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IFAD POLICY FOR GRANT FINANCING

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ABBREVIATIONS AND ACRONYMS

CBO	Community-Based Organization
CGIAR	Consultative Group on International Agricultural Research
COSOP	Country Strategic Opportunities Paper
ECP	Extended Cooperation Programme
GM	Global Mechanism of the Convention to Combat Desertification
IARC	International Agricultural Research Centre
IDA	International Development Association
IFI	International Financial Institution
ILC	International Land Coalition
LP&C	Lending Policies and Criteria
NARS	National Agricultural Research Systems
NGO	Non-Governmental Organization
PBAS	Performance-Based Allocation System
PDFF	Programme Development Financing Facility
R&D	Research and Development
R&E	Research and Extension
SF2002-6	<i>Strategic Framework for IFAD 2002-2006</i>
TAG	Technical Assistance Grant

IFAD'S POLICY FOR GRANT FINANCING

I. BACKGROUND

1. The Consultation on the Sixth Replenishment of IFAD's Resources in 2002 recommended that starting from 2004, the ceiling for the grant programme be raised from the current 7.5% of the annual programme of work to 10%, and that a "grant policy paper, to be submitted to the Executive Board ... propose guidelines for the use of grant funding, taking into account an examination of the potential consequences of this new level of grant assistance" (document GC 26/L.4).
2. Prior to this, in May 2000, the Executive Board discussed a document entitled *Grant Financing: A New Approach*, and raised a number of issues. In view of the range and varying nature of these issues, it was decided that a separate proposal for rationalizing the use of grant and administrative budget resources for financing project development and implementation support would be presented to the Executive Board at its Seventieth Session in September 2000. At that Session, the Executive Board discussed and approved a proposal to establish a programme development financing facility (PDFF) (document EB 2000/70/R.6). At its Twenty-Fourth Session in February 2001, the Governing Council approved the establishment of this facility (document GC 24/L.8).
3. The *Strategic Framework for IFAD 2002-2006* (SF2002-6) calls for aligning the Fund's lending and grant activities within the strategic framework to achieve maximum impact on rural poverty reduction. The present paper builds on these past efforts and recommendations, and suggests a revised grant policy for IFAD, based on the work of a task force constituted for this purpose.

II. RELATIONSHIP BETWEEN THE LOAN AND GRANT PROGRAMMES

4. The strategic objectives of SF2002-6 drive IFAD's regional and country strategies and, through them, its programme of work, i.e. its loan and grant programme. To maximize the synergy between these two instruments, it is imperative that the grant programme adhere to two basic principles:
 - (i) it should focus on interventions where grants have a significant comparative advantage over loans as a financing instrument; and
 - (ii) it should complement the loan programme.
5. In terms of *comparative advantage*, there are several distinguishing factors. Grant-financed interventions should address elements of pioneering innovation, policy dialogue and institutional development involving opportunities that preclude larger-scale loan investment. Borrowing partners are more conservative with loans than with grants. Second, since grants are smaller than loans and more straightforward to design they take less time to formulate and process. Grants are thus often better suited than loans where timeliness is essential – such as in post-emergency situations. Third, grants can also reach recipients, such as certain civil-society actors and community-based organizations (CBOs) not commonly eligible for financial assistance directly through the loan instrument.
6. The proposed grant financing framework (Section V) develops this analysis further in terms of innovations applicable to the needs of several countries (necessarily involving global or regional grants) often operating on a longer time scale, and country-specific grants that would tend

to be adaptive or shorter-term interventions. In the latter case, it is more appropriate to use grants rather than loans to finance certain categories of activities. These categories would cover activities such as pre-investment initiatives (e.g. strategic studies and field surveys), investigation to obtain a deeper understanding of where IFAD can best contribute to the development processes locally, technical assistance, capacity-building, knowledge development (testing, validation of rural innovations and learning etc.), partnership formation, establishment of policy-dialogue platforms and institutional transformation. Global or regional grant-financed instruments assist in the development of pro-poor technologies and rural innovations and are highly suited to ensuring benefits in a regional, collaborative networking context involving several countries. They are also intended to leverage significant incremental cofinancing support for pro-poor activities.

7. In terms of the *complementarity* between grants and loans, a mutually-supportive, strategic relationship would be developed between the two separate and independent instruments. Grants may not necessarily be directly linked to existing loans, but in many such cases, can usefully contribute to the design of future interventions. Complementarity is, thus, sought through a two-pronged approach: (i) a strategic activity (commonly supported by regional grants) that develops and validates an appropriate technical basis, and/or innovative pro-poor institutional arrangements thereby setting the context for future loans; and (ii) national/local activities (funded by country-specific grants) that address an identified opportunity or constraint affecting the livelihood systems of beneficiaries located in ongoing IFAD project sites. This country-specific grant instrument will build on the *small-grant instrument* already in place, whereby national/local entities including civil-society organizations have used grant support (of less than USD 100 000) very effectively to form local partnerships and foster local innovations in support of the lending programme. Regional programmes will also remain a traditionally important source of technologies/knowledge for local adaptation and complement the loan portfolio by impacting independently on poverty reduction activities not necessarily financed by IFAD loans.

III. IFAD'S GRANT PROGRAMME: PAST AND PRESENT

A. Background and Evolution of IFAD's Grant Programme

8. IFAD's policy on grant financing has evolved within the broad structure provided in the Agreement Establishing IFAD (Article 7, Section 2) and, in particular, in its Lending Policies and Criteria (LP&C). The Agreement sets a ceiling for grant financing of 12.5% of total loans and grants per year, while the Executive Board has for several years adopted a lower ceiling of 7.5%, now reviewed subsequent to the Sixth Replenishment Consultation. The LP&C set out IFAD's policies on technical assistance, particularly in paragraphs 29, 37 and 38.

9. Over the years, the Executive Board has introduced a series of refinements in the policy and operational framework for IFAD's grant assistance, based on the provisions of the LP&C. These refinements have largely focused on three broad policy questions: (i) the nature and scope of activities to be financed under the grant programme; (ii) the terms and criteria under which grant assistance can be provided for different purposes; and (iii) related approval procedures.

10. As IFAD's operational reach has expanded, the grant programme has branched into a number of categories. An important step in rationalizing the grant programme was the creation in 2001 of the PDDF, in which all costs (administrative and those met by IFAD's regular grant resources) for project development and implementation support were consolidated, on a zero-sum basis and at the existing funding level.

11. IFAD's regular grant programme currently comprises the following categories: (i) agricultural research; (ii) non-agricultural research and training, and others; and (iii) the IFAD

NGO/Extended Cooperation Programme (ECP). In addition, IFAD extends grants from resources provided by bilateral donors under supplementary fund arrangements. These grants are guided by bilateral agreements between IFAD and the donor.

12. On a cumulative basis, from 1978 to end-2001, IFAD provided USD 442.7 million in financial assistance as grants (including grants for project development). Agricultural research accounted for nearly 36% (USD 162.5 million) of the total. The resources used in support of project development assistance represented 33% (USD 147.1 million) of total grants, while 31% was provided in support of other activities, including training and the IFAD NGO/ECP (Appendix I provides a short analysis of trends in annual resource allocations.) In 2003, the budget allocation for grants amounted to USD 32.60 million, of which USD 12.30 million was for the PDFF and USD 20.30 million for other regular grant programme budget lines. Agricultural research accounted for about one quarter of IFAD's regular grants while support for project development and implementation accounted for nearly two fifths of total regular grants. The rest was for research, training and other categories.

TABLE 1: ALLOCATION OF IFAD GRANTS IN RECENT YEARS

Categories	Average for 1997-2001		Allocation for 2002		Allocation for 2003	
	USD million	%	USD million	%	USD million	%
Agricultural research	8.23	23.9	8.55	25.5	8.38	25.7
Other research, training and other	12.55	36.4	9.66	28.5	9.42	28.9
NGO/ECP grants	2.20	6.4	2.55	7.5	2.50	7.7
Support for project development and implementation (PDFF)	11.47	33.3	13.10	38.6	12.30	37.7
Total	34.45	100	33.86	100	32.60	100

B. Grants for Agricultural Research

13. The main objectives of IFAD's support of international agricultural research have been to finance specific, poverty-relevant research and training programmes through national and international research systems, and, in so doing, reorient these programmes towards the needs of smallholders. The research programmes, principally financed through international agricultural research centres (IARCs), do not involve core budget support; they finance downstream interdisciplinary and multi-stakeholder partnerships that promise delivery of practical outputs in a relatively short time frame. The programmes have involved adaptive and applied, rather than basic, research and have sought to establish a close link with IFAD's investment projects located in marginal areas and in adverse agro-ecological zones. As a result of rigorous screening of proposed programmes under a competitive grant system in place since May 2000, all ongoing programmes have a demonstrable relationship with the loan portfolio.

14. The Executive Board continues to set the direction of the grant agenda. The strategic objectives of IFAD's support for technology development are explicitly stated in every President's Report and Recommendation to the Executive Board presenting individual research proposals for approval. These objectives relate to: (i) IFAD's target groups and their household food-security strategies, specifically in remote and marginalized agro-ecological areas; (ii) technologies that build on traditional knowledge systems, are gender-responsive, and enhance and diversify the

productive potential of resource-poor farming systems by stabilizing production, improving productivity and addressing production bottlenecks; (iii) access to productive assets (land and water; financial services; labour and technology, including indigenous technology), and sustainable and productive management of such resources; and (iv) an institutional and organizational framework within which formal and informal, public- and private-sector, local and national entities come together to facilitate the innovation process.

15. In 2002, the Fund's Office of Evaluation undertook an evaluation of the agricultural research component of the technical assistance grants (TAGs) programme. The evaluation noted that through this programme and its link with the Consultative Group on International Agricultural Research (CGIAR) system, IFAD had "played an important policy and advocacy role in promoting pro-poor agricultural research and in addressing crucial poverty issues". The programme has had a number of successes in pro-poor international agricultural research, established effective partnerships with IARCs and strengthened national agricultural research systems (NARS). Some 86% of TAGs had stated goals with definite poverty relevance, and the majority of the completed technology outputs clearly reflected achievements in this regard. The evaluation also noted that IFAD has played a leadership role in the development of methodologies for poverty impact assessment of agricultural research.

16. IFAD's grant investment in agricultural research has significantly paid off in terms of improved pro-poor crops (staples), and livestock and aquatic production, which are key to the food security and general well-being of resource-poor small farmers, including pastoralists, and communities practising aquaculture. These grants have led to the development and adoption of time and labour-saving technological innovations with an explicit focus on reducing the workloads of rural poor women, and increasing their productivity and income-generating capacities. In the first decade of the Fund's grant-support research, the dominant feature was biophysical research outputs in more marginal, poorly endowed, rainfed environments – the success of which was comprehensively reported to the Board (see, for example, documents EB 79/7/R.45; EB 82/16/R.46; EB 84/21/R.26 and EB 91/44/R.78). More recently, IFAD's support for developing and assessing innovative institutional arrangements in truly participatory technology development processes has been well recognized. The subsection below and Appendix II give further examples of successful IFAD-financed innovations.

IFAD Support to Agricultural Research: Areas of Impact

17. IFAD's support of international agricultural research is an important and widely acknowledged positive feature of its TAG programme. By conservative estimates, the majority of IFAD grant-supported research initiatives have delivered all the major expected outputs and have brought widespread benefits to small-scale agriculture throughout the developing world. The attainment of stated objectives is also substantiated by reference to relevant independent reviews and reporting, to supervision reports and completion evaluations of individual grant programmes. Many of the achievements are highlighted in IFAD's *Rural Poverty Report 2001*.

18. A few major research findings emerging from IFAD-supported grant programmes are summarized below:

- **Adaptation of improved germ plasm:** improved varieties of rice; low-rainfall-tolerant, high-yielding varieties of wheat and barley; improved varieties of mosaic-disease-resistant cassava; new and improved black Sigatoka-tolerant plantain varieties made available to African farmers; broad bean varieties developed for the Nile Valley; improved disease-resistant varieties of field beans in Central Africa, which take account of anti-nutritional factors and women's preferences in terms of seed colour, size and cooking time; and high-yielding varieties of pigeon pea for poor small farmers in South Asia.

- **Improved production systems:** low-input technologies developed for rainfed upland rice, maize, sorghum, millet, chickpea, pigeon pea, groundnut, and for sweet and white potato-based farming systems.
- **Crop and livestock protection:** integrated pest management practices to combat stem borers, pathogens, nematodes and weeds; a biological control programme against the cassava mealy bug with widespread impact on the poor in sub-Saharan Africa; the rare and highly successful eradication of a devastating pest – the New World Screwworm – from Africa; preventive technologies to contain the menace of the desert locust; and successful testing of an adapted male annihilation technique against the carambola fruit fly in the north-eastern regions of Latin America.
- **Other innovative technologies:** in the fields of animal health (East Coast Fever vaccine, innovative tsetse and trypanosomiasis management, strategic pest control (e.g. helminthes) in small ruminants); integrated soil fertility management; sustainable natural resource management (including farmer-managed irrigation systems); diversified sources of rural livelihoods from non-timber forest products such as bamboo; agroforestry in the Sahel (involving ‘living fences’, shelter belts, fodder banks and erosion control); and variants of alley farming in niche areas of West Africa.
- **Institutional architecture:** the development of innovative participatory research partnership methodologies and associated professional change (in West Africa); and community-based action research on joint forest management (in South-East Asia) are prominent examples of IFAD’s pioneering role in supporting policy and institution-related research.

C. Grants for Non-Agricultural Research and Training, and Other Grants

19. This grant category has supported a broad range of initiatives for rural poverty-reduction efforts at the global, regional and individual country level. Varying in size and in intensity of engagement with grant beneficiaries, this flexible instrument has been directed at creating important assets in terms of knowledge, technology, capacity-building and policy initiatives. Several capacity-building grants have been highly successful in strengthening the impact potential of loan projects (in Latin America, for instance, through the experiences of the Regional Unit for Technical Assistance (RUTA), the Rural Microenterprise Support Programme in Latin America and the Caribbean (PROMER) and the Programme for Strengthening the Regional Capacity for Monitoring and Evaluation of Rural Poverty-Alleviation Projects in Latin America and the Caribbean (PREVAL)). Regional information networks supported by these grants have promoted access to and exchange of information and knowledge on pro-poor research and development (R&D) issues, while supporting South-South dialogue. The most successful examples of this are the Internet-based network of organizations and projects working with the rural poor in Latin America and the Caribbean, FIDAMERICA; and Electronic Networking for Rural Asia/Pacific (ENRAP). The Rural Knowledge Network in Eastern and Southern Africa promises to adopt a new approach to community-specific knowledge generation and diffusion. IFAD has also provided grant support to the Global Mechanism (GM) of the Convention to Combat Desertification, to the International Land Coalition (ILC) (previously the Popular Coalition to Eradicate Hunger and Poverty), and to support innovative poverty-reduction activities through government agencies and multilateral agencies such as the Food and Agriculture Organization of the United Nations (FAO). Among the successful examples of partnership with FAO is the farmer-fields school approach, which IFAD has helped to shape into a self-sustainable tool for community-driven knowledge exchange with research and extension (R&E) systems in Eastern and Southern Africa. Research and training grants have also usefully supported IFAD’s advocacy role through pro-poor knowledge dissemination via country, regional and global-level seminars, workshops and

conferences. In the existing grant system, there have been no separate a priori regional allocations, apart from the categories in Table 1. However, during the recent two-year period, this “non-agricultural research and training, and others” budget category reflects the regional lending shares.

D. IFAD/NGO Extended Cooperation Programme

20. The ECP was established in September 1987 to provide direct financing to non-governmental organizations (NGOs) for pilot and experimental activities. The programme’s overall goal is to enhance the Fund’s direct collaboration with NGOs in the promotion of participatory and community-based rural development and poverty reduction. So far, a total of 134 NGOs have received ECP grants. ECP-supported activities have focused primarily on: (i) testing innovative technologies and appropriate or innovative approaches and mechanisms relevant to the rural poor; (ii) supporting pro-poor capacity-building through training programmes; and (iii) pioneering regional information networks (e.g. the International Forum for Development of Sustainable Land Use Systems (INFORUM)). The ceiling of any single grant to an NGO is USD 100 000, raised from the previous ceiling of USD 75 000 in May 2001. An evaluation of the ECP in 2000 found that the programme has made a valuable contribution to: enhancing IFAD/NGO operational partnerships and, through this, NGO/government partnerships; enlarging the range and numbers of IFAD’s NGO partners; increasing institutional understanding of NGO operations; and increasing mutual confidence in this collaboration. The ECP has also broadened institutional exposure to participatory approaches for poverty reduction and helped define the advocacy role that NGOs have in strengthening in-country pro-poor policy dialogue.

IV. RELATIVE EXPERIENCE OF OTHER INTERNATIONAL FINANCIAL INSTITUTIONS WITH GRANTS

21. IFAD’s grant programme has in the past focused heavily on the development of innovative approaches to technical and institutional issues confronting the rural poor in the area of agricultural technology. In addition, it is becoming increasingly involved in organizational and institutional development in non-agricultural areas (e.g. rural finance, market linkages and pro-poor policy development). [The programme has drawn heavily on the capabilities of international and regional centres of excellence by supporting specific research programmes (not core institutional funding). In this way it responds to the fact that: (i) the problems addressed are characteristic of the situation of the poor over large areas; (ii) some issues involve mobilization of capacities beyond those available in many national organizations; and (iii) cross-country learning is essential to addressing the challenge of practical innovation.] IFAD has largely restricted the use of small grants to national institutions to address national/local issues, whereas it has extended NGO/ECP grants exclusively to civil-society organizations, as the name of the programme suggests.

22. IFAD’s grant programme has, therefore, paralleled some aspects of technical grant programmes operating, for example, under the World Bank’s Development Grant Facility and under other international financial institutions (IFIs) such as the African Development Bank, the Asian Development Bank and the Inter-American Development Bank. There are, however, a few fundamental differences in the modalities of support. The World Bank’s support to CGIAR has been in the form of core funding, while IFAD does not provide core financing for any international agricultural research entity. Another difference lies in the proportion and, thus, magnitude of resources deployed as grants. The grant dimension of the work of the International Development Association (IDA) has been significantly expanded in the context of the donor meetings on the Thirteenth Replenishment of IDA, raising the proportion of grant financing as a percentage of total operations to approximately 20%. An important aspect of the use of grants by IDA (and other IFIs adopting the same shift in their instruments of assistance) has been to increase the level of

concessionality of assistance to countries, with allocations to countries being linked to the IDA performance-based allocation system (PBAS). Of necessity, experience in defining and managing this linkage is limited, and IDA management has been given flexibility in applying the new system. There is a strong preference for linking grants to support particular sorts of activities (for example, HIV/AIDS programmes and post-conflict reconstruction) and situations (such as receipt of debt relief from the Debt Initiative for Heavily Indebted Poor Countries) rather than applying a simple across-the-board increase in concessionality.

23. It is proposed that IFAD follow this general policy of increasing the level of grant assistance to activities at the country level. The first step in that process will be to earmark the entire amount of the increase in the grant component of the programme of work (i.e. from 7.5 to 10%) for activities at the country level. The financial significance of this allocation differs enormously between IFAD and IDA. In the case of IFAD, it will involve the increased availability for country-level grants of several millions of dollars; in the case of IDA, it involves several billions of dollars. For IFAD, then, the objective of the enhanced grant component cannot be to increase overall debt sustainability through an increase in concessionality; rather, it must be to improve the pace of rural poverty reduction by strengthening the impact of its own programmes and by leveraging the comparative advantage of grant resources in addressing certain strategic technical and institutional problems confronting the rural poor. In some respects, this will mirror IDA's concern of using grant resources to address specific development issues.

24. The identification and design of these grant programmes will benefit from the assessment of the policy and institutional environment undertaken by the PBAS. In turn, the development of policy and institutions in favour of the rural poor is a key issue to be addressed by country-specific grants, which will contribute to improving the performance of the IFAD-supported lending programme. IFAD will continually develop and articulate this linkage once the PBAS for the lending programme is effectively operational (2005). At that time, there will be a better experience-based understanding of the potential role of country-level grants in issues identified in PBAS assessments, and the lessons from IDA experience in managing the complex relations between the IDA PBAS and its grant programme will be better understood.

V. PROPOSED FRAMEWORK AND OBJECTIVES FOR IFAD'S GRANT POLICY

25. This section lays down the framework and objectives of the revised policy for IFAD grant financing. The following section will draw on these objectives and suggest a simple set of financing modalities for allocation of grant resources through two windows.

A. Introduction: The Strategic Framework

26. The SF2002-6 represents the medium-term strategy that IFAD has adopted as a part of its efforts for attaining the Millennium Development Goals. To enable the rural poor to overcome their poverty, the strategic framework proposes that future IFAD interventions focus on three strategic objectives:

- (i) strengthening the capacity of the rural poor and their organizations;
- (ii) promoting equitable access to productive natural resources and technology; and
- (iii) increasing access to financial services and markets.

27. The SF2002-6 stresses that "IFAD's mission is to achieve the greatest possible impact in enabling the rural poor to overcome their poverty". In this regard, IFAD plays a catalytic role with other partners in the international community. The Fund's revised grant policy draws on the strategic framework to encompass various activities that shape the content of the proposed new

directions for IFAD grant support: (i) systematically identifying and testing innovative approaches and scaling up those that are replicable and successful in reaching the rural poor; (ii) harnessing knowledge on rural poverty-reduction strategies and disseminating it to a broad spectrum of national and international partners; (iii) supporting the development of national partnerships involving the poor, governments, the private sector and civil society; (iv) helping establish a national institutional and policy framework in support of the poor; and (v) performing a regional and international advocacy role to influence the policies that shape rural development options.

B. Rationale and Objectives of the Proposed Approach

28. Under the proposed approach, objectives and expected impacts, rather than grant-recipient and budget categories, will guide the allocation of IFAD's grant programme. Grant proposals may be country-specific or international/regional, depending on the nature of the innovation and impact envisaged. Two *strategic objectives of the grant programme*, representing priority areas for IFAD's regular grant resources, are proposed:

- (i) promoting pro-poor research on innovative approaches and technological options to enhance field-level impact; and
- (ii) building pro-poor capacities of partner institutions, including CBOs and NGOs.

These strategic objectives are not meant to be budget categories but rather to identify grant-funding areas in relation to the SF2002-6 objectives.

29. **Promoting pro-poor innovation.** The proposed policy will place a premium on rural innovation and support to the development of innovative community-based approaches. Pro-poor agricultural research will remain a significant component, building on the success of past such investments by IFAD. Grants will include support through international centres of excellence (such as those supported by CGIAR), and other international or regional centres (such as the International Center for Soil Fertility and Agricultural Development (IFDC) and the International Centre of Insect Physiology and Ecology (ICIPE)). They will typically involve a number of NARS partners contributing to and benefiting from regional collaborative R&D networking. The Global Forum on Agricultural Research (GFAR), also initiated by IFAD and its partners, will provide a platform for establishing such R&D partnerships. Support to these centres will continue to be project-specific (i.e. no core funding), generating clear pro-poor outputs. Under this strategic objective, support will be extended to regional and thematic initiatives (relating, for instance, to HIV/AIDS) and special initiatives (such as those under the New Partnership for Africa's Development (NEPAD)) with clearly identified impact on the rural poor.

30. This strategic objective will also emphasize support to the development of outreach mechanisms and innovative institutional architecture with a view to improving access of the poor to financial technologies, diversifying services and developing associated impact assessment tools. Research on policies and institutions will examine issues in areas such as market access, natural resource management and development of pro-poor institutions. Governance research mechanisms involving greater devolution and decentralization of research will also be supported. This will enable poor communities to form partnerships with researchers from the formal science institutions, thereby building on farmer innovation, local knowledge systems and informal science within truly participatory research programmes. IFAD will give more emphasis in its grants to supporting research-for-development approaches in order to create a broader spectrum of on and off-farm opportunities that will allow the rural poor, jointly with other stakeholders, to develop promising adoptable and adaptable technological options.

31. The grant programme will also be used to broaden and multiply the impact of the Fund's activities by promoting the replication and scaling up of successful approaches in rural poverty

reduction. This entails: (i) supporting participatory monitoring and evaluation of such approaches to capture insights and lessons learned; (ii) disseminating these to development practitioners; (iii) using evaluation exercises more fully for institutional learning and professional change in both IFAD and its partner institutions; and (iv) enhancing partnership-building processes to strengthen the participatory design, implementation and impact assessment of the results from the Fund's loan and grant programmes.

32. **Building pro-poor capacities of partner institutions.** Empowering the poor – men and women alike – by enhancing their capabilities and those of their institutions and organizations, allows them to analyse their own circumstances and make informed choices to maximize benefits from available options and to engage meaningfully and productively with partners. Complementing the lending programme, IFAD will seek to improve the bargaining power of the poor, enhance their organizational capacities at the local level, strengthen the pro-poor orientation of the institutions that can serve them, promote gender equality, sensitize the rural poor about their rights, and help them to engage in market processes (collectively and individually) in order to increase their share of the economic gains. Activities under this strategic objective will address adverse geographical locations (remoteness), lack of appropriate training (and suitable training capacity, professional skills, attitude and behaviour), inadequate information and weak local R&E institutions. The proposed grant policy does not envisage that the ECP, which was created to target NGOs and CBOs only, will continue to operate as a separate grant category. However, civil-society organization-led activities, currently financed under the ECP, will be eligible for grant funding under the country-specific grant windows described in Section VI below, if they correspond with this grant programme's strategic objectives.

33. Initiatives under this objective could, for example, support local communities in post-conflict situations and those affected by natural disasters – providing the rural poor with crucially needed support to enhance their resilience to external shocks and to address transient adverse factors. These initiatives may be country-specific or regional depending on the nature of the emergency/disaster or conflict situation.

34. In terms of broadening and multiplying the impact of IFAD's field activities, disseminating good practices and, ultimately, increasing the Fund's influence on the poverty-reduction efforts of the international development community, specific emphasis will be placed on:

- (i) strengthening partnerships with country-level institutions at the field-investment and policy levels, especially those providing direct assistance to the rural poor;
- (ii) providing support to communication and mutual learning among stakeholders, actors in rural development assistance, and relevant external networks; and
- (iii) supporting advocacy for the rural poor nationally and internationally.

VI. MODALITIES FOR GRANT ALLOCATION

35. Two separate and mutually exclusive modalities or 'windows' are proposed: a window for grants at the global and regional levels and a country-specific grant window. Both will be guided by the overall strategic grant objectives, and selected following a competitive process.

A. Global and Regional Grants

36. These will typically span several countries necessitating regional initiatives to create options for poverty reduction by promoting knowledge and information exchange through regional research and innovation networks – both CGIAR-led or otherwise. Supported by collaborative regional initiatives, country-level research and capacity-building activities will enhance the

effectiveness and widen the scope for addressing problems and opportunities through concerted action, capitalizing on the comparative advantages of the countries and institutions involved.

37. Eligible areas for funding will include inter alia: agricultural research for development; pro-poor innovations; regional knowledge and information networks; emerging global challenges (such as HIV/AIDS); and IFAD-hosted initiatives (e.g. the GM and the ILC). These grants will be committed on a regional basis to address issues relating to rural poverty across the countries concerned.

38. In recent years, grant allocations corresponding to regional agricultural research, other research and training activities have averaged around 55-60% of the current grant envelope (Table 1) of 7.5% of the programme of work. IFAD's support for these innovation and capacity-building activities has clearly been highly rewarding, with demonstrable impacts described in Section II and Appendix II. This experience has been both significant and considerable and provides a strong basis for the Fund to continue its support at the same level of funding (i.e. 5% of the programme of work). The precise magnitude will, of course, vary from year to year and will also be determined by, among other factors, the demand for various types of grants, the strategic planning and resource allocation process and the application of the competitive grants system.

B. Country-Specific Grants

39. The entire increase in grant resources as a proportion of the programme of work (i.e. 2.5%) will be applied to country-based initiatives. This increase of 2.5% is in addition to the PDFF resources (for a total of 5% of the programme of work) allocated for activities associated with the design and development of country-specific loan projects. Among the country-based initiatives will be partnership-building and policy dialogue activities, complemented by technical assistance activities, local capacity-building and local innovation within the framework of the two grant programme strategic objectives articulated earlier. Country-specific grants will support and help validate good local practices in areas such as water/sanitation and health, and cofinance specific loan project components covering areas and subject matters not normally supported by loan funding (thus enhancing outreach). Such grants will also support the development and testing of innovative policy, institutional and technical approaches to rural development.

40. Activities eligible for funding under this window will be directly aligned with country strategies (as articulated in country strategic opportunities papers (COSOPs)) and will directly or indirectly support and complement the Fund's loan portfolio. Eligibility for grant support will be dependent on a combination of strategic relevance and the advantages of grant financing in terms of innovation and institutional/social outreach. Grants will be made directly to public-sector or civil-society organizations (such as NGOs and CBOs). Examples may include post-emergency rehabilitation (e.g. assistance following a conflict or a natural disaster) and location-specific interventions related to HIV/AIDS.

41. Implementation of this programme will involve a considerable increase in the level of direct grants that IFAD makes to country-level organizations. It will necessarily require rapid institutional learning with regard to what grants can and cannot achieve in enhancing impact on sustainable rural poverty reduction – and the circumstances under which they can be deployed with maximum results. With the approval of the Seventy-Ninth Session of the Executive Board of the Structure and Operation of a Performance-Based Allocation System for IFAD, from 2005, the country-specific grant programme will fully benefit from the PBAS assessments of critical rural development and poverty-reduction issues, and the assessment of the institutional factors bearing on the effectiveness of lending operations. Meanwhile, a better-informed understanding will be gained on how the grant programme can help accelerate rural poverty reduction by overcoming policy and institutional weaknesses. A PBAS-driven country-specific grant portfolio addressing

these issues will develop progressively, with the grant allocation fully complementary to the loan portfolio and from within the country's financial envelope. The important principle for country-specific grants, within the country-specific PBAS, would be conformity to and consistency with the individual country strategy for a mix of loans and grants as reflected in COSOPs and in line with Poverty Reduction Strategy Papers (PRSPs). In addition, PDFF resources will begin to be deployed to support the design and development of projects under PBAS lending.

VII. IMPLEMENTING THE REVISED GRANT POLICY

42. IFAD's revised grant policy will be implemented through: (i) allocation of grant resources under the two windows, in alignment with SF2002-6 and the grant programme's strategic objectives; (ii) application of eligibility criteria (global and specific) for screening grants using the priority areas identified under the grant programme's strategic objectives; (iii) establishment of a comprehensive internal grant governance structure; and (iv) systems to monitor and evaluate the impact of the grant programme. These operational issues will be further elaborated in guidelines based on the policy outlined in this document.

43. **Grant allocation.** IFAD's overall grant resources will be allocated within the annual strategic planning and resource allocation exercise for the programme of work. Senior management directives in this regard will provide broad guidance for the mobilization and deployment of IFAD's loan and grant resources.

44. **Global criteria.** IFAD will provide grant financing only to developing Member States, to intergovernmental organizations in which such Member States participate, and to NGOs/CBOs. It will not extend such grants for activities normally supported by its administrative budget. Grant proposals will not include activities that duplicate efforts being financed by other donors.

45. **Specific criteria.** In addition to the global criteria, grant proposals allocated to each respective grant programme strategic objective must fulfil the specific eligibility criteria established for that particular objective. Detailed criteria will be developed within the strategic and operational guidelines of this grant policy. The specific criteria will serve to focus grant-supported activities, prioritize themes and select grant recipients. These criteria will draw on the experience IFAD has gained from applying (from 2000) a competitive screening procedure to the agricultural research grants in the existing system. Factors to be assessed include likely impact (degree of innovation, impact on IFAD's target group and strategic objectives, probability of achieving logframe outputs and purpose, probability and scale of multiplier effects); track record of prospective grant recipients; value-for-money; and quality of proposal.

46. **Governance.** Under the revised policy, the governance of grants will be designed to follow a comprehensive, transparent and competitive approach. The basic features of the governance structure will be defined in internal procedural guidelines based on the grant policy (including audit and procurement requirements). The governance for *all* grants will be based on rigorous screening, review and approval. According to IFAD's current policy, individual grants exceeding USD 100 000 from IFAD's regular resources are approved by the Executive Board and grants not exceeding USD 100 000 are approved by the President under the authority delegated to him by the Board. Under the revised grant policy, it is now proposed to increase this delegated authority to USD 200 000, with a report of such approvals to the Board on an annual basis. This is considered a more appropriate level of support for a critical mass of activities than the amount under the current small-grants instrument. It will also improve efficiency in processing, an important consideration where swift and timely intervention is critical. The advent of the country-specific window is considered likely to increase the proportion of operations in the USD 100 000-200 000

range interacting directly with the loan portfolio (following discussion with IFAD's regional divisions).

47. **Grant monitoring, supervision and evaluation.** IFAD's independent Office of Evaluation should continue periodically to evaluate groups of grants. The Office of Internal Audit will continue its programme of review visits to projects funded with IFAD grants.

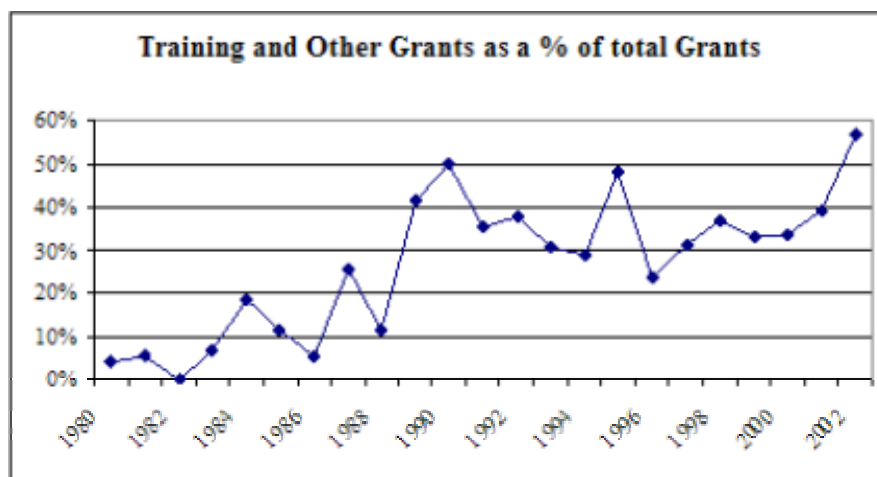
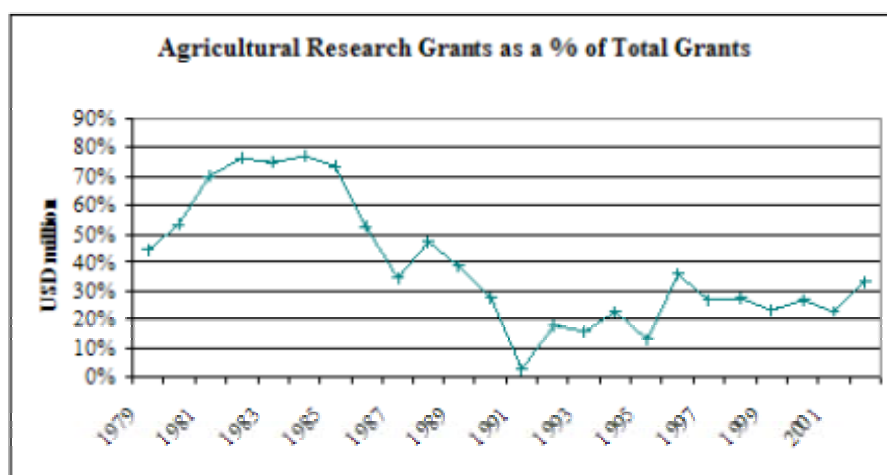
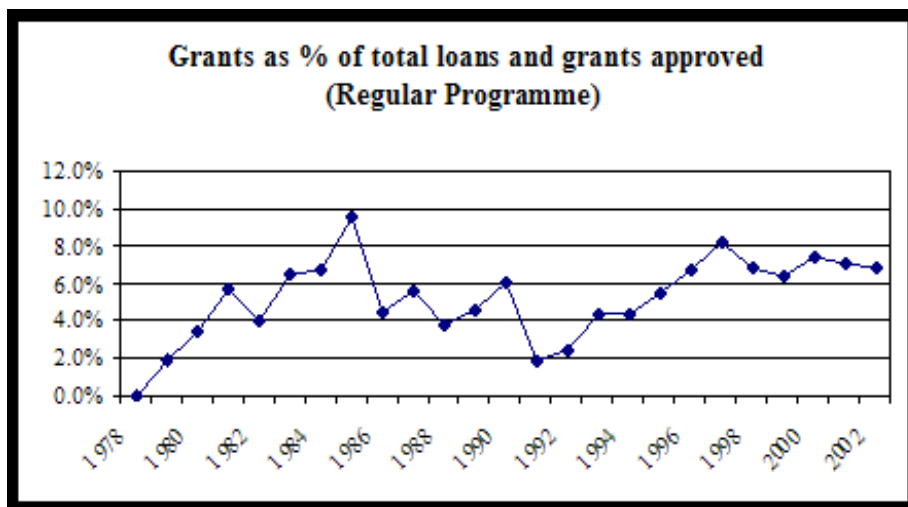
48. **Knowledge generation and dissemination.** On the basis of results, findings, insights and lessons learned from self-evaluation, independent evaluations, impact assessment and its own grant supervision and follow-up activities, the Grants Secretariat in the Technical Advisory Division will facilitate the development of technical advisory notes on pro-poor technologies to be disseminated internally in IFAD and to relevant IFAD partners, and made available to the public in line with existing IFAD information policies.

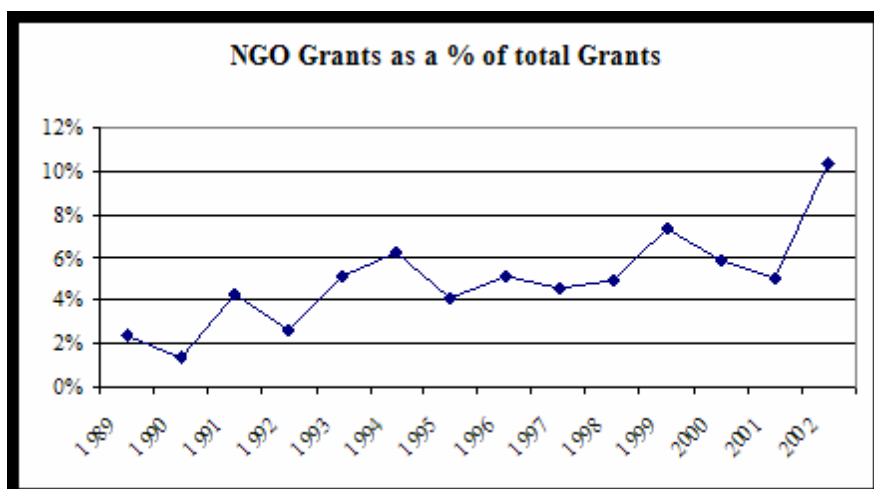
VIII. CONCLUSION AND RECOMMENDATION

49. The Executive Board is invited to review the contents of this document, which responds to specific requests by the Board and deliberations at IFAD's Sixth Replenishment negotiations. This document also draws on the strengths of IFAD's past policy and its evolving experience in grant financing. On that basis, it articulates a revised grant policy that is more directly aligned with IFAD's strategic framework and objectives, proposes new features and outlines modalities in pursuit of these.

50. The Executive Board's approval is sought to adopt, as of 1 January 2004: (i) the revised IFAD Policy for Grant Financing as contained in this document; (ii) the proposed new allocation modalities and implementation procedures set out in Sections V and VI of this document; and (iii) the delegation of authority to the President of IFAD to approve, on behalf of the Board, grants not exceeding the equivalent of USD 200 000, with a report of such approvals to the Board on an annual basis. This revised policy will replace all previous Executive Board decisions on grant financing.

TRENDS IN ANNUAL RESOURCE ALLOCATIONS BY GRANT CATEGORY





As indicated in the charts above, the pattern of annual resource allocations has evolved over the years. The data underlying these charts illustrate a number of significant features:

- an increase in the overall level of grant resources in the Fund's early years and a generally stable medium-term trend (in absolute terms and as a percentage of the programme of work fluctuating within a band of around 5-7.5%);
- the strong orientation of the Fund in support of agricultural research at the international and regional levels in general and, in particular, its expectations from the CGIAR system, as the main window, for sustainable solutions to food insecurity and poverty. However, the share of total resources for this category has gradually declined over the years, while the proposed revised policy seeks to correct this by reinforcing the Fund's investment in a successful area of its operations – that of pro-poor innovation;
- a lower share of the overall allocation to project development activities and project implementation assistance. However, this share has constantly increased since the Fund started to develop self-initiated projects in the early 1980s. Consequently, support to this category of activities has now outranked the historically high share assumed by agricultural research. Such a high-level allocation of grants to project development activities is consistent with the practice of a number of IFIs;
- continuous support, but with a reduced emphasis in recent years, for regional training programmes;
- adoption of a more restrictive and selective approach in the provision of grants as a direct complement/component of a loan-financed project at the country level, which will now be corrected under the proposed policy;
- introduction of an innovative mechanism to enhance the Fund's collaboration with NGOs; and
- expansion of allocations to the sub-category "Other" to pursue diverse objectives, the emphasis on which will now be reduced and made more strategically aligned to the lending programme.

IMPACT OF IFAD-FINANCED CGIAR-LED RESEARCH

Selected examples of IFAD-supported CGIAR research programmes that have had widespread impact on small-scale agriculture throughout the developing world are highlighted below:

- IFAD-financed rice research by the International Rice Research Institute in Asia associated with disease and pest-resistant, high-yielding early-maturing *rice* varieties (IR-36 to IR-78) is considered a major breakthrough, particularly in Bangladesh and India. These varieties are parental lines that led to many important modern-day high-yielding varieties from which more than 200 million farmers benefited. (IFAD investment of USD 8.0 million in three phases between 1980 and 1988.)
- Research through the International Center for Agricultural Research in the Dry Areas (ICARDA) on both *wheat and barley* for farming systems in the Near East and North Africa led to several drought-tolerant high-yielding varieties tested and released through NARS/national extension systems. These were adopted by farmers in drought-prone drylands in at least 12 IFAD investment projects in eight countries in the region. (IFAD investment of USD 1.72 million starting in 1981 – benefited all wheat and barley producers in the eight countries adopting improved varieties by 1985.)
- In Central America, IFAD-financed research by the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT) and the International Centre for Tropical Agriculture (CIAT) on mixed cultivation of *maize and sorghum* under small-farm conditions – associating these also with leguminous crops – led to successful sorghum varietal selection and seed provision for high-altitude areas (including rotation with field beans) for improved rainfed production by poor farmers. (IFAD investment of USD 5.32 million between 1980 and 1986 – reportedly 600 000 farmers benefited initially, but later led to more widespread adoption of the production system in the altiplanos of Central America.)
- ICARDA research on *fava beans* led to dramatic yield increases and to the achievement of self-sufficiency in Egypt (from large importer to net exporter of fava beans). This is a shining example of CGIAR-NARS partnership successes long before such partnerships became the standard research-organizational model for Consultative Group research. Varietal improvement and participatory validation/diffusion not only focused on yields but also improved health/nutritional quality. (IFAD investment of USD 8.32 million between 1979 and 1989. Improved productivity alone led to net increases in national domestic and export revenues worth several hundred million dollars. Primary producers doubled incomes and experienced nutritional and health improvements.)
- Research at ICRISAT, financed by IFAD and the Japanese Government, led to the development and successful testing of several new pigeon pea varieties including ICPH8, the world's first hybrid *pigeon pea* bred successfully for resource-poor conditions. Improved, advanced lines were released in 11 countries. Examples of yield increase: 15-37% in Myanmar, 25% in Indonesia, and 10-20% in India, particularly with short-duration varieties. Associated innovations in management practices over traditional management (agronomic/pest control) practices, tested and validated by small farmers in semi-arid agro-ecologies (including broad beds, integrated pest management options, soil fertility management, etc.) led to net additional 15-30% yield improvements among the late adopters. (IFAD investment of USD 0.6 million – leveraging contribution.)
- Research at CIAT and the International Institute of Tropical Agriculture (IITA) in Africa and Latin America identified and developed elite populations of *cassava* varieties for drier, subtropical smallholder farming systems – which successfully addressed drought tolerance, yield and dry-matter content, disease and pest resistance, and low content of cyanogenic glycosides. (IFAD's investment of USD 1.95 million in this area over more than eight years leveraged

APPENDIX II

several millions of dollars of cofinancing. Adoption studies have discerned considerable benefits (including post-harvest value-addition options for poor women), with income increases over 80% in West Africa.)

- IFAD's support to research on effective *biological control techniques* and on their large-scale application through national institutions in Africa is among the most well-known successes. This includes one of the most successful biological control programmes known against the destructive cassava mealy bug, which caused considerable damage to food crops in several sub-Saharan African countries. (IFAD support through IITA of USD 3.1 million leveraged USD 35 million of funding from the international community, after control technology was identified. IFAD served as Secretariat for the Africa-wide bio-control programme, which saved annual African cassava production worth USD 300 million in monetary terms, affecting the livelihoods of millions of cassava producers in the process. Benefit–cost ratio was calculated to be greater than 200:1.)

