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## **Revised IFAD Policy for Grant Financing**

Executive Board — Ninety-eighth Session  
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For: **Approval**

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## Abbreviations and acronyms

CGIAR	Consultative Group on International Agricultural Research
COSOP	country strategic opportunities programme
CPE	country programme evaluation
CS	country-specific
CSO	civil society organization
DSF	Debt Sustainability Framework
ECP	IFAD/NGO Extended Cooperation Programme
FAO	Food and Agriculture Organization of the United Nations
GR	global and regional
ICRAF	World Agroforestry Centre
OE	Office of Evaluation
PBAS	performance-based allocation system
POW	programme of work
QA	quality assurance
QE	quality enhancement

## **Recommendation for approval**

The Executive Board is invited to approve the Revised IFAD Policy for Grant Financing.

## Executive summary

1. The current IFAD Policy for Grant Financing was approved in December 2003. Since then, a range of new issues have emerged that impinge, both negatively and positively, on the lives of rural people living in poverty; an array of new players have entered the rural development arena – many of them offering partnership opportunities for IFAD; and IFAD itself has evolved, establishing new corporate policies and strategies that provide a new context for grant financing. All these factors make this an appropriate moment to reflect on the extent to which the current grant policy remains relevant and supports the achievement of IFAD's overarching goal and to revise the policy as necessary. A commitment to this effect was included in the Report of the Consultation on the Eighth Replenishment of IFAD's Resources.
2. The current policy defines the strategic objectives of the grant portfolio: (i) promoting pro-poor research on innovative approaches and technological options to enhance field-level impact; and/or (ii) building pro-poor capacities of partner institutions, including community-based organizations and NGOs. The policy confirmed the grants envelope at 7.5 per cent of IFAD's overall programme of work (POW), and it defined two separate 'windows': for global and regional (GR) grants (5 per cent) and country-specific (CS) grants (2.5 per cent). Eligible partners are: developing Member States; intergovernmental organizations; civil society organizations, including NGOs; and IFAD-hosted initiatives. The policy also defines approval thresholds for grants: 'large' grant-financed projects of more than US\$200,000 are presented to the Executive Board for its approval, while 'small' grant-financed projects of US\$200,000 or less are approved by the President. Following introduction of the policy, in 2005 grant resources were included in the country allocations of the performance-based allocation system, and in 2007, due to approval of the Debt Sustainability Framework (DSF), the grant policy resulted in the CS window being reduced to 1.5 per cent of the POW and retained for 'green' (loan-only) countries only. Today, therefore, the total resources available under the grant portfolio amount to 6.5 per cent of the total POW.
3. Under the current policy, IFAD has provided a total of 389 grants worth US\$187 million in the period from 2004 through 2008, to enable over 230 organizations to implement jointly agreed activities. Many of the grant-financed projects have had positive results and impact. They have enabled IFAD to develop or strengthen its partnerships with a range of other institutions and to promote a collaborative agenda focused on the issues faced by poor rural people. They have made it possible to test and disseminate new pro-poor agricultural technologies; develop new organizational approaches at the community level and beyond; leverage changes in policies or institutions for rural development; and, above all, learn lessons in having positive impact on the livelihoods of poor rural people. The CS window has also helped IFAD move towards a country programme approach that links all IFAD-supported activities within the country.
4. Important lessons have been learned. First, use the grant portfolio more proactively in support of the achievement of IFAD's corporate priorities – and with a stronger focus on innovation and learning. Second, systematically ensure that grant-financed projects either link directly to other elements of the country programme or help shape its future development. Third, use the grant portfolio to broaden IFAD's partnerships and more directly support private-sector players in helping poor rural producers increase their incomes and improve their food security. Fourth, improve IFAD's internal procedures to reduce transaction costs and ensure consistently strategic, high-quality grant

proposals. Fifth, reduce the period it takes for a grant proposal at concept note stage to reach the first disbursement of funds. Finally, improve the supervision of, and learning from, grant-financed projects, and apply these lessons in the country strategic opportunities and project design cycles.

5. The main purpose of the revised grant policy is to promote successful and/or innovative approaches and technologies, together with enabling policies and institutions that will support agricultural and rural development, thereby contributing to the achievement of IFAD's overarching goal of empowering poor rural women and men in developing countries. The revised policy also aims to assist IFAD, its partners and other rural development stakeholders in improving their knowledge and understanding of such elements.
6. The revised policy aims specifically to: (a) promote innovative activities and develop innovative technologies and approaches to support IFAD's target group; (b) further awareness, advocacy and policy dialogue on issues of importance to poor rural people promoted by this target group; (c) strengthen capacity of partner institutions to deliver a range of services to support poor rural people; and (d) increase lesson learning, knowledge management and dissemination of information on issues related to rural poverty reduction among stakeholders within and across regions.
7. All activities to be supported with grant resources will seek to achieve one or more of the outputs and will conform to a set of strategic criteria. They should: reflect IFAD's strategic framework and relevant policies and strategies; enable IFAD to learn and manage knowledge relative to rural poverty reduction more effectively, with a view to subsequent scaling up; promote learning partnerships with key players in the rural development arena, focused explicitly on rural poverty reduction; be managed at arms-length from IFAD, and not constitute activities normally funded from IFAD's administrative budget; in cases where they involve working in developing Member States, support and contribute to IFAD's country programmes, current and/or planned; and – in the case of GR grants – have an additional value beyond the simple aggregation of benefits accruing at the country level.
8. As under the current policy, eligible partners in implementing grant-financed activities will include: developing Member States; intergovernmental organizations in which such Member States participate; civil society organizations, including NGOs; and IFAD-hosted initiatives. Additionally, however, for-profit, private-sector entities will also be eligible to receive grant financing for specific, agreed grant-financed activities aimed at enabling poor rural women and men to achieve higher incomes and improved food security.
9. The revised policy will apply to all GR grants, and to all CS grants in 'green' countries. It will also apply in 'red' and 'yellow' countries, in those cases using DSF grant funding, with the approval of the government in question, to support activities not reviewed and approved as part of a larger government investment project.
10. The policy will be implemented as follows:
  - **Allocation of grant resources.** No changes will be made to the current levels of grant resource allocation relative to the POW.
  - **Enhancement of the competitive process.** GR grant resources will be distributed within IFAD according to a competitive selection process, based on divisional grant strategic workplans.
  - **Quality enhancement and assurance.** A grant-specific quality enhancement and assurance system for large grants will be developed and implemented.

- **Grant approval.** Approval procedures will be streamlined: the authority delegated to the President will be increased to US\$500,000 from the current grant size of US\$200,000, without changing the share of small grants in the overall grant programme; and grants of more than US\$500,000 will be approved by the Executive Board according to a 'lapse of time' procedure. However, all grants to for-profit private-sector entities, irrespective of size, will be presented for the approval of the Executive Board at its regular sessions.
  - **Supervision and evaluation.** Minimum requirements for grant supervision will be developed, and supervision arrangements will be detailed in both the strategic workplans and individual grant proposals. It is also recommended that the Office of Evaluation conduct an evaluation of the policy within three years of its approval.
  - **Learning and knowledge management.** The grant portfolio will be made more effective as a platform for knowledge management and scaling up. Learning and knowledge management will be mainstreamed through the grant project cycle.
  - **Reporting.** IFAD Management will report to the Executive Board through a synthetic annual grant strategic workplan; the Report on IFAD's Development Effectiveness; and reports on grants approved during the period immediately prior to each session.
11. The importance of improved planning and management of the grant portfolio is recognized. This will be addressed in new procedures for grant-financed projects, to be developed subsequent to approval of the revised policy.
  12. The revised policy is expected to bring about substantial benefits in terms of a more strategic, effective and efficient grant portfolio. No incremental net cost is expected associated with implementation of the policy.



## Revised IFAD Policy for Grant Financing

### I. Why a revised policy?

1. The current IFAD Policy for Grant Financing was approved by the Executive Board in December 2003. Since then, a range of new issues have emerged that impinge on the livelihoods of poor rural men and women. Food and fuel price spikes and the subsequent global economic downturn have pushed many millions of rural people deeper into poverty and hunger: for the first time in history, more than one billion people are undernourished worldwide. Agricultural production is not keeping up with demand for food, and there is an urgent need to help poor rural producers increase their productivity and improve their food security, and at the same time be less vulnerable to the growing effects of climate change. The policy for grant financing needs to provide an effective vehicle for assisting poor rural women and men in confronting the issues they face today, with new approaches, new technologies and new ideas.
2. Grant-financed projects offer IFAD an important opportunity to build and pursue partnerships with other key players working in rural development. Since the current policy was developed, an array of new players have entered the rural development arena – particularly private foundations and new bilateral donors; and private-sector entities are playing ever more important roles as engines of growth in the agricultural sector. IFAD needs to be able to build relevant and effective partnerships with all of these. Equally, some of IFAD's existing partners are changing: the current reorganization of the Consultative Group on International Agricultural Research (CGIAR), for example, may have major implications for IFAD's partnerships with CGIAR members. IFAD needs to confirm that its grant policy assists it in pursuing the range of partnerships that are a prerequisite to achieving its overarching development goal.
3. Over the past five years, IFAD itself has changed. The IFAD Strategic Framework 2007-2010 provides more directive guidance for operations than did its predecessor. The organization has introduced a country-programme-based approach to its development operations, and has developed strategies for innovation, knowledge management and private-sector development and partnership. In April 2007, it adopted a policy for grant financing in relation to the Debt Sustainability Framework. All of these provide a new context for the use of grants – and an opportunity to review the policy to ensure that it is fully consistent with, and actively contributes to, IFAD's corporate objectives and priorities.
4. During the five-year period from 1 January 2004, when the current grant policy became operational, to 2008, IFAD has provided 389 grants worth US\$187 million to enable more than 230 organizations to implement jointly agreed activities. There is a wealth of experience relative to the implementation of grant-financed projects and their impact, from which important lessons should be drawn.
5. All these points suggest that this is an appropriate moment to reflect on how grant financing can best contribute to the achievement of IFAD's overarching goal. It is also an opportunity to review the continued relevance of the current grant policy to the direction and guidance of grant-financed activities, and to revise the policy for grant financing as necessary. A commitment to this effect was included in the December 2008 Report of the Consultation on the Eighth Replenishment of IFAD's Resources, where it was stressed that the revised policy would be "aimed at maximizing the impact of IFAD's limited grant resources and ensuring that they are more strategically used".

## II. Current framework for grant financing

6. **The origins.** Prior to the December 2003 approval of the current IFAD Policy for Grant Financing, IFAD was already providing grants for activities implemented by intergovernmental organizations and NGOs under three distinct categories: (a) agricultural research; (b) non-agricultural research and training; and (c) the IFAD/NGO Extended Cooperation Programme (ECP).
7. The main objectives of IFAD's support for agricultural research were to finance specific, poverty-relevant research and training programmes, implemented principally by international agricultural research centres (IARCs), and to reorient them towards the needs of smallholders. A 2002 evaluation noted that through this programme and its link with the CGIAR system, IFAD had "played an important policy and advocacy role in promoting pro-poor agricultural research and in addressing crucial poverty issues" with a number of important successes; it had established effective partnerships with a number of IARCs and had strengthened national agricultural research systems.
8. IFAD's grants for non-agricultural research and training, and other activities, supported a broad range of innovations in rural poverty-reduction efforts at global, regional and country levels. Provided to a range of partners – including NGOs, regional and intergovernmental organizations and IFAD-hosted agencies such as the Global Mechanism of the Convention to Combat Desertification and the International Land Coalition – this category offered a flexible instrument for creating important assets in terms of knowledge, technology, capacity-building and policy initiatives.
9. The ECP was established in 1987 to make small grants (less than US\$100,000) rapidly available to NGOs for experimental and pilot activities. ECP-supported activities focused primarily on testing innovative technologies and appropriate or innovative approaches and mechanisms (relevant to poor rural people) and on supporting pro-poor capacity-building.<sup>1</sup> The programme enabled IFAD to build partnerships with many NGOs, to learn more about participatory approaches to poverty reduction, and to value the role that NGOs can play in strengthening the capacity of poor rural people to engage in national policy dialogue.
10. **The 2003 IFAD Policy for Grant Financing.** The IFAD Policy for Grant Financing<sup>2</sup> approved in 2003 brought these three categories of grants together within a single framework. Reflecting its origins in those categories, the 2003 policy defines the strategic objectives of the grant portfolio as: (i) promoting pro-poor research on innovative approaches and technological options to enhance field-level impact; and/or (ii) building pro-poor capacities of partner institutions, including community-based organizations (CBOs) and NGOs.<sup>3</sup>
11. The policy drew upon the Strategic Framework for IFAD 2002-2006 to identify the activities to be supported through grants. These include: (i) identifying and testing innovative approaches and scaling up those that are successful in reaching poor rural people; (ii) harnessing knowledge on rural poverty-reduction strategies and sharing it with national and international partners; (iii) supporting national partnerships involving poor people, governments, the private sector and civil society; (iv) helping establish a national institutional and policy framework in

<sup>1</sup> During the first decade of IFAD's existence, Article 7, Section 1 (b) of the *Agreement Establishing IFAD*, which states that "financing by the Fund may be provided only to developing Member States and intergovernmental organizations in which those States participate", was interpreted to mean that grants to NGOs were not possible. The establishment of the ECP reflected the recognition that, by not financing activities of NGOs, the Fund was depriving itself of the potential of using their experience and know-how to improve its own approaches in the identification, design, implementation and evaluation of its projects, thus contributing to increased responsiveness and sustainability of its development operations.

<sup>2</sup> Document EB 2003/80/R.5.

<sup>3</sup> The phrase 'and/or' was introduced and approved by the Executive Board in 2005 to clarify eligibility criteria for support for capacity development (EB 2005/85/R.2/Rev.1).

support of poor people; and (v) performing a regional and international advocacy role to influence the policies that shape rural development options.

12. The policy confirmed the grants envelope at 7.5 per cent of IFAD's overall programme of work (POW), and it defined two separate 'windows': one for grants at global and regional (GR) levels (5 per cent of the POW), and a country-specific (CS) grant window (2.5 per cent). Both windows are guided by the overall strategic grant objectives and, within them, grants are selected following a competitive process. Eligible types of partners for grant-financed activities are: developing Member States; intergovernmental organizations; civil society organizations (CSOs), including NGOs and community-based or grass-roots organizations; and IFAD-hosted initiatives.<sup>4</sup> Finally, the policy defined approval arrangements for grants, according to which all 'large' grant-financed projects of more than US\$200,000 are presented to the Executive Board for approval, while all 'small' grant proposals of US\$200,000 or less can be approved by the President.<sup>5</sup>
13. **Subsequent modifications.** The introduction of the performance-based allocation system (PBAS) under IFAD's Sixth Replenishment meant that, from 2005, CS grants have been allocated from within the PBAS. Subsequent PBAS annual country allocations have included those CS grant funds. Specific considerations governing the allocation are that: for each region, the allocation for grants is based on the PBAS scores of the 'green' countries; no country grants go to 'non-active' countries in PBAS; and the total amount – loans and grants – going to any country cannot exceed the country's total PBAS allocation.
14. In April 2007, the Executive Board approved both the proposed arrangements for implementing the Debt Sustainability Framework (DSF) at IFAD, and a policy for grant financing in relation to the DSF.<sup>6</sup> While the latter did not have any effect on the GR grant window, it had important implications for the CS window:
  - Those countries with low and medium debt sustainability (categorized under DSF as 'red' or 'yellow') would now be eligible for DSF grant financing as provided in the three-year PBAS allocations, and they would therefore not need a separate grant allocation from the CS window.
  - Since those countries categorized as 'green' (loan-only) would not be eligible for DSF grant financing, the Executive Board agreed that the CS window should be maintained for these countries, but at a reduced level of up to 1.5 per cent of the POW.
15. Today, therefore, the resources available under the grant portfolio amount to 6.5 per cent of the total POW.

### III. IFAD's grant portfolio

16. **The use of grant resources.** Under the current policy for grant financing (i.e. between 2004 and 2008), IFAD has provided a total of 389 grants, with a total value of US\$187 million, to enable over 230 different partner agencies to implement jointly agreed activities.<sup>7</sup> Although only 38 per cent of the grants were larger than US\$200,000, their total value amounted to US\$152 million, or 81 per cent of the total grant portfolio. All of these were approved by the Executive Board. Conversely, 62 per cent of the grants were worth US\$200,000 or less, but their total value was considerably lower – US\$35 million, or only 19 per cent of the total programme. All were approved under the authority delegated to the President and reported to the Executive Board annually, at the April session.

<sup>4</sup> The phrase 'IFAD-hosted initiatives' was introduced and approved by the Executive Board in 2005.

<sup>5</sup> Except loan component grants, which are approved by the Executive Board as part of the investment projects to which they are attached.

<sup>6</sup> EB 2007/90/R.3.

<sup>7</sup> Detailed tables showing the uses of grant resources are provided in annex I.

17. While the introduction of the policy on grant financing in relation to the DSF reduced the proportion of the POW going to CS grants from 2.5 per cent to 1.5 per cent, the rapid expansion in the POW has meant that the total value of grants approved increased from US\$30 million in 2004 to almost US\$46 million in 2008. The number of grants approved rose rapidly from 76 in 2004 to 108 in 2006, at which time Management decided to reduce the overall number of grants under implementation and to focus on improving management of the grant portfolio. As a result, as shown in table 1, in both 2007 and 2008 some 70 grants were approved.

Table 1  
Number of grants by financing window

	2004	2005	2006	2007	2008	Total	Percentage of total
Global/regional	41	41	58	43	44	227	58
Country-specific	35	23	50	29	25	162	42
<b>Total</b>	<b>76</b>	<b>64</b>	<b>108</b>	<b>72</b>	<b>69</b>	<b>389</b>	<b>100</b>

18. With 5 per cent of the POW going to GR grants, the total value of grants approved under this window is substantially larger than that under the CS window: US\$137 million as against US\$50 million (table 2). Of the total 389 grants approved, 58 per cent were financed under the GR window and the remaining 42 per cent under the CS window. Those under the CS window can be further broken down: 30 per cent were considered 'stand-alone', while the other 12 per cent were directly linked to larger investment projects.

Table 2  
Value of grants by financing window  
(Millions of United States dollars)

Financing window	2004	2005	2006	2007	2008	Total	Percentage of total
Global/regional	23.4	28.4	27.9	25.3	32.0	136.9	73
Country-specific	7.0	7.8	12.7	8.9	13.8	50.1	27
<b>Total</b>	<b>30.4</b>	<b>36.1</b>	<b>40.6</b>	<b>34.2</b>	<b>45.8</b>	<b>187.0</b>	<b>100</b>

19. In terms of IFAD's partner agencies (table 3), 40 per cent of the grants went to national and international NGOs and CSOs; 42 per cent to intergovernmental organizations – of which 12 per cent went to the 15 member research centres of the CGIAR and 7 per cent to the Food and Agriculture Organization of the United Nations (FAO); and 18 per cent to governments, all under the CS grant-financing window and the majority for activities directly linked to investment projects.<sup>8</sup> In terms of the value of grants going to the various types of partners, the picture is somewhat different: because the grants to NGOs and CSOs are typically smaller than average, this category received 30 per cent of the total value of grants approved, while the generally larger grants to intergovernmental organizations made up 52 per cent of the total value. The most significant partners were FAO, which received grants worth US\$12.8 million, and the World Agroforestry Centre (ICRAF), with US\$7.9 million. Examples of the results and impact of projects implemented by these key partners are included in annex II.

<sup>8</sup> The IFAD-hosted International Land Coalition and Global Mechanism are categorized, respectively, as an NGO/CSO and an intergovernmental organization.

Table 3  
**Value and number of grants by partner type**  
 (Millions of United States dollars)

<i>Partner type</i>	<i>Total value</i>	<i>Percentage of total</i>	<i>Total number</i>	<i>Percentage of total</i>
Governments	<b>33.1</b>	18	<b>70</b>	18
Intergovernmental organizations	<b>97.0</b>	52	<b>165</b>	42
- <i>Of which CGIAR</i>	<b>45.4</b>	24	<b>48</b>	12
- <i>Of which FAO</i>	<b>12.8</b>	7	<b>29</b>	7
CSOs, NGOs	<b>56.9</b>	30	<b>154</b>	40
<b>Total</b>	<b>187.0</b>	<b>100</b>	<b>389</b>	<b>100</b>

20. In terms of the strategic objectives of the grant policy, about one quarter (24 per cent) of the grant-financed projects approved aimed at achieving the first objective (SO1): "promoting pro-poor research on innovative approaches and technological options to enhance field-level impact"; while about three quarters (76 per cent) focused on the second strategic objective: "building pro-poor capacities of partner institutions, including CBOs and NGOs". However, the projects focused on SO1 were typically larger, which meant that 41 per cent of the total value of the grant portfolio was directed at SO1.
21. **Impact of grants.** The achievements of individual grant-financed projects are detailed in four main sources: project completion reports; independent assessments of grant-financed projects conducted prior to the design of any second-phase project; technical advisory notes, prepared for some grants focused on agricultural research; and a limited number of evaluations conducted by the independent Office of Evaluation (OE).<sup>9</sup> These suggest that while the results and impact may have been uneven and not always adequately quantified, many of the projects can be considered successful. They have enabled IFAD to develop or strengthen its partnerships with a range of other organizations working on rural development issues and to promote a common agenda for collaboration, focused explicitly on the issues faced by poor rural people. They have made it possible to test and disseminate new pro-poor agricultural technologies; develop new organizational approaches at the community level and beyond; leverage changes in local, national and regional policies or institutions for rural development; and, above all, learn lessons in having positive impact on the livelihoods of poor rural people. Highlights of a range of such projects are presented in annex II.
22. A broad overview suggests that three types of partnership for rural poverty reduction, pursued through the current grant policy, have been of particular importance in enabling IFAD to achieve impact. First, grants to international and regional bodies for agricultural research have been used to pursue IFAD's specific mandate and approach, and their particular value added has been to actively encourage those research bodies to focus on the needs of poor rural producers, ensure their involvement in the research process, and promote the wide adoption of the research results achieved. Questions have, however, been posed about the linkages of these projects to IFAD's country programmes (see paragraph 26). Second, the importance placed on identifying CSOs to pilot new or innovative approaches or technologies for rural poverty reduction has grown since the policy

<sup>9</sup> Although OE has not undertaken evaluations of groups of grants, as indicated in the 2003 policy, it did undertake a thematic evaluation of the grant-financed Knowledge Networking for Rural Development in Asia/Pacific Region (ENRAP) in 2007, and a number of its other evaluations – such as the Evaluation of IFAD's Regional Strategy in Asia and the Pacific (EVEREST), the Evaluation of IFAD's Regional Strategies for Near East and North Africa and the Central and Eastern European and Newly Independent States, and a few of its more recent country programme evaluations (CPEs) – include grants.

was approved. IFAD has worked with partners ranging from international NGOs to community organizations, promoting a wide range of innovations at local, national, regional and global levels and, frequently, pursuing a clear learning mechanism to facilitate replication. Third, the policy has enabled IFAD to play a more active role in supporting farmers' organizations in strengthening their capacity to provide services to their members and to engage in policy advocacy at national, regional and global levels. In doing so, IFAD has come to understand better the issues that farmers' organizations themselves consider important; and it has developed strategic and operational partnerships with many such organizations.

23. The CS window deserves specific mention, since its introduction was one of the key changes brought about by the grant policy. The results achieved suggest that it has strengthened IFAD's capacity: (a) to engage in strategic and catalytic activities at the national level, in the areas of knowledge management, policy dialogue and analysis, and partnership; and (b) to pilot innovative approaches to rural poverty reduction that can then be scaled up through investment projects. The CS grants have generally been the best linked to IFAD's country programmes, and they have also contributed to IFAD moving from a project-by-project approach at the country level towards a country programme approach supporting linkages among all activities within the country.
24. **Lessons learned.** While many individual grant-financed projects have achieved significant results and impact, a number of important lessons have been learned from the implementation experience of the grant portfolio.
25. First, the portfolio should be used more proactively and more strategically in support of the achievement of IFAD's corporate priorities – and with a stronger focus on innovation and learning – to better respond to the issues that confront poor rural people today. OE's 2008 evaluation of the Brazil country programme argues that "greater use needs to be made especially of country-specific grants, but also regional grants" in promoting innovations and policy dialogue; and EVEREST also contends that not enough use has been made of grants, "limiting, for example, [the division's] ability to promote innovations and to engage in policy dialogue processes".<sup>10</sup>
26. A second, related issue is that of systematically ensuring that grant-financed projects either link directly to other elements of the ongoing country programme or help shape its development – an issue raised in a number of OE reports.<sup>11</sup> The problem seems to be most apparent with agricultural research grants: the country programme evaluation for Bangladesh (2006) and Morocco (2008) point specifically to the lack of synergy between the lending programme and the agricultural research grants; and the 2009 CPE for Ethiopia concluded that the regional research grants it assessed "have had no clear or adequate mechanisms for how the eventual results would be transferred to and adopted by Ethiopian poor farmers".
27. Third, poor rural people in developing countries are to an ever greater degree dependent on the provision of services and markets by for-profit, private-sector players. An issue of growing concern to IFAD is how it can broaden its partnerships and more directly support these private-sector players to enable them to provide better markets and services (particularly production and financial services) to poor rural producers. Accomplishing this is expected both to bring substantial benefits to producers in terms of broadened economic opportunities, and to assist IFAD in learning more about alternative approaches to rural poverty reduction. Under a

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<sup>10</sup> The same evaluation does, however, recognize that: "... there have been increases in grant allocations recently for partnership building, policy dialogue, and impact assessment", and it does point to innovations promoted through grant-financed projects.

<sup>11</sup> See, for example, the CPEs for Mali (2007), Morocco (2008) and Pakistan (2008), as well as EVEREST (2006).

revised grant policy, the grant portfolio could provide a limited, low-risk entry point for such an engagement (paragraph 41).

28. Fourth, internal procedures must be improved to ensure consistently strategic, high-quality grant proposals. IFAD uses a competitive process for screening large GR grant proposals. However, its high transaction costs discourage some staff from sponsoring grant proposals, and lead some potential partners to view IFAD as an unreliable and high-cost partner. The process is also not necessarily well-adapted to the screening of some grants – such as those to IFAD-hosted organizations – that reflect corporate priorities yet do not match the competitive selection criteria. Most important, and despite the process, the quality of grant proposals approved remains variable.<sup>12</sup> The experience of quality enhancement (QE) and quality assurance (QA) for investment projects shows that a competitive system is not the only route to ensuring high-quality, grant-financed projects, and highlights the importance of these processes being managed at arm's length from the grant sponsors. There is a need to both enhance the competitive process and strengthen the QE/QA system for grants (paragraphs 44-45).
29. Fifth, grant approval procedures must be streamlined. Over the period of the current grant policy, it took an average of more than 15 months to get a successful large grant proposal from approval of the concept note (which is already several months into a process of dialogue between IFAD and the potential partner agency) to first disbursement of grant funds. This period is on average made up of six months to approval – up to four months of which can be spent waiting for the next Executive Board session – and a further nine months to first disbursement. These delays are excessive, given both the relatively limited amounts of the funds in question and the intention that grants promote innovation. Measures need to be implemented at all stages to streamline the processing and approval procedures. Particular responses would include simplifying the procedures for grant approval (paragraph 46) and developing new procedures for grant management (paragraph 50).
30. Finally, there is a need to improve supervision of grant-financed projects. While budget availability for grant supervision is limited, the current supervision arrangements are not satisfactory for most grants. This is the result, in part, of a lack of definition of minimum requirements for supervision.<sup>13</sup> It has also been associated with weak processes and systems for knowledge management, and it has resulted, above all, in a lack of systematic learning from the projects.<sup>14</sup> All this leads to inadequate mechanisms and feedback of research results into the country strategic opportunities programme (COSOP) and project design cycles, and a failure to scale up the lessons learned from the innovations promoted with grant resources.
31. The experiences and lessons show that there is much about the current grant policy that remains relevant and appropriate, and that what is required is a revision of the policy, rather than a new policy per se. The revised policy outlined in sections IV and V takes into account the experience and lessons learned and seeks to build on what is working, while making improvements wherever possible. It also draws on some of the features of the grant programmes of other international financial institutions, which have been reviewed and are summarized in annex III. Finally, the lessons learned make it clear that, in addition to revising the policy, there is also a need to strengthen the planning and management of the grant portfolio.

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<sup>12</sup> A specific area of concern for the Office of Audit and Oversight has been the complex administrative arrangements for some grants and the multiple administrative fees charged. See Grants: Sub-recipient Arrangements, December 2008, document of the Office of Audit and Oversight.

<sup>13</sup> Supervision of IFAD Grants, August 2007, document of the Office of Audit and Oversight.

<sup>14</sup> The CPE for Bangladesh, for example, indicates that "... it is not known whether the Technical Advisory Notes that were issued in connection with some CGIAR grants were translated or otherwise put at the disposition of interested partners in Bangladesh."

Proposals for improved procedures for the design and supervision of grants are contained in section V.

#### **IV. IFAD Policy for Grant Financing**

32. **Goal and objective.** The goal of the revised grant policy is to promote successful and/or innovative approaches and technologies, together with enabling policies and institutions that will support agricultural and rural development, thereby contributing to the achievement of IFAD's overarching goal – that poor rural women and men in developing countries are empowered to achieve higher incomes and improved food security.
33. The objective of the policy is that IFAD, its partners and other rural development stakeholders improve their knowledge and understanding of what constitutes successful and/or innovative approaches and technologies, enabling policies and institutions that promote the interests of poor rural women and men.
34. **Outputs.** The revised policy aims to achieve the following outputs:
- Innovative activities promoted and innovative technologies and approaches developed in support of IFAD's target group;
  - Awareness, advocacy and policy dialogue on issues of importance to poor rural people promoted by, and on behalf of, this target group;
  - Capacity of partner institutions strengthened to deliver a range of services in support of poor rural people; and
  - Lesson learning, knowledge management and dissemination of information on issues related to rural poverty reduction promoted among stakeholders within and across regions.
35. **Activities.** All activities to be supported with grant resources will seek to achieve one or more of the outputs and will conform to a set of strategic criteria, defined in paragraph 40. The nature of the activities themselves will, of course, vary considerably, but will include the activities outlined below.
36. In support of the first output, activities will include agricultural research and pilot initiatives. The research will include support for global, regional and national agricultural research and for enhanced linkages among them. It will aim at ensuring that the research agenda is focused on the specific needs of poor rural producers, that they are involved in the research process, and that there is wide adoption of the research results achieved. Increased productivity, more efficient resource use, and adaptation to climate change for small and marginal farmers will all be key themes for the agricultural research activities IFAD supports. The pilot initiatives will focus on developing new approaches and institutional arrangements to address the range of constraints faced by poor rural people: they will likely include support for initiatives covering the full range of IFAD's strategic objectives,<sup>15</sup> and all initiatives will be expected to be innovative within their specific local context. As such, they may be associated with a high level of risk: not all will succeed, but the failures can be of value, as long as the lessons are learned, taken on board, and reflected in IFAD's subsequent work.
37. In order to achieve the second output, IFAD will support activities in policy advocacy for agriculture and rural development. Examples will include grants to partially finance relevant meetings, workshops and seminars initiated by its partners at national, regional and global levels. In doing so, IFAD will aim to

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<sup>15</sup> These objectives are to ensure that poor rural people have better access to, and have developed the skills and organization they need to take advantage of: (a) natural resources, especially secure access to land and water, and improved natural resource management practices; (b) improved agricultural technologies and effective production services; (c) a broad range of financial services; (d) transparent and competitive markets for agricultural inputs and produce; (e) opportunities for rural off-farm employment and enterprise development; and (f) local and national policy and programming processes.



influence agendas and outcomes to focus on key issues in rural poverty reduction. At the same time, it will assist organizations of rural people – including those of farmers, indigenous peoples and rural women – in participating in such forums, and in obtaining the information and gaining the organizational capacity they need to participate effectively on behalf of their memberships. IFAD will also support media outreach by its partners on key rural poverty questions in order to promote greater awareness of policy issues of direct relevance to poor rural people. In all cases, it will work with other IFIs, United Nations agencies, bilateral development agencies and NGOs, thereby strengthening its partnerships with other key players in rural development.

38. In support of the third output, technical assistance and consultancies, training, exposure visits and other support will be used to strengthen the capacities of IFAD's partner institutions and reorient them to better serve the interests of poor rural people. Activities will typically focus on further developing the capacity of: government agencies to design, implement and achieve impact through policies, programmes and projects aimed at IFAD's target group; NGOs to more effectively assist poor rural people in increasing their incomes and improving their food security; rural CBOs to provide better services to their members and engage in policy advocacy on their behalf; and private-sector players to supply goods and services better adapted to the requirements of IFAD's target group.
39. To achieve the fourth output, grants will be used to establish or strengthen knowledge networks and associations at every level, from the community-based to the global. These will usually be owned by the networks' members – government and intergovernmental organizations, the private sector and NGOs, and farmers or rural people themselves. Networking activities will build on the experiences of the regional knowledge-sharing platforms for development professionals: FIDAMERICA, FIDAFRIQUE, ENRAP and the Knowledge Access in Rural Inter-connected Areas Network (KariaNet); thematic membership-based groupings such as the regional associations for rural finance: African Rural and Agricultural Credit Association (AFRACA) and Asia/Pacific Rural and Agricultural Credit Association (APRACA); media networks focused on development issues, such as the All-Africa Foundation; and farmer learning networks, such as the Linking Local Learners programme in East Africa. Improved outreach of information and communications technologies is making it easier for farmers and other rural people across countries and regions to exchange information and experiences and learn from each other; changing market conditions mean that it is increasingly important that they do so. Supporting the establishment of and strengthening networks owned by rural people themselves will thus be a particular priority.
40. **Strategic criteria.** At the same time, all activities supported through grant financing should conform to all the following strategic criteria:
  - Reflect one or more of the strategic objectives of IFAD's strategic framework, its principles of engagement, and any relevant operational policies and strategies.
  - Be designed to enable IFAD to more effectively learn and manage knowledge relative to approaches and technologies for rural poverty reduction, with a view to subsequent scaling up.
  - Promote partnerships with key players in the rural development arena for a common action and learning agenda, focused explicitly on rural poverty reduction.
  - Be managed at arms-length from IFAD, and not constitute activities normally funded from IFAD's administrative budget (including the Programme Development Financing Facility).

- In cases where they involve working in developing Member States, support and contribute to IFAD's country programmes, current and/or planned.
- In the case of GR grants, have an additional value beyond the simple aggregation of benefits accruing at the country level.

41. **Eligibility criteria.** As under the current policy, grant-financed activities will be managed and implemented by the following types of partner agencies: (a) developing Member States; (b) intergovernmental organizations in which such Member States participate – such as United Nations agencies, the CGIAR and its member international agricultural research centres, and IFIs; (c) CSOs – including national and international NGOs; community-based, rural producers' and other organizations representing poor rural people; groups of parliamentarians; and media, policy development and research institutes; and (d) IFAD-hosted initiatives such as the Global Mechanism and the International Land Coalition. However, under the revised policy, the eligibility criteria will be broadened: for-profit, private-sector entities will also be considered eligible to receive grant financing for specific, agreed grant-financed activities aimed at enabling poor rural women and men to achieve higher incomes and improved food security. This proposal is discussed in more detail in annex V.

## V. Implementation of the revised grant policy

42. IFAD's revised policy for grant financing will apply to all GR grants, and to all CS grants in 'green' countries. It will also apply in 'red' and 'yellow' countries in those cases using DSF grant funding (i.e. not part of the 'grant resources' as such), with the approval of the government in question, to support activities not reviewed and approved as part of a larger government investment project. The policy will be implemented through: (a) allocation of grant resources to the two grant windows; (b) an enhanced competitive process within the grant windows, aimed at ensuring that grant resources are used strategically and in support of IFAD's corporate priorities; (c) a strengthened QE/QA system, aimed at guaranteeing that all grant proposals conform to quality standards and support the policy objectives; (d) streamlined procedures for grant approval; (e) increased emphasis on grant supervision and the application of lessons learned in the grant projects; and (f) improved reporting to the Executive Board on the implementation and impact of grant-financed projects. New procedures for improved grant management will be developed in order to ensure effective implementation of the policy.
43. **Allocation of grant resources.** No changes will be made to the current levels of grant resources. The GR grant window will remain at 5 per cent of the POW and the CS at 1.5 per cent (to be used in 'green' countries only)<sup>16</sup>. Within the two windows, the use of GR grant resources will be determined according to an enhanced competitive process (paragraph 44); while CS grant resources will be allocated as determined by the PBAS. For each region, the allocation of grants will be based on the PBAS scores of the 'green' countries; no CS grants will go to 'non-active' countries in PBAS; and the total amount – loans and grants – going to any country will not exceed its total PBAS allocation. As under the current policy, 80 per cent of the grant resources will be allocated for 'large' grants and the remaining 20 per cent for 'small' grants (although the maximum size of a small grant will be increased from US\$200,000 or less to US\$500,000 or less – paragraph 46), thereby limiting the number of grants approved each year and so maintaining the grant portfolio at a manageable level.
44. **Enhancement of the competitive process.** Under the revised policy, Senior Management will make GR grant resources available within IFAD according to a

<sup>16</sup> In the future, Management may consider modifying these percentages, subject to the findings and recommendations of an evaluation of the policy (paragraph 47).

competitive selection process. Competing divisions will submit annual grant strategic workplans for approval.<sup>17</sup> These workplans will: (a) define the priority objectives of the grant policy to be pursued by the division; (b) identify how they will contribute to corporate priorities and, where appropriate, link to the country programmes; (c) indicate the number of grant-financed projects to be developed during the forthcoming year and provide a preliminary list of those projects (while recognizing that some opportunities may emerge during the course of the year); and (d) indicate the arrangements to be used for supervising and learning from current and new grant-financed projects. The revised process will, on the one hand, reduce internal transaction costs, and on the other, ensure that the grant portfolio is more selective, with fewer, larger and more strategic grants more closely linked to the needs of country programmes and more easily and effectively supervised.<sup>18</sup> A synthesized, corporate-level grant strategic workplan document will be presented annually to the Executive Board for information, thereby enhancing the Board's understanding of the value added of the portfolio.

45. **Quality enhancement and assurance.** The project design cycle for investment projects, introduced in 2007-2008, has shown the importance both of a rigorous QE process and an independent QA function for strengthening the quality of projects at entry. While a technical review function for grants is already in place, the current Operational Strategy and Policy Guidance Committee (OSC), which provides an opportunity for Senior Management to review the grant proposal, it does not perform all the functions of an arm's length QA function. It is critical that such a system be introduced, tailored to the limited scale and specific requirements of the grant portfolio: under the revised policy, a tailored system for QE and QA for large grants (which may initially be a strengthened OSC) will be developed and implemented.
46. **Grant approval.** Under the current policy, all grants over US\$200,000 are approved by the Executive Board, while all grants of US\$200,000 or less are approved by the President under the authority delegated to him by the Board. Under the revised policy, grant approval procedures will be streamlined, as one element among a series aimed at speeding up the grant processing and approval cycle. There will be three measures taken. First, the authority delegated to the President will be increased from the current grant size of US\$200,000 to US\$500,000. This will make it possible for smaller grants to be approved in real time, rather than waiting for the next session of the Executive Board; and it will encourage an increase in average size and reduction in the number of small grants. As under the current policy, the large grants approved by the Executive Board will continue to comprise at least 80 per cent of the portfolio in value terms (paragraph 43). Second, grants of more than US\$500,000 will be approved by the Executive Board according to a "lapse-of-time" procedure similar to that applicable to projects and programmes. Grant proposals will be provided to Board members through IFAD's website and members will be notified by e-mail that documents have been posted on the site. Proposals for grants will be considered approved if no request for consideration during a session of the Board is received from any member within 30 days from the date of e-mail notification. In the event that a request for consideration by the Board is received within the time frame, the proposal will be presented for approval at the next session of the Board. Third, for grant financing to the for-profit private sector, which is an entirely new area for IFAD, all such grants, irrespective of size, will be presented for the approval of the Executive Board at its regular sessions. In the future, this may be reviewed, subject to the findings and recommendation of an evaluation of the policy (see paragraph 47).

<sup>17</sup> This approach draws on the process used by the World Bank under its Development Grant Facility (see annex III).

<sup>18</sup> In accordance with the commitment made in the Report of the Consultation on the Eighth Replenishment of IFAD's Resources.

47. **Supervision and evaluation.** In order to overcome the weaknesses in supervision of grant-financed projects, minimum requirements for grant supervision will be developed. Moreover, under the revised policy, both the grant strategic workplans submitted by the divisions and individual grant proposals will provide details of the proposed supervision arrangements. It is also recommended that the CPEs carried out by OE continue to review the impact of grant-financed projects and their linkages to country programmes, and that OE conduct an evaluation of the policy within three years of its introduction.
48. **Learning and knowledge management.** The grant portfolio will be made more effective as a platform for lessons learned on new approaches to rural poverty reduction, which can then be drawn on and scaled up wherever appropriate. Learning and knowledge management will be mainstreamed through the grant project cycle. All proposals will be expected to include a plan for knowledge management, defining the learning agenda to be pursued through the project and the knowledge management approach to be adopted. For all grant-financed projects, a short report on impact and lessons learned will be prepared at the end of the implementation period.<sup>19</sup> Mechanisms for in-house dissemination of successful experiences will also be developed.
49. **Monitoring and reporting.** The logical framework in annex IV will provide the basis for monitoring the grant portfolio. Under the revised policy, IFAD Management will report to the Executive Board at three levels: (a) through a synthetic annual grant strategic workplan, it will indicate the strategic directions for programming during the coming year; (b) through the Report on IFAD's Development Effectiveness, it will report annually on the grant portfolio, using data from the logical framework and drawing upon case studies to identify lessons learned and opportunities for scaling-up that were pursued; and (c) through reports to each session of the Executive Board, it will provide an overview of all grants approved during the period immediately prior to that session.
50. **Development of new procedures for improved grant management.** This policy document recognizes the importance of improved planning and management of the grant portfolio and – in particular – the need to enhance the competitive grant selection process; strengthen the QE and QA processes; reduce the period from development of the concept note to the first disbursement of grant resources; focus more on supervision of ongoing grant-financed projects; draw out more systematically the lessons learned from projects and the successes in scaling up; and more rigorously monitor and report on the portfolio. These issues will be addressed in new procedures for grant-financed projects, to be developed subsequent to approval of the revised policy.<sup>20</sup> Such procedures must be rigorous, yet they must also recognize and be commensurate with the limited scale of the grant portfolio relative to the total POW. Once prepared, these procedures, plus the indicators for monitoring the implementation of the policy, will be shared with the Executive Board for its information.
51. **Costs of implementing the policy.** The revised policy is expected to bring about substantial benefits in terms of a more strategic, effective and efficient grant portfolio. No incremental net cost is expected associated with implementation of the policy; indeed, it may be that net costs will be reduced. Additional staff time will be required for the preparation of grant strategic workplans, the tailored QA and the increased focus on supervision and knowledge management. However, this needs to be balanced against the reduced time spent on the competitive process. Equally,

<sup>19</sup> This would build on the approaches already developed by the Technical Advisory Division, which requires that the manager of the grant-financed activity (the grant recipient) prepare a technical advisory note for the research activities it implements, and by the Asia and the Pacific Division, which includes such a review as part of the grant project completion report.

<sup>20</sup> Due diligence must be conducted on the proposed private-sector partners that would manage and implement grant-financed activities. Thus the new procedures will also define the requirements of the due diligence exercise.

the new cost of preparing and submitting the annual grant strategic workplan to the Executive Board must be weighed against reduced Board involvement in the review of individual grant proposals. In the development of the new procedures, further efficiency gains will be sought. A key determinant of cost will be the size of the grant portfolio – that is, the number of grant-financed projects approved each year, and this will be actively managed to ensure that it does not expand beyond the human and financial resource capacity of the organization.

## **VI. Conclusions and recommendations**

52. The Executive Board is invited to review the contents of this document, which responds to an agreement reached at IFAD's Eighth Replenishment negotiations. The document also draws on the strengths of IFAD's past policy, on areas requiring improvement and on its evolving experience in grant financing. On that basis, it articulates a revised grant policy that more explicitly supports the achievement of IFAD's overarching goal and better reflects IFAD's current strategic and operational priorities. It proposes new features, and outlines modified implementation modalities in pursuit of these.
53. The Executive Board's approval is sought for the adoption, as of 1 January 2010, of:
  - (a) the revised IFAD Policy for Grant Financing as contained in this document; and
  - (b) the proposed new implementation procedures, which consist of (i) approval of grants of more than US\$500,000 by the Executive Board with the same lapse-of-time procedure applicable to projects and programmes under rule 24 of the Rules of Procedure of the Executive Board<sup>21</sup> and (ii) the delegation of authority to the President of IFAD to approve on behalf of the Board all grants not exceeding the equivalent of US\$500,000, with the exception of grant financing to the for-profit private sector, with a report of such approvals to be provided to the Board on an annual basis. Grants to the for-profit private sector, irrespective of size, will be presented for the approval of the Executive Board at its regular sessions during the two-year period (2010-2011) following the approval of this revised policy. After this period, all such grants, irrespective of size, will follow the same lapse-of-time approval procedure mentioned above. This revised policy will replace the previous Executive Board decisions on grant financing (EB 2003/80/R.5/Rev.1, EB 2005/85/R.2/Rev.1 and EB 2007/90/R.3).

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<sup>21</sup> As such will have been amended in accordance with document EB 2009/98/R.15.

## Allocation of grant resources 2004-2008

Table 1  
Total number and value of grants by size

	<i>Number</i>	<i>Percentage of total number</i>	<i>Value (US\$ millions)</i>	<i>Percentage of total value</i>	<i>Average value (US\$ millions)</i>
Large (>US\$200,000)	147	38	152.19	81	1.04
Small (<US\$200,000)	242	62	34.93	19	0.14
<b>Total</b>	<b>389</b>	<b>100</b>	<b>187.02</b>	<b>100</b>	<b>0.48</b>

Table 2A  
Number of grants by financing window

	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>Total</i>	<i>Percentage of total</i>
Global/regional	41	41	58	43	44	<b>227</b>	58
Country-specific	35	23	50	29	25	<b>162</b>	42
- of which linked to loans	5	12	11	9	10	47	12
<b>Total</b>	<b>76</b>	<b>64</b>	<b>108</b>	<b>72</b>	<b>69</b>	<b>389</b>	<b>100</b>

Table 2B  
Value of grants by financing window  
(Millions of United States dollars)

	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>Total</i>	<i>Average Value</i>	<i>Percentage of total</i>
Global/regional	23.38	28.35	27.87	25.29	31.99	<b>136.88</b>	0.60	73
Country-specific	6.99	7.76	12.70	8.91	13.77	<b>50.14</b>	0.31	27
- of which linked to loans	3.09	6.24	4.91	3.81	4.34	<b>22.38</b>	0.48	12
<b>Total</b>	<b>30.38</b>	<b>36.11</b>	<b>40.56</b>	<b>34.21</b>	<b>45.76</b>	<b>187.02</b>	<b>0.48</b>	<b>100</b>

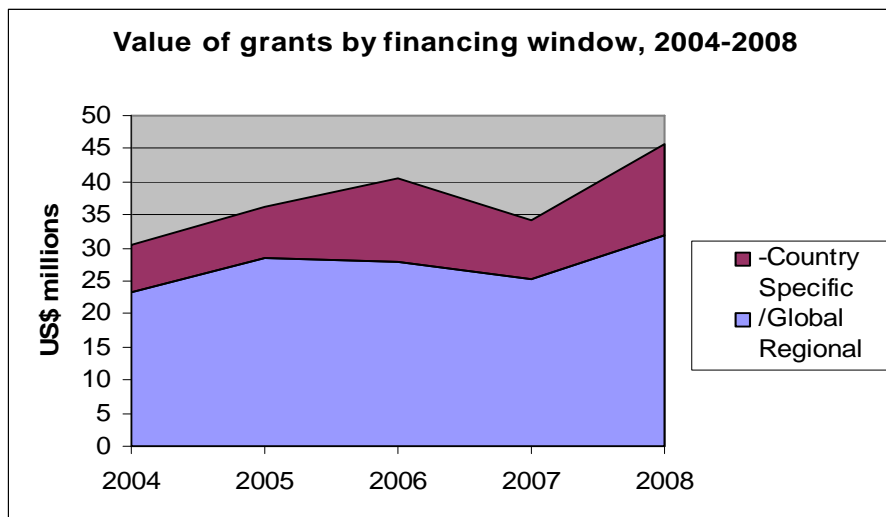


Table 3A  
**Number of grants by partner type**

<i>Partners</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>Total</i>	<i>Percentage of total</i>
Governments	7	16	20	14	13	<b>70</b>	18
Intergovernmental organizations	38	29	39	25	34	<b>165</b>	42
- of which CGIAR	9	7	13	12	7	<b>48</b>	12
- of which FAO	14	2	4	0	9	<b>29</b>	7
CSOs, NGOs	31	19	49	33	22	<b>154</b>	40
<b>Total</b>	<b>76</b>	<b>64</b>	<b>108</b>	<b>72</b>	<b>69</b>	<b>389</b>	<b>100</b>

Table 3B  
**Value of grants by partner type**  
(Millions of United States dollars)

<i>Partners</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>Total</i>	<i>Percentage of total</i>
Governments	3.66	7.21	6.48	5.99	9.72	<b>33.06</b>	18
Intergovernmental organizations	17.88	16.84	18.26	20.53	23.54	<b>97.04</b>	52
- of which CGIAR	9.01	5.07	10.85	11.64	8.78	<b>45.35</b>	24
- of which FAO	3.21	1.70	0.95	0.00	6.95	<b>12.81</b>	7
CSOs, NGOs	8.84	12.07	15.83	7.68	12.50	<b>56.92</b>	30
<b>Total</b>	<b>30.38</b>	<b>36.11</b>	<b>40.56</b>	<b>34.21</b>	<b>45.76</b>	<b>187.02</b>	<b>100</b>

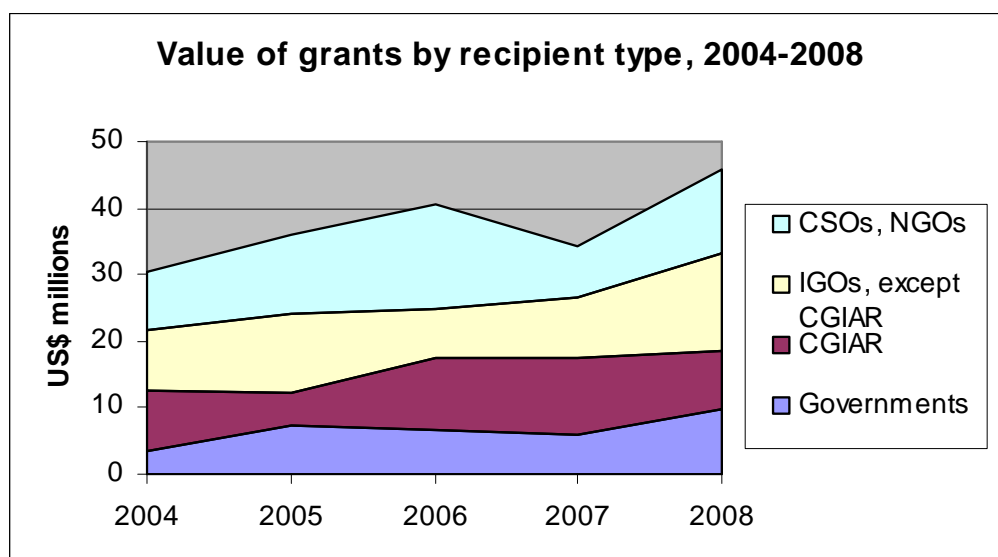


Table 4A  
Number of grants by strategic objective of the grants policy

	2004	2005	2006	2007	2008	Total	Percentage of total
Strategic Objective 1	20	15	25	19	16	95	24
Strategic Objective 2	56	49	83	53	53	294	76
<b>Total</b>	<b>76</b>	<b>64</b>	<b>108</b>	<b>72</b>	<b>69</b>	<b>389</b>	<b>100</b>

Table 4B  
Value of grants by strategic objective of the grants policy  
(Millions of United States dollars)

	2004	2005	2006	2007	2008	Total	Average Value	Percentage of total
Strategic Objective 1	16.35	12.42	15.4	16.87	15.12	76.17	0.8	41
Strategic Objective 2	14.02	23.69	25.16	17.34	30.64	110.85	0.38	59
<b>Total</b>	<b>30.38</b>	<b>36.11</b>	<b>40.56</b>	<b>34.21</b>	<b>45.76</b>	<b>187.02</b>	<b>0.48</b>	<b>100</b>



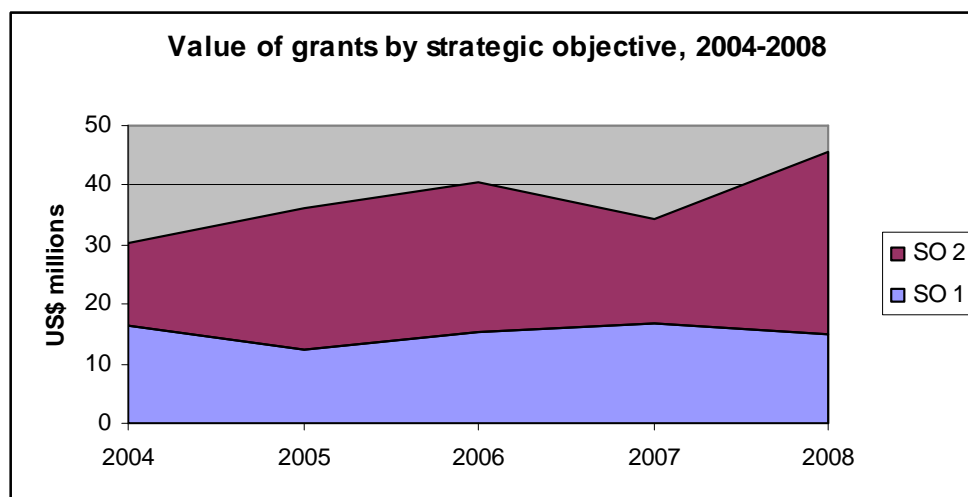


Table 5  
**Total number and value of grants by strategic objective and financing window**

	<i>Strategic Objective 1</i>		<i>Strategic Objective 2</i>		<i>Total</i>	
	<i>Number</i>	<i>Value (US\$ millions)</i>	<i>Number</i>	<i>Value (US\$ millions)</i>	<i>Number</i>	<i>Value (US\$ millions)</i>
Country-specific	26	6.73	136	43.41	162	50.14
Global / regional	69	69.44	158	67.44	227	136.88
<b>Total</b>	<b>95</b>	<b>76.17</b>	<b>294</b>	<b>110.85</b>	<b>389</b>	<b>187.02</b>

Table 6  
**Total number and value of grants by size and financing window**

	<i>Large</i>		<i>Small</i>		<i>Total</i>	
	<i>Number</i>	<i>Value (US\$ millions)</i>	<i>Number</i>	<i>Value (US\$ millions)</i>	<i>Number</i>	<i>Value (US\$ millions)</i>
Country-specific	53	33.41	109	16.73	162	50.14
Global / regional	94	118.68	133	18.19	227	136.88
<b>Total</b>	<b>147</b>	<b>152.09</b>	<b>242</b>	<b>34.93</b>	<b>389</b>	<b>187.02</b>

Table 7  
**Total number and value of grants by size and strategic objective**

	<i>Large</i>		<i>Small</i>		<i>Total</i>	
	<i>Number</i>	<i>Value (US\$ millions)</i>	<i>Number</i>	<i>Value (US\$ millions)</i>	<i>Number</i>	<i>Value (US\$ millions)</i>
Strategic Objective 1	53	68.80	42	7.37	95	76.17
Strategic Objective 2	94	83.29	200	27.56	294	110.86
<b>Total</b>	<b>147</b>	<b>152.09</b>	<b>242</b>	<b>34.93</b>	<b>389</b>	<b>187.02</b>

## Results and impacts of selected grants

### A. Global/regional grants supporting the policy objective of promoting pro-poor research on innovative approaches and technological options to enhance field-level impact

1. **Managing rice landscapes in the marginal uplands for household food security and environmental sustainability** (grant: US\$1.19 million). The goal of the programme, implemented by the International Rice Research Institute (IRRI), was to improve the livelihoods of upland farmers in India, the Lao People's Democratic Republic, Nepal and Viet Nam, and conserve fragile natural resources, by developing and disseminating improved rice-based agricultural technologies suited to the farmers' diverse livelihood strategies. The programme's approach was to address problems in both the fragile sloping upland rice areas and the lowland wetland paddies in parallel, taking into account the interactions between the two; to use participatory research and extension approaches for better targeting of disadvantaged ethnic groups and women, and for rapid technology dissemination; and to develop productive and resource-conserving rice technologies for the paddies and sloping uplands, building on indigenous knowledge. The programme's impacts included: (a) greater use of indigenous technical knowledge, increased farmers' knowledge on natural resource management, and improved access to natural resource technology and markets; (b) strengthened capabilities to mobilize and establish partnerships for action and learning; (c) reduced environmental degradation through sustainable natural resource management; and (d) increased crop yields and production through the use of improved rice varieties and integrated nutrient management methods for soil fertility maintenance. Approaches and technologies were shared with and benefited a number of IFAD-funded projects in the four countries.
2. **Diversification of smallholder farming systems in West and Central Africa through cultivation of indigenous trees** (grant: US\$1.20 million). A 2007 evaluation of this World Agroforestry Centre (ICRAF)-implemented project concluded that its second phase had achieved its objective by demonstrating that tree domestication can help to reduce deforestation and environmental degradation, promote agro-biodiversity, and generate incomes in poor, humid, tropical forest areas of West and Central Africa. Trees domesticated through the project contribute significantly to local and national economies; and improving the quality of leaves, barks, shoots or fruits of these trees gives access to new markets and generates additional income, in particular for the poor in rural areas. The disseminated technology is technically effective, widely accessible and environmentally friendly. Significant outcomes include: (a) a large number of farmer groups are experimenting and innovating at village level (Cameroon, the Congo and Nigeria); (b) a large number of farmer groups, NGOs and national partners are actively involved in tree domestication and dissemination of new techniques (Cameroon and the Congo); (c) improved harvest and post-harvest methods for high-value tree products are being developed with professional operators (mainly Cameroon); (d) a community-based marketing information system has been designed and is about to be implemented with partners at national level (principally in Cameroon); and (e) the new tree domestication techniques and know-how are integrated within the formal academic or professional channels.

3. **Rewarding upland poor for environmental services** (grant: US\$1.4 million). The Rewards for, Use of and shared investment in Pro-poor Environmental Services (RUPES) programme is coordinated by the Southeast Asia Regional Office of ICRAF. Working at six action research sites in three Asian countries and 12 learning sites in four others, the programme has resulted in significant achievements in pilot schemes involving rewards on a more localized basis for watershed-related environmental services. It has generated knowledge on environmental services as global public goods, while also developing cost-effective tools for the rapid assessment of environmental services. In addition, it has developed a set of principles and criteria for rewards for environmental services that are summarized in four attributes (realistic, conditional, voluntary and pro-poor). It has also strengthened local institutions and networks – including the technical working/advisory groups for each site, and supported the development of national independent networks as advocates for policy change. In the context of the rural poverty and environmental nexus, one of the programme’s key findings is that reward mechanisms can address several dimensions of rural poverty. This finding is significant given that rural poverty in Asia is linked to neglect and misunderstanding of environmental services. To date, RUPES has identified eight pathways to reduce poverty through environmental services. RUPES and other initiatives have encouraged adoption of improved land and forest management practices.

**B. Global/regional grants supporting the policy objective of building pro-poor capacities of partner institutions, including CBOs and NGOs**

4. **FIDAFRIQUE, phase II** (grant: US\$1.5 million). FIDAFRIQUE is a knowledge network for project managers in West and Central Africa. Its overall objective is to improve the management of projects by increasing managers’ capacity to identify, disseminate information and knowledge, best practice and lessons learned across the IFAD-supported projects in the region. The independent evaluation of its second phase concluded that IFAD-supported projects are no longer working in isolation. Project staff are knowledgeable about each other’s work and share the experience and information gained through IFAD projects within their respective countries and the region; they know what knowledge capitalization means, what the benefits are and how to profit and learn from failures, successes and expenses in general. Through access to and the efficient use of the tools developed by FIDAFRIQUE, members are using the network for efficient knowledge-sharing to improve project implementation.
5. **Expansion of the Farmers’ Field Schools Programme in Eastern and Southern Africa** (grant: US\$1.09 million). This regional programme for farmers’ field schools (FFSs), implemented by the Food and Agriculture Organization of the United Nations (FAO), aimed to: (a) increase the competence and relevance of the extension systems in Kenya, Uganda and the United Republic of Tanzania; (b) establish a networking capacity for exchanging FFS experiences within and among African countries; and (c) contribute information on the replicability and effectiveness of the FFS as an appropriate extension vehicle for IFAD’s target groups. A 2009 study by the International Food Policy Research Institute found that mostly younger farmers had participated in the field schools. Women represented half of the membership. FFS participants were significantly more likely to adopt most major technologies – particularly improved crop varieties, soil fertility management, pest control and livestock management. Participation had led to increased production and productivity for both crops and livestock, and to higher incomes – 61 per cent higher across the three countries. FFSs were especially beneficial for women (in Uganda, households headed by a woman benefited significantly more than those headed by a man), people with low literacy levels, and farmers with medium land size. Qualitative data suggest that FFSs also

contribute to empowering the participants. Altogether, FFSs have been shown to be a flexible and influential way of working with rural people to improve their livelihoods; and they appear to have influenced the way that extension and rural development is conducted in the region, with two of the countries making strong moves towards institutionalizing the FFS as the main government extension approach.

6. **Commission on Family Farming of the Southern Cone Common Market (MERCOSUR)** (grant: US\$1.09 million). IFAD provided a grant in 2005 for strengthening the participation of farmers' organizations in policy dialogue within MERCOSUR. A mid-term assessment found that the project has already had a positive impact on farmers' organizations and social capital formation by introducing valuable new consultation and decision-making processes. Both the farmers' organizations and the technical secretariat of the Commission have benefited: the former feel empowered by being part of a regional, multinational activity; and the latter has engaged in an important learning process. The project has also contributed to shaping the institutional, policy and regulatory frameworks of the Commission, and through the Commission the member states; and much of what has been achieved to date is considered sustainable. The project was assessed as being particularly innovative for having promoted new institutional approaches that create space for bringing the concerns of family farmers in general, and of rural women in particular, to regional policy forums. This is already having profound repercussions on the way development approaches are inserted in national contexts.
7. **Engaging commercial banks in rural finance in Algeria, Egypt, Jordan and Morocco** (grant: US\$175,000). IFAD's 2005 grant to the NGO Accion International aimed to engage retail banks in rural microfinance in the Near East and North Africa region in a way that addressed the needs of the rural poor. This goal was to be achieved through the examination of market potential for retail banks to expand their financial services to rural poor clients; the demonstration of the viability and profitability of rural microfinance operations to retail banks; and the engagement of interested banks in dialogue and business planning. Although both the enabling environment and the level of interest by the banks were weaker than hypothesized, the awareness of both private- and public-sector banks of the potential of microfinance in the region was raised, and the programme has served as a stimulus for banks to enter into microfinance now and in the near future. Egypt is the one country in the region where regulatory reform has enabled the emergence and growth of a microfinance industry, and one bank participating in the programme chose to engage in an extensive business planning exercise.
8. **Influencing the debate on global rural poverty** (grant: US\$150,000). Grant funds provided to Television Trust for the Environment (TVE), a United Kingdom-based media NGO, supported research, development, pre- and post-production and distribution of a televised debate focused on issues of smallholder agriculture and farming under threat around the world. Called "Failing the farmer?", the debate featured 14 panellists – among them, the leaders of small farmers' organizations from Africa, Asia and Latin America, and representatives from the European Union, the World Trade Organization, Oxfam International, academia, industry, government and IFAD. The programme, which was transmitted on BBC World five times in March and April 2007, helped build greater global awareness of policy issues related to smallholder agriculture in developing countries. The debate reached an estimated 200 million households in 147 countries and territories worldwide, and it was re-broadcast with support from TVE partners in China and New Zealand. One additional outcome was that "shadow" debates were also staged (with assistance from TVE and grant funds) in Barbados, Malawi, the Philippines, Suriname and Trinidad and Tobago. Finally, copies of the original debate were distributed to some 50 TVE partner organizations (NGOs and CSOs), helping to

build greater awareness of the issues among these groups in Africa, Asia and Latin America.

9. **Support to farmers' organizations in African, Caribbean and Pacific (ACP) countries for the negotiation of economic partnership agreements (EPAs)** (four grants and one institutional contract for a total of: US\$400,000). In response to a request from five regional farmers' networks from sub-Saharan Africa and the Caribbean, IFAD, FAO and a group of European NGOs provided the networks with support to enable them to participate in the mid-term review of the EPA negotiations between the European Union and the ACP regional blocks. IFAD specifically financed a series of regional assessments of the EPAs' impact on family farming, which fed directly into the networks' engagement in the negotiation process. Key features of the programme were that the farmers' networks initiated the partnerships, planned the activities and carried them out independently according to their own priorities; and that the contributions of the different partners complemented each other while respecting the different identities, roles and responsibilities of each. As a result of the support, the farmers' networks were able to: (a) articulate regional and joint positions on the EPAs, based on the regional assessments; (b) sensitize smallholder farmers, engage in advocacy with negotiating authorities, and inform the general public about the EPAs; (c) obtain formal recognition as stakeholders in the EPA negotiations at national, regional and global levels; (d) strengthen their capacity to influence the actual negotiation agenda and timeline (mainly in the Caribbean and West Africa); (e) contribute to broader movements (in the Caribbean, the wider civil society movement advocating for fair trade relations; and in Africa, the pan-African farmers' movement that is seeking to participate in all agriculture-related policy processes of the continent).
10. **Indigenous peoples and indicators of poverty and well-being** (grant: US\$200,000). During the 2005 and 2006 sessions of the United Nations Permanent Forum on Indigenous Issues (UNPFII), focused on the theme "Millennium Development Goals (MDGs) and indigenous peoples", fears were expressed that efforts to reach the MDGs had led to an accelerated loss of lands and resources needed by indigenous peoples and to displacement from their ancestral lands. The objectives of this grant to UNPFII were to: (a) provide indigenous groups in different parts of the world with an opportunity to define their own indicators of poverty and well-being; (b) propose indigenous-sensitive indicators at global and regional levels that would be presented and discussed during UNPFII sessions; and (c) ensure the adoption and wide diffusion of these indicators by UNPFII and the Inter-Agency Support Group on Indigenous Issues. The results of regional workshops were brought together at a global conference on indigenous peoples' indicators of well-being, sustainability and poverty, held in the Philippines in March 2007. The resulting global report included a list of themes and proposed indicators of indigenous peoples' well-being, sustainability and poverty, together with suggested indicators for the Convention on Biological Diversity and the MDGs. The report then became an official document of the UNPFII's 2008 session; it was translated into the United Nation's official languages and disseminated worldwide. The impact of this project went even further, however: the mobilization and engagement of indigenous organizations, agencies, experts in the field of indicators and government experts, and the links created among them on the issue of indicators, were of great value in themselves, and it is hoped that the result of these links will last for some time.

### C. Country-specific grants

11. **Viet Nam: Linking small poor households to supermarkets and other quality chains** (grant: US\$200,000). The objective of this project was to improve the livelihoods of small-scale farmers in Viet Nam by assisting them in accessing new high-value food chains in the domestic market, and for the lessons learned to be extended to the Lao People's Democratic Republic. The project was coordinated

by the International Cooperation Centre on Agrarian Research for Development and implemented by a consortium of French and Vietnamese research institutes and the National University of Laos. The choice of areas and products was based on inclusion of poor households, location advantages for specific quality features, existing market linkages with cities, and the IFAD project intervention area. Activities included: the evaluation of buyer demand; stakeholder information and networking, including supermarket buyers; testing new good farming and quality control practices; evaluation and promotion of farmers' organizations and intra-chain coordination; and guidelines on good trading practices. The project has shown that small-scale farmers can produce good-quality food products and, with the support of farmers' organizations, can access high-quality food chains. There is a trade-off as regards the size of the collective units of production – small enough to enable adequate quality monitoring and large enough to meet the market requirements. There is already some replication under the IFAD-supported Pro-Poor Partnerships for Agroforestry Development, and discussion has been initiated with a view to further replication under the IFAD-supported Improving Market Participation of the Poor Programme in Viet Nam.

12. **Local livelihoods programme (LLP) in mid-western Nepal** (grant: US\$485,000). LLP is a pilot project promoting a corridor approach in the mid-western development region along the new north-south road linking the upland to the lower (terai) regions. The project, managed by a local NGO, seeks to provide women and marginalized communities with improved access and linkages to markets, and with alternatives to traditional farming. Findings of the 2008 mid-term review are that the new road has created new marketing opportunities for the target group, while the project has assisted them in adopting a range of new enterprises (vegetables, poultry, goats, non-timber forest products, tailoring and agro-veterinary services). Over 5,100 households, in 230 savings and credit groups, have participated: women and marginalized groups have participation rates of 52 and 45 per cent respectively. The impacts of the project include increased employment opportunities, higher incomes (average: about US\$148 per household), and improved food security for over 2,000 households. Lessons learned include the need to: (a) develop new national-level marketing arrangements – Indian retail markets also offer new opportunities; (b) build the capacity to add value to produce; (c) establish collection centres, market information systems, supply-chain mechanisms and contracting arrangements; (d) link up to and collaborate with other local development efforts; (e) ensure post-project sustainability by building a federation of cooperatives to which groups can link up; and (f) move away from a compartmentalized component approach, to a value-chain corridor development approach linking all efforts. Based on the success of the pilot, the approach will be scaled up in a forthcoming investment project, the High Value Agriculture Project in Hill and Mountain Areas.
13. **Supporting small-scale producers accessing dynamic markets – a pilot programme in Guatemala** (grant: US\$200,000). IFAD's partnership with the Guatemalan Exporters Association (AGEXPORT) aims to assist rural and indigenous economic associations in accessing new markets with their products. This capacity-building programme, financed by IFAD, the United States Agency for International Development, and Danish International Development Assistance, supports the marketing of traditional and non-traditional agricultural and handicraft products. Under the programme, AGEXPORT has conducted studies to improve the quality of organic and fair trade coffee production, while promoting marketing in the United States and other countries. It has also promoted the export of high-quality onions and other agricultural products to Costa Rica and other Central American countries; supported innovative designs for textile products through the involvement of an international design expert, while also promoting sales; and conducted feasibility studies for establishing fruit-processing plants. Ten organizations of rural people living below the poverty line have acquired capacities in marketing and exporting

their produce, providing technical services, and engaging in the national rural and indigenous development policy arena. The signing of agreements with a range of strategic partners, together with the establishment of alliances with the private sector overall, for activities related to market access and export promotion has proved to be a best practice in the development of rural competitiveness; and the programme has provided valuable lessons for other value chain projects in countries such as Honduras and Nicaragua.

14. **Angola: Community land mapping and conflict mitigation in the central highlands** (grant: US\$149,000). The project, implemented by the NGO Development Workshop, aimed to prepare the foundation for an investment project in the central highlands, focusing on the need to respond to key constraints, generate data, test new methods and institutional arrangements, build partnerships, provide training to improve skills, and contribute to gaining the confidence of technical staff and farmers. A socio-economic study was carried out in one municipality, and then participatory mapping processes were used to map out community-owned areas in 36 villages. This was followed in one village by the mapping of over 400 individual plots. Development Workshop is one of the main NGOs engaged in discussions about land legislation and regulations, and this gave them valuable experience on which to base their lobbying and advocacy work, as well as feeding into their ongoing work with these communities. The eventual IFAD loan-funded project (when it becomes effective) will benefit from this grant in several ways: community members and traditional leaders, local authorities and government extension workers have been trained and have gained experience in participating in land mapping, applying land legislation and carrying out a socio-economic baseline study.
15. **Uganda: District Livelihoods Support Programme** (grant: US\$400,000). Fitting squarely within the country programme for Uganda, this grant served to support the design of the District Livelihoods Support Programme, a US\$39 million investment programme. Given the experience gained under the predecessor programme (District Development Support Programme), at project design special attention was paid to putting in place mechanisms to help the programme target its support activities. The grant, which financed a series of special studies, served to focus the attention of the project coordination unit on the need to draw lessons from past experience and undertake detailed poverty assessments at the parish level. The work undertaken through these studies has been instrumental in helping the programme develop its targeting approach, which will aim at reaching poorer households and the transitory poor through household mentoring and by organizing poor people into "pre" economic interest groups so that they can eventually access mainstream technical advisory services for agriculture.
16. **Armenia: Farmer Market Access Programme** (grant: US\$501,000). The ongoing US\$32 million Farmer Market Access Programme works to stimulate the growth of rural enterprises with strong links to poor primary producers and rural people seeking improved employment opportunities. One of its key features is the establishment of a venture capital fund, which will offer equity and quasi-equity funding, together with various types of management support, to small and medium-scale agro-processors, exporters, marketing agents and other relevant market players. The IFAD grant, which forms part of the overall project financing plan and is associated with a US\$12 million IFAD loan, supports this important innovation, which is new both for Armenia and for IFAD. The experience, results and lessons learned will be closely documented and made available for wide dissemination, both by the venture capital fund itself and by IFAD. The venture capital fund offers important opportunities for replication in other country programmes, particularly in middle-income countries.

## Grants programmes of other international financial institutions

1. The World Bank, the African Development Bank (AfDB) and the Asian Development Bank (AsDB) all maintain sizeable grant-financing mechanisms outside of debt sustainability framework arrangements and performance-based allocation systems, which they use to pursue their respective mandates.
2. While the World Bank does not have a grant policy as such – outside of its board-approved debt sustainability framework – its Development Grant Facility (DGF) has the objectives of “encouraging innovation; catalysing partnerships and broadening Bank services”. DGF operations are expected to further the Bank's development objectives but not compete with regular Bank instruments; operate where the Bank has a distinct comparative advantage; encompass multi-country benefits or activities; reinforce partnerships; leverage additional financial support; be implemented by recipients with a record of achievement and financial probity; have an arms-length relationship with the Bank's regular programmes; and have an explicit, tailored disengagement strategy. The DGF has two financing windows, for long-term development work (agricultural and health research) and for providing “seed” money to pilot new approaches and ideas. In 2008, its US\$176 million budget was used in support of 55 programmes; recipients were NGOs and intergovernmental organizations, including the Consultative Group for International Agricultural Research (CGIAR), which received US\$50 million. DGF funds are also used to finance the Social Development Civil Society Fund, which provides small grants to support the activities of CSOs whose primary objective is encouraging and supporting civic engagement of poor and marginalized groups in development processes. Programme proposals are reviewed by a DGF council to confirm their conformity with eligibility criteria and institutional priorities, on the basis of which the council makes allocation recommendations to senior management for consideration by the Bank's board. The board is then requested to approve the DGF programme and budget for the coming year.
3. The 2008 Annual Review of Development Effectiveness, prepared by the Bank's Independent Evaluation Group, highlighted the enhanced processes that the Bank had put in place to encourage greater programme selectivity, although it pointed out that their effect remained to be fully assessed. It noted that the quality-at-entry reviews of DGF-supported programmes confirmed this finding, citing particularly stronger quality of programme design and improved readiness for implementation, as well as a number of areas needing improvement, such as unrealistic objectives, weak results frameworks and poor documentation.
4. The AsDB uses grants to provide technical assistance to promote regional policy dialogue, build capacity and strengthen institutions, generate and disseminate knowledge, and develop partnerships. Technical assistance activities help AsDB developing member countries identify, formulate and implement development projects; formulate development strategies, policies and programmes; improve institutional capacities; undertake sector and policy studies; and improve their knowledge of development issues. Technical assistance grants are financed principally from two sources: the Technical Assistance Special Fund, which is itself funded from a variety of sources; and the Japanese Special Fund, which is made available on an untied grant basis by the Government of Japan. AsDB also benefits from a complementary Japan Fund for Poverty Reduction, an untied grant facility that is used for providing project financing in AsDB developing member countries for direct relief to the poorest and most vulnerable segments of society, while building up their capacities for self-help and income generation.



5. In terms of approval authority, the AsDB president has the authority to approve technical assistance financed on a grant basis, provided that the highest financing amount from any one source (AsDB or cofinancing funds) does not exceed US\$1.5 million. The president may delegate this authority to the vice-presidents and to heads of department in the case of small-scale technical assistance. The president reports all approvals of technical assistance to the board. Grant-financed technical assistance proposals in excess of US\$1.5 million are circulated to the board for approval on a no-objection basis.
6. A 2008 policy paper "Increasing the Impact of the Asian Development Bank's Technical Assistance Program" highlighted the findings of an earlier 2007 evaluation of the programme, conducted by the Operations Evaluation Department. The programme's strengths included a systematic programming process at the country level, which ensured a long-term approach to key issues; flexibility in responding to diverse country and sector circumstances; and steady provision of financing to address developmental issues and constraints in AsDB's developing member countries. Weaknesses included (a) insufficient focus at the country level, and limited synergy between country-based operations and the AsDB-wide regional technical assistance programme; (b) processing procedures that can prolong technical assistance preparation considerably, while adding limited value to project design; (c) emphasis on the processing and design stage, with insufficient attention and staff involvement devoted to implementation supervision; and (d) insufficient ownership by countries and executing agencies. In particular, when measured against the goals of the Paris Declaration on Aid Effectiveness, AsDB's technical assistance lagged in the use of national systems and procedures, and in the role recipients play in procurement, which was handled mainly by AsDB.
7. The AfDB makes available its technical assistance grants to all AfDB (i.e. highly concessional) countries, and to regional organizations implementing regional projects and programmes. Grant resources are provided for two distinct purposes. Project cycle technical assistance aims to ensure the building of a pipeline of projects for AfDB operations, improve the quality of projects and programmes, and enhance their implementation; and it supports a range of activities from pre-feasibility to post-evaluation studies. Technical assistance for institutional capacity-building makes available grant resources to member countries for establishing/strengthening institutions for project design, monitoring and evaluation; developing capability for policy analysis and activity programming; preparing sector studies; strengthening national and regional research institutions; promoting private-sector investment and governance, and public-private partnerships; and building capacity for results-based management and monitoring and evaluation.
8. For each technical assistance grant proposal, the AfDB president submits to the board of directors a written report recommending the approval of a technical assistance grant operation. However, in order to expedite the processing of technical assistance grant activities and enhance their speedy completion, the board of directors may adopt their own guidelines and procedures for authorizing the president to approve technical assistance grants up to a certain limit.
9. When the grant programmes of the World Bank, the AsDB and the AfDB are compared, it is evident that each has a different scope and focus. Above all, while the DGF activities of the World Bank are expected to have an arm's length relationship with the Bank's regular programmes, the technical assistance grant programmes of the AsDB and AfDB are explicitly intended to support the project cycles of those institutions. They are also financed from very different sources: from performance-based country allocations (in the case of AfDB); net income from ordinary capital resources; voluntary contributions and internal transfers; and supplementary bilateral funding.

10. Yet the three grant programmes also have a number of common points and offer lessons for IFAD. First, all are expected to contribute to the achievement of the organizations' development objectives. Second, the promotion of innovation, the building of partnerships with a range of different development actors, the strengthening of capacities in developing member countries, and the building of knowledge on development issues are all objectives promoted through the programmes. Third, the promotion of activities at both the regional and the country levels is a theme of all of the programmes. Fourth, in the cases of both the World Bank and the AsDB, the programmes can support activities in all of the developing member countries of those institutions. Fifth, the executive boards of both the World Bank and the AsDB (and, theoretically at least, the AfDB too) have delegated substantial authority to the presidents of those organizations to approve individual grant proposals. Finally, the lessons of evaluations of the grants programmes of the World Bank and the AsDB confirm many of IFAD's findings relative to its own grants policy and portfolio of projects.

## Logical framework for revised grant policy

Narrative summary	Indicators	Means of verification	Assumptions
<p><b>Goal:</b> The promotion of successful and/or innovative approaches and technologies, and of enabling policies and institutions, for agricultural and rural development contributes to the achievement of IFAD's overarching goal</p>	<p>Percentage of country programmes rated 4 or better for contribution to (a) increasing the incomes of, (b) improving the food security of, and (c) empowering poor rural women and men</p> <p>Percentage of projects rated 4 or better at completion for effectiveness in one or more thematic areas of engagement; poverty impact on the target group; and innovation, learning and/or scaling up</p>	<p>Results Measurement Framework for IFAD VIII (level 2)</p>	
<p><b>Objective:</b> IFAD, IFAD's partners and other rural development stakeholders improve their knowledge and understanding about what constitutes successful and/or innovative approaches and technologies, and enabling policies and institutions, for poor rural women and men</p>	<p>Numbers of IFAD country programmes, projects scaling-up/replicating lessons learned through grants portfolio</p> <p>Numbers of partners and other rural development stakeholders scaling-up/replicating lessons learned through grants portfolio</p>	<p>RB-COSOPs; project design documents; OE evaluation reports</p> <p>Public data sources: reports of partners and other rural development stakeholders</p>	<p>(Objective to goal)</p> <p>Lessons learned fed into IFAD country programmes and projects, and IFAD advocacy activities</p>
<p><b>Outputs:</b></p> <ol style="list-style-type: none"> <li>1. Innovative activities promoted, and innovative technologies and approaches developed, in support of IFAD's target group.</li> <li>2. Awareness, advocacy and policy dialogue on issues of importance to poor rural people promoted by, and on behalf of, IFAD's target group.</li> <li>3. Capacities of partner institutions strengthened to deliver a range of services in support of the rural poor.</li> <li>4. Lesson learning, knowledge management and dissemination of information on issues related to rural poverty reduction promoted among rural development stakeholders.</li> </ol>	<p>Numbers and percentage of projects achieving individual grant objectives</p>	<p>Project completion reports; project evaluation reports; "impact and lessons learned" papers prepared for all large grants</p>	<p>(Outputs to objective)</p> <p>Lessons drawn out and effectively communicated within IFAD, to partners and to other stakeholders</p>
<p><b>Activities:</b></p> <ol style="list-style-type: none"> <li>1.1. Agricultural research focused on the needs of resource- poor farmers.</li> <li>1.2 Innovative initiatives piloted for addressing constraints faced by poor rural people.</li> <li>2.1 Policy forums supported at national, regional and global levels on pro-poor agriculture and rural development, and participation of rural civil society organization in such forums facilitated.</li> <li>2.1 Media outreach supported to promote greater awareness on policy issues of direct relevance to poor rural people.</li> <li>3.1 Technical assistance and capacity- building provided for state and non-state actors.</li> <li>4.1 Knowledge networks and associations established or strengthened at community to global levels.</li> </ol>	<p>Number of projects and value of grant resources allocated to different project activities</p>	<p>Grant-financed project design documents</p>	<p>(Activities to outputs)</p> <p>Improved grant management procedures put in place</p>

## IFAD grants policy and the private sector

1. **What type of private sector?** The type of private-sector entities that will be eligible to receive grant resources from IFAD will include: (a) for-profit corporate private-sector companies (as distinct from NGOs or farmers' organizations, which currently can and do receive grants from IFAD); and (b) private management companies that manage multi-donor trust funds or development funds on behalf of donors. The private-sector companies under category (a) will be mostly locally based agri-businesses, processing companies, microfinance institutions, or commercial banks that can or will engage directly with IFAD's target groups.
2. **What is the rationale for providing grants to the private sector?** Smallholder farmers particularly, and the rural poor more broadly, interact on a daily basis with private-sector operators, for the delivery of agricultural services, inputs, finance and markets. As a result, increasing the agricultural production and incomes of poor rural people not only requires that their capacity to engage with private-sector intermediaries be strengthened; it is also heavily – and increasingly – dependent on the vibrancy, performance and investments made in the rural areas by the corporate private sector itself.
3. IFAD has long supported efforts to empower its target group and strengthen poor rural people's organizations; it now needs to complement this by supporting the emergence of a private sector that creates new economic opportunities for poor rural people. The current policy allows for grants to be provided to developing Member States, intergovernmental organizations, CSOs, NGOs and IFAD-hosted initiatives; but it excludes for-profit private-sector players. While in fact much can and has been done in the context of this policy, substantially more could be done if IFAD were able to engage the private sector directly. In many cases, loans would be the most appropriate financing instrument to use; however, there may be specific circumstances where the use of grants would be required.<sup>1</sup>
4. **For-profit corporate private-sector companies.** Many private-sector actors prefer to work with richer clients or larger farmers, either because they assess the risk and transactions costs of working with the rural poor or small farmers as being too high, or because they may simply lack information on how best to deal with them. The rationale for giving a grant to a private-sector company therefore is to enable it to overcome these risks and transaction costs, and offer it an incentive to engage with, or provide services and markets to, IFAD's target groups. Grants could be used to finance the specific one-off costs that companies face in developing a new business model or new clients/markets – costs that are almost always highest at start-up. The sustainability of the new services or markets offered to its target group is a key consideration for IFAD, and the value added of any grant will be assessed according to whether it is considered likely that the services or markets will be maintained or expanded after the provision and use of the grant resources.
5. **Private management companies.** Increasingly, both bilateral and multilateral agencies are using private-sector firms to manage a variety of development activities. IFAD's inability to participate in these, because of its inability to channel grant funds through private-sector entities, appears increasingly anachronistic. Two real-life examples are worth citing. The European Commission is currently exploring opportunities for financing in an Africa-wide, EUR 10 million technical assistance facility (TAF) to finance technical support to outgrower schemes, farmers' organizations, small and medium enterprises and microfinance institutions. There is a proposal that these funds be channelled through IFAD as supplementary funds,

<sup>1</sup> Grants represent just one financing modality. IFAD is looking more broadly at its role and instruments relative to its engagement with the private sector and, as set out in the Report of the Consultation on the Eighth Replenishment of IFAD's Resources, it will present a proposal on this issue to the Executive Board in December 2010. The preliminary experience with private-sector grants will provide important lessons that will feed into that exercise.

and in this case, IFAD's role is to be a conduit through which these funds will be transmitted to the TAF. However, while the objectives of this TAF are fully in line with IFAD's mandate, because the fund will be managed by a (South Africa-based) private fund manager, as of now IFAD has not been able to make available its own resources for the TAF. A second example is in Zimbabwe, where a private development consultancy firm is managing a livelihoods and social protection programme financed by various donors including the United Kingdom's Department for International Development, the World Bank and the European Union. Although the programme has a strong agricultural focus and is targeted at poor, and in many cases destitute, rural households, because the programme manager is a private firm, IFAD has been unable to participate in this initiative. The grant policy proposes to allow IFAD to become a cofinancier in these types of funds, even though they are managed by private fund managers.

6. **Activities.** Grant resources will be used to fund specific, approved activities that will be managed by private-sector partners. Examples of activities that could be funded include:
  - (a) For-profit corporate private-sector companies:
    - Feasibility and/or market studies to determine profitability of proposed services or outreach and/or design of business models to work more effectively with small farmers or rural workers;
    - Training of private-sector company employees to extend services or outreach to poor rural clients;
    - Market and business research for developing new financial products targeted to the rural poor; and
    - Initial outreach to, or training/organization of, the company's new suppliers or clients.
  - (b) For private management companies: any activities consistent with IFAD's strategic objectives, supported either within a single country or at the regional/global level, that are financed through a multi-donor fund to which other development agencies and/or donors contribute.
7. Grants will not be provided for equity or capitalization of private-sector entities, nor to finance long-term operating costs or activities that would have been covered by the company in the absence of the grant. IFAD will not take a seat on the board of any private-sector firm.
8. **Implementation.** In making available grants to the private sector, IFAD will work within the framework of its Private-Sector Development and Partnership Strategy.
9. While working directly with the private sector represents an important opportunity with significant potential benefits for poor rural people, in practice there are likely to be only limited occasions for establishing such partnerships, and it is not anticipated that IFAD will develop more than two to three such grants in any year.
10. **Guidelines and due diligence.** Prior to providing any grant funding to private-sector entities, IFAD will develop tailored guidelines that will define the eligibility criteria for such grants, which will include a requirement to justify the use of a grant rather than a loan, and the requirement for a counterpart contribution to any grant. It will also develop procedures for conducting due diligence on prospective partners. This will be done as part of the broader process of developing new procedures for improved grant management.
11. All concept notes related to the private sector will have additional sheets for the eligibility criteria, confirming that the grant conforms to these, and a "due

diligence" sheet that will be filled by the grant sponsor. Apart from the financial and administrative due diligence on the prospective partners (including assessing the history of social and environmental responsibility of the company), due diligence on the activities to be financed by the grant will be included to ensure compliance with the above implementation policy. Wherever possible, IFAD will rely on the due diligence work conducted by a prospective partner donor agency, subject to that exercise conforming to IFAD's minimum requirements. Such an approach will reduce transaction costs and promote the spirit of the Paris Declaration.

12. **Monitoring and evaluation.** All grant proposals will include a monitoring and evaluation system to report on certain basic impact indicators. These will include, where relevant, indicators on:
  - Number of outgrowers or small farmers supplying the company;
  - Sales and incomes from participating farmers;
  - Number of local employments created by the company;
  - Increase in wages of rural employees employed by the company;
  - Number of small clients (for example for microfinance or other agricultural services) reached by the company;
  - Percentage of adoption rate of the technology introduced by the company; and
  - Potential direct or indirect impact on the local economy, if possible.
13. IFAD recommends that the Office of Evaluation conduct an evaluation of the policy within three years of its introduction. That evaluation should look specifically at the experience gained through grant-financed projects managed by private-sector partners.
14. **Learning and knowledge management.** The principal objective of the IFAD grant policy is to enable IFAD, IFAD's partners and other rural development stakeholders to improve their knowledge and understanding about what constitutes successful and/or innovative approaches and technologies, and enabling policies and institutions, for poor rural women and men. The provision of grant financing to the for-profit private sector represents a particularly important opportunity for IFAD to experiment with new types of partnerships and learn from them. Learning will be a two-way process, and grants could also be seen as a tool to entice the private sector to learn about both the value of working with development agencies and how best they can expand their markets to poor rural people. Reflecting the importance of using grant financing for learning purposes, all grant proposals will also include a section on how the grant will deliver and report in the area of knowledge management.

