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IFAD Innovation Strategy

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For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

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Abbreviations and acronyms

CGIAR	Consultative Group on International Agricultural Research
CPM	country programme manager
FAO	Food and Agriculture Organization of the United Nations
IFF	innovation funding facility
IFPRI	International Food Policy Research Institute
IMI	Initiative for Mainstreaming Innovation
ISG	Innovation Services Group
MfDR	management for development results
NERICA	New Rice for Africa
PDFF	Programme Development Financing Facility
R&D	research and development
RB-COSOP	results-based country strategic opportunities programme
UNDP	United Nations Development Programme
WARDA	Africa Rice Center

Recommendation for approval

The Executive Board is invited to approve the IFAD Innovation Strategy as contained in the present document.

Executive Summary

1. As a result of IFAD's Action Plan for Improving its Development Effectiveness, the Fund's core processes now devote explicit attention to innovation. The IFAD Innovation Strategy does not set new objectives for staff, but rather defines what is needed to create an innovation-friendly environment and to support staff in achieving the expected results.
2. There is no universally binding definition of innovation. Each organization must reach a definition that has the greatest operational value from its perspective. In the case of IFAD, the operational framework of the Initiative for Mainstreaming Innovation defines innovation as "a process that adds value or solves a problem in new ways". This strategy retains this definition, and it further specifies that in order to qualify as an innovation, a product, idea, or approach needs to be new to its context, useful and cost-effective in relation to a goal, and able to "stick" after pilot testing.
3. The goal of the strategy is to ensure that innovation is systematically and effectively mainstreamed in IFAD processes and in its practice in country programmes. Its purpose is to enhance IFAD's capacity to work with partners to find and promote new and better ways to enable the rural poor to overcome poverty.
4. The strategy is incremental, builds on current efforts, and focuses on elements of the organization – people, processes, environment and outcomes – that require specific attention in the next three years. To strengthen its innovative capabilities and become a better catalyst of pro-poor innovation, IFAD will focus on four clusters of activities:
 - (i) Building capabilities and understanding of challenges requiring innovation;
 - (ii) Nurturing partnerships and facilitating an innovation network;
 - (iii) Embedding rigorous innovation processes and the related risk management into IFAD's core business practices;
 - (iv) Facilitating a more supportive organizational environment for innovation.
5. Implementation will involve the entire organization and it will take place in the time frame of the IFAD Strategic Framework 2007-2010. The Fund will establish an Innovation Services Group, which will facilitate its innovation efforts and advise Management on related matters.
6. IFAD current expenditures on innovation are estimated at several million dollars per year. The strategy will be implemented to a large extent by applying these resources in a more focused and systematic way.
7. The strategy will be funded through a combination of mechanisms. These include:
 - (i) Programme Development Financing Facility (PDFF) resources to support the development and implementation of innovative projects and country programmes;
 - (ii) Grant resources to finance innovation experiments in the field;
 - (iii) The remaining funds available from the United Kingdom's complementary contribution to the Sixth Replenishment; and
 - (iv) Supplementary funds as they become available.
8. While innovating is risky, it is important to realize that not innovating could also represent a major risk for the organization. In addition, there are several types of risk related to this strategy. One type pertains to each untested idea. The strategy offers the introduction of a prototyping process to test promising solutions rigorously on a limited scale as the main instrument to manage such risk. Another important type of risk is related to the change management dimension of this strategy. There

are three major issues: organizational capacity to absorb change, process overload (too many process controls and too complex) and time pressure. IFAD Management will pro-actively address each of these as it promotes the mainstreaming of innovation throughout the organization.

IFAD Innovation Strategy

I. Introduction

A. Why innovation is needed to make an impact on rural poverty

1. Globalization, climate change, environmental degradation, migrations, the spread of communicable diseases such as HIV/AIDS, and non-conventional conflict are just some examples of evolving challenges and opportunities confronting rural poor women and men. In such circumstances, development practitioners constantly face new challenges, as good practices may quickly become obsolete. Making a positive and lasting impact on rural poverty requires the capacity both to implement tried and tested practices and to respond to new challenges and opportunities as they emerge. In other words, it requires the ability to innovate.
2. The complexity and diversity of rural poverty call for new, better solutions. Despite global progress towards Millennium Development Goal 1, many countries and regions are lagging behind, and social and economic inequalities are growing almost everywhere. This situation calls for new tested approaches to rural poverty and a better understanding of its challenges as seen by the rural poor.

B. Why innovation is important to IFAD

3. The need for IFAD to strengthen its ability to innovate has been recognized for some time. The 2002 Evaluation of IFAD's Capacity as a Promoter of Replicable Innovation called upon the Fund to improve its impact by scaling up successful innovations aimed at reducing rural poverty. To this end, it recommended a set of measures: reaching a solid definition of innovation; ascertaining IFAD's strategic commitment to innovation; understanding the various stages of the process of innovation and integrating them into IFAD operations; aligning organizational processes with the promotion of innovation; building appropriate skills and competencies; and reorienting IFAD culture towards innovation.
4. The 2004 Independent External Evaluation (IEE) recognized innovation as central to IFAD's identity, but found shortcomings in the way it had been translated into practice. It recommended a more systematic approach to innovation, including: (i) close linkage with a knowledge management system that would enable the identification and dissemination of lessons from IFAD experience and other sources; (ii) inclusion of innovation as an objective in project design, with the necessary arrangements for flexibility, risk-taking and evaluation; and (iii) identification of potential partners for scaling up at the beginning of project implementation.
5. The Initiative for Mainstreaming Innovation (IMI) began in 2004 as a first IFAD effort to explicitly focus on innovation and to mainstream it in its processes. The IMI Operational Framework for the Main Phase stated that IFAD is called to play a key role in developing "new, more coordinated and effective approaches to rural poverty. It brings some crucial assets to this task: it has the experience of focusing exclusively on the challenges facing rural poor people; it has the methodology of working out solutions with the rural poor; it has confronted the question of successful strategies squarely in the context of structural change; and it provides a bridge between the world of the rural poor and the upstream policy and institutional processes that so affect their opportunities."
6. Today, the Fund's commitment to mainstreaming innovation is articulated clearly in the IFAD Strategic Framework 2007-2010. The document views innovation as central to improved development effectiveness and to enabling the rural poor to develop better strategies to face emerging challenges. Innovation is one of the six principles of engagement in the Strategic Framework, which sees IFAD's comparative advantage in its working with national partners to develop and implement innovative

projects and programmes, and commits IFAD to “focused and systematic innovation in what it was set up to achieve: strengthening the agriculture-based livelihoods of poor rural people in developing countries”. This entails developing and testing innovative methodologies, institutional arrangements or technologies in all interventions in IFAD country programmes. To improve impact, innovation must be accompanied by systematic scaling up of successful practices through partnerships.

C. What is innovation in the context of IFAD’s work?

7. According to the IMI operational framework, “For IFAD, the most important innovations are those that change the way smallholders and other rural poor people invest, produce and market their products; manage their assets; get organized, communicate and interact with their partners; and influence policies and institutions.”
8. The literature offers a variety of definitions of innovation, suggesting that there is no perfect one. Since innovation is essentially a means to achieve one’s goals better, each organization needs a definition that has the greatest operational value from its own perspective. In the case of IFAD, the IMI Framework defines innovation as “a process that adds value or solves a problem in new ways”. This definition remains appropriate. To qualify as innovation, a product, idea or approach needs to have the three features described (see box).

What makes a product, idea or approach an innovation?

To be considered innovative, it needs to be:

- (i) **New to its context of application.** The novelty may refer to country context, scale, domain, discipline or line of business.
- (ii) **Useful and cost-effective in relation to a goal.** An innovation must have positive value for its users. In the case of IFAD, it needs to empower the rural poor to overcome poverty better and more cost-effectively than previous approaches.
- (iii) **Able to “stick” after pilot testing.** An innovation is a product, idea or technology with the potential for wide adoption, which it demonstrates through pilot testing.

9. We may think of three levels of intensity in processes of innovation:
 - (i) First and most common in IFAD is the **adoption** in a new context, or on a new scale, of practices or technologies developed by others or in other contexts.
 - (ii) **Adaptation** is also common in IFAD, and it occurs when a practice is useful but not fully appropriate to a context, requiring a certain amount of redesign.
 - (iii) The least frequent, but most intense type of innovation is the **creation** of new practices or ideas, which occurs by virtually accidental creative acts or by new combinations of existing ideas.
10. All three levels of intensity of innovation are needed in IFAD operations, depending on country or local circumstances and the specific problems faced by the rural poor, and on whether IFAD acts as an innovator or as a facilitator or broker of innovation. The innovation strategy aims to support efforts by IFAD and its partners to develop better solutions at all three levels, and to ensure access to the services required to improve effectiveness at each level of intensity.
11. Innovation in development should lead not only to new products and technologies, but also to new approaches to improving the livelihoods of rural poor people. Since livelihoods are rooted in social norms and institutions, innovation entails some social change, which may encounter resistance from supporters of the status quo. As a result, in the development realm there is no such thing as a purely technological

innovation, as each innovation entails enabling changes at social, institutional and policy levels. Innovation is needed both to develop new practices and technologies, in order to address rural poverty, and to facilitate an empowering institutional and policy environment for innovation.

12. Scaling up means implementing – or enabling the implementation of – a practice on a greater scale. For IFAD this may mean:
 - (i) **Organizational scaling up.** Practices implemented in projects or country programmes are integrated into broader, more complex programmes.
 - (ii) **Appropriation by partners.** A practice or technology implemented in an IFAD programme is taken up and further developed on a greater scale by partners, including other donors, the private sector or governments.
 - (iii) **Scaling up from practice to policy.** A practice becomes the basis for policy programmes and initiatives by governments, donor agencies and others.
13. Effective scaling up is a key measure of successful innovation. For IFAD, scaling up requires the mobilization of different partners, capabilities and resources in IFAD corporate activities and throughout the programme cycle, from design to implementation, supervision and evaluation. Effective knowledge management, cultivation of strategic partnerships, robust policy dialogue focused on specific challenges and opportunities for innovation, and cofinancing initiatives are central ingredients of sustainable scaling up.
14. Knowledge management is also a key ingredient of innovation and it feeds ideas into the process. However, while knowledge management focuses on learning from the past and on current good practices, innovation focuses on experimentation and creation of the good practices of tomorrow. Innovation may often be a higher-risk venture and it depends on creativity and deviance from established patterns, whereas knowledge management encourages harmonization around proven practices. Finally, while knowledge management thrives on communities marked by commonalities, innovation thrives on diversity, crossing boundaries and questioning established knowledge. To achieve its goals, IFAD will need to integrate innovation and knowledge management so that they feed into each other. This strategy will thus complement and link up to the IFAD Strategy for Knowledge Management, which was approved in April 2007 (IFAD, 2007b).

D. Why does IFAD need an innovation strategy?

15. There are numerous examples of IFAD working successfully with partners to innovate or to help poor farmers innovate, some of which are mentioned in Appendix I. However, this has generally occurred in an unsystematic manner, upon individual initiative, and in the absence of an overall enabling environment. The Independent External Evaluation made clear that innovation has not been sufficiently embedded into IFAD core processes. While staff have had opportunities to innovate, they have not received clear incentives, access to flexible financial instruments and the robust technical and moral support to fully integrate innovation and the facilitation of innovation by others into their work. This strategy provides the framework and guidance to enable staff and country teams to systematically promote innovation in IFAD's work of rural poverty reduction.
16. Many governments and development agencies support innovation in areas such as crop and animal production technology, rural finance, enterprise development and water, forest and soil conservation. The Food and Agriculture Organization of the United Nations (FAO), the European Union, the World Bank, the United Nations Development Programme (UNDP), private foundations, and international NGOs have all been active in innovating, facilitating and supporting innovators and innovation networks, or scaling up innovations and bringing innovators into relevant policy debates. Their experience suggests that the facilitating of innovation is a challenging process for an organization, due to the complexity of the factors needed to create an

enabling environment. The present strategy will help IFAD chart a course through this process, giving it tools to experiment with different approaches in its country programmes and to develop partnerships with other supporters of innovation with and on behalf of the rural poor.

II. Lessons learned and current opportunities

A. Lessons from other innovative organizations

17. In all organizations, new ideas that improve effectiveness and efficiency emerge naturally from people's desire for better solutions. However, high-performing organizations enhance this process by carefully managing the following:

- (i) **People's competence and motivations.** Research on innovative organizations (Amabile and Conti, 1999) shows that a primary requirement is staff that are knowledgeable in their disciplines, have good creative problem-solving skills and are intrinsically motivated. Moreover, creative thinking is an essential element of leadership, especially when bringing about change (Puccio, Murdoch and Mance, 2007).
- (ii) **How challenges are understood and goals set.** Innovative organizations analyse their challenges from different perspectives (Christenson, 1997) and empower staff with a clear sense of ownership of the challenges (VanGundy, 2005). Direct responsibility for meeting new and complex challenges greatly motivates staff.
- (iii) **Diversity and networks among staff and with the outside world.** New solutions emerge at the intersection of disciplines, industries and approaches, because intersections invite looking at challenges from different perspectives and applying unobvious solutions (Johansson, 2004). Innovative organizations create teams and networks that emphasize diversity and cross-pollination of ideas, and they connect staff with people outside the organization through innovation networks that link people from different worlds and that broker new ideas. A similar brokering process has recently led innovative businesses to begin looking at poor people as a vast, relatively untapped market, and to develop ways of building them into their value chains (Prahalad, 2004).
- (iv) **Rapid prototyping of new ideas.** Research indicates that 90 per cent of successful innovations fail the first time they are tried (Christenson, 1997). Rather than extensively designing ideas ex ante, innovative organizations have processes that rapidly implement, test, evaluate, revise and re-implement ideas in order to refine them.
- (v) **A system for retaining ideas with potential.** One of the keys to developing new ideas is to maintain a variety of half-baked and failed ideas that might be of use in a different application (Hardington, 2003).
- (vi) **Core business and innovation processes.** For innovative organizations, innovation is not an occasional activity. They have specific processes to help them define and redefine challenges, collect ideas from unusual sources, find unobvious solutions, encourage creative thinking, and test and revise ideas before discarding them. All these elements are built into core operations (Leonard-Barton and Swap, 2005).
- (vii) **The organizational environment.** In innovative organizations, managers actively model innovative thinking, recognize innovators and encourage staff to network and to take time to think (Hardington, 2003). Moreover, systems, processes and rewards are consistent with the focus on innovation.

B. Lessons from IFAD experience

18. IFAD operations have nurtured numerous innovations that have led to rural poor women and men increasing their incomes and improving their food security. The principal mechanisms for promoting innovations have been IFAD's loan-financed projects, complemented by the grants programme, and more recently the IMI. Innovation has also been recognized as central to IFAD's identity: in 2006 innovation was selected as the overall theme of the Governing Council, and a number of background papers were prepared to guide plenary and round-table discussions (Berdegú, 2005; IFAD, 2006b; IFAD, 2006c; Poole and Penrose Buckley, 2006). The examples in Appendix I show that many technological and institutional innovations have come about as a result of IFAD's commitment to the empowerment of rural poor people, its support for their adaptive strategies, its partnerships with diverse organizations, and its efforts to develop solutions to new challenges.
19. IFAD's grants programme – in support of global, regional and, more recently, country-level initiatives – specifically supports the development of innovative research and development (R&D) approaches to issues affecting rural poor people. Historically geared towards strengthening the pro-poor focus of the international agricultural research centres, in recent years the scope of the grants programme has broadened to support innovative projects implemented by NGOs. Today the programme has two strategic objectives: (i) promoting pro-poor research on innovative community-based approaches and technological options to enhance field-level impact; and (ii) building pro-poor capacities of partner institutions, including community-based organizations and NGOs. Increasingly, the grants programme is being used to feed directly into and strengthen IFAD's country programmes and projects.
20. Successful examples of innovation by IFAD and its country teams show the importance of the following factors in helping innovations emerge:
- (i) **Staff capabilities and values.** IFAD innovators or supporters of innovation typically have: (a) sound technical skills and, in the case of field activities, first-hand field experience; (b) curiosity, a willingness to seek opportunities and to learn by trial and error; (c) intrinsic motivation; and (d) broad autonomy in decision-making in the circumstances surrounding their innovative efforts.
 - (ii) **Connection to diverse networks and partners.** IFAD staff successfully engaged in innovation have crossed disciplines and worked with others, including rural poor people and their organizations.
 - (iii) **Facilitation of innovation.** Many project-specific innovations have emerged in the course of implementation. In such cases, project managers have played a key role in scouting for innovations and turning them into practice. IFAD staff members have facilitated these processes of innovation by strengthening the capacity of project managers and empowering them to take innovations on board.
 - (iv) **Supportive management.** Management support for innovations and respect for autonomy in decision-making by innovators has been important, notably in nurturing, protecting and encouraging risky undertakings.
 - (v) **Light procedures.** Successful innovations have been facilitated by approval and implementation processes with a limited number of decision points.
21. The IMI, funded by the United Kingdom of Great Britain and Northern Ireland's complementary contribution to the Sixth Replenishment, aims "to enhance IFAD capacity to promote innovations that will have a positive impact on rural poverty" and explicitly aims to incorporate these lessons. It has been the most systematic attempt to promote IFAD as a facilitator, mediator and promoter of innovation. With IMI resources, IFAD has provided matching grants for innovative proposals generated in

IFAD and among field partners through open competition. Successful bidders have developed innovative ideas for project design and implementation tools (e.g. institutional analysis and targeting), communication technologies (e.g. the Rural Poverty Portal), market access, natural resource management (e.g. payment for environmental services) and others, which are progressively being scaled up into IFAD operations. Through the IMI, IFAD is now supporting the development of staff and country-team capabilities for innovation: better understanding of the challenges faced by poor people, scouting, creative problem-solving, and communication for scaling up and replication. In addition, it is taking a more active role in promoting partnerships. The 2006 assessment of the IMI recognizes its effectiveness in supporting the generation and testing of new ideas in IFAD and argues that it is on track to meet its objectives, although this will require more time and effort than initially planned (Wiggins, 2006).

22. The IMI experience is of particular importance for the present strategy. Successful IMI-funded projects show that innovation requires sound analysis of challenges faced by rural poor people, scouting for solutions, technical support for testing and experimentation, flexible funding tools, and risk mitigation mechanisms. The IMI experience also suggests that mainstreaming and scaling up require stronger communication in and beyond IFAD, greater cultivation of strategic partnerships, more coherence and integration between grant- and loan-funded activities in country programmes, and robust policy dialogue in support of innovation. At the institutional level, it clearly shows that systematizing and mainstreaming of innovation require not only funding, but a change in the behaviour of Management and staff and in the organizational culture. This in turn requires vision, continuity of purpose, initiative, and the ability to recognize opportunities for promoting change and to leverage existing resources to make it happen.
23. In the last year, IFAD's Action Plan for Improving its Development Effectiveness – in itself an important innovation process – has yielded a number of lessons of importance for this strategy. These include the need to tailor innovation to IFAD's absorptive capacity, the importance of alignment with IFAD values, the key role played by champions, and the importance of flexibility and of learning from failure.

III. The strategy

24. The strategy is incremental and builds on current work and processes, as described below. It focuses on elements of the organization that require specific attention in the next three years (i.e. people, processes, environment and outcomes) in order to effectively and systematically transform organizational incentives for innovation into practice. At its heart lies the provision of services to enable country programme managers (CPMs), country teams and partners to innovate within the context of IFAD's country programmes and the projects they support.

A. Goal and purpose

25. The goal of the strategy is to ensure that innovation is mainstreamed into IFAD processes and practice in a systematic, effective way. Its purpose is to enhance IFAD's capacity to work with partners – including rural poor people and their organizations – to find and promote new and better ways to enable rural poor people to overcome poverty.

B. Anchoring the strategy in a management-for-development-results approach

26. Mainstreaming innovation involves ensuring constant attention to this issue, so that it systematically permeates both IFAD's core systems and processes and its country programmes and projects. One of the major thrusts of the Action Plan is the adoption of a management-for-development-results (MfDR) approach, as a means to increase IFAD's organizational and development effectiveness. The strategy is anchored in this

approach, which provides the framework for ensuring that innovation is mainstreamed throughout IFAD's systems, processes and development activities.

27. The starting point of the MfDR approach is the IFAD Strategic Framework 2007-2010, which articulates IFAD's strategic priorities. According to this document, innovation, learning and scaling up collectively constitute one of the six principles of engagement underpinning IFAD country programmes and projects. At the corporate level, the proposed results measurement framework for the Strategic Framework reflects its strategic priorities, and one of its six indicators focuses explicitly on the extent to which IFAD-supported projects effectively address innovation, learning and scaling up.
28. A range of new instruments and processes, either already in use or currently under development, ensure that the priority given to innovation in the Strategic Framework is reflected in the development of country strategies, project design, implementation and assessment. They include the following:
 - (i) The new guidelines for results-based country strategic opportunities programmes (RB-COSOPs) require the identification of ideas or thematic areas for innovation for each strategic objective at the country level. RB-COSOPs are expected to: identify the intended innovative approach and activities that can be scaled up; describe how scaling up by others will be encouraged; and facilitate better linkages between research grants and loan activities. These provisions offer entry points for the activities proposed under this strategy, since each of them challenges the capabilities for innovation of CPMs, design teams, field presence officers, technical advisors and partners.
 - (ii) Innovation is becoming fully integrated into project design. A new quality enhancement process is in place for all projects, based on six key success factors at the project level, of which the sixth includes innovation. Design teams must ensure that innovation is explicitly addressed and, where necessary, the new Technical Review Committee focuses on this issue. By the end of 2007, the quality enhancement process will be complemented by an "arm's-length" quality assurance system, which will include innovation as one of the factors against which to assess project design. Together, the two processes should ensure that innovation is adequately addressed in the design of all projects.
 - (iii) The IFAD Policy on Supervision and Implementation Support, which was approved in December 2006, is driven by a number of principles, including the encouragement of innovation in project implementation. Reflecting this policy, IFAD has developed guidelines for supervision and implementation to assist country teams. The guidelines provide practical tools for continuous learning and the promotion of innovation throughout project implementation. Supervision reports will also be expected to explicitly report on the issue.
 - (iv) As made clear by the recent corporate-level evaluation of the Field Presence Pilot Programme undertaken by the Office of Evaluation, field presence is playing a role in strengthening IFAD's ability to innovate at the grass-roots level, for example through greater knowledge of and networking with local institutions. The proposed continuation of an enhanced country presence will enable IFAD to further strengthen its capacity to innovate through its country programmes and the projects they support.
 - (v) Reporting – from projects through divisional portfolio reviews to the annual portfolio performance review – ensures that IFAD Management and the Executive Board receive regular, timely information on country programmes and IFAD-supported projects. Innovation, learning and scaling up are reported on at all levels.

29. These instruments and processes are complemented by the new IFAD Strategy for Knowledge Management and by IFAD's approach to partnerships. The strategy focuses on strengthening learning in country programmes and in regional and thematic networks, equipping IFAD with a better knowledge management infrastructure, fostering partnerships, and promoting a supportive organizational culture. The strategy recognizes knowledge management and innovation as two mutually supporting processes, and it presents IFAD knowledge processes as channels for the replication and scaling up of innovation and for its integration into policies. Through the knowledge management strategy, these processes will contribute to disseminating knowledge of innovations. Thematic and regional networks and knowledge-sharing partnerships are also key entry points for the activities envisioned in the IFAD Innovation Strategy.
30. Partnerships are identified in the Strategic Framework as a key tool in scaling up innovations and enhancing IFAD's development effectiveness. For many years, IFAD has collaborated with research centres, donors, governments, NGOs and farmers' organizations to learn and to create innovations for a variety of agricultural and rural development issues. IFAD's Private-Sector Development and Partnership Strategy provides an opportunity to expand similar or new forms of collaboration to the private sector.
31. Some of these partnerships have been particularly successful: for example, through its participation in the Executive Council of the Consultative Group on International Agricultural Research (CGIAR), IFAD has influenced the global research agenda towards a focus on pro-poor innovations. More recently, the Fund has been piloting a joint programme with the International Food Policy Research Institute (IFPRI) that is expected to pave the way for an innovative form of partnership with the CGIAR system as a whole. IFAD support has catalyzed similar CGIAR-wide partnerships to foster innovation systems in a number of areas – including research governance, impact assessment and institutional learning. Regional divisions, too, are using multi-stakeholder coalitions in innovative ways to support farmer-led innovations. Finally, IFAD supports multi-stakeholder initiatives that can facilitate the scaling up of successful innovations through partnerships, such as the International Land Coalition and the Global Forum on Agricultural Research. The innovation strategy builds on all these experiences and seeks to ensure that IFAD integrates them more systematically into its operations.
32. There is a recognized need to hold staff accountable for promoting innovation as a strategic priority of the organization. IFAD's recently approved values require that staff embrace new ideas and explore innovative ways of working, while the new guidelines for the performance evaluation of IFAD staff specify innovation as a criterion against which performance is to be judged. This creates an incentive and in fact a requirement for staff to foster and facilitate innovation, and it is a crucial link between corporate objectives and the actions of individual staff members.
33. In conclusion, the organizational tools, processes and monitoring mechanisms for innovation are now being put in place. These will help focus IFAD staff attention on innovation through results-based management. What is now needed is to help in-country staff and partners translate "innovation in processes" into "innovation in the practices" of programme and project design, supervision and implementation. In-country staff and partners need to access new ideas, experiment with these before scaling them up in loan-funded projects, work with people who can define challenges and solutions from different perspectives, build their own personal capacity for innovation, and draw on organizational support. The remainder of the strategy provides for these elements.

C. Activities

34. To strengthen its innovative capabilities and become a better catalyst of pro-poor innovations, IFAD will focus on four clusters of activities. All clusters will support IFAD

country programmes and IFAD-supported projects as well as other IFAD activities, and all involve prototyping and testing.

- (i) Building IFAD's innovative capabilities and its ability to recognize and understand challenges requiring innovative solutions.
 - (ii) Nurturing partnerships and an innovation network.
 - (iii) Embedding rigorous innovation processes into IFAD's core business practices.
 - (iv) Facilitating a more supportive organizational environment for innovation.
35. Implementation of these clusters will be guided by the following well-tested principles:
36. **Opening of decision processes to a diversity of partners:** to better achieve its strategic objectives, IFAD needs to invest in its own innovation capabilities and to nurture partnerships and diverse networks that may generate innovation by and for rural poor people.
37. **Flexibility:** the rate of organizational change to further promote innovation must be tailored to the absorptive capacity of IFAD, the evolution of demand from its constituency, and the Fund's ability to raise new resources and work with partners.
38. **Learning by doing:** the same principle that characterizes learning through experimentation in processes of innovation applies to the innovation strategy as well.
39. Building IFAD's innovative capabilities and its ability to recognize and understand challenges requiring innovative solutions. This first cluster will include training and facilitation to better equip staff to understand problems, recognize opportunities for innovation, develop creative ideas and manage the process of developing them into projects that can be supported through existing funding windows. The target group will be RB-COSOP and project design teams, field presence officers, project management and supervision teams, technical advisors and other staff at headquarters. Corporate processes into which this cluster of activities will be integrated include RB-COSOP and project preparation, quality enhancement processes, implementation, supervision and field presence operations.
- (i) **Challenge mapping** involves identifying, analysing and deconstructing challenges, looking at opportunities, and bringing in the perspectives of many stakeholders to focus innovation efforts on priority challenges for poor people.
 - (ii) **Scouting** is the process of systematically searching for potential solutions and opportunities. It is an iterative process guided by challenge mapping and it may lead to identifying solutions, people who may own or facilitate them, or evidence of the need or opportunity for new research.
 - (iii) **Creative problem-solving** includes tools and techniques that facilitate the development of innovative solutions and increase the collaborative capacity of programme teams.
 - (iv) **Innovation management** is managing the process of converting interesting opportunities into solid, fundable business cases. IMI bid winners, leaders in experimentation and project managers are the primary targets for this activity.
40. **Nurturing partnerships and an innovation network.** Core processes engaged by this second cluster are RB-COSOP and project design (including quality enhancement), implementation, supervision, grants programme processes and policy dialogue. Activities focus on the creation of an innovation network and on nurturing partnerships around the Strategic Framework objectives:
- (i) **Partnerships to support innovation by rural poor women and men.** Various possibilities to support rural poor innovators exist and can be

leveraged in different regions. On a global scale, IFAD is engaged in a partnership with FAO and UNDP to build on the combination of two approaches tested by these agencies: Promoting Farmer Initiatives and the Farmer Field Schools approach. This combination has proved effective in identifying local innovators, facilitating the dissemination and “marketing” of innovations, and training service providers and governments to do the same. A key prospective partner is the World Bank, through its Innovation Marketplace, which provides several potential opportunities for a partnership with IFAD. These include: joint definition of the challenges guiding annual grant competitions at the global level and for specific countries; participation by IFAD and IFAD-supported innovators in the knowledge exchange event that is part of each annual competition; expanding the Innovation Marketplace to encompass IFAD-supported activities; and using it as a resource for scouting and for seeking NGO and private-sector partners for IFAD programmes.

- (ii) **Creating and facilitating an innovation network.** Building on the recommendations of a 2005 IMI workshop entitled *What Are the Innovation Challenges for Rural Development?*, as well as on the latest research on network success (McDermott and Archibald, 2007), a network will be organized around specific challenges facing rural poor people and the extension of specific approaches or technologies. The network will include interested staff and people external to the organization, notably governments, the private sector, research institutes, donors and associations of rural poor people.
- (iii) **Partnerships in programme design and implementation.** IFAD enjoys a long-standing relationship with the FAO Investment Centre. As this partnership continues to develop, IFAD will ensure that it does so in harmony with the present strategy. This will in turn ensure better challenge clarification, scouting for innovation and use of creative problem-solving in design. In addition, possibilities of partnerships in programme design exist with the private sector, other donors, research institutes, NGOs and borrowing governments.
- (iv) **Planning and implementing the scaling up of innovations in RB-COSOPs.** Key partners in scaling up are governments, other international financial institutions, bilateral donors, other Rome-based agencies and other agencies in the “One United Nations” framework. Opportunities for engagement on this front can be scouted and facilitated at the global level and through support to RB-COSOP teams. At the global level, opportunities include involving the Sustainable Agriculture and Rural Development initiative, managed by FAO, in the IFAD innovation network, in joint knowledge management on innovation, and in joint policy dialogue on the challenges of sustainability and climate change. Other possibilities for scaling up innovations in the One United Nations framework include joint research, funding and advocacy – with FAO and the World Food Programme – for complementary activities on the continuum from emergency relief to recovery and development.
- (v) **R&D partnerships with CGIAR for agricultural and policy innovation.** R&D in agricultural technology and policy innovation is vital for sustainable innovation, and in both areas IFAD benefits from ongoing efforts towards a stronger, more coherent partnership with the CGIAR system. Particular efforts are needed to ensure that the research findings of CGIAR members increasingly contribute to IFAD-supported projects.

- (vi) **Partnerships with the private sector for technology research, finance and value chain development.** There is scope for new forms of partnership with the private sector that are both innovative and innovation-enabling. The identification of suitable private-sector partners can be facilitated through scouting and networking in country programmes. Opportunities exist for cofinancing, R&D and other forms of partnership with this sector, particularly in the areas of biotechnology, biofuel, fertilizer and seed research and marketing, rural finance, environmental service markets, rural enterprise development and marketing of farmers' innovations. IFAD may engage in such partnerships with other donors or with international NGOs.
- (vii) **Reaching out to private foundations.** There are growing opportunities to apply for grants or seek cofinancing with private foundations, particularly in farming and seed technology development, value chain development, water and soil use and conservation technologies, rural women's empowerment and rural finance. The Gates Foundation is one potential partner, as its grant priorities (i.e. farmer productivity, links to markets, new technologies, and data, research and policy analysis) "map" particularly well onto the Strategic Framework objectives. There are also increasing opportunities for the Fund to scout for innovations by other private foundations to scale up and adapt in IFAD country programmes. In the short term, IFAD can tap into knowledge generated in a three-year 2006 Gates grant to IFPRI to build "a model to assist in making agricultural technology development and adoption investment choices".

41. Embedding rigorous innovation processes into IFAD's core business practices. The third cluster aims to ensure that innovative processes are effectively and systematically mainstreamed in country programmes and other IFAD activities by enabling access to expertise, facilitation, scouting and, where needed, complementary funds. The main tool proposed to achieve this purpose is a **new-practice development process**, which as the term implies is the development of new practices through an innovation prototyping process. This entails identifying potential innovations during RB-COSOP and project processes, piloting to render them functional, increasing their effectiveness, and refining them (see box). An Innovation Services Group (ISG), described in section D, will facilitate the provision of services and support. Prototypes will usually be grant funded and, if successful, can be scaled up through loans, preferably with cofinanciers. They are conceived as experiments to which the normal criteria for performance evaluation are applied at completion. To mitigate risks and reduce the failure rate, prototypes need extra attention and resources compared with regular project initiatives. Moreover, to ensure rigorous testing, experimentation needs to be entrusted to a qualified institution through a competitive process. Any given country programme may have several prototypes in progress, only some of which will develop into projects.

Innovation prototyping process

The prototyping process involves six steps through which an idea becomes a tested, developed new practice. The process unfolds through the support of an ISG and entails:

- (i) **Clarifying challenges and recognizing situations in which new ideas might serve.** The process begins with the recognition, selection and clarification of a challenge or opportunity for innovation, for instance during RB-COSOP or project preparation, implementation or supervision. With ISG support, the RB-COSOP or project team selects challenges and builds a challenge map from the perspectives of multiple stakeholders, including rural poor people and partners interested in scaling up innovations from the experiments.
- (ii) **Identifying potential solutions and resources.** Through scouting based on IFAD experience, grant-funded research and work by other organizations, as well as through the innovation network and partnerships, the ISG and the RB-COSOP or project team develop a pool of potential solutions for piloting, or elements of a solution to combine and experiment with.
- (iii) **Identifying solutions to pilot.** The ISG works with RB-COSOP and project teams to identify potential solutions and partners for prototyping, focusing on issues and ideas that are not only relevant to a given context but have the potential for wider application as well.
- (iv) **Testing of potential solutions.** The heart of the process involves prototyping on a limited scale, with careful on-the-ground monitoring and iterative adjustment. This can be done directly by the CPM, country presence officer or project team, or it can be undertaken by a competent partner organization.
- (v) **Assessing the effectiveness of the prototype.** Prototypes are subjected to thorough and credible assessment, with a view to identifying elements of each experiment that can be replicated and elements that should be dropped. The ISG and the RB-COSOP or project team carry out this assessment.
- (vi) **Developing a repertoire of innovative ideas in development that can be applied to other challenges.** This step links back to step (ii). It is expected that some ideas developed through the prototyping process will not eventually be used. However, research indicates that retaining available ideas that have potential, though they have not been successful when first tried, is a source of successful future ideas. The ISG will maintain a repository of both successful and failed ideas that have undergone the prototyping process and will share these with the Knowledge Management Support Team.

42. Facilitating a more supportive organizational environment for innovation.

Developing a supportive environment requires incentives and pressure for change and appropriate funding mechanisms and resources. Simplification of administrative procedures and controls is particularly important in identifying opportunities for innovation and removing unnecessary blocks and barriers. This process of simplification is currently taking place in IFAD.

43. As a first initiative in this cluster, IFAD will recognize innovators through an **annual innovation competition** that will be open to: innovations in processes and procedures at headquarters that enable a more effective use of time and resources; innovations in country programmes that improve the effectiveness of IFAD operations; and innovations developed by field-based staff that improve the effectiveness of IFAD operations. The top ten participating innovations will be posted on the Rural Poverty Portal.

44. A second initiative concerns the **developing and testing of new financing instruments** to better service IFAD staff, partners and clients. New instruments may be needed to respond to: (i) borrower demand for more effective solutions to rural poverty; (ii) the tension between loan repayment requirements and the need to take risks; (iii) the emergence of new actors with a key role in rural economic growth (e.g. producers' organizations and the private sector); (iv) the opportunity to use market and policy channels to leverage and scale up results; and (v) the need for IFAD to invest in its capacity as an effective partner in fostering innovation. The most common instruments for innovation are equity funds, venture capital, risk insurance

mechanisms, and other tools that enable risk-sharing and reaching out to organizations that are not risk-averse. Examples of prototype financing instruments also exist at the project level in IFAD and among donors (e.g. social venture capital in India). Under the innovation strategy, IFAD will scout for complementary instruments that respond better to today's challenges in rural poverty reduction. A group of projects will be selected to assess the value added of new instruments.

D. How will the strategy be implemented?

45. Implementation involves the entire organization and it will take place in the time frame of the current Strategic Framework. The proposed operational arrangements for the strategy build on lessons from other organizations and from IFAD's own experiences, including those of the IMI. The strategy is meant to be a relatively brief but intensive and systematic investment in upgrading and mainstreaming the capacity for innovation across IFAD.
46. **Innovation Services Group.** IFAD's experience with the IMI demonstrates the value of having a small, dedicated team that facilitates the access of IFAD staff in general, and country teams in particular, to resources and related services on which they can draw in developing innovations. The team currently managing the IMI, consisting of an IMI manager and an assistant, will become the ISG and be given a wider remit. The ISG, supported as necessary by consultant expertise, will facilitate, support and monitor implementation of the strategy by:
- (i) understanding and tracking innovative trends in development by means of intense networking between IFAD and partners and innovators outside IFAD;
 - (ii) assessing needs and facilitating the provision of advice, training and coaching in innovation to IFAD staff, country teams and project staff;
 - (iii) acting as a broker to help country programme teams access innovation services when the ISG cannot directly provide them;
 - (iv) suggesting ways for Management to align resources and business processes with this strategy and to support and role-model innovative behaviour;
 - (v) facilitating an innovation network, making it available to staff, asking staff to join and providing it with professional services;
 - (vi) liaising with the Knowledge Management Support Team to ensure that knowledge about innovation is effectively shared within and outside IFAD;
 - (vii) managing a small number of innovation-supporting partnerships that extend beyond the confines of specific country programmes or regions;
 - (viii) drawing on a small cadre of experienced consultants, who will provide challenge mapping and scouting services to country programme teams and contribute to managing the innovation network;
 - (ix) managing an award programme for staff to honour innovators;
 - (x) managing supplementary funds earmarked for innovation, including existing IMI funds;
 - (xi) reporting to Senior Management on the implementation and impact of the strategy.
47. **Champion of the innovation strategy.** The President of IFAD will designate a member of his Senior Management team to have overall responsibility for championing, monitoring and overseeing implementation of the innovation strategy. In order to ensure that implementation of the strategy benefits from the cutting-edge knowledge and practice of innovation within IFAD and in other organizations, the designated member of Senior Management may decide to convene and chair an innovation panel, composed of a small number of influential internal and external stakeholders, the head of the ISG, and recognized experts, who actively promote

innovation in development organizations and the public and private sectors. The role of such an innovation panel would be to provide feedback to Management on best practice in mainstreaming innovation and its potential application in the implementation of the innovation strategy.

48. **Innovation network.** An innovation network will be established and facilitated by the ISG manager. The network will support the clarification and definition of challenges faced by rural poor people in new ways, thus leading to the identification of truly innovative solutions to be experimented in country programmes. The innovation network will be characterized by:
- (i) **A core group of members.** Successful networks have a small core group committed to the issues that the network addresses. In IFAD, this will be a group of CPMs and other development professionals particularly interested in innovation (such as IMI bid winners). A number of such development professionals have already shown their commitment by participating in the governance of IMI. The network will also draw on diverse members and innovators from outside IFAD.
 - (ii) **“Live” events.** Innovation networks have face-to-face or virtual events that give members the opportunity to be inspired by unlike-minded people. The network will host several live events at which people from outside IFAD will be invited to think through the complex challenges confronting rural poor people.
 - (iii) **Easy-to-use collaborative software.** Most networks use relatively simple, collaborative information technology and communications tools, such as those currently in use in IFAD.
49. The ISG will monitor the development of the network and judge its creative success by the novelty of the ideas developed, their usefulness and cost-effectiveness to address the challenges of rural poor people and their potential for wide application.
50. **Planning and budgeting of innovation services:** The ISG will elicit and respond to requests for innovation services from IFAD staff. The various clusters of activities defined above will provide the starting point for facilitating demand for services. Country programme and project-level activities will be focused above all where there is demand from country teams, while taking into account other criteria such as: available resources, government demand for innovation, size of the country programme and the potential for partnership development and scaling up.
51. **Link to knowledge management:** The main interfaces between the innovation and knowledge management strategies are the management of knowledge about both successful and failed innovations and the scaling up process. The first interface will be managed by:
- (i) mainstreaming knowledge-related processes – such as challenge mapping, scouting, creative problem solving, and prototyping – into core processes such as country programme preparation, project design, quality enhancement, programme implementation and supervision;
 - (ii) supporting mainstreaming of successful innovations (including IMI-funded projects) through the knowledge management system. In addition, the innovation network will link to thematic and regional networks through joint participation in innovation network events, overlapping membership and partnership mobilization.
52. The instruments foreseen in the knowledge management strategy that will be used for scaling up include regional and thematic network publications and annual reviews of country programme performance. Specifically:

- (i) At the country programme level, successful and less successful innovations will be disseminated via annual reviews of country programmes, and lessons learned from innovations will be shared through the network of in-country partners and the Rural Poverty Portal. Successful innovations will also be the object of knowledge-based policy dialogue, as described in the knowledge management strategy.
- (ii) At the regional level, lessons from innovative activities at the country level will be disseminated through regional and thematic networks. This will ensure a flow of information among country programmes and help link innovators across countries and regions.
- (iii) At the global level, innovative activities will be the subject of joint publications with knowledge centres and other partner organizations, notably FAO.

E. Expected results

53. IFAD is committed to ensuring that its overall approach to managing for development results is effective, internally consistent and simple. The draft results framework for IFAD's Strategic Framework¹ includes the following results relevant to innovation: "Percentage of projects rated 4 or better for innovation, learning and/or scaling-up". This results measure will be used for the innovation strategy. Management may consider complementing this with other measures, as experience is gained over time from implementing the results framework, as well as in the light of advice from the champion of the innovation strategy and the ISG.

F. Risk assessment and management

54. In the face of complex and fast-changing challenges concerning rural poverty, **not innovating is in itself a major risk**. However, seeking new and better solutions also entails risks, which need to be acknowledged, mitigated and managed. The issue of risk in this context can be looked at from four perspectives and mitigated accordingly. The first focuses on risks pertaining to capacity-building activities to improve the effectiveness of IFAD's daily innovation efforts. These activities, which represent a form of implementation support, generally have a low level of risk, and in fact they reduce the exposure of IFAD's lending operations to a variety of risks. A second perspective focuses on specific untested ideas. The introduction of a prototyping process supported by the ISG to test new, promising solutions is the main instrument envisioned to manage this type of risk. The third perspective focuses on scaling up. While it is difficult to know in advance to what extent IFAD will be able to influence the behaviour of other organizations, it is possible to reduce this type of risk by effective implementation of the knowledge management strategy, by the early involvement of partners in the development of innovative solutions, by building strategic partnerships and by increasing opportunities for joint operations.
55. Finally, there is a type of risk related to the change management dimension of this strategy. Increasing the current level of innovation in IFAD requires Management to address three key issues: organizational capacity to absorb change, process overload (too many process controls and too complex) and time pressure. Any one of these issues could hamper implementation of this strategy. Together they make implementing additional processes or raising expectations for results extremely difficult. Hence the need for an innovation champion among Senior Management.
56. In addition to the above considerations on risk-mitigation measures, the evaluation of IFAD's innovation efforts that will be conducted by the Office of Evaluation in 2008 is also expected to feed into the learning-by-doing approach that guides implementation of the strategy.

¹ To be examined by the Executive Board at its September 2007 Session.

G. Costs, funding sources and mechanisms

57. Since innovation is a way of working rather than a specific activity, it is difficult to measure what is currently spent on it in IFAD, especially through loans. However, the overall figure is certainly many millions of dollars per year, including the share of grants spent on innovative research (about US\$10 million) and the IMI expenditures (US\$1.5 million). Under this strategy:

- (i) Administrative expenditure will remain largely constant. The IMI secretariat will be replaced by the ISG at no additional administrative cost.
- (ii) Experiments and partnership development will be funded through the grant window (a planning figure would be up to US\$3 million per year) and by the IMI.
- (iii) About US\$1.5 million will be required for capacity-building, provision of innovation services such as scouting and challenge clarification, and enabling environment activities. These will be funded by supplementary funds, as they become available, as well as by the IMI.

58. In light of the above, the strategy will be funded through:

- (i) The Programme Development Financing Facility (PDFF), which is deployed by PMD for the development of RB-COSOPs, as well as for project design, supervision and implementation support. PDFF resources are tied to the design of pipeline projects and their subsequent implementation, but particularly innovative projects and country programmes may receive extra support during design and implementation.
- (ii) The grants programme, which will continue to promote pro-poor research on innovative approaches and technology options. The revision of grant procedures currently underway will build on the IMI experience to screen for innovations, while making access to these resources easier for innovators. In addition, grants will be the main source for financing innovation experiments in the field.
- (iii) The funds received from the United Kingdom's complementary contribution to the Sixth Replenishment and applied to the IMI, which will continue to be used for the purpose approved by the Governing Council.² Examples of activities to be financed will include promising ideas that IFAD staff develop, experiment and implement, and the provision of innovation services, notably skills development and the creation and nurturing of partnerships.
- (iv) Supplementary funds as they become available.

In due course IFAD's Executive Board may wish to consider establishing a specific financing instrument (e.g. an innovation financing facility) to mobilize additional resources and finance activities in support of this strategy.

² The Governing Council decided that the United Kingdom's complementary contribution would be used to support innovation (GC Resolution 130-XXVI, attachment A, footnote 11).

Some examples of successful IFAD-supported innovation

1. Innovations centred on empowerment of rural poor people: One key driver of innovation in IFAD has been the strong commitment of its staff and field partners to the empowerment of rural poor people. Some examples of how this commitment has translated into innovative initiatives include the following:

- In the **Peru country programme**, a core innovation has been the transfer of decision-making power over resources and responsibility for planning and implementation of development initiatives to community organizations. This has had a very positive impact on community incomes and assets, and it has helped to strengthen the legitimacy of communities responsible for the administration of collective resources. Specific innovations in this context have included: (i) technology transfer to peasant communities; (ii) sustainable management of natural resources; (iii) strengthening of rural-urban linkages and micro-enterprises; and, (iv) the development of pioneering savings schemes for rural women. These experiences are being replicated and scaled up by the government in Peru with the support of the World Bank. They have been documented by the projects and the IFAD Office of Evaluation. A partnership is being developed between IFAD and the International Development Research Centre to identify and expand successful rural innovations in Andean Countries.
- An innovative community-driven development and empowerment approach has proven effective in contributing to peace-building in an area affected by insurgency in the **Andhra Pradesh Tribal Development Project, India**. The 2001 project completion evaluation notes that the involvement of IFAD in such a sensitive area was seen as an effort by the Government of India to respond to tribal disaffection and exploitation. IFAD played the role of a facilitator that could be trusted by all parties and was committed to furthering the interests of tribal communities. The project catalyzed a change in attitudes towards a greater partnership orientation between the Government and tribal people as a way to promote their development. As a result of processes supported by the project, food security in the area improved by 20-30 per cent, and the poorest households doubled their period of food security to 6 months. More than 1000 project-established Self Help Groups and Village Tribal Development Associations are still operational, and their achievements include improved awareness about gender equity issues. A total of 467 grain banks were established at the village level, enabled members to do without the services of moneylenders. Community coordination teams made of young, dedicated professionals who live in villages for up to three years played a key role in making the innovative approach of this project a success, by encouraging the genuine participation of tribal communities.
- Beyond the project context, IFAD efforts to innovate to empower rural poor people have led to the 2005 creation of the **Farmers' Forum**, which provides a platform for dialogue and consultations between farmers' organizations, IFAD, and member countries, thus scaling up forms of rural poor organization and stakeholder consultation previously tested at the community and country levels.

2. Innovations building on the adaptive strategies, knowledge, and institutions of rural poor people: A key aspect of IFAD's commitment to innovation for the sake of empowerment is the recognition that rural poor people develop their own adaptive strategies in response to new challenges and opportunities resulting from trade liberalization, dismantling of state welfare programs, climate change, conflict, and pest outbreaks, among others. This recognition shapes IFAD-promoted technological and institutional innovations, as demonstrated in the following examples:

- The **Project for the Promotion of Local Initiatives for Development in Aguié, Niger** chiefly aims to strengthen the capacity of rural poor people to identify, evaluate, improve and disseminate local innovations that could reduce

poverty and vulnerability or improve food security. Since becoming effective in 2005, the project has validated several technical, organizational, and economic innovations with more than 1000 farmers, researchers and NGOs, addressing soil erosion, natural resources management, loss of fertility, high evapo-transpiration, and food deficit during the lean season.

- On the institutional front, the **Livestock and Pasture Development Project in the Eastern Region in Morocco** has piloted an institutional innovation for the conservation of common property rangelands, by establishing 44 cooperatives around kinship groups to regulate grazing over 460 000 ha of rehabilitated pastureland. Kinship-based cooperatives have since become key actors in rangeland conservation in other IFAD-funded projects. The organization of range users along kinship and tribal affiliation is being adapted for instance in Syria, in the Badia Rangelands Development Project, and in Tunisia through the Agro-Pastoral Development and Local Initiatives Promotion Programme.
- The **Hills Leasehold Forestry and Forage Development Project in Nepal** has addressed the question of open access to forests and associated forest degradation by giving 1,800 very poor household groups 40-year leases over plots of degraded forest land, for a total of 7,400 hectares. An IFAD evaluation mission concluded that this approach not only reduced poverty among group members but was also very successful in ensuring environmental recovery and forest regrowth. This leasehold forestry arrangement, which partly builds on existing community institutions, has proved more accessible for the rural poor than other existing community forestry arrangements. As a result of the success of this project, the Government of Nepal has included leasehold forestry as a core poverty programme in its PRSP, and IFAD is now providing funding to the Government to scale up this institution nationally.

3. Innovations centred on innovative partnerships and linkages: Innovation often emerges through partnerships with governments, NGOs, and the private sector, as well as through new or stronger linkages among stakeholders in the field. Relevant examples from different types of initiatives include the following:

- In late 1996, IFAD initiated the **Northwest Agricultural Services Project** in Armenia, aiming to improve farm productivity and the incomes of farming families coping with the transition to a market production system. IFAD initially built into the loan design a traditional credit line to meet farmers' needs for credit. However, around the same time the Agricultural Cooperative Bank of Armenia, a private bank founded with European Union support, was looking for funding to expand its operations in the areas targeted by the project. The objectives of IFAD and those of the Bank were well-aligned with each other, hence the two organizations persuaded the Armenian Ministry of Finance to accept a creative use of the IFAD concessional loan, whereby the Government restructured the US\$4.5 million credit line into a US\$2.2 million loan at higher interest rate and a US\$2.35 million capacity-building grant. By 2004, the Agricultural Cooperative Bank lent more than 70 per cent of banking system loans in agriculture, and its membership amounted to 22,000 farmers. Its clients have increased their cultivated areas by 27 per cent and their yields by 22 per cent, and they have also invested in renovating their homes, acquiring new machinery, and educating their children.
- In Sao Tomé and Príncipe, cocoa is the major product on smallholder lands and it represents 90 per cent of the country's exports. At the time of the design of the **Participatory Smallholder Agriculture and Fisheries Development Programme**, which was approved in 2001, it was estimated that at the current international cocoa price, small farmers could earn 2.4 times more by selling organic cocoa directly to private sector producers and distributors. IFAD partnered with Kaoka®, the organic branch of the CEMOI group, a major French

chocolate producer and distributor, to tap private sector knowledge of and channels to niche markets. Under the programme component of "support to economic activities and innovation", a pilot phase was launched for aromatic cocoa production and marketing, with Kaoka® providing technical assistance and guidance on how to improve cocoa production and strengthen the aromatic organic cocoa supply chain. This was done on a cost-sharing basis, whereby the loan-funded project only paid the travel costs of Kaoka® staff. At the end of the 3-year pilot, approximately 400 farmers in 11 communities had become members of an aromatic organic cocoa exporters' cooperative that directly supplies Kaoka®. The cooperative is expected to reach financial self-sufficiency in 2007. The rate of return for smallholders is 17 per cent, with resilience to climatic variability.

- The IFAD partnership with MERCOSUR is an illustration of how innovative partnerships with regional trade organizations can leverage US\$291.4 million of IFAD loans to influence policy making. Since 2000, IFAD has supported MERCOSUR through the grant-financed **Institutional and Policy Support Programme** to create spaces for policy dialogue for rural poverty reduction and development of small-scale peasant farming. The initial phase of the programme succeeded in making ministerial agendas converge on rural poverty and peasant farming policies. In 2004, MERCOSUR approved the establishment of a commission dedicated to small-scale peasant farming, and its coordination rested with the Regional Coordination Unit of the IFAD-funded MERCOSUR programme. An additional grant was approved in 2005 to support dialogue between governments and associations of smallholder about pro-poor policy reforms.
- The **First Mile Project** has been funded by the Government of Switzerland and implemented in collaboration with the Agricultural Marketing Systems Development Programme of the Government of the United Republic of Tanzania. The project focuses on building or strengthening market chains linking small farmers, traders, processors and other market agents from rural poor areas. It encourages people in isolated rural communities to use mobile phones, e-mail and the Internet to share their local experiences and good practices and to learn from one another. While communication technology is important, success depends on building new bonds of trust and collaboration along the market chain. The project started in 2005 and is already generating tangible financial benefits for small producers. For example, the project is helping the Uwamale small rice producers in Lekitatu village by strengthening their capacity to negotiate better prices for their produce and to sell at more convenient times during the year.

4. Socio-economic and technological research on emerging challenges and opportunities: In addition to seeking context-specific solutions to rural poverty, IFAD supports research, pilot testing, and technological innovations that have wider application through its grants programmes and through the IMI. Two relevant examples are the following:

- The IMI has supported a research project initiated by IFAD **on outmigration and remittances in the Central and Eastern Europe and the Newly Independent States region**. The project started in 2005 and resulted in the development of a model for a Migrants Savings and Investment Trust, which would provide targeted financial and business services to migrants to help them achieve their savings goals, limit the duration of migration, and create long-term employment opportunities in rural areas. The model has been widely promoted among development partners, private sector, and donor communities in order to field test it, and collaboration is being pursued to mobilize resources to this end with a private financial company in Armenia.

- Research **grants to the International Institute of Tropical Agriculture for the bio-control of the cassava green mite** in Africa are another important, though less recent example of IFAD support to research to confront emerging challenges. In the early 1970s, the cassava green mite *Mononychellus tanajoa* was unintentionally introduced from South America and infested cassava in all Sub-Saharan African countries. The pest decimated cassava yields, threatening the continent's food supply. Initial efforts to control the pest by chemical methods proved futile, which led to subsequent experimentation with bio-control alternatives. In the late 1990s, with support from IFAD and the Danish government, the International Institute of Tropical Agriculture developed technologies to maintain, mass produce, release and evaluate natural enemies of the cassava green mite. As a follow-on from experimentation, the Institute trained national research institutions and NGO partners in the principles and practices of biological control. In turn, these organizations played a prominent role in implementing the new technology. Biological control of cassava green mite has brought huge economic benefits - a return of US\$100 for every US\$1 invested in the program, as well as economic benefits (using conservative estimates) of US\$64 to US\$119 per hectare translating into substantial economic returns for smallholders.
- IFAD uses its assets creatively to empower the rural poor to overcome poverty. One such asset is the network IFAD maintains with international and regional research centers and its investment projects. This network is used as a platform and channel to disseminate innovative agricultural technologies, many of which have been developed and tested with funds provided by the IFAD grants facility. The **collaboration with the Africa Rice Center (WARDA)** illustrates the potential of such platforms for rural poverty reduction. In 2001, WARDA implemented with an IFAD grant a project entitled "Adaptive Research and Dissemination of Rice Technologies in West Africa" to promote the New Rice for Africa (NERICA). NERICA is a hybrid that combines useful traits of Asian rice (*Oryza sativa*) and African rice (*O. glaberrima*), and it was developed almost 10 years ago by WARDA for use in low-input rainfed systems. Today there are many NERICA varieties suitable for a range of ecosystems. Through participatory field experimentation, demonstrations, and a seed multiplication programme, approximately 30 000 farmers were introduced to NERICA. WARDA has received a further grant from IFAD to support wider dissemination of NERICA and to adapt technological packages with a focus on two rice production systems: the inland valleys (which have potential to become the food basket of West Africa) and the upland rice systems. In doing so, WARDA will scale up successful methods of participatory varietal selection and community-based seed system approach. Principal channels for scaling up are development and extension projects and services, with special emphasis on IFAD loan projects, as well as the African Rice Initiative, a multi-stakeholder initiative led by WARDA.

How does the strategy strengthen RB-COSOP and project processes?

RB-COSOP preparation: Under the Strategy, country programme teams will be able to draw on a range of innovation services during RB-COSOP preparation. For instance, scouting services can identify consultants/facilitators who can join design teams and facilitate mapping of challenges and opportunities, in the process also building the capacity of team members to undertake such efforts in the future without external input, and deepening their understanding of rural poverty from the perspective of poor people. Consultants identified through scouting services may also support policy dialogue processes in RB-COSOP development, as well as negotiation of partnerships to promote policy research and innovation to address challenges faced by the rural poor. This will strengthen RB-COSOPs as tools to achieve increased IFAD development effectiveness, by ensuring that they ground their strategic objectives in the priorities of the rural poor, identify suitable entry points for policy dialogue, and rely on a broad group of operational and policy partners, including non-traditional partners like private sector businesses. Finally, RB-COSOPs now need to identify areas and methodologies for innovation and scaling up. Under the Strategy, the identification of this innovation agenda will be facilitated through scouting of research and development grants by IFAD or others, as well as of innovations generated by farmers, the private sector, and civil society organizations. The innovation agenda of each programme will include scaling up through loan investments of solutions introduced through the grants programme, adaptation and further testing of solutions identified by the grants programme or by rural innovators, and/or creation of new practices that need to be field-tested. A better definition of the innovation agenda of each programme through the activities envisioned in this Strategy will also enable country teams to seek funding of innovative activities from the Performance-Based Allocation System, from grant resources in IFAD or from other donors, or through sponsorships with civil society and private sector venture capital.

Project design and supervision: Various entry points for challenge mapping, creative thinking and search for innovative solutions exist at project inception and formulation. The in-process training of project design teams in creative problem solving and challenge mapping will improve their analytical skills and capacity to produce robust design that meets the challenges of IFAD customers. Scouting services may lead to the identification of new ideas or technologies with different degrees of risk, which design teams may propose for field testing and for grant or loan funding. In such cases, risk analysis and management will be needed, which could benefit from support from the innovation network and the ISG. Project implementation may also pose challenges that require innovation to achieve greater effectiveness and efficiency, starting from the project start up, when teams take complex designs and configure resources to achieve the necessary results. This process can be strengthened by training teams and implementation partners in creative problem solving, challenge mapping, and innovation management. Access to scouting services can also facilitate quick learning about best practices that can be adopted and innovations that can be adapted or field-tested to translate design into implementation. Project managers trained in scouting and managing innovation can identify relevant innovations by farmers and rural producers, and, with leveraged support from civil society and private sector farmers, they can also help these innovations get replicated or enter markets. Finally, better analysis of challenges and creative problem solving, coupled with access to scouting services, can play a critical role in strengthening implementation support and supervision, as well as in providing early warning on implementation problems that require innovation.

Additional proposed activities

The following is a list of activities that may be financed under the Strategy subject to fundraising and depending on donor interest:

Creative leadership program for project staff: Many project staff have the potential to be catalysts of empowerment and innovation in their communities. Building on this potential is crucial to stimulate sustainable innovation processes within and around IFAD-funded projects. This activity will involve training and coaching project staff in leadership, business, rural entrepreneurship, creative problem solving, and personal development, and asking participants to sign a contract to work in rural poor areas for a specified term.

Developing tools to measure impact in terms of empowerment: Developing a methodology to measure empowerment is an innovation in current development thinking and practice. In addition, such a methodology may serve to measure the impact of interventions that encourage processes with a relatively unpredictable outcome, such as innovations. The background for this activity is a 2003-2006 IFAD-IFPRI project on Empowering the Rural Poor under Volatile Policy Environments. The results of the project were discussed at a Policy Forum in Alexandria, Egypt, in July 2006, which pointed to the need to:

- (a) Refine methodologies and tools to render them simpler, comparable, and replicable;
- (b) Include the state as an object of empowerment and disempowerment;
- (c) Investigate determinants of capabilities, the relationship between poverty and capabilities, and the role of governance in influencing empowerment;
- (d) Integrate new tools and approaches to assessing empowerment into projects and into the work of other development enablers through dissemination of research findings, capacity building, and jointly managed pilot initiatives;
- (e) Develop the role played by conflict and by social inequalities in shaping capabilities and empowerment.

Piloting new forms of policy engagement at the country programme level:

Recent assessments of innovation processes in IFAD and the results of a 2005 workshop on this theme stress the need to foster policy environments that can support innovation processes at the country level, since innovation typically involves changes in social, cultural, and political relations at the field level. Traditionally, IFAD has regarded policy dialogue with governments as the main way to foster an enabling policy environment. However, supporting innovation processes at the country level also requires innovative ways of understanding policy dialogue. This initiative will involve a set of activities to innovate in policy dialogue as well as to use it to facilitate innovation in country programmes. This will include identifying challenges that require innovations at the RB-COSOP level, identifying enabling or disabling policy factors for innovation processes that may be needed to address such challenges, analysing policy processes at the country level to identify entry points for dialogue, scouting for partners and opportunities for dialogue, and experimenting with alternative partners and instruments for dialogue.

Global rural innovation exhibit and conference: One key impediment to innovation in rural development is the paucity of opportunities for rural innovators to share and learn not only among peers but also across peer groups. While there are a growing number of initiatives to enable the rural poor to share innovations through innovative learning mechanisms, such as the "learning routes" in Latin America, there is a paucity of similar initiatives that involve different kinds of stakeholders and innovators. This initiative will entail the organization of an event with two components. The first component will be an innovation fair where rural innovators can share their innovations with their peers from other regions and with representatives of the private sector, R&D

institutions, government, and donors. The second component will be a conference where actual or potential innovators from different sectors will use creative problem solving techniques to generate innovative solutions to specified challenges facing the rural poor.

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