Document:	EC 2014/85/W.P.5/Add.1/Rev.1	
Agenda:	6	
Date:	10 October 2014	E
Distribution:	Public	
Original:	English	

Investing in rural people

IFAD Management's response to the corporate-level evaluation on the IFAD Policy for Grant Financing

Note to Evaluation Committee members

Focal points:

Technical questions:

John Murray McIntire
Associate Vice-President
Programme Management Department
Tel.: +39 06 5459 2419
e-mail: j.mcintire@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Head, Governing Bodies Office
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

Evaluation Committee — Eighty-fifth Session
Rome, 10 October 2014

For: **Review**

Document:	EB 2014/113/R.7/Add.1
Agenda:	5(b)
Date:	7 November 2014
Distribution:	Public
Original:	English

E

Investing in rural people

IFAD Management's response to the corporate-level evaluation on the IFAD Policy for Grant Financing

Note to Executive Board representatives

Focal points:

Technical questions:

John Murray McIntire
Associate Vice-President
Programme Management Department
Tel.: +39 06 5459 2419
e-mail: j.mcintire@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Head, Governing Bodies Office
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

Executive Board — 113th session
Rome, 15-16 December 2014

For: **Review**

Contents

I.	**Introduction**	**1**
II.	**Findings**	**1**
III.	**Recommendations**	**1**
IV.	**Management agreement**	**2**
V.	**Remaining differences**	**3**
VI.	**The way forward**	**5**

IFAD Management's response on the corporate-level evaluation on the IFAD Policy for Grant Financing

I. Introduction

1. IFAD Management welcomes the opportunity to provide its response to the final report on the corporate-level evaluation (CLE) on the IFAD Policy for Grant Financing (EC 2014/85/W.P.5) in line with the provision of the IFAD Evaluation Policy. Management would like to thank the Independent Office of Evaluation of IFAD (IOE) for having had the opportunity to provide feedback during the course of the evaluation.

2. Management appreciates the substantive and useful overview provided in the report and notes many areas of common understanding and agreement with the CLE's findings and recommendations. However, a few significant differences were noted pertaining to basic resource allocation processes. Given the critical importance of these issues, IFAD Management proposes a way forward in section VI below.

II. Findings

3. Management commends the forward-looking approach adopted by IOE in this evaluation and agrees with the overarching conclusion that "the grants programme is indeed a valuable and unique resource for furthering IFAD's mandate" (Overview, para. 40). It notes the CLE's finding that "grants can be an important instrument to achieve IFAD's mandate of rural poverty reduction, complementing loans and other non-lending activities" (appendix, para. 252) and agrees that "[M]any of the issues relate to improvements that are within reasonable reach for IFAD" (appendix, para. 270). Management's comments on this evaluation report are guided by these overarching conclusions.

4. IFAD Management broadly agrees with the findings related to the grants programme, the grants portfolio, the relevance and effectiveness of the policy and the efficiency of the associated processes and procedures. With respect to the comment on the "very large number of grants designed, approved, and implemented per year leading to high transaction cost for the Fund", Management wishes to clarify that it is striving to "reign in" the number of grants in the active portfolio (appendix, para. 54), mainly by increasing the average size of the grants (appendix, para. 55), and has achieved significant success in recent years.

5. Similarly, Management recognizes the need to close grants on time (table 9). To this end, it has delegated appropriate authority to the Controller's and Financial Services Division to take unilateral action in cases where grant recipients do not provide IFAD with the necessary information for grant closure. With respect to the conclusion that "many grants have been a one-off collaboration with a recipient, similar to contractual cooperation"(appendix, paragraph 263), it is important to take note that almost half (48 per cent) of the grant amounts approved were to recipients who have received five or more grants from IFAD and almost four-fifths were provided to recipients who have received two or more grants (table 7).

III. Recommendations

6. It is important here to cite specific actions that IFAD Management has undertaken in recent years, aimed at improving management of the grants programme. This will also provide context to IOE's conclusion that "Although the relevance of the policy is assessed as moderately unsatisfactory overall, the CLE noted improvements in compliance with policy objectives and stipulations in the cohort of grants approved from 2010 onwards." (Relevance, para. 21).

7. Since 2010, the President of IFAD has been raising questions regarding the orientation and efficiency of IFAD's grant policy and grant proposals. Subsequently,

in 2012, significant funding requests were rejected, either for lack of strategic fit of these proposals or for their deficient overall quality. In December 2013, soon after he joined IFAD, the Vice-President was mandated by the President to undertake a review, assessing and addressing challenges related to the strategic orientation, management, efficiency and effectiveness of IFAD's grant policy and operations. At the same time, a moratorium was placed on small (global and regional) grants, pending strategic decisions following this review.

8. The Vice-President's forward-looking review was initiated with four objectives, to: (i) reposition IFAD grants as a highly valued premier instrument for knowledge management and policy dialogue in favour of smallholder farmers; (ii) strengthen the strategic orientation of the grant policy in a way that contributes most to the overall strategic goal of IFAD; (iii) improve efficiency, transparency and accountability in the planning, design and management of grants; and (iv) achieve greater effectiveness and impact of IFAD grants. Subsequent to the completion of the review and after due deliberation by the Executive Management Committee on the recommendations made, in June 2014, the President issued a memorandum outlining interim arrangements, with immediate effect. The moratorium on small grants was also lifted.

9. The actions mentioned above support IOE's conclusion that the improvements noted in the performance of the grants programme since 2010 were "due to tighter oversight by Senior Management and efforts – including by the President and Vice-President – to enhance the relevance of the grant programmes in general in recent years." (Relevance, para. 21). IFAD Management finds that this evaluation report duly complements the Vice-President's review report, and that the combination of the two will help IFAD Management to forge ahead with the development of appropriate policies, procedures and monitoring mechanisms to improve the overall efficiency and effectiveness of the grant programme, and enhance the contribution of the grants programme to rural poverty reduction.

10. Against this backdrop, Management's views on the specific recommendations are presented below. Areas where IFAD Management is in full agreement or agrees in principle are presented first, followed by areas where views diverge.

IV. Management agreement

11. Management believes that the preparation of a new grant policy would logically follow from the evaluation findings and this recommendation is fully in line with Management's current thinking. Management therefore agrees with the recommendation that a new policy for grants be prepared afresh, instead of revising the 2009 Policy on Grant Financing (Recommendations, paragraph 43). It is worth mentioning here that such a scenario was already foreseen in the paper on IFAD's business model presented to the second session of the Consultation on the Tenth Replenishment of IFAD's Resources (June 2014). Since then a working group has been established, with a view to submitting a new grants policy and related implementation procedures for consideration by the Executive Board in April 2015.

12. Management agrees with the recommendation that no separate allocation should be made for regional grants (appendix, para. 277). However, these grants will continue to be used as a financing instrument, since they are highly valuable in supporting regional entities and initiatives. In light of this, Management will provide budget for this instrument under the non-country-specific allocation window, which is now known as the global grants window.

13. With regard to investing in grant management information systems (appendix, paras. 296 and 297), Management generally agrees with the recommendation and reiterates that with the transfer to the new Grants and Investment Projects System (GRIPS), and following its initial phase of implementation, it expects to significantly improve availability of information on grants. Similarly, as implementation of the

Project Life File system deepens along with the implementation of GRIPS, access to documents is expected to improve. Finally, Management will expand IFAD's QUASAR[1] platform – an online tool currently used to manage the quality assurance review process for IFAD's lending portfolio – to support IFAD's grant review process, thereby providing a single platform for managing the Fund's quality assurance workflows, and capture and disseminate information from the review process.

14. Overall, Management notes that with respect to the recommendations, this report contains greater detail than is usual in CLEs. Management, however, notes that the need for "some flexibility may be needed in the definition of implementation processes" has been acknowledged in the final report (appendix, para. 272). Consequently, Management will duly consider the recommendations for adoption or otherwise while finalizing the new grants policy and revising the grants procedures. The recommendations that fall into this particular category are: (i) the overarching objective of country-specific and global grants, specifying the scope of country-specific and global grants (appendix, paras. 275 and 276), and (ii) some key stipulations and eligibility (para. 281).

15. With regard to the recommendation to make an annual grant status report or equivalent instrument a requirement for all grants and to simplify grant management processes (paras. 290 and 291), Management understands the rationale of the proposal and agrees in principle. It also agrees in principle to strengthen the monitoring and tracking tools for all grants and improve reporting to the Executive Board (paragraph 292). Management will update the portfolio review process and expand the Report on IFAD's Development Effectiveness accordingly. In doing so, its emphasis will be on mainstreaming the grants programme into the review and reporting system rather than instituting a separate process for grants to ensure that the grants programme remains organically linked to IFAD's overall mandate, investment programmes and non-lending activities. Management would like to put on record that the recommendation for possible third-party evaluations of grants (appendix, para. 292) is not rooted in any in-depth analyses or argumentation and as such is impractical in terms of the costs involved and administrative resources available to IFAD.

V. Remaining differences

16. Management sees merit in promoting a more competitive allocation process, in particular for global and regional grants. On the other hand, it has strong reservations about competitive allocation for country-specific grants as recommended in the report (appendix, para. 287); first, because of the implied fundamental shift from the current alignment of the grant allocation with the performance-based allocation system (PBAS); and second, because the proposed fully competitive approach will not contribute to building long-term institutional partnerships – something that was identified as a desirable objective of the grant programme.

17. Likewise, Management has serious reservations about the recommendation that loan component grants should be discontinued (appendix, para. 286). This recommendation goes against the recent emphasis on strengthening non-lending activities such as partnership-building, policy dialogue and knowledge management, particularly in middle-income countries, which significantly overlap with the "green" countries. This emphasis is also supported strongly by IOE (see recent Annual Reports on Results and Impact of IFAD Operations [ARRIs]). Management agrees, however, that there is a need to further "ring-fence" such grants, through more focused use of these grants for non-lending activities, greater clarity on the expected added-value of the grants, and stricter monitoring/reporting on the specific results and outcomes.

[1] Quality Systems Assessment Registrar.

18. Management notes that the recommendation that eligibility should be extended beyond "green" countries (para. 282) is already effective and, moreover, that countries classified as "red" or "yellow" under the Debt Sustainability Framework (DSF) are **already** eligible to receive country-specific grants. Management recognizes the need to provide all its borrowing Member States (low- and middle-income) with access to a grant instrument aimed at strengthening pro-poor capacity development, policy dialogue and knowledge management, independent of their national debt status. Therefore, when the Executive Board approved the Proposed arrangements for implementation of a debt sustainability framework at IFAD in April 2007,[2] it also approved the IFAD Policy for Grant Financing in relation to the debt sustainability framework.[3] In addition to ensuring that borrowing green countries can continue to access up to 1.5 per cent of the annual programme of work, the DSF grant policy stated that those countries that were categorized through the DSF as red or yellow would be eligible for grant financing as provided in annual PBAS allocations for projects or programmes and would not therefore need a separate grant allocation from the country window. Therefore, for activities of technical assistance and institutional support, the existing criteria as established under the grants policy for grant selection and approval would continue to be applied. The sum total of grants under the DSF and those specific to the objectives of the grants policy would be consistent with the country's PBAS allocation. Therefore, to summarize, both low-income countries (yellow and red) and middle-income countries have access to grant resources from their respective PBAS allocations either through the DSF or through the limited (1.5 per cent of the programme of work) grant funding for capacity development, policy dialogue and knowledge management following the procedures established under the grants policy. These country-specific grants are recorded in the Annual Report.

19. In the past, a number of country programmes have used DSF country-specific grants to support critical policy dialogue in a substantive and successful manner. Excellent examples of this approach can be found in a number of countries. In Cambodia, DSF grants financed a study on agricultural growth and poverty reduction that was used for the preparation of the agriculture sector strategy. In Nepal, in 2010-2011, upon the request of the Government of Nepal, IFAD supported the development of the National Agricultural Development Strategy through a grant aimed at assisting the Government of Nepal in preparing a comprehensive development strategy for the agriculture sector, based on research and analysis of the policy and sector situation and wide stakeholder consultation. Similarly in the Lao People's Democratic Republic, upon the request of the Ministry of Planning and Investment and the Ministry of Agriculture, IFAD facilitated the undertaking of an econometric study linking agriculture with economic growth and poverty reduction. This study assisted in the formulation of the Agriculture and National Resource Management Strategy, in particular, revising upward the annual growth rate target for the agriculture sector.

20. In light of the experience it has gained over time, Management considers the PBAS, in conjunction with the grants policy, to be a fair and transparent system for allocating both grant and loan resources to all Member States and does not endorse the recommendation that requires IFAD to abandon this system for grant allocation. Likewise, Management considers the current ratio between country-specific grants and global and regional grants as generally appropriate; therefore, it does not agree with the recommendation that the "country-specific grants receive a significantly larger allocation from the total resources" (appendix, para. 285). All Member States have access to country-specific grants, those countries classified as red/yellow under the DSF mechanism can draw down on their (grant-denominated) PBAS allocations. Countries classified as green use the grant financing approved by

[2] EB 2007/90/R.2
[3] EB 2007/90/R.3

the Executive Board, recognizing the need to ensure that green countries receive the majority of their IFAD financing on loan terms in line with both their capacity to repay and the need to provide loan reflows for internal resource generation.

21. Management acknowledges the recommendation that the Executive Board "may consider giving full authority to Management for grant approval" (appendix, para. 294). However, IFAD Management considers that such a proposal should be considered only after the overall performance of the grant policy and programme has substantially improved.

VI. The way forward

22. As stated, despite close consultations and exchange of views, some differences persist between IOE and Management with respect to some recommendations of this evaluation. Management proposes that the critical areas without agreement be addressed in the following manner.

23. Management will formulate a new grants policy, building upon the findings of this CLE and incorporating the recommendations already agreed upon. In doing so, it will review and consider incorporating the following recommendations taking into account their coherence with the overall policy thrusts:

   (a) The overarching objective of the country-specific and global grants (appendix, paras. 275 and 276);

   (b) Further "ring-fencing" of loan component grants, by ensuring more focused use of these grants for non-lending activities (para. 17 above);

   (c) Strengthening of the grant allocation and internal review process by mainstreaming it into the loan allocation and review process (appendix, paras. 288 and 289);

   (d) Further simplification of grant management (appendix, paras. 290 and 291);

   (e) Increased duration of grants (appendix, para. 283); and

   (f) Some (minor) changes in the allocation ratio between country grants and global grants (appendix, para. 285).

24. With respect to the recommendation to remove country-specific grants from the PBAS and extend the country-specific grants facility to red and yellow countries, Management recommends that this issue be addressed by the PBAS Working Group in the context of the revision of PBAS as and when this takes place. Any decision that alters the current arrangement will subsequently be incorporated into the new grants policy.