopt the policy, as articulated in paragraphs 49 and 50 of document EB 2003/80/R.5, subject to the clarifications and amendments contained in the present document. The Board will review this revised grant policy in September 2005, based on a factual report on implementation of the policy over the initial period. This would involve consideration by the Board of the numbers of grants approved, objectives and purposes, selection criteria and process, and related decisions regarding any amendments to the policy, as appropriate.