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Enabling poor rural people
to overcome poverty

Comments of the Office of Evaluation on the Revised IFAD Policy for Grant Financing

Evaluation Committee — Sixtieth Session
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For: **Review**

Note to Evaluation Committee members

This document is submitted for review by the Evaluation Committee.

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Comments of the Office of Evaluation on the Revised IFAD Policy for Grant Financing

1. **Background.** In line with the provisions contained in the Evaluation Committee's terms of reference and rules of procedure,[1] the Executive Board agreed at its ninety-fifth session in December 2008 that the Committee would discuss the Revised IFAD Policy for Grant Financing, together with the Office of Evaluation's (OE) comments thereon. The revised grants policy will be presented at the ninety-eighth session of the Board in December 2009, and as per customary practice, OE's comments will also be shared with Board members for their consideration.

2. **General comments.** The IFAD Policy for Grant Financing was approved by the Executive Board in December 2003. Now, after six years of implementation, revision of the policy is clearly appropriate, in light of the evolution within the Fund and the international development context.

3. OE has three overarching comments on the new policy. First, while efforts have been made to anchor the revised policy in the experience accumulated since 2003, it is evident that a comprehensive and rigorous assessment of the results and achievements of the policy's implementation has not been undertaken. This would have been required in the interests of accountability, especially given the vast amount of resources (US$187 million for almost 400 grants) that IFAD has provided in grant funding since the approval of the 2003 policy. As a result, the discussion of the impact of grants provided by IFAD since adoption of the policy is rather limited. Assessing the performance of global and regional grants would have been particularly useful: these have received the largest share of IFAD grant resources, and their impact on country programmes funded by IFAD is often difficult to discern.

4. A specific assessment of results by IFAD would have been particularly valuable, given that neither the Food and Agriculture Organization of the United Nations (FAO) nor the Consultative Group on International Agricultural Research (CGIAR) (the two largest recipients of IFAD global and regional grants) has an independent evaluation function.[2] A thorough accountability assessment would have generated lessons – and examined their implications – for a revised policy. References to selected OE evaluations provide useful insights. However, these cannot be taken as a proxy for a results assessment because, in line with the Evaluation Policy, OE does not specifically evaluate IFAD grant-funded activities. In sum, without an in-depth assessment of the results and impact of past grant-funded activities and a dedicated effort to extract lessons and good practices from previous achievements or lack thereof, the evidence base of the proposed policy remains insufficient.

5. Second, on the positive side, OE finds appropriate – for the reasons outlined in paragraph 46 of the proposed revised policy – the increase in the authority vested with the IFAD President to approve grants of up to US$500,000, rather than US$200,000 as in the past. Among other issues, this will encourage an increase in average grant size and a reduction in the number of small grants, as well as help reduce the transaction costs for the allocation of grant resources.

6. Likewise, the change to allow the provision of grants to the private sector is welcomed. However, the proposal seems to view engagement with the private sector solely in terms of provision of goods and services, which may be too limited in scope. IFAD may want to extend grants in the form of subsidies for private-sector development, provided that their activities in turn benefit the rural poor, in accordance with well-defined criteria and principles of engagement.

[1] See document EB 2004/83/R.7/Rev.1.
[2] The CGIAR has no established evaluation function, but is in the process of developing one.

7. The third comment for consideration by IFAD and the Executive Board relates to the percentage of grants provided by IFAD as a proportion of its annual programme of work. It was agreed during the Sixth Replenishment exercise (2002) and by the Board (2003) that 10 per cent of IFAD's total annual programme of work would be allocated in grants. Out of this, 5 per cent was to be allocated to global and regional grants and 5 per cent to country grants. Of the 5 per cent for country grants, the Board agreed to allocate 2.5 per cent to the Programme Development Financing Facility (PDFF), leaving 2.5 per cent for country-specific grants. In April 2007 this was reduced to 1.5 per cent by the Board. Today, the resources available under the grant portfolio amount to 6.5 per cent of the annual programme of work.

8. The proportion of country grants (1.5 per cent) appears rather small given their usefulness: these grants are recognized by the policy as having "generally been the best linked to IFAD's country programmes". In addition, there is increased demand and need for activities that may be best realized through country-level grants, such as scouting for innovation, knowledge management, policy dialogue and analytical work in support of the country programme. Thus, it may be useful for the Fund and the Board to reflect on the adequacy of the grant resources earmarked under the country grant window. Options could entail: (i) increasing the overall envelope of grant resources above 6.5 per cent, as this target is well below the overall grant financing ceiling established by the Agreement Establishing IFAD of 12.5 per cent per year; or (ii) the Fund could increase the country grant allocation by using part or all of the 2.5 per cent previously transferred to the PDFF, especially now that this facility has been mainstreamed into IFAD's annual administrative budget.

9. **Specific comments.** The objective of the new policy appears to be less clear than the objectives contained in the previous policy, which specifically addressed the importance of promoting pro-poor research and institutional capacity-building in partner countries. Neither the goal nor the objective of the revised policy clearly indicates that one of the main aims of the grants programme is to support IFAD's loan programme. In particular, the policy fails to explain the value of providing grants rather than loans. Thus, it does not provide much guidance on the question: when and why should IFAD provide a grant and when should it not? This would help eliminate the reoccurrence of past situations where certain activities (e.g. capacity-building of grass-roots institutions) were sometimes financed by both loans and grants.

10. At the output level, there is little detail about the prioritization of outputs and the level of resources required in pursuit of each output. Moreover, no specific targets are assigned to the outputs in the logical framework in annex IV, thus adding to the challenge of measuring the results of the grants policy in the future. This is extremely important, especially as OE will be called upon in five years' time to evaluate the policy.

11. OE country programme evaluations (e.g. in Brazil, Egypt, India, Mexico and Morocco) have revealed that grants play a specific role in middle-income countries. The nature of IFAD operations is evolving in these countries: they are increasingly interested in IFAD as a facilitator of knowledge, promoter of South-South cooperation, and agent to pilot pro-poor replicable innovation that can be scaled up by others. That is, while investment projects remain important to middle-income countries, innovation and transfer of knowledge and experience in rural poverty reduction are likely to be of greater value. Such activities would probably need to be grant-financed. Therefore, the policy could have articulated the strategic way in which grant resources will be used in middle-income countries, as compared with other recipient countries of IFAD assistance.

12. It is interesting to note that FAO has been the largest single recipient for IFAD grant resources since 2004. Many of the grants provided to FAO have been on an ad hoc basis (e.g. to FAO's regional office in Asia and the Pacific for policy dialogue, and support for the organization of international conferences). Given the large amount of resources provided to FAO over the years and the increasing calls for greater partnership between IFAD and FAO, it would be worthwhile developing a cooperation agreement or memorandum of understanding with FAO to guide IFAD's future grant allocation to the organization.

13. One of the weakest areas in the past has been grants portfolio management, including the supervision of grant activities. The policy recognizes the need for IFAD to develop minimum requirements for grant supervision. However, a significantly enhanced self-evaluation system for the grants portfolio and greater attention to learning and knowledge management (see paragraph 48) are likely to entail the allocation of additional administrative resources, well beyond the few resources earmarked at present. This might need to be quantified in more detail and factored into the overall cost estimates of implementing the policy.