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Investing in rural people

## IFAD Transition Framework

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For: Information

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### Attachments

- (i) Cofinancing Strategy and Action Plan  
(EB 2018/125/R.9)
- (ii) Revised Guidelines and Procedures for Results-based Country Strategic Opportunities Programmes  
(EB 2018/125/R.24)
- (iii) Status of Reimbursable Technical Assistance and Way Forward  
(EB 2018/125/R.40/Rev.1)

### Transition Framework addenda

- (iv) Technical Note on the Phasing-out/Phasing-in Mechanism  
(EB 2018/125/R.7/Add.1/Rev.1)
- (v) Concept Note on Regional Lending Operations  
(EB 2018/125/R.7/Add.2)
- (vi) Concept Note on Results-based Lending  
(EB 2018/125/R.7/Add.3)
- (vii) IFAD's Proposal for Piloting Results-based Lending  
(EB 2018/125/R.7/Add.4)
- (viii) Results from the Analysis on IFAD Cofinancing and Main Elements of the Cofinancing Strategy  
(EB 2018/125/R.7/Add.5)
- (ix) Technical Note on In-Kind Contributions  
(EB 2018/125/R.7/Add.6)

## Abbreviations and acronyms

COSOP	country strategic opportunities programme
GNIpc	gross national income per capita
IFI	international financial institution
IVI	IFAD Vulnerability Index
LIC	low-income country
MIC	middle-income country
PBAS	performance-based allocation system
SSTC	South-South and Triangular Cooperation
TFWG	Transition Framework Working Group
UMIC	upper-middle-income country

## Executive summary

1. The IFAD Transition Framework represents one of the commitments made for the Eleventh Replenishment of IFAD's Resources (IFAD11). It is an important element of the new business model, which tailors activities to support borrowers' demands and needs through an evolving operational and financial framework and associated toolkit. This two-pronged business model, which combines the IFAD Transition Framework with enhanced decentralization, will greatly enhance IFAD's effectiveness, responsiveness and attractiveness to stakeholders. Through this business model, IFAD will have greater proximity to country context and development partners, enabling early identification of changing conditions to recalibrate strategies towards optimal development solutions while ensuring financial sustainability.
2. In the global development arena, a "country transition" refers to a process in which a country's gross national income per capita (GNIpc) increases past the threshold of change from low-income country (LIC) to lower-middle-income country, upper-middle-income country (UMIC) and high-income country status.<sup>1</sup> In addition to GNIpc, creditworthiness is the second criterion used to determine the financing terms applied to a country. Increasing income, accompanied by higher creditworthiness, leads a country to transition towards less concessional financing terms.
3. While GNIpc and creditworthiness remain the most widely agreed-upon measures of transition – and it is important for comparability and transparency that IFAD applies the same definition – there is wide recognition that these criteria do not capture each country's unique development challenges and the capacities to meet those challenges. Dialogue between the country in transition and IFAD Management is key, with flexibility limited and agreed on a case-by-case basis by the Executive Board.
4. The IFAD Transition Framework is not a stand-alone policy or a prescriptive document. It will continue to evolve along with IFAD's and borrowing countries' capacities and contexts. It encompasses the following elements to manage transitions more effectively, all of which support the principles of predictability, transparency and sustainability:

### Phases I and II

- (i) Borrowers will transition from one stage to another based on their GNIpc and creditworthiness and on a timely dialogue between the country in transition and IFAD Management (approved by the Governing Council in February 2018 in phase I of the Transition Framework).
- (ii) Borrowers will have phasing-out/phasing-in periods to smooth their transitions to the new lending terms (the Working Group on the Transition Framework [TFWG] terms of reference [ToRs], paragraph 7(i)).
- (iii) Borrowers and Management will jointly develop medium-term transition strategies for each country that identify IFAD's most appropriate mix of support (TFWG ToRs, paragraph 7(iv); revised country strategic opportunities programme procedures to be presented to the Executive Board in December 2018 for review and/or approval).
- (iv) Borrowers will access a more diversified menu of lending and non-lending products from IFAD to suit their increasing internal capacities, diversified needs and specific circumstances (TFWG ToRs, paragraph 7(iii); certain products are already under development such as results-based lending and

<sup>1</sup> See <https://datahelpdesk.worldbank.org/knowledgebase/articles/378834-how-does-the-world-bank-classify-countries>.

- regional operations, these and others will continue post-phase II).
- (v) Borrowers will step up efforts to increase domestic resource mobilization in coordination with IFAD, and IFAD will complement those efforts to sustain transitions by enhancing partnerships with multilateral and bilateral partners, in line with the long-term vision reflected in the cofinancing strategy to become an assembler of development finance (TFWG ToRs, paragraph 7(ii); main elements of the strategy and action plan were endorsed by TFWG in 2018).
  - (vi) IFAD will coordinate its work to ensure that its transition support is aligned with Members' and partners' criteria (through a cross-departmental transition task force and greater coordination with other development partners as identified in paragraphs 20 and 21 of EB2017/122/R.34/Rev.1, ongoing).
  - (vii) Management will report lessons learned from implementing this IFAD Transition Framework in its midterm review of IFAD11 (cross-departmental transition task force will be set up in 2018, as identified in paragraph 20 of EB 2017/122/R.34/Rev.1 and through IFAD11 midterm review).
5. The IFAD Transition Framework document was presented by Management to the Executive Board in December 2018 and the document was duly approved, marking the end of phase II. The document included several addenda (see below). Of these, only addendum VII – clarifying when the phasing-out/phasing-in mechanism would commence – required approval.
  6. The following addenda, having been endorsed by the Working Group, were submitted to the Board for information, given that they did not have any impact on the existing policies:
    - (i) Technical Note on the Phasing-out/Phasing-in Mechanism
    - (ii) Concept Note on Regional Lending Operations
    - (iii) Concept Note on Results-based Lending
    - (iv) IFAD's Proposal for Piloting Results-based Lending
    - (v) Results from the Analysis on IFAD Cofinancing and Main Elements of the Cofinancing Strategy
    - (vi) Technical Note on in-Kind Contributions
    - (vii) IFAD Transition Framework and the Technical Note on the Phasing-out/Phasing-in Mechanism addendum
      - Submitted for approval since revisions were made to the Technical Note on the Phasing-out/Phasing-in Mechanism after it was endorsed and submitted to the Executive Board
  7. In addition, the following documents are included as attachments I–III, as they deal with topics discussed by the Working Group:
    - Cofinancing Strategy and Action Plan (EB 2018/125/R.9)
    - Revised Guidelines and Procedures for Results-based Country Strategic Opportunities Programmes (EB 2018/125/R.24)
    - Status of Reimbursable Technical Assistance and Way Forward (EB 2018/125/R.40/Rev.1)
  8. It should be noted that the following elements pertain to topics that need to be developed after agreement of phase II. The Transition Framework will be updated accordingly after due process. These elements have been included in order to provide a comprehensive representation of the expected full-fledged Transition Framework as the business model agreed on in IFAD11 is developed. Management

expects that the IFAD11 commitments will be fulfilled in a timely manner.

#### Post-Phase II

- (viii) In those cases where borrowers choose not to access IFAD's core financial resources, IFAD will, as requested, tailor its support with other forms of development assistance (to be further developed after phase II as per TFWG ToRs, paragraph 8).
- (ix) IFAD will recalibrate its resource allocation as countries transition, and proactively make adjustments to those mechanisms in order to reflect changes in borrowers' needs and composition (to be further developed after phase II as per TFWG ToRs, paragraph 8).
- (x) Management will continue to strengthen IFAD's financial architecture and risk management practices to expand its toolkit and increase resources available to all borrowers (update of financing terms as per paragraph 22 of EB2017/122/R.34/Rev.1, other topics to be further developed after phase II as per TFWG ToRs, point 8).

# IFAD Transition Framework

## I. Introduction

1. During the Consultation on the Eleventh Replenishment of IFAD's Resources (IFAD11), Members requested that Management develop a transition framework to complement IFAD's evolving financial architecture and the enhanced IFAD11 business model. The principal aim of the IFAD Transition Framework is to ensure a smooth, predictable, sustainable and equitable transition for borrowers by providing expanded and tailored lending and non-lending support. This requires that IFAD both upgrade and expand its existing lending and non-lending products. IFAD recognizes that tailoring the focus of its investments and the range of products and financing terms it offers can make a significant difference in terms of development effectiveness and impact.
2. IFAD's support contributes to inclusive and sustainable rural transformation, supporting countries' own development plans so that as they develop, these countries leave no rural people behind. The empirical analysis in the 2016 Rural Development Report shows that if countries are not proactive during their transitions, rural poor people will indeed be left behind. Inclusive rural transformation does not happen automatically, but must be facilitated.

## II. Experiencing transitions

3. The transformation of previous LICs into lower-middle-income countries and middle-income countries (MICs) has accelerated in the last 20 years. Three quarters of the world's poor people – especially rural people – live in these countries. Upper-middle-income countries (UMICs), the most heterogeneous group, are home to approximately 22 per cent of the world's extremely poor people; the number of countries classified as UMIC is growing. UMICs range from small islands to large economies like China, Brazil and Mexico.
4. As countries transition to higher income levels, the importance of agriculture to the national economy tends to diminish. In fact, there is a strong inverse correlation between agriculture's share of gross domestic product and gross domestic product per capita. Transitions bring a progressive decrease in IFAD's core financing, but should be accompanied by non-lending activities. The challenge is to move beyond thinking of IFAD's support simply as funding, towards envisioning IFAD as a strategic partner that leverages broader instruments and advice, as proposed in the IFAD11 business model.

## III. Defining transitions

5. Transition refers to the process in which the gross national income per capita (GNIpc) and creditworthiness of a country eligible to borrow from IFAD increases to the threshold for receiving financing on less concessional terms. Reversal refers to the process in the opposite direction, where due to a decrease in GNIpc and/or creditworthiness, a country becomes eligible to financing on more concessional terms.

6. Management recognizes that classifications based only on GNIpc do not fully capture a country's unique development challenges and capacities to meet those challenges. IFAD considers many of these issues in its performance-based allocation system (PBAS) through indicators such as the Rural Sector Performance Assessment (RSPA) and the IFAD Vulnerability Index (IVI) and by analysing the country context as a part of the country programming process. However, while imperfect, GNIpc remains the most utilized measure of transition across development status in all international financial institutions (IFIs).
7. To capture the multiple dimensions of transition, IFAD revised its PBAS to better reflect its borrowers' rural development transitions. In February 2018, the Governing Council amended the Policies and Criteria for IFAD Financing to generate greater predictability in financing. With growing GNIpc, Members have become more sophisticated in their demands from IFAD, requesting more diverse services and options. While transition is a positive milestone, there are both challenges and opportunities in managing a country's transition that require further refinement of IFAD's approach and options.

#### IV. Managing transitions

8. This framework is based on the following three principles:
  - **Predictability.** Transitions must be predictable in order to ensure sustainability and follow clear and transparent rules. The provision of IFAD's loans and grants to countries is predictable when borrowers are confident about the amounts, timing and pricing of resources allocated to them. IFAD can ensure more predictable financing terms by applying new financing terms over a replenishment cycle instead of on a yearly basis; and using a phasing-in period together with periodic recalibrations of resource allocation.
  - **Sustainability.** Sustainable transitions call for differentiated approaches that have long-lasting effects to limit reversals. Each country's situation is complex and multidimensional, influenced by financial, economic and social factors as well as exogenous factors and shocks. As these circumstances change, a broader menu of lending and non-lending products will increase the sustainability of IFAD's interventions beyond the life of a single project. Domestic and international resource mobilization ensures the complementarity of interventions. Above all, strong government ownership is critical for ensuring sustainability. As agreed in the IFAD11 Consultation report, IFAD's financial sustainability is also a key principle to be considered in the road map for IFAD's financial strategy and the development of lending and non-lending support.
  - **Transparency.** Transparency demands better data quality, fair, equitable and more efficient use of resources, careful monitoring, better policy compliance and benchmarking.<sup>2</sup> Transparent financing, in line with International Aid Transparency Initiative standards, requires development partners and borrowers to use objective criteria for resource allocation and publish information in an accessible and timely manner.
9. The Framework has the following elements, all of which support the principles of predictability, sustainability and transparency.
  - (i) Borrowers will transition from one stage to another based on their GNIpc and creditworthiness.
10. Country transitions are based on two criteria: GNIpc and creditworthiness. However, transitions cannot be driven solely by mathematical formulas. Management pays close attention to countries approaching eligibility at the end of

<sup>2</sup> Development Assistance Committee, *Aid Predictability – Synthesis of Findings and Good Practices* (October, 2011).

each replenishment period as the transition should be accompanied by a timely dialogue between the country in transition and IFAD. Since it is important to ensure transparent, fair and equitable access for all borrowers on a consistent basis, the scope for flexibility will be limited and agreed on a case-by-case basis by the Executive Board.

11. While developing a tailored approach to address countries' specific needs during the transition period, if needed, Management will complement GNI per capita and creditworthiness to assess countries' overall development situations with an analysis of the relevance of other variables that may include:<sup>3</sup>
  - The IVI;
  - The RSPA, including macroeconomic indicators;
  - Measures of the pervasiveness of rural poverty;
  - Tax revenues and public expenditure on rural development;
  - The portfolio performance and disbursements variable – an indication of the use of previous resources provided by IFAD; and
  - Other relevant indices including the Human Development Index as may be advised by the PBAS Working Group.
12. Management will make available, in line with the IFAD Policy on the Disclosure of Documents, the assessments carried out.
  - (ii) Borrowers will have phasing-out/phasing-in periods to smooth their transitions to new lending terms.<sup>4</sup>
13. Transitions typically extend over several years if not decades. The changes in the Policies and Criteria for IFAD Financing provide for more predictable and transparent planning as financing terms for each country are revised once in each replenishment cycle. The gradual process of transition in IFAD's financing terms, which involves phasing in less concessional terms, smooths countries' transitions.
14. For countries undergoing a reversal, this will normally be addressed on an annual basis to assist governments in mitigating the cause of the reversal, within the limits of IFAD's mandate, unless faster application is needed. The transition programme should foster the conditions necessary to help borrowers to return to their former status as soon as feasible.
  - (iii) Borrowers and Management will jointly develop medium-term transition strategies for each country through renewed country strategic opportunities programmes (COSOPs) or country strategy notes.<sup>5</sup>
15. Transitions are medium- to long-term processes that must be planned and resourced adequately. IFAD's COSOPs create a foundation for IFAD's interventions in enhancing the impact of government development policies and programmes in the rural sector. The updated COSOP guidelines will play a central role in outlining IFAD's medium-term strategy to flexibly – yet predictably – respond to each country's expected development needs. This strategy is an important tool for delivering a cohesive package of interventions, foreseeing expected results and potential risks, and designing mitigation actions. The country assessment will include a set of variables focused on macroeconomic conditions, the agricultural and rural sectors, rural poverty, the most vulnerable areas and the policy and

<sup>3</sup> Sources as agreed in the PBAS and other official sources.

<sup>4</sup> See addendum 1: Technical Note on the Phasing-out/Phasing-in Mechanism. The mechanism will apply for countries that are eligible for less concessional lending terms from IFAD11 onwards (i.e. that are subject to a change in financing terms from 2019 onwards). Therefore, it does not have retroactive effect from its approval date.

<sup>5</sup> See EB 2018/125/R.24: Revised Guidelines and Procedures for Results-based COSOPs.

institutional context – all aimed at capturing diverse country dimensions and allowing for early identification of events that may trigger country transitions.

16. COSOPs will become living management documents. An in-depth COSOP results review (CRR) will take place every two years to reassess the needs, priorities, solutions and strategies on which COSOPs are based. In addition, an annual status update will be undertaken as part of the portfolio review process so as to reflect significant changes in country conditions, if needed. IFAD will work with other IFIs and bilateral agencies to ensure a coordinated approach, especially in cases of prolonged arrears, fragility and in small states.
  - (iv) Borrowers will access a more diversified menu of lending and non-lending products from IFAD to suit their increasing internal capacities, diversified needs and specific circumstances.<sup>6</sup>
17. Based on assessed demand and robust analysis, Management will pilot new products during IFAD11 that allow it to diversify its product offer to enhance the tailored support to country circumstances, in line with its evolving business model, comparative advantage and strategic focus. This more diverse offering includes:
  - Results-based lending. IFAD proposes to carry out two or three pilot initiatives over a six-year period and use these pilots to fine-tune the final product. This instrument is always voluntary and demand-driven. It can strengthen IFAD's focus on smallholder farmers and shift the paradigm of local-level government service provision. There is significant potential to introduce more participatory approaches: IFAD will draw on its hands-on approach and relationships with rural communities and farmer organizations to deliver results and scale up.<sup>7</sup>
  - Regional lending operations. Regional lending operations can tackle rural development and cross-border challenges such as environmental threats and a lack of integrated markets for small farmers.<sup>8</sup> Services required to address these threats – such as transport, disease prevention and natural resource management – are best provided at the regional level in order to tap into economies of scale, ensure connectivity and extend access to goods and services, and thereby achieve broader impact. These solutions can particularly benefit small countries (such as small island developing states), and those confronted with natural disasters. IFAD will pilot up to three regional lending operations and develop an institutional approach based on lessons learned.
  - IFAD's enhanced approach to reimbursable technical assistance. Complementing resources available primarily for UMICs, reimbursable technical assistance helps to transmit IFAD's operational and policy knowledge to countries where it does not have a lending relationship. The product also allows countries to access IFAD's knowledge and expertise.
  - Contributions to policy making. IFAD can bring evidence from its projects and its global experience to national policy making processes. This is especially relevant to countries in which IFAD's knowledge is deemed to be as important as its financing (including many MICs). During IFAD10, IFAD put a stronger focus on country-level policy engagement as its key non-lending activity. This will be expanded during IFAD11. Decentralization of IFAD's staff

<sup>6</sup> See addendum 2: Concept note on Regional Lending Operations; addendum 3: Concept note on Results-based Lending; addendum 4: IFAD's Proposal for Piloting Results Based Lending; and EB 2018/125/R.40, Status of Reimbursable Technical Assistance and Way Forward.

<sup>7</sup> Brookings, *Scaling up Programs for the Rural Poor: IFAD's experience, lessons and prospects (Phase 2)*, Brookings Global Economy and Development (January, 2013).

<sup>8</sup> The contributions of a regional approach to development actions' increased effectiveness have been stressed at high-level forums including those that issued the Paris Declaration on Aid Effectiveness (2005), Accra Agenda for Action (2008) and Busan Partnership for Effective Development Cooperation (2011).

places expertise close to national policymakers and policy processes. IFAD's policy engagement will be also strengthened by the new project-design process, the dedication of resources specifically for policy engagement and enhanced monitoring and evaluation.

- South-South and Triangular Cooperation (SSTC). SSTC is an increasingly important dimension of national development strategies and IFAD has a crucial role as a broker of SSTC opportunities in smallholder agriculture and rural development. During IFAD11, SSTC will be promoted as an integral component of IFAD's business model and reflected in COSOPs.
- (v) Borrowers will step up efforts on domestic resource mobilization. IFAD will complement those efforts to sustain transitions.<sup>9</sup>
18. The IFAD11 Replenishment Report<sup>10</sup> acknowledges that IFAD should enhance its capabilities as an assembler of development financing in addition to its role as a direct lender. A key principle of the new business model is that Members increase their efforts to provide counterpart financing for all IFAD-supported projects, commensurate with their financial status. Empirically, larger projects mobilize more domestic resources. In line with the IFAD11 commitments, a cofinancing strategy and action plan establish a long-term vision for IFAD's cofinancing agenda, in line with the IFAD11 Report, by setting out strategic directions for domestic and international cofinancing, and to enable the reaching of the overall IFAD11 cofinancing target of 1.4. Counterpart targets will be agreed with governments during the preparation of project concept notes and included in COSOPs. The aim is to achieve the 1:0.8 IFAD11 aggregate domestic cofinancing target. A clear methodology for the recognition and monitoring of in-kind contributions has also been established.<sup>11</sup> Evidence from a study conducted by IFAD confirms other agencies' findings that increased domestic cofinancing directly contributes to a country's own performance on poverty alleviation.<sup>12</sup>
19. Leveraging cofinancing from external partners enables projects to cover more beneficiaries, improves aid coordination, facilitates policy engagement with governments and provides opportunities to scale up successful experiences for enhanced impact and sustainability. It is also required across IFAD's project portfolio to achieve the 1:0.6 IFAD11 aggregate international cofinancing target. In this regard, IFAD will strengthen partnerships with multilateral and bilateral organizations.
- (vi) IFAD will align its transition approaches with Members' and partners' broader approaches.
20. IFAD will continue working as part of the international community – including IFIs and bilateral financiers – to enhance communication, dialogue and collaboration, and explore multidimensional measurements of development that leave no one behind. While IFAD maintains its focus on agriculture, the space for complementary interventions is large and there is increasing knowledge exchange and learning across disciplines. This coordination is particularly important in cases of prolonged arrears, unsustainable debt, crisis, fragility and in small state economies.
21. IFAD Management will establish mechanisms to ensure coherence across financial and operational areas of the IFAD Transition Framework, and foster the wide dissemination of solutions. IFAD will formalize communications to borrowers on the time frame and impact of transitions, including discussions with ministries of

<sup>9</sup> See addendum 5: Results from the Analysis on IFAD Cofinancing and Main Elements of the Cofinancing Strategy; addendum 6: Technical Note on In-kind Contributions.

<sup>10</sup> See GC 41/L.3/Rev.1.

<sup>11</sup> TFWG 2018/2/INF.1.

<sup>12</sup> Matthew Winters and Jaclyn Streitfeld, *Splitting the Check: Bargaining Over Counterpart Commitments in World Bank Projects* (University of Illinois at Urbana-Champaign, 2013).

finance. This will facilitate planning and ensure that all changes are made in a timely and transparent manner.

(vii) Management will report lessons learned from implementing this IFAD Transition Framework in its midterm review of IFAD11.

22. Management will report on the implementation of the IFAD Transition Framework at the IFAD11 midterm review. This will include reporting on countries that change financing terms and on their experiences with phasing in and phasing out. Reporting will also evaluate the status of the introduction of new products and the enhanced use of current ones, the adaptation of IFAD's support when countries' conditions change during the COSOP plan, as well as trends in resource mobilization. In addition, the update will include information from other donors and development actors to ensure the coherence of approaches and to keep IFAD engaged in the global debate on countries in transition.

## V. Moving forward

23. The Working Group recommends to the Executive Board to continue discussions as set out in paragraph 8 of the Terms of Reference of the Transition Framework Working Group. The Transition Framework Working Group will recommend to the Executive Board the most appropriate governing body to lead the development of such items.

(viii) Borrowers may opt not to access IFAD's core financial resources; as requested, IFAD will endeavour to tailor its support.

24. IFAD's engagement with countries can contribute to tangible improvements in development outcomes through carefully targeted activities. IFAD can play a strategic role in national planning to reduce the reliance on concessional financing in line with countries' transition strategies, accompanying this support with other forms of assistance.

(ix) IFAD will continue recalibrating its resource allocation as countries transition, and proactively make adjustments to those mechanisms to reflect changes in borrowers' needs and composition.

25. The PBAS reforms already include a stronger focus on vulnerability and performance. The PBAS Working Group will continue to review the formula for the allocation of resources to be tailored to countries' needs, performance and demand within the overall context of IFAD's mandate and strategic priorities.

26. Engagement in UMICs is essential for the achievement of Sustainable Development Goals 1 and 2. It also enables IFAD to act as broker of SSTC and should increasingly strengthen IFAD's financial sustainability as it develops new products and leverages its financial architecture to provide further non-core resources as well as play a pivotal role in non-lending products.

(x) Management will continue to enhance IFAD's financial architecture and risk management practices to expand its toolkit and increase resources available to all borrowers.

27. In line with the IFAD11 commitments, IFAD's financial framework and strategy will be enhanced in order to tailor operations to borrowers' demands and needs. A more complementary package of instruments will allow IFAD to mature as a collaborative development partner and enhance its effectiveness and impact. While replenishment contributions remain the bedrock of IFAD's capital and financial commitment capacity, borrowing will be integrated into the Fund's financial framework. This evolution will enhance IFAD's responsiveness to borrowers, also through updated financing terms. This objective will be pursued, inter alia, by reviewing IFAD's cost of capital and enhancing risk management. The IFAD11 reform process foresees the development of IFAD's financial architecture to maximize the efficiency of IFAD's capital through increased resources, ensuring financial sustainability and optimized risk management and planning.

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## IFAD's Cofinancing Strategy and Action Plan

### Note to Executive Board representatives

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## Appendix

### Technical Note on In-kind Contributions

## Abbreviations and acronyms

ABC	Agribusiness Capital [Fund
AfDB	African Development Bank
AOI	Agriculture Orientation Index
APR	Asia and the Pacific
AsDB	Asian Development Bank
AVP	Associate Vice-President
COSOP	country strategic opportunities programme
CPM	country programme manager
ESA	East and Southern Africa
FFR	Facility for Remittances
GEF	Global Environment Facility
GRIPS	Grants and Investment Projects System
ICO	IFAD Country Office
IDA	International Development Association
IDB	Inter-American Development Bank
IOE	Independent Office of Evaluation of IFAD
LAC	Latin America and Caribbean
LIC	low-income country
MDB	multilateral development bank
ODA	official development assistance
PBAS	performance-based allocation system
PMD	Programme Management Department
PRM	Partnership and Resource Mobilization
SDG	Sustainable Development Goal
WCA	West and Central Africa

## Executive summary

1. IFAD's cofinancing strategy and the related action plan are grounded in a clear medium- to long-term vision for IFAD's role as an assembler of development finance, as envisaged in the business model for the Eleventh Replenishment of IFAD's Resources (IFAD11). This strategy and action plan aim to support IFAD's cofinancing efforts to reach the targets set during the IFAD11 Consultation.
2. The strategy envisions cofinancing as a means to an end, with benefits that go far beyond additional financing. Cofinancing allows for greater impact on poor rural people by increasing the number of beneficiaries reached, and it is a source of fruitful partnerships and knowledge exchange, creating opportunities for governments and development partners to align their strategies for more effective development solutions.
3. In line with IFAD's vision, reflected in the Transition Framework and the new business model, Members are expected to make the utmost effort to provide counterpart financing for all IFAD-supported projects, commensurate with their financial status.
4. With regard to domestic cofinancing, IFAD will focus most on government cofinancing, which is a clear demonstration of government commitment and ownership and a reliable predictor of sustainability. Cofinancing with key national partners will be sought at the early stages of country strategic opportunities programme (COSOP) or project design, and engagement with beneficiaries will be strengthened.
5. IFAD will strive to move to a programmatic approach that fits into national agricultural development planning, and to gain greater leverage through the design of larger and simpler projects, which have proven to attract more cofinancing.
6. With regard to international cofinancing, IFAD will emphasize sustained, systematic partnerships with selected multilateral and bilateral organizations based on complementarity of interventions. Current memorandums of understanding with key partners will be supplemented with monitorable regional-level action plans, which will include identifying joint financing opportunities after pipeline exchange, and agreeing on next steps and milestones.
7. COSOPs will become repositories of country-level engagement plans that will identify the key partners, their role in IFAD's projects/programmes and the expected resources to be leveraged. IFAD's enhanced country presence will be key to sustaining the cofinancing agenda through continuous interaction with governments and partners on the ground.
8. IFAD will strive to replicate successful models that allow for lower transaction costs and will increase flexibility in specific cases by adapting its approval processes, procedures and timing to fit better with partners' procedures and processes. Drawing on successful experience and learning from other international financial institutions, IFAD will pursue pooled facilities such as multi-donor trust funds to minimize transaction costs.
9. The cofinancing agenda will be sustained at all levels with clear actions and responsibilities, as set out in the action plan (see annex I). Regional directors will be responsible for reaching the established regional targets; within each region, indicative country-level targets will be applied flexibly and will serve to guide COSOP discussions.
10. The success of the cofinancing strategy will depend on effective implementation with the engagement of all involved divisions. The action plan builds on the key dimensions of the resource mobilization framework, with clear roles and responsibilities for all parties. Many units at headquarters will provide institutional support, particularly in the measurement of in-kind contributions based on the

technical note provided in appendix I. Operational training to support implementation will be provided as part of the resource mobilization module of the IFAD Operations Academy.

# IFAD's Cofinancing Strategy and Action Plan

## I. Background

1. The Addis Ababa Action Agenda, the Sustainable Development Goals (SDGs), the African Union's Agenda 2063 and the Paris Declaration on Aid Effectiveness all recognized that domestic resource mobilization from the public and private sectors is necessary for sustainable poverty eradication. This is in line with IFAD's vision as reflected in the Transition Framework and new business model for the Eleventh Replenishment of IFAD's Resources (IFAD11), which envisage that Members will make the utmost efforts to provide counterpart<sup>1</sup> financing for all IFAD-supported projects, commensurate with their financial status.
2. To maximize IFAD's contribution to the SDGs, one of the main areas of the reform of IFAD's business model under IFAD11 is for IFAD to become an assembler of development finance in addition to its role as a direct lender. IFAD has committed to an ambitious cofinancing target for IFAD11: an overall ratio of 1:1.4 – with 1:0.8 for domestic cofinancing and 1:0.6 for international cofinancing. This reform is in line with the trend in many international financial institutions (IFIs) of catalysing and mobilizing financial resources for development as a core component of their long-term strategies.<sup>2</sup>
3. Recent trends show an increase in official development assistance (ODA) for agriculture,<sup>3</sup> especially from such bilateral donors as Canada, France, Germany, Japan, the Netherlands, Republic of Korea, the United Arab Emirates, the United Kingdom and the United States. Multilateral organizations such as the African Development Bank (AfDB), Asian Development Bank (AsDB), European Union, Inter-American Development Bank (IDB) and World Bank are also potential continuing sources of financing for agriculture and rural development (see annex II for details).
4. A widespread recognition that the transformation of rural areas and of the agriculture sector in general is crucial for attaining the SDGs has revived IFIs' interest in investing in this sector. IFAD's comparative advantage and unique expertise in working with smallholders and marginalized groups in remote rural areas make it the cofinancing partner of choice for such investments.
5. As the Corporate-level Evaluation on IFAD's Financial Architecture concluded, cofinancing enables the Fund to expand the number of beneficiaries covered, encourages knowledge exchange among cofinanciers, improves aid coordination, facilitates policy engagement with governments and provides opportunities to scale up successful experiences for greater impact.
6. Cofinancing is a key pillar of IFAD's Transition Framework, which defines the guiding principles of its engagement with borrowing countries on the basis of differentiated country contexts and stage of country transition. The methodology for cascading corporate targets into regional and indicative country targets is aligned with this recognition of countries' diverse needs.
7. Several major reforms and initiatives proposed under IFAD11 support IFAD's role as an assembler of development finance: enhanced decentralization, with stronger links to headquarters to guarantee dissemination of critical knowledge; revised procedures for country strategic opportunities programmes (COSOPs); enhanced country selectivity; a shorter project design cycle and more focus on project

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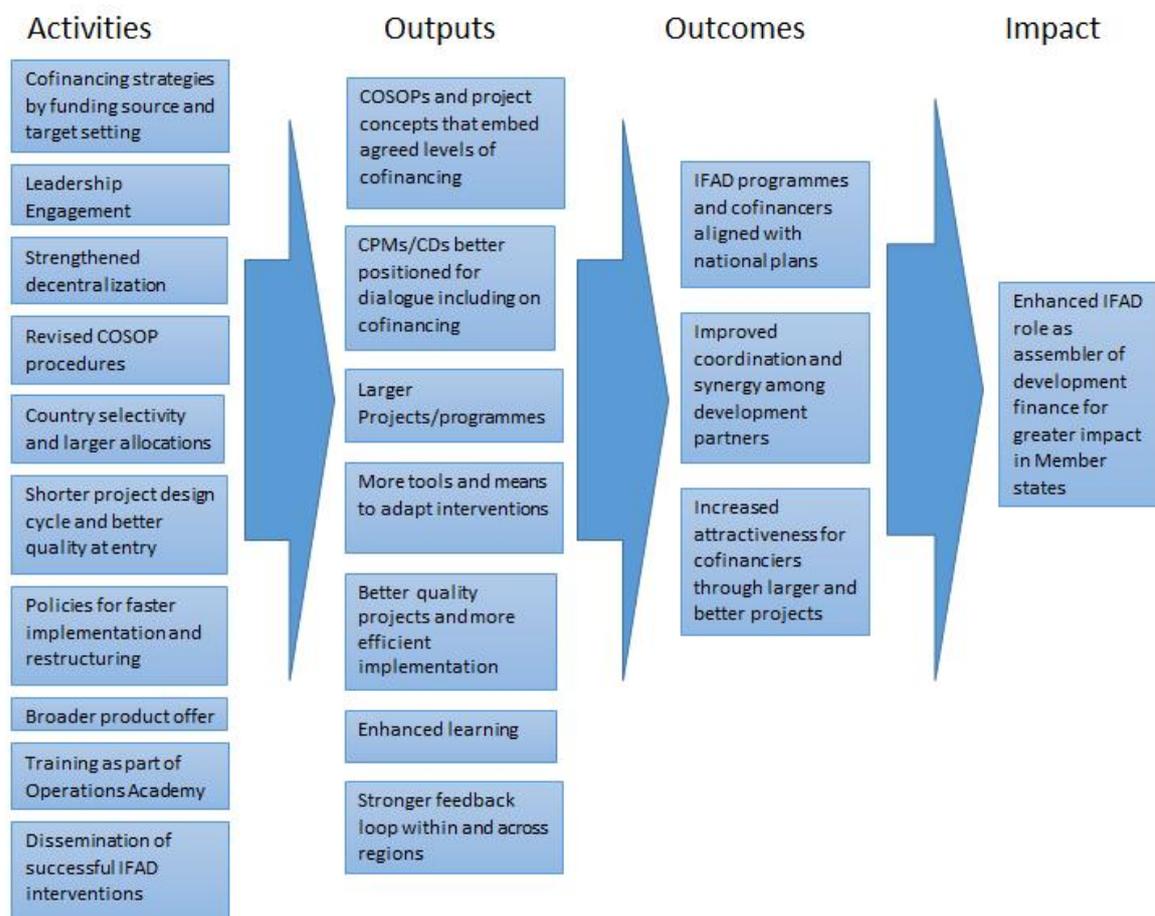
<sup>1</sup> In this context, counterpart financing is used as synonym for government cofinancing.

<sup>2</sup> See *Asian Development Bank Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*; and International Development Association (IDA), *Additions to IDA Resources: Eighteenth Replenishment Towards 2030 – Investing in Growth, Resilience and Opportunity*.

<sup>3</sup> Source: Organisation for Economic Co-operation and Development (OECD) database on ODA.

quality, which are proven to be positively correlated with increased cofinancing and efficient implementation achieved through a number of new policies and tools. The simplified theory of change (figure 1) highlights how these efforts lead to greater impact on the ground.

Figure 1  
**Theory of change for strengthening IFAD's role as assembler of development finance for greater impact**



## II. Basis for the strategy

8. Recent trends in IFAD cofinancing, which has declined from a ratio of 1:1.15 in IFAD9 to 1:0.86 in IFAD10, call for a more strategic approach to cofinancing. This strategy is built upon an analysis of IFAD's cofinancing experience and the lessons that can be drawn from it. Its development was informed by an in-depth quantitative analysis of the determinants of cofinancing<sup>4</sup> and by the insights of staff and managers gathered through consultations and a survey. The strategy also draws on cofinancing-related lessons from other multilateral development banks (MDBs).

### A. Analysis of IFAD experience

#### Results of analytical study

9. An analysis of IFAD's cofinancing experience helped to identify the important drivers of domestic and international cofinancing (annex III). The highlights of this analysis are discussed in the following paragraphs.

<sup>4</sup> The results of this study were presented at the first and second meetings of the Working Group on the Transition Framework, where the main elements of the cofinancing strategy were endorsed.

- (a) Domestic cofinancing
    - (i) The most important sources of domestic cofinancing are governments, followed by beneficiaries and domestic financial institutions. Domestic cofinancing declined from US\$2.3 billion mobilized during IFAD9 to US\$1.8 billion under IFAD10,<sup>5</sup> largely because of reduced government cofinancing.
    - (ii) The level of domestic cofinancing is positively correlated with a country's income level and many other factors, including: (i) project size; (ii) the presence of an IFAD Country Office (ICO); (iii) IFAD's performance as a development partner; (iv) project performance; (v) the number of project financiers; and (vi) the level of international cofinancing. As expected, a negative correlation was found between domestic cofinancing and fragility or vulnerability. IFAD's core resources are increasingly focused on fragile situations specifically to supplement reduced government capacity.
  - (b) International cofinancing
    - (i) International cofinancing also dropped sharply from US\$1.7 billion in IFAD9 to US\$905 million<sup>6</sup> in IFAD10, driven by a decline in the cofinancing provided by AsDB, European Union and World Bank.
    - (ii) The level of international cofinancing is positively correlated with such factors as: (i) the presence of an ICO; (ii) the number of projects managed by a country programme manager (CPM); (iii) project size; and (iv) level of domestic cofinancing. A correlation was found between international cofinancing and countries' income levels, political stability and institutional capacity.
10. The analysis leads to the conclusion that expanding cofinancing requires a strategy that is differentiated by each source of domestic and international financing. It also highlights the imperative of tailoring IFAD's approach to specific regional and country contexts.

### Insights from IFAD staff

11. Consultations and a survey of staff point to a number of opportunities for advancing IFAD's cofinancing agenda.
- (a) Domestic cofinancing
12. Fiscal space, ownership and the commitment of country decision makers are key factors that influence the level of government cofinancing. Opportunities are most likely to arise when IFAD engages at the appropriate level with ministries, including those other than ministries of agriculture – particularly finance. A stronger alignment of IFAD's project objectives with government priorities and timely integration with government plans and budgets are crucial.
13. Planning, using a programmatic approach that spans performance-based allocation system (PBAS) cycles, along with larger PBAS allocations, also leads to expanded cofinancing.
- (b) International cofinancing
14. International cofinancing brings significant advantages and contributes to greater impact. However, working with multiple multilateral donors raises transaction costs in having to liaise individually with several counterparties because various cofinanciers have different programming cycles, processes and requirements.

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<sup>5</sup> Accounts for 2018 estimated domestic cofinancing pipelines as of 28 June 2018.

<sup>6</sup> Accounts for 2018 estimated international cofinancing pipelines as of 28 June 2018.

15. IFAD's experience with financing facilities such as the Spanish Food Security Cofinancing Facility Trust Fund (Spanish Trust Fund) has shown very encouraging results.<sup>7</sup> Across regions, this fund proved to be an efficient tool for providing additional financing to IFAD's projects—a tool that was aligned with the Fund's own processes.

(c) Internal constraints to resource mobilization

16. Mobilizing resources through both domestic and international cofinancing increases the demands on CPMs' time. IFAD's new decentralized structure will address this issue by strengthening technical and administrative support to country directors and CPMs in the field, allowing them to focus on policy dialogue and partnership building. Stronger support from headquarters will include broad dissemination of the potential impacts of IFAD projects and programmes and the selected engagement of directors of operations and technical divisions in dialogue related to COSOPs, projects and programmes.

### Lessons from other multilateral development banks<sup>8</sup>

17. While other MDBs do not have stand-alone cofinancing strategies,<sup>9</sup> lessons can be learned from evaluations of other MDBs' experiences with cofinancing and trust funds:
- (a) The World Bank has long recognized that trust funds provide substantial and predictable multi-year funding. To streamline governance and reporting arrangements and to reduce transaction costs, all trust funds are managed by the World Bank following its own procedures, and new trust funds are pooled, "umbrella" (multi-donor and multi-recipient) facilities.
  - (b) AsDB's Financing Partnership Strategy notes that financing partnerships generate operational efficiencies by sharing knowledge, resources and risks. In addition, an AsDB evaluation found that leveraging cofinancing in projects must be driven by strategic goals set forth in country strategies.<sup>10</sup>
18. The experiences of other MDBs suggest that IFAD should continue pursuing trust funds, with a focus on multi-donor funds.
19. With a heightened emphasis on mobilizing resources from the private sector, a number of MDBs (the Asian Infrastructure Investment Bank, AfDB, AsDB, the European Bank for Reconstruction and Development, the European Investment Bank, IDB, the Islamic Development Bank, the New Development Bank and the World Bank Group) have formed a working group to jointly develop an approach for mobilizing private financing on a large scale.<sup>11</sup> IFAD is participating in this group's deliberations to learn from the approach being developed.

## III. The strategy

### A. Vision and principles

20. Assembling development finance for greater impact. The vision that underpins this cofinancing strategy is that of IFAD as an assembler of development finance on a significantly larger scale than its role as a direct lender. The primary objective of the strategy is to achieve greater impact for poor rural people.

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<sup>7</sup> Although the impact of the Spanish Trust Fund has not yet been evaluated, a number of positive results have been noted: (i) more people receiving services; (ii) common property resources under improved management practices; (iii) construction and rehabilitation of land under irrigation schemes, livestock and drinking water systems, storage, marketing and processing facilities, and roads; (iv) more people trained; and (v) community and marketing groups formed and strengthened.

<sup>8</sup> It should be noted that there is no common definition of cofinancing across MDBs: the World Bank, IDB and AsDB do not define government financing as cofinancing, instead referring to it as "counterpart funds". AsDB did, however, include a cofinancing framework in its Strategy 2020.

<sup>9</sup> Only AsDB has a cofinancing strategy, which was elaborated in 1995.

<sup>10</sup> See the *Independent Evaluation of the Effectiveness of Asian Development Bank Partnerships* (2016).

<sup>11</sup> See the *Joint MDB Statement of Ambitions for Crowding in Private Finance* (2017).

21. Focus on results and sustainability. This strategy follows key principles adopted at the Busan High-Level Forum on Aid Effectiveness.<sup>12</sup> It specifically focuses on results and sustainable impact, drawing on the knowledge and development experience of countries and all development partners.
22. Complementarity. The strategy emphasizes not only leveraging financial resources, but also ensuring the complementarity of contributions and benefiting from the expertise that domestic and international cofinanciers can bring to IFAD-funded development interventions. In pursuing complementarity, IFAD will ensure the proactive management of reputational risks that could arise from pursuing joint initiatives with partners, especially private sector partners.
23. Action plans for international cofinancing. IFAD already has memorandums of understanding (MoUs) with many international cofinancing partners, and it will seek to develop others where relevant. All such MoUs will be complemented with specific monitorable action plans that will identify agreed projects for cofinancing, based on regular exchanges of pipelines and next steps for engagement at national level.
24. Country-specific approach. The strategy is based on the recognition that country-specific circumstances are key drivers of cofinancing, and that it is important to seek the right balance between the efforts of recipient governments and those of international partners. All COSOPs will include a strengthened focus on cofinancing by reflecting, in line with the engagement plans, the key partners, the foreseen resources and their role in IFAD's projects/programmes throughout the COSOP cycle. Internally, the indicative country targets will underpin the dialogue. In line with IFAD's revised COSOP guidelines, cofinancing will be one of the three elements of the resource envelope of a country, in addition to IFAD's lending/grant envelope and estimated funding for non-lending activities.
25. Strengthened institutional support and clear roles for effective implementation. The strategy emphasizes effective implementation, with specific actions and increased efforts from all parties set out in engagement plans, as discussed in section IV below and in the action plan (annex I). The partnership framework to better plan, implement and monitor the outcomes of partnerships — an IFAD11 commitment<sup>13</sup> — will guide the implementation of the engagement plans.

## B. Framework for resource mobilization

26. Definition of cofinancing. IFAD defines cofinancing as financing from any source in support of – and in association with – an IFAD-funded project or programme. Cofinancing covers, but is not limited to, financing provided by governments (defined by some institutions as counterpart funding), beneficiaries, multilateral and bilateral development partners, the private sector and foundations. It can take the form of both cash and in-kind contributions.<sup>14</sup>
27. In its resource mobilization efforts, IFAD will apply a clear framework to support a systematic (instead of ad hoc) approach to partnerships that are identified as key at early stages of COSOP and project preparation. The framework consists of the following elements:
  - (a) Identify key cofinancing opportunities at regional and country levels;
  - (b) Engage with partners at multiple levels through the development of engagement plans for each key partner at the institutional and country levels

<sup>12</sup> See [www.oecd.org/dac/effectiveness/49650173.pdf](http://www.oecd.org/dac/effectiveness/49650173.pdf).

<sup>13</sup> IFAD11 commitment 3.5, monitorable action 32.

<sup>14</sup> This definition is in line with the OECD definitions of “mobilization” and “leveraging”, which are only specified for the private sector but can be applied to any source of cofinancing. See OECD, “Amounts Mobilised from the Private Sector by Official Development Finance Interventions” (2016).

to sustain a systematic approach and increase IFAD's presence and visibility in key partners' operations and events;

- (c) Adopt a single, unified approach to measuring and monitoring cofinancing at different project phases; and
- (d) Communicate, in line with the IFAD11 visibility commitment,<sup>15</sup> successful results from cofinancing partnerships and IFAD-funded interventions to motivate donors' commitment and maintain good relationships.

## C. IFAD's strategic approach by funding source

### Domestic cofinancing

#### (a) Governments

- 28. Government contributions represented 60 per cent of total domestic cofinancing between 2007 and 2017. Almost all ongoing IFAD-supported projects already receive domestic cofinancing, mainly from governments. IFAD will focus most on government cofinancing, which is a clear demonstration of government commitment and ownership, a sign of post-approval readiness and a reliable predictor of sustainability – an important principle of the strategy.
- 29. With regard to governments, the strategic focus will be on the following areas:
  - (i) Engage with all relevant counterparts at the national level. IFAD will foster national dialogue that includes not only ministries of agriculture but also ministries of economy, planning and finance, which are key decision makers on national budget allocations. These discussions will be supported by country-specific information regarding fiscal space, debt level, financing terms, priority given by governments to agricultural expenditures (Agriculture Orientation Index) and track record of official development finance to agriculture (see annex II for a sample of such information).
  - (ii) Engage as early as possible to align COSOPs and the cofinancing agenda with national plans. The most important entry points for this dialogue are at: (i) COSOP design; and (ii) preparation of the project concept note. IFAD's enhanced country presence will be a key driver of its early engagement. This dialogue will be supported internally by regional and indicative country targets (see annex IV).
  - (iii) Support dialogue with governments at all levels, from national to local, using evidence of successful IFAD-funded projects and programmes as a powerful tool to attract cofinancing from governments.
  - (iv) Move towards a more programmatic approach and larger, simpler projects. IFAD will strive to move to more long-term programmatic investments covering multiple PBAS cycles and to design larger projects,<sup>16</sup> which have proven to attract more cofinancing. Country selectivity during IFAD11 will allow for an increase in the average country allocation. The programmatic results-based lending pilot will be an important entry point.
- (b) Beneficiaries
- 30. Beneficiaries are the second largest source of domestic cofinancing (19 per cent) and are important partners for creating impact. Because they bring unique knowledge and experience, their engagement promotes buy-in and sustainability of project outcomes. IFAD will build on its successful track record of working with beneficiaries and their organizations to focus on two areas:

<sup>15</sup> IFAD11 commitment 3.5, monitorable action 33.

<sup>16</sup> An in-depth study on IFAD's disbursement performance also evidenced that larger projects show better disbursement trends (see IFAD Research Series, issue 14: <https://maintenance.ifad.org/web/knowledge/publication/asset/39317975>).

- (i) Increase beneficiaries' engagement as development partners in project design and monitoring. This effort will be supported by the citizen engagement strategy being developed for IFAD11 to identify key entry points for beneficiary engagement.
  - (ii) Strengthen efforts to create enabling conditions for harnessing remittances as a source of financing for agriculture and rural development. IFAD's Financing Facility for Remittances (FFR) can increase beneficiaries' participation in IFAD operations by providing cofinancing for IFAD projects focused on remittances and migrants' investments.<sup>17</sup> It also creates indirect benefits by financing innovative solutions that facilitate transfers at low cost and expand recipients' access to a broader range of financial services.
- (c) Domestic financial institutions
31. Development finance institutions contributed approximately 11 per cent of domestic cofinancing in the past 10 years. With a long history of working with these institutions, IFAD is well positioned to integrate them further into its domestic cofinancing efforts.
32. A lack of access to essential financial services—savings, credit and insurance—is one of many challenges smallholder farmers face. For poor producers attempting to increase their incomes and build resilience by moving from subsistence to market-oriented production, affordable financial options tailored to their needs are vital.
- (i) With regard to domestic financial institutions, IFAD's strategic focus will be on credit enhancement and risk mitigation. IFAD has a wealth of experience in crowding in contributions from domestic financial institutions (see box 1). to reduce the risks of partnership with smallholders, IFAD will continue exploring new mechanisms and incentives for credit enhancement and risk mitigation.

Box 1

**Kenya: Programme for Rural Outreach of Financial Innovations and Technologies (PROFIT)**

This programme aims to increase rural incomes through improved production, productivity and marketing by providing poor rural households with enhanced and sustainable access to a broad range of financial services, coupled with capacity-building.

It includes the establishment of two facilities aimed at de-risking and facilitating the provision of financial services in rural Kenya:

**(i) The Risk-Sharing Facility**

This facility was designed for commercial banks such as the Equity Bank, K-Rep Bank (now Sidian Bank), Family Bank and Cooperative Bank of Kenya, which have access to liquidity but need to enhance their risk appetite for delivering financial services to rural Kenya. Intended for leveraging commercial funds for onlending, the Risk Sharing Facility is expected to be utilized between 5 and 10 times during the lifecycle of PROFIT.

**(ii) The Credit Facility**

This facility is for deposit-taking micro-finance institutions and other institutions that are transforming into banks. To complete this transformation, these institutions need access to funds in the short to medium term to expand their rural and agriculture portfolios. The facility consists of a line of credit, which is used as an incentive for these institutions to deepen their outreach, especially in neglected areas of Kenya. In 2013, the facility loaned about US\$6 million for micro-finance institution onlending to specific value chains. Project data show that these institutions were able to loan approximately US\$9 million to smallholders by September 2017 (about US\$3 million more than the funds loaned by the project to the micro-finance institutions).

PROFIT funds are expected to introduce systemic changes in the way commercial banks view lending to the rural and agriculture sectors, resulting in a sustainable flow of resources to these sectors – even after the end of the project.

<sup>17</sup> A successful example of leveraging the FFR experience to attract cofinancing from external investors – while crowding in migrants' investments – is the "Enhancing Food Security in the Horn of Africa through Diaspora Investment in Agriculture" project implemented through IFAD's Diaspora Investment in Agriculture initiative. FFR provided critical technical assistance to the establishment of the Somali AgriFood Fund.

## International cofinancing

### (a) Multilateral partners

33. Multilateral partners – predominantly AfDB, AsDB and the World Bank – accounted for 65 per cent of international cofinancing over the past decade. However, contributions from these partners have fluctuated widely, generating uncertainty about the ad hoc nature of such support (see annex III).
34. IFAD has several MoUs in place with these organizations and is making efforts to reinvigorate its engagement with other partners such as the West African Development Bank, the Development Bank of Latin America, the European Union, IDB, the Islamic Development Bank and the OPEC Fund for International Development. The strategic focus with multilaterals will be on the following areas:
- (i) Pursue complementarity of interventions with larger IFIs. In light of its focus on smallholder farmers, IFAD will increase its efforts to complement the financing of other IFIs for initiatives such as large-scale irrigation projects. Box 2 shows a successful example of this model.

#### Box 2

#### **Indonesia: Integrated Participatory Development and Management of the Irrigation Project (IPDMIP)**

- **Strong alignment with government priorities**

As part of Indonesia's National Medium-Term Development Plan 2015-2019, the Government of Indonesia aimed for the country to achieve self-sufficiency in key staple foods, including rice, by 2017. In support of this goal, it committed to rehabilitating 3.2 million hectares of degraded irrigation systems. This commitment placed considerable focus on agriculture and water, with calls for both the public and private sectors to engage in comprehensive and collaborative responses.

IPDMIP was designed to contribute to the Government's priorities by (i) increasing rice production for food security; (ii) developing higher-value crops to improve rural nutrition and livelihoods; and (iii) promoting more productive irrigation infrastructure.

Although implementation has not reached an advanced stage, the project design is innovative.

- **Complementarity of IFAD's intervention with AsDB**

The project approach built on the past experiences of AsDB and IFAD and on knowledge generated in Indonesia to strengthen the links between agriculture (IFAD's main intervention area) and the rehabilitation of irrigation systems (AsDB's main intervention area) to reduce poverty and contribute to national development targets. This partnership enabled the Government to leverage the comparative advantages of both development partners in a complementary manner.

- **Cofinancing with AsDB**

IFAD provided US\$100 million consisting of a US\$98.5 million loan and US\$1.5 million grant. AsDB provided US\$600 million to improve irrigation infrastructure, irrigation systems management and related policy and institutional frameworks. The Government's contribution one year after the entry into force was approximately US\$1 billion (compared to US\$102 million at project appraisal).

- (ii) Sustain partnerships through enhanced country presence. IFAD will take the lead in setting up and coordinating regional donor groups focused on agriculture and smallholder farming. These efforts will be supported by efforts at headquarters to develop country-by-country maps of potential cofinanciers.

- (iii) Increase flexibility to adapt to key, larger partners. IFAD will enhance its efforts to include partners in design missions and will increase its flexibility in adopting key partners' reporting formats, especially when those partners provide more financing than IFAD. A successful example of such a model is presented in box 3.

Box 3

**Bangladesh: Coastal Climate-Resilient Infrastructure Project (CCRIP)**

CCRIP, approved by IFAD's Executive Board in 2013, demonstrates how, when operations are aligned with national priorities, proactive cooperation among development partners can result in cofinancing focused on complementarity and harmonization. Most importantly, it presents a model for overcoming the procedural bottlenecks that create challenges for cofinancing IFAD's operations.

CCRIP merges two projects: the Sustainable Market Infrastructure for Livelihoods Enhancement Project (SMILE) designed by IFAD, and the Climate-Resilient Infrastructure Improvement in Coastal Zone Project designed by AsDB and KfW Development Bank. The subsequent World Bank-funded Coastal Embankment Improvement Project complements CCRIP.

Aligned with the Government's Sixth Five-Year Plan, the project identifies rural roads and markets, agriculture, livestock and community-based fisheries as focus areas for pro-poor growth.

Functionally, CCRIP operates as one project with three distinct sub-components funded by IFAD (roads, bridges and small markets), AsDB (roads, bridges, growth centers and large village markets), and KfW (cyclone shelters and knowledge management).

A single project management office in Dhaka (with additional offices in each region covered by the project) is responsible for coordinating all project activities while respecting each organization's procurement and financial management guidelines. IFAD, AsDB and KfW jointly monitor and supervise the project.

The August 2017 mid-term review of the project rated overall implementation progress as satisfactory.

- (iv) Leverage the "sequencing model". IFAD has experience with multiple-phase projects, which lead to increasing cofinancing (see box 4). It will continue to explore the model of bringing in large-scale cofinancing based on successful innovative pilot projects.

Box 4

**Ethiopia: Pastoral Community Development Project III (PCDP III)**

Together, PCDP I, PCDP II and PCDP III constitute a "best practice" example of cofinancing through a sequence of operations, with increased cofinancing in each phase. They are also a good example of a project in which IFAD, with its core competency in community-driven development approaches and supporting livelihood components, complemented the approach of a cofinancier.

The pilots in phase 1 were generally successful and established performance triggers for completion and transition to phase II. At the completion of PCDP-I, IFAD loans totaled US\$20 million, IDA had contributed US\$30 million in grants and the Government contribution was US\$10 million. PCDP-II became effective in October 2008 and was closed on schedule on 31 December 2013. The financing leveraged at completion totaled US\$37 million from IFAD, US\$75 million from IDA and US\$14 million from the Government.

PCDP-III has built on the success of the previous two projects and continues to integrate community-driven development approaches into government processes. The total investment and incremental recurrent project costs are estimated at US\$217 million. IFAD is providing US\$95 million, IDA has committed US\$100 million and the Government and beneficiaries are financing the remainder.

- (b) Global facilities: multilateral environment and climate funds
35. IFAD has established an impressive track record in mobilizing supplementary funds from global environment and climate funds, including the Global Environment Facility (GEF), Least Developed Countries Fund, Special Climate Change Fund and Adaptation Fund. In 2016 IFAD was also accredited to receive funding from the Green Climate Fund. Environmental and climate finance grew tenfold from US\$54 million in IFAD8 to US\$586 million during IFAD10. In the IFAD11 period, the Fund will ensure that 100 per cent of projects mainstream climate concerns and that at least 25 per cent of IFAD's programme of loans and grants is specifically climate-focused.
36. In December 2018 IFAD will present to the Executive Board a revised strategy and action plan on environment and climate change, establishing resource mobilization as a priority action area and identifying environment and climate change cofinancing targets through to 2025. These targets will be based on IFAD's

comparative advantage at the global level, country and IFAD programming needs, alignment with the various funds' objectives, and the need for efficiency.

(c) Bilateral organizations

37. Bilateral organizations contributed 17 per cent of IFAD's international cofinancing over the last 10 years. The Spanish Trust Fund alone accounted for 64 per cent of bilateral cofinancing, and 13 other bilateral organizations contributed the rest. Bilateral organizations also continue to play a key role in financing knowledge-transfer activities.
38. The strategic focus with bilateral organizations will be in three areas:
- (i) Selectively engage with key partners. At regional level, IFAD has developed good knowledge about bilateral partners' "cultures" and interests. A mapping exercise will inform dialogue with these partners and enable IFAD to focus on the bilateral organizations that, on the basis of their priority areas and positive track record, have been identified as the most suitable partners, also in consideration of their interest and focus on the IFAD11 mainstreaming themes of youth, gender, climate and nutrition.
  - (ii) Focus on "pooled" arrangements. In light of the success of the Spanish Trust Fund, IFAD will vigorously pursue similar pooled facilities with other bilateral donors, potentially differentiated by countries and areas of interest. Focusing on multi-donor trust funds is expected to reduce transaction costs.
  - (iii) Leverage the newly established South-South and Triangular Cooperation (SSTC) and knowledge-management centers. As a major contributor to the SSTC knowledge-sharing initiative, IFAD designed, funded or facilitated nearly 150 SSTC activities between 2009 and 2014.<sup>18</sup> This involvement supports IFAD in pursuing emerging donors and initiatives. Under the SSTC umbrella, IFAD will seek to expand financing by bilateral organizations for knowledge transfer and technical assistance.

(d) Foundations

39. A recent study conducted by the OECD found that 130 of the world's most active private philanthropic foundations contributed US\$24 billion to development between 2013 and 2015, with the Bill & Melinda Gates Foundation accounting for 49 per cent of this total. IFAD will continue to focus on the following areas:
- (i) Select strategic funding facilities that are aligned with foundation priorities. Such facilities include the Agribusiness Capital (ABC) Fund's technical assistance fund, the second phase of the Adaptation for Smallholder Agriculture Programme, and the Indigenous Peoples Assistance Facility, which allow foundations to co-invest and benefit from the framework put in place by IFAD.
  - (ii) Position IFAD as a partner of choice for foundations through strategic knowledge events. IFAD will host a number of learning and partner events on issues aligned with foundation priorities: women's economic empowerment, data for SDG 2, post-harvest losses and waste, climate adaption and rural youth employment.

### The private sector

40. It is widely recognized that ODA and domestic resource mobilization will not be enough to finance the ambitious SDGs.<sup>19</sup> IFAD's data show a very modest private-sector contribution of approximately 5 per cent to its development efforts over the past 10 years. However, private-sector contributions tend to materialize during

<sup>18</sup> See EB 2016/119/R.6, IFAD's *Approach to South-South and Triangular Cooperation*.

<sup>19</sup> See *From Billions to Trillions: Transforming Development Finance*.

project implementation rather than at the approval stage. Enhanced measurement using improved monitoring and evaluation systems will be critical for tracking these contributions more accurately while attempting to capture the distinction between direct and indirect mobilization as defined in the reference guide of the MDBs' Task Force on Private Investment Capitalization.<sup>20</sup>

41. IFAD will participate in the global debate among MDBs to increase private financing, as summarized in the 2017 Joint MDB Statement of Ambitions for Crowding in Private Finance, and to explore methods of estimating the amount of private investment catalysed through case studies by joining the MDB Task Force on Private Investment Capitalization.
42. The cofinancing agenda will benefit from the new IFAD11 private sector strategy to be presented to the Executive Board for approval in 2019. One of the goals of the strategy is to leverage additional financing from the private sector, both at the corporate level and at the country programme level, including mobilizing private sector funding through social impact funds as well as co-lending facilities. The strategy will also describe the required due diligence process to ensure mitigation of reputational and operational risk in engaging with new private sector counterparties.
43. The private sector strategy will propose additional means to leverage funds from the private sector. IFAD also will continue strengthening its engagement with the private sector through such mechanisms as the following:
  - (i) Scale up the successful model of the public-private-producer-partnership (4P) approach. The 4P approach<sup>21</sup> has proven successful in leveraging private-sector contributions, including through value-chain platforms. Through shared engagement plans, this approach also has the advantage of enabling the measurement and monitoring of private-sector contributions from the project design stage and increasing their reliability throughout implementation.
  - (ii) Leverage existing networks. Engage with partners through networks such as the Consultative Group to Assist the Poor and the Smallholder and Agri-SME Finance and Investment Network, along with national and regional innovation platforms<sup>22</sup> and rural development forums.
  - (iii) Leverage the ABC Fund's Technical Assistance Facility. The innovative ABC Fund helps mitigate the constraints smallholder farmers and rural small and medium-sized enterprises face in accessing finance, facilitating their access to needed capital.<sup>23</sup> The Technical Assistance Facility component helps rural farmers build business skills and learn about entrepreneurship, further enhancing the attractiveness of IFAD projects to private investors.

## IV. Measurement and monitoring

44. Cofinancing is first captured in the project costing tables and the economic and financial analysis. These inputs, the basis for the financial agreement with the borrower, are reflected in IFAD's Grants and Investment Projects System (GRIPS), which is the entry point for measuring and monitoring cofinancing. To strengthen

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<sup>20</sup> See <http://documents.worldbank.org/curated/en/495061492543870701/pdf/114403-REVISED-June25-DocumentsPrivInvestMob-Draft-Ref-Guide-Master-June2018-v4.pdf>.

<sup>21</sup> IFAD's innovative 4P model takes a systematic approach to involving the local private sector, together with smallholder farmers and their organizations, as equal partners in IFAD-supported projects.

<sup>22</sup> See CGIAR, Innovation platforms practice brief 1: <https://assets.publishing.service.gov.uk/media/57a08a2840f0b652dd0005bc/Brief1.pdf>.

<sup>23</sup> See Statement by the President of IFAD, at the Seeds & Chips Global Food Innovation Summit: [www.ifad.org/web/latest/speech/asset/40293533](http://www.ifad.org/web/latest/speech/asset/40293533).

cofinancing measurement and monitoring, IFAD will take the following steps at the design stage and during implementation:

- (i) Upgrade existing monitoring and reporting systems to capture all sources and categories of cofinancing, and enable updates during implementation. The upgraded systems will disaggregate cash and in-kind cofinancing and will lead to assessment during design stage and monitoring and reporting during implementation. An enhanced monitoring system will signal shortfalls in the delivery of cofinancing.
  - (ii) Strengthen staff awareness. Project staff will learn about the importance of the upgraded systems and will be trained in their use.
  - (iii) Update guidelines and procedures. IFAD will revise its supervision and implementation support guidelines, its guidelines for economic and financial analysis and its project implementation manual to ensure proper accounting and monitoring of cofinancing, including in-kind contributions.
45. Monitoring beyond numbers. IFAD will track progress in implementing this strategy by monitoring cofinancing levels and – more importantly – increased impact in Member States. This will include monitoring the greater reach of projects and the increased numbers of total beneficiaries that are enabled by cofinancing. In addition, the creation of a “resource partner matrix” will allow tracking the performance of cofinancing partners, particularly international cofinanciers. This approach, together with the IFAD11 commitment to develop and implement a framework to strategically plan and monitor IFAD’s partnerships at country, regional, global and institutional levels, will allow for feedback loops to evaluate where to focus resources and where efficiency considerations indicate that disengagement would be preferable.

## V. Roles and responsibilities

46. The successful implementation of the action plan will depend on establishing clear roles and responsibilities within the Fund.

### A. Role of IFAD leadership

47. IFAD’s leadership will set the tone, motivating staff to increase their focus on cofinancing.
48. Leadership will also engage with governments and other development partners at the highest levels, taking advantage of relevant forums to intensify the dialogue around cofinancing.

### B. Role of the Programme Management Department

49. The Associate Vice-President (AVP) of the Programme Management Department (PMD), along with the directors from operations and technical divisions, will be responsible for (i) defining a global and regional strategy, which will be updated with each replenishment cycle; and (ii) engaging with governments and development partners, supported by donor mapping and country-level data. engagement plans focused on key partners will guide regular engagement at all levels, including identifying key institutional-level meetings, milestones expected from cofinancing partnerships, and the foreseen schedule of events and venues to sustain country-level engagement. For stronger accountability, cofinancing efforts will be explicitly included in the objectives and performance evaluations of the AVP PMD, regional directors, country directors and CPMs.
50. Regional directors will be responsible for reaching the established regional targets; within each region, indicative country-level targets will be applied flexibly and will serve to guide regular COSOP discussions.

51. Advocacy for cofinancing with Member States and partners will be the responsibility of the AVP PMD and regional directors at headquarters. Regional directors will also play an important role in supporting country directors and CPMs in national dialogue with ministers of agriculture, economy, finance and planning.

### C. Role of country directors and CPMs

52. In line with IFAD's enhanced business model, country directors and CPMs, supported by finance officers, will play a key role in developing the engagement plans at COSOP level through country-level dialogue, including with ministry representatives, and will participate in development forums.
53. Country directors and CPMs will also be responsible for identifying partners and engaging with them early in COSOP and project design to agree on the appropriate levels of cofinancing. They will strengthen relationships with cofinanciers through regular interaction and exchange of opportunities for joint programme and project design.

### D. Institutional support

54. It is of key importance that a balanced level of responsibilities in carrying out this agenda is sought between IFAD Country Offices and headquarters. With the full support of several units at headquarters, IFAD will leverage its enhanced decentralization model to expand cofinancing.
55. Regional economists and portfolio advisors, supported by the Partnership and Resource Mobilization Office (PRM), will play a pivotal role in mapping donors at the country and regional levels and identifying priority intervention areas as a basis for selecting the most strategic cofinancing partners.
56. Along with the Strategy and Knowledge Department, the Global Engagement and Multilateral Relations Division, the Communications Division and the Environment, Climate, Gender and Social Inclusion Division (ECG), PRM will support the cofinancing agenda by analysing, documenting and disseminating the impacts of IFAD interventions to make the case for providing cofinancing.
57. PRM will continue to lead IFAD's corporate partnership agenda by pursuing opportunities for trust funds, supplementary financing and other pooled facilities in collaboration with regional divisions.
58. ECG, as the focal point for the global climate and environment funds, will continue to facilitate access to these resources, ensuring alignment with the funds' own objectives and standards.
59. The Financial Management Services Division and the Operational Policy and Results Division, supported by the Information and Communications Technology Division, will undertake the system enhancements needed for adopting a single-measurement approach to measuring and monitoring cofinancing.
60. FMD and the Office of the General Counsel will ensure flexibility to harmonize agreements, processes and reporting formats with those of cofinanciers, especially when IFAD joins larger operations.

## Action plan for effective implementation

The action plan builds on the key dimensions of a resource mobilization framework and defines the roles and responsibilities of parties involved, the measurement and monitoring actions. While IFAD will fully leverage its enhanced decentralization model to advance its resource mobilization agenda (especially domestic resources), several units at headquarters will support the IFAD Country Offices in their efforts to expand cofinancing. Such institutional supports include measures and efforts ranging from technical assistance and system supports to the development of effective communication plans.

<i>Actions/Roles</i>	<i>Responsibility<sup>a</sup></i>	<i>Timeframe</i>	<i>Institutional supports<sup>b</sup></i>
<b>IDENTIFY</b> key cofinancing opportunities at regional and country level			
<p><b>Action 1: Strengthen country context analyses</b></p> <p>(a) Conduct a review of development frameworks at national and regional levels as part of the country strategic opportunities programme (COSOP) preparation processes to better fit IFAD interventions into broad national/regional plans.</p> <p>(b) Undertake a yearly analysis of countries' fiscal space, level of indebtedness and government flows to agriculture to evaluate the national resource mobilization capacity leaning on International Monetary Fund/World Bank/Organisation for Economic Co-operation and Development data.</p>	Regional economists/ portfolio advisors	Beginning of calendar year and at COSOP preparation	Provide technical assistance and supporting documentation for review and analysis ( <b>OPR/FMD</b> )
<p><b>Action 2: Develop a map of potential cofinanciers</b> at country, regional and global levels to identify priority intervention areas as well as their funding modalities/schemes, administrative procedures and complementarity with IFAD's mandate to feed into business and engagement plans.</p>	Regional economists/ portfolio advisors	Q1 2019 and updated periodically	Facilitate access to information on IFAD's partnerships, memorandums of understanding (MoUs) and supplementary funds arrangements by country and based on their financing priorities and modalities ( <b>PRM</b> ); Enhance engagement with global climate change and environment funds ( <b>ECG</b> )
<p><b>Action 3: Develop a "resource partner matrix"</b> to allow for comparison among potential cofinanciers based on the costs, benefits and risks to prioritize and select key cofinancing partners.</p>	Regional economists/ portfolio advisors	At COSOP preparation, covering the COSOP period	Facilitate access to information on IFAD's partnerships, MoUs and supplementary funds arrangements by country and based on their financing priorities and modalities ( <b>PRM</b> ); Enhance engagement with global climate change and environment funds ( <b>ECG</b> )

<sup>a</sup> AVP – Associate Vice-President; CD – country director; CPM – country programme manager; RD – regional director.

<sup>b</sup> COM – Communications Division; ECG – Environment, Climate, Gender and Social Inclusion Division; FMD – Financial Management Services Division; GEM – Global Engagement and Multilateral Relations Division; HRD – Human Resources Division; ICT – Information Communications Division; LEG – Office of the General Counsel; OPR – Operational Policy and Results Division; PRM – Partnership and Resource Mobilization Office; PMI – Sustainable Production, Markets and Institutions Division; PMD – Programme Management Department; SKD – Strategy and Knowledge Department.

<i>Actions/Roles</i>	<i>Responsibility<sup>a</sup></i>	<i>Timeframe</i>	<i>Institutional supports<sup>b</sup></i>
<b>Action 4: Identify the most suitable types of funding agreements</b> or funding facilities compatible with IFAD's rules and procedures.	PRM	Continuous	Provide technical assistance on the financial and policy implications <b>(FMD, LEG, OPR)</b>
<b>Action 5: Enhance focus on cofinancing at earliest stage of COSOP development, project design and in design review process.<sup>c</sup></b>	AVP PMD/RDs	Throughout design process	Provide technical advice <b>(PMI, ECG)</b> Increase focus on cofinancing during review process <b>(AVP, RDs, OPR)</b>
<b>Action 6: Leverage the Operations Academy</b> to disseminate information on cofinancing targets, discuss internal challenges, enable peer learning on engagement plans to reinforce capacity for resource mobilization	OPR	Q4 2018	Support the development of the model <b>(CDs, FMD, PMI, ECG)</b>
<b>ENGAGE</b> with selected partners at multiple levels through effective dialogue from headquarters and IFAD Country Offices to sustain systematic partnerships and increase IFAD's presence and visibility in key partners' operations and events			
<b>Action 7: Develop engagement plans for key selected partners to accompany MoUs</b> (a) At institutional level, action plans will guide: <ul style="list-style-type: none"> <li>• Identification of development forums, including innovation platforms and multilateral development bank (MDB) working groups, to foster expanded cofinancing and private investments in IFAD projects.</li> <li>• Steps to strengthen global policy dialogue with key high-level officials to advocate for financing, including climate financing, by highlighting its importance for smallholders.</li> <li>• Potential to set up regional coordination groups with agricultural focus.</li> </ul> (b) At country level, COSOPs will identify: <ul style="list-style-type: none"> <li>• Identification of key partners over COSOP period.</li> <li>• Roles of key partners throughout the COSOP period (including options for joint design).</li> <li>• Venues and timing for in-country joint planning meetings and for structured periodic exchange of pipelines.</li> <li>• Expected resources to be leveraged.</li> </ul>	AVP PMD, RDs, ECG (institutional level) RDs/CDs/CPMs (country level)	At each replenishment cycle (institutional level) At COSOP preparation, covering the COSOP period (country level)	Identify the key communication means and channels and provide assistance to adapt the message to be conveyed <b>(OPR, PRM, GEM, COM)</b>

<sup>c</sup> This may include early consultations with counterparts and dedicated "adjustments" to design (e.g. risk mitigation measures for development finance institutions, finding synergy with international donors focus areas, engaging beneficiaries, etc.)

<i>Actions/Roles</i>	<i>Responsibility<sup>a</sup></i>	<i>Timeframe</i>	<i>Institutional supports<sup>b</sup></i>
<b>Action 8: Enhance importance of cofinancing in COSOP preparation with governments</b> involving all relevant ministries, such as agriculture, economy, finance and planning.	CDs, CPMs with support from AVP PMD/RDs	At COSOP preparation	Send a clear signal on the focus on cofinancing <b>(AVP PMD, RDs, OPR)</b>
<b>Action 9: Include cofinancing as a topic of discussion in existing MDB working groups</b> (e.g. Managing for Development Results Working Group) in which IFAD participates.	Focal points for respective working groups	At beginning of each calendar year	Provide assistance in identifying and targeting key events, forums and platforms and facilitate participation <b>(GEM, PRM, PMI, OPR)</b>
<b>Action 10: Assign a resource mobilization focal point in PRM</b> to each region.	AVP PMD/RDs	TBD	<b>PRM and HRD</b>
<b>ADOPT</b> a single measurement and monitoring approach for cofinancing at different project phases underpinned by systems and support from headquarters			
<b>Action 11: Update supervision guidelines and TORs for economists, technical specialists and finance officers</b> to incorporate relevant aspects of measurement, monitoring and reporting of cofinancing (disaggregated by cash and in-kind resources).	OPR, CPMs	Ahead of each mission	Provide technical inputs to the development of the terms of reference <b>(FMD, regional economists, OPR)</b>
<b>Action 12: Agree at design stage on joint requirements</b> for reporting, audits, financial statements in order to overcome procedural bottlenecks.	CDs/CPMs	At design	Provide technical support <b>(PMI, FMD, LEG)</b>
<b>Action 13: Strengthen tracking of cofinancing</b> by including relevant breakdowns in systems and dashboards and linking with current systems (Operational Results Management System, Financial Management Dashboard, Grants and Investment Projects System). Implement the MDB methodology for tracking of climate finance.	OPR, ECG	Q1 2019	Provide systems support and appropriate procedural adjustments <b>(ICT and FMD)</b>
<b>Action 14: Periodically review the indicative regional and country targets</b> to support reaching the corporate targets.	RDs/CDs	Yearly	Provide technical assistance and procedural guidance <b>(OPR)</b>
<b>COMMUNICATE</b> , on a targeted and strategic basis, successful results achieved from cofinancing partnerships and IFAD's interventions to motivate donors' commitment and maintain good relations			
<b>Action 15: Showcase successful examples of cofinancing</b> externally at global and national events and internally (e.g. at portfolio stocktaking events) for cross-fertilization within and across regions.	RDs	Continuous	<b>COM, OPR, ECG</b>
<b>Action 16: Create internal incentives</b> by including cofinancing in staff objectives and the performance evaluation system, recognizing and rewarding staff for the most successful	Leadership	Annual, starting in 2019	<b>COM</b> , for event and dissemination

<i>Actions/Roles</i>	<i>Responsibility<sup>a</sup></i>	<i>Timeframe</i>	<i>Institutional supports<sup>b</sup></i>
cofinancing efforts (e.g. award, price).			
<b>Action 17: Prepare and disseminate evidence-based analysis</b> of the impact of IFAD's cofinanced projects to support dialogue at country level and in COSOP discussions.	SKD, OPR	Regularly	Carry out dissemination on the impact of IFAD interventions to make case for cofinancing with IFAD <b>(COM, PRM)</b>
<b>Action 18: Ensure external participation (Rome-based agencies, development partners)</b> at corporate stocktaking events where results achieved through financing partnerships are highlighted.	OPR	Continuous	Support event organization <b>(COM)</b>

## Overview of donors and government spending on agriculture of donors and government spending on agriculture

Table 1  
**Commitments of official development finance for agriculture, forestry, fishing, and rural development by recipient region, 2012-2016\***  
(Constant 2016 millions of United States dollars)

<i>Donor</i>	<i>Africa</i>	<i>Americas</i>	<i>Asia</i>	<i>Europe</i>	<i>Oceania</i>	<b>Total**</b>
Canada	802	194	134	47	-	<b>1 177</b>
France	750	134	405	279	15	<b>1 583</b>
Germany	1 500	369	872	31	6	<b>2 778</b>
Japan	1 187	208	2 487	9	77	<b>3 968</b>
Republic of Korea	205	79	811	-	8	<b>1 103</b>
Netherlands	761	17	106	-	-	<b>884</b>
United Arab Emirates	960	-	26	137	-	<b>1 123</b>
United Kingdom	495	162	231	-	-	<b>888</b>
United States	2 600	957	1 917	48	-	<b>5 522</b>
African Development Bank	2 170	-	-	-	-	<b>2 170</b>
Asian Development Bank	-	-	2 438	-	6	<b>2 444</b>
European Union institutions	3 302	611	1 628	1 720	95	<b>7 356</b>
IFAD	1 869	331	1 572	69	29	<b>3 870</b>
Inter-American Development Bank	-	1 715	-	-	-	<b>1 715</b>
World Bank	5 829	1 590	8 109	393	105	<b>16 026</b>

\* Source: OECD database as at 3 July 2018

\*\* Totals exclude unspecified official finance recipients.

Table 2  
**Commitments of official development finance for agriculture, forestry, fishing, and rural development in developing countries**  
(Constant 2016 millions of United States dollars)

<i>Donor</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2012-16</i>
Canada	209	276	213	288	225	1 211
France	396	393	386	499	607	2 282
Germany	455	609	971	994	1 006	4 034
Japan	735	881	761	955	712	4 045
Republic of Korea	374	191	271	170	135	1 142
Netherlands	535	404	97	187	179	1 402
United Arab Emirates	82	295	460	287	-	1 123
United Kingdom	203	211	225	485	187	1 311
United States	1 193	1 519	1 328	1 506	1 213	6 759
African Development Bank	193	386	299	795	497	2 170
Asian Development Bank	644	714	271	398	417	2 444
European Union institutions	1 788	1 928	786	1 427	2 038	7 967
IFAD	726	650	572	1 254	668	3 871
Inter-American Development Bank	270	311	340	189	606	1 715
World Bank	3 792	2 985	3 047	3 833	2 368	16 025

Table 3  
Agriculture Orientation Index (AOI)\* of Government expenditures per country in each region (2000-2017 average)

Region	Average AOI	Region	Average AOI
<b>Asia and Pacific region</b>	<b>0.32</b>	<b>East and Southern Africa</b>	<b>0.44</b>
Afghanistan	0.17	Angola	0.21
Bangladesh	0.40	Botswana	1.60
Bhutan	0.61	Burundi	0.07
Cambodia	-	Comoros	-
China	0.27	Eritrea	-
Timor-Leste	0.64	Ethiopia	0.26
Fiji	0.28	Kenya	0.15
India	0.35	Lesotho	0.42
Indonesia	0.11	Madagascar	0.28
Kiribati	-	Malawi	0.46
Democratic People's Republic of Korea	-	Mauritius	0.90
Lao People's Democratic Republic	-	Mozambique	0.20
Maldives	0.18	Namibia	0.44
Mongolia	0.31	Rwanda	0.14
Myanmar	-	Seychelles	0.82
Nepal	0.22	South Sudan	-
Pakistan	0.09	Eswatini	-
Papua New Guinea	-	United Republic of Tanzania	-
Philippines	0.37	Uganda	0.15
Samoa	0.25	Zambia	0.54
Solomon Islands	0.15	Zimbabwe	-
Sri Lanka	0.58		
Thailand	0.58		
Tonga	-		
Viet Nam	0.14		
<b>Latin America and Caribbean</b>	<b>0.30</b>	<b>Near East, North Africa and Europe</b>	<b>0.37</b>
Argentina	0.14	Albania	0.11
Belize	-	Algeria	0.51
Bolivia (Plurinational State of)	0.66	Armenia	0.17
Brazil	0.12	Azerbaijan	0.48
Chile	0.51	Bosnia and Herzegovina	-
Colombia	-	Cyprus	1.30
Costa Rica	0.50	Djibouti	-
Cuba	-	Egypt	0.16
Dominica	-	The Former Yugoslav Republic of Macedonia	-
Dominican Republic	0.44	Georgia	0.20
Ecuador	0.12	Iraq	-
El Salvador	0.13	Jordan	0.23
Grenada	0.31	Kyrgyzstan	0.13
Guatemala	0.23	Lebanon	0.08
Guyana	-	Republic of Moldova	0.38
Haiti	-	Montenegro	0.09
Honduras	-	Morocco	0.02
Jamaica	0.23	Palestine	-
Mexico	-	Romania	0.68
Nicaragua	-	Somalia	-
Panama	0.39	Sudan	-
Paraguay	0.13	Syrian Arab Republic	0.23
Peru	-	Tajikistan	-
Saint Lucia	-	Tunisia	0.78
St Vincent and the Grenadines	0.41	Turkey	0.44
Suriname	-	Uzbekistan	0.71
Uruguay	0.18	Yemen	-
Venezuela (Bolivarian Republic of)	-		

Region	Average AOI
<b>West and Central Africa</b>	<b>0.27</b>
Benin	0.07
Burkina Faso	0.03
Cameroon	-
Cabo Verde	0.57
Central African Republic	0.04
Chad	-
Congo	0.37
Democratic Republic of the Congo	0.24
Côte D'Ivoire	0.15
Equatorial Guinea	0.97
Gabon	-
Gambia (The)	
Ghana	0.04
Guinea	-
Guinea-Bissau	0.18
Liberia	0.04
Mali	0.49
Mauritania	-
Niger	-
Nigeria	0.14
Sao Tome and Principe	0.47
Senegal	-
Sierra Leone	-
Togo	-

\* The AOI for government expenditures is used to track SDG 2 target 2a. Defined as the agriculture share of government expenditures, when it is greater than 1, it reflects a high orientation towards the agriculture sector, which receives a higher share of government spending relative to its contribution to economic added value. An AOI of less than 1 reflects a low orientation to agriculture, while an AOI equal to 1 reflects a government's neutral orientation to the agriculture sector (<https://unstats.un.org/sdgs/metadata/files/Metadata-02-0A-01.pdf>; <https://unstats.un.org/sdgs/metadata>).

## Summary of results from the analysis on IFAD cofinancing

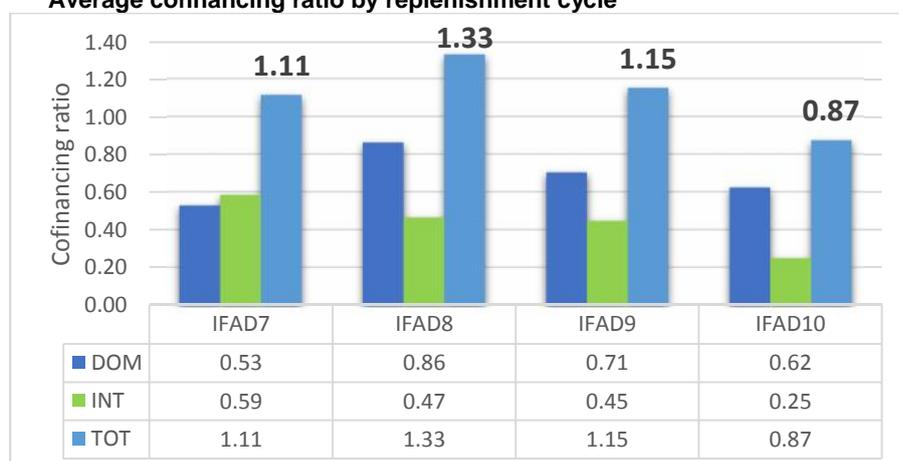
1. This annex is an excerpt of the documents “Preliminary Results from the Analysis on IFAD Cofinancing” (TFWG 2018/1/W.P.4) and “Additional Results from the Analysis on IFAD Cofinancing and Main Elements of the Cofinancing Strategy” (TFWG 2018/2/W.P.4). The full study will be published as part of IFAD’s research series.

### I. Historical patterns in IFAD Cofinancing

#### A. Cofinancing by replenishment cycle

2. Figure 1 shows that the highest domestic cofinancing ratio (DOM) achieved was in the Eighth Replenishment of IFAD’s Resources (IFAD8) whereas IFAD7 recorded the highest international cofinancing ratio (INT). This may be attributable to the 2008-2012 international food crisis and the launch of the Spanish Food Security Cofinancing Facility Trust Fund driving donors’ contributions to IFAD’s projects.

Figure 1  
Average cofinancing ratio by replenishment cycle



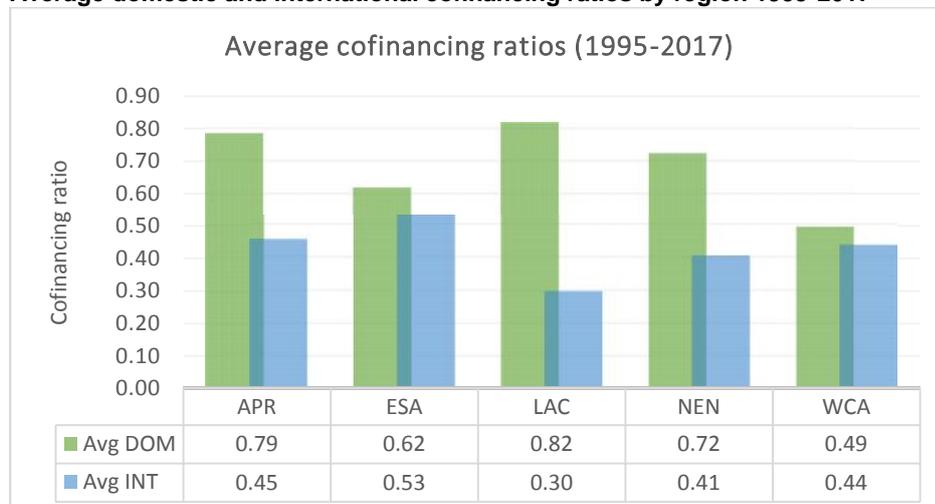
Source: Grant and Investment Projects System (GRIPS) financing data as of 21 March 2018 (excluding data to be determined).

#### B. Regional differences in cofinancing

3. Figure 2 shows that over the past 20 years, the Asia and Pacific (APR), and Latin America and Caribbean (LAC) regions have recorded the highest domestic cofinancing ratios, contributing approximately US\$0.80 for each dollar of IFAD financing in the regions.
4. This pattern is reversed for international cofinancing. The data show that, in the past 20 years, the top regions leveraging international resources were East and Southern Africa (ESA), and West and Central Africa (WCA).
5. West and Central Africa recorded the lowest domestic cofinancing ratio on average in the period between 1995 and 2017. Internal consultations revealed that this could reflect the fact that most countries in the region are low income and face budgetary limitations. Furthermore, the highly constrained economic conditions of most countries in the region and significant insecurity, especially in Sahelian countries, may have reduced their prospects for domestic cofinancing.
6. Latin American and the Caribbean had the lowest international cofinancing ratio on average between 1995 and 2017. This was partly explained during internal consultations by the high volatility of donors’ contributions in the region. Another

major constraint to resource mobilization in LAC is a shift in national priorities from rural to urban development as the region undergoes increasing urbanization.

Figure 2

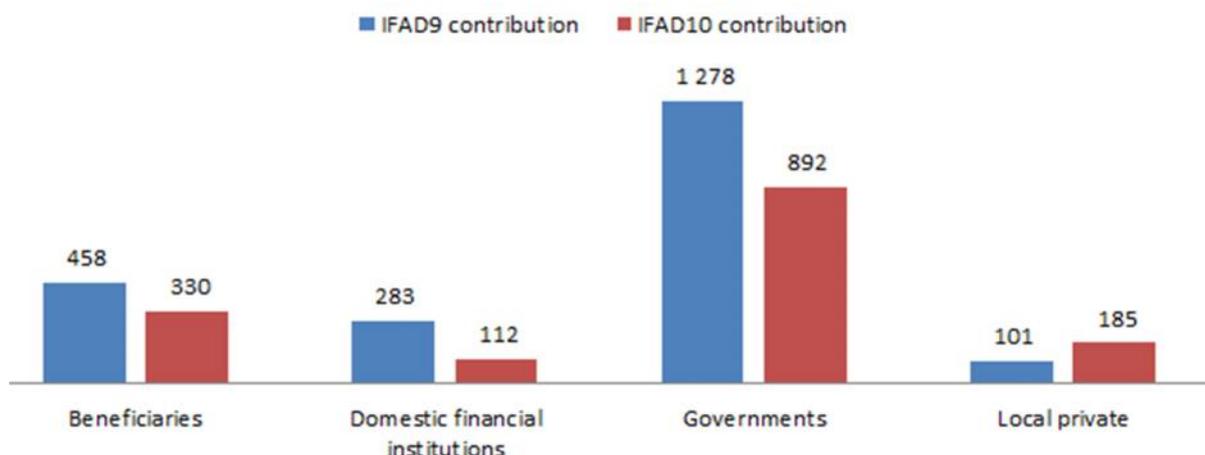
**Average domestic and international cofinancing ratios by region 1995-2017**

Source: GRIPS total approved financing data as of 2 May 2018 (excluding data to be determined).

### C. Sources of cofinancing in IFAD projects

7. An analysis performed of a cohort of projects approved in the past 20 years shows a domestic cofinancing ratio of 0.72 and an international ratio of 0.52. While these ratios are encouraging, the latest trends show a decline.
8. Between 1995 and 2017, 93 per cent of total domestic cofinancing came from governments, beneficiaries and domestic financial institutions. Not-for-profit organizations contributed the highest average amount (in millions of United States dollars) but their contributions represented only 2 per cent of the total domestic cofinancing leveraged during the period. Figure 3 below compares the amounts of domestic cofinancing mobilized from the top sources between IFAD9 and IFAD10. The data show that domestic cofinancing slightly declined over the last two replenishment cycles from US\$2.3 billion mobilized during IFAD9 to US\$1.8 billion in IFAD10 (including the 2018 pipeline as of 28 June). This decline was driven by the substantial decrease in cofinancing from governments and cofinancing from domestic financial institutions.
9. Drawing on the information gathered from an extensive internal consultation, it is clear that the main reasons explaining the shortcomings in domestic resources mobilization are in many cases related to countries macro-economic conditions (fiscal space, level of indebtedness, poverty rate, fragility, etc.), the political priority given by the government to agriculture and rural development, as well as factors related to IFAD internal institutional and operational processes (i.e. project design processes, the quality of in-country networks/relationships built, IFAD visibility and the effective communication of project performance, alignment with national plans, engagement with the relevant national counterparts as well as the weak articulation of IFAD comparative advantage among other development partners present in the countries).

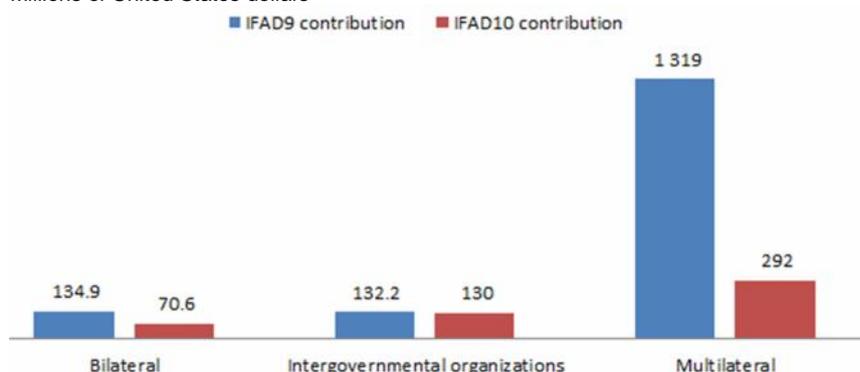
Figure 3  
**Evolution of the top domestic partnerships**  
Millions of United States dollars



Source: GRIPS total approved financing data as of 28 June 2018.

10. International cofinancing was mainly driven by multilateral, bilateral and inter-governmental organizations, with multilateral contributions accounting for 59 per cent of total international cofinancing leveraged between 1995 and 2017. "Basket funding" made an exceptionally high average contribution, although the share of this contribution within the total international cofinancing leveraged was only 2 per cent.
11. Figure 4 compares the amounts of international cofinancing mobilized from the top sources between IFAD9 and IFAD10. It shows that between IFAD9 and IFAD10, the total international cofinancing amount dropped sharply from US\$1.7 billion mobilized in IFAD9 to US\$905 million in IFAD10 (including the 2018 pipelines as of 28 June). This decline was driven by a decrease in contributions from large donors such as Asian Development Bank (AsDB), the European Union and the World Bank.
12. Shortcomings in international cofinancing mobilization in IFAD context, as revealed by internal consultations, were attributed to insufficient consultations with other development partners to define common areas of interest, constraints linked to approval processes of donors' budgetary allocations, a lack of flexibility and alignment with donor processes such as reporting requirements, inadequate communication and networking with international partners, and the absence of an assessment and monitoring framework for cofinancing partnerships.

Figure 4  
**Evolution of IFAD's top international partnerships**  
Millions of United States dollars



## II. Analysis of the drivers of cofinancing

13. Most studies on aid allocation rely on country-related macroeconomics variables and project-related variables to explain the drivers of cofinancing. In addition to these macroeconomic factors, this study considered explanatory variables under IFAD's direct control.

### A. Country-related variables

#### Income level variables

14. The results of a panel regression analysis regarding the effect of income on cofinancing are presented in table 1. The coefficients represent the size of the estimated effect of each variable. For example, being in the low-income country (LIC) category lowers a country's domestic cofinancing ratio by an estimated 29 per cent.

Table 1  
**Income variables**

Variables	Country factors			
	Domestic ratio		International ratio	
	Impact	Coefficient <sup>a</sup> (%)	Impact	Coefficient <sup>a</sup>
<b>Income effect</b>				
Gross national income per capita growth	+	2**	Not significant (NS)	(0.012)
LIC	-	(29)***	NS	0.02
Upper-middle-income country	+	34***	-	(0.35)*
GDP growth	-	(3)***	+	0.03**

<sup>a</sup> International ratio is specified in level form, hence the coefficients represent the absolute incremental value of the ratio. Domestic ratio is specified in a logarithmic form, hence the coefficients are in percentages.  
Note: (\*) indicates the statistical significance level of the coefficient (\*\*\* p<0.01, \*\* p<0.05, \* p<0.1).

#### Fragility

15. The regression analysis confirmed the assumption that fragility<sup>24</sup> is negatively correlated with domestic cofinancing, which was 30 per cent lower in countries with fragile situations than in countries without fragile situations. On the other hand, fragility appears to be positively correlated with international cofinancing, but this relationship is not significant. In addition, while international cofinancing is also positively correlated with the total number of people affected by natural disasters, this relationship is not statistically significant.
16. The data show that international cofinancing is significantly lower in countries experiencing conflicts or experiencing high exposure to natural disasters. This result points to the conclusion that fragility embeds both a risk and a humanitarian need that affects foreign aid allocation. While the humanitarian dimension has a positive effect on international cofinancing, fragility and its associated risks have a negative impact.

<sup>24</sup> As per the OECD Harmonized List of Fragile Situations.

Table 2  
**Fragility variables**

Variables	Country factors			
	Domestic ratio		International ratio	
	Impact	Coefficient (%)	Impact	Coefficient
<b>Fragility effect</b>				
Country with fragile situation	-	(30.4)***	NS	0.169
Country affected by natural disaster	+	3.12e-07**	NS	1.81e-09
Occurrence of natural disaster	+	2.30***	-	(0.0221)*
State conflict	NS	(0.105)	-	(0.287)**

Note: (\*) indicates the statistical significance level of the coefficient (\*\*\* p<0.01, \*\* p<0.05, \* p<0.1).

## B. Project-related factors

17. Findings on the effect of project size are presented below. The project size variable was included by clustering projects into small (total budget ≤ US\$18.8 million), medium (US\$18.8 million < total budget < US\$49.12 million) and large projects (total budget ≥ US\$49.12 million). This categorization is based on the following distribution:

Small project = total budget ≤ US\$18.8 million (25<sup>th</sup> percentile)

Medium project = US\$18.8 million < total budget < US\$49.12 million

Large project = total budget ≥ US\$49.12 million (75<sup>th</sup> percentile)

18. The analysis clearly shows that small projects tend to attract significantly less domestic cofinancing than larger ones.

Table 3  
**Selected project variables**

Variables	Project-related factors			
	Domestic ratio		International ratio	
	Impact	Coefficient (%)	Impact	Coefficient
<b>Project size</b>				
Small project size	-	(0.3)***	-	(0.22)**

Note: (\*) indicates the statistical significance level of the coefficient (\*\*\* p<0.01, \*\* p<0.05, \* p<0.1).

19. Regarding the link between project performance and cofinancing, the analysis shows that projects receiving a “satisfactory” rating (level 4) on overall achievement performance have higher cofinancing ratios on average. In addition, the disbursement rate was also found to have a strong positive correlation with the cofinancing ratio.

Figure 5  
Correlation between project performance and total cofinancing ratio

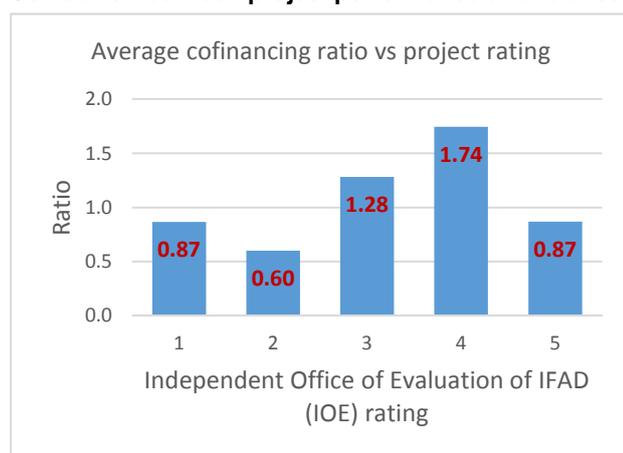


Table 4

Variable	Total cofinancing ratio
Disbursement (%)	0.0124*** (0.004)
Observations	62
R-squared	0.15

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

### C. IFAD-related factors

20. The data show that the higher the value of the portfolio managed by one country programme manager (CPM), the higher the domestic cofinancing. One way to interpret this is that IFAD's presence in a country is more relevant – and more in line with government's priorities – in these countries, so it is therefore more likely to attract domestic cofinancing. In addition, the more experienced the CPM in a country, the higher the domestic cofinancing ratio. In fact, with every additional year of experience acquired in a country, the domestic ratio increased by 4 per cent on average – a significant marginal effect.
21. The presence of IFAD Country Offices (ICOs) also appears to positively drive the cofinancing ratio, especially for international cofinancing.

Table 5

#### Selected IFAD-related variables

Variables	IFAD-related factors			
	Domestic ratio		International ratio	
	Impact	Coefficient (%)	Impact	Coefficient
<b>CPM profile</b>				
CPM experience	+	0.0378** (0.0246)	NS	(0.0128)
Number of projects managed	NS		+	0.0448*
Value of portfolio managed	+	1.14e-09**	-	(2.98e-09)***
ICO presence	NS	0.0903	+	0.242*

Note: (\*) indicates the statistical significance level of the coefficient (\*\* p<0.01, \*\* p<0.05, \* p<0.1).

### D. Drivers of cofinancing disbursed at completion

22. For 81 per cent of the projects analysed (106 out of 131), the total cofinancing amount disbursed at completion was different from the amount committed at approval. Among these projects, 56 per cent disbursed a total cofinancing lower

than the amount approved, while 44 per cent disbursed total cofinancing higher than the amount approved.

23. This section presents the results of the econometric analysis explaining variations in cofinancing amounts between approval and completion. The results show that the following considerations are critical to ensure that committed cofinancing is disbursed during projects:
- (i) Attention must be paid to country-specific characteristics.
24. Low-income countries may face more challenges in maintaining the initial development funds invested in IFAD-supported projects. In contrast, countries with fragile situations drive on average more financing at completion than that initially committed. Large countries and countries recording strong economic growth receive relatively few additional contributions from donors than those initially committed.

Table 6

**Effect of country-related factors on disbursed cofinancing**

Country factors		
Variables	Probability of increase	Probability of decrease
LIC (if LIC = 1, Otherwise = 0)	-2.14*	2.25**
	(1.17)	(1.08)
Democracy Index	-4.15	8.29**
	(3.88)	(3.77)
Country with most fragile situation	3.32**	-1.16
	(1.40)	(1.01)
Population density	-0.004*	0.004*
	(0.002)	(0.002)
GDP growth (%)	-0.35**	0.42**
	(0.17)	(0.17)
Government expenditure growth (%)	0.04	-0.08**
	(0.03)	(0.04)
East and Southern Africa region	3.41**	-4.35***
	(1.35)	(1.36)
Number of observations	129	129

Standard errors in parentheses.

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

- (ii) Most importantly, how well the projects are designed and implemented and how large they are matter.
25. Projects rated as highly satisfactory regarding their relevance, effectiveness, efficiency, innovation, scaling up and mainstreaming of cross-cutting issues such as gender, climate and environment create more favorable incentives for additional contributions from donors during the implementation. This is corroborated by the positive significant coefficient of the IOE performance rating variable in column 1 and the negative coefficient in column 2 of table 7 below. Large projects are less likely to disburse cofinancing at completion higher than that initially committed while projects with low environmental risks are more likely to drive additional contributions at completion. According to these findings, infrastructure projects tend to attract more cofinancing on average during implementation than others.

Table 7  
**Effect of project-related factors on disbursed cofinancing amount**

<b>Project factors</b>		
Variables	(1) Probability of increase	(2) Probability of decrease
Overall project achievement (rating)	1.37** (0.63)	-0.93* (0.55)
Share of project budget to infrastructure (%)	0.56* (0.33)	-0.63* (0.33)
Share of project budget to financial services (%)	-0.15 (0.14)	0.13 (0.14)
Share of project budget to "soft" activities (%)	-0.10 (0.33)	0.34 (0.36)
Small-size project	-0.27 (0.66)	0.64 (0.74)
Large-size project	-4.08*** (1.36)	4.53** (1.77)
Number of observations	129	129

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

## Methodology for cascading corporate cofinancing targets

1. The Eleventh Replenishment of IFAD's Resources (IFAD11) cofinancing target is a ratio of 1:1.4, with domestic and international ratios set at 1:0.8 and 1:0.6 respectively. In line with the IFAD11 Report,<sup>25</sup> the IFAD11 cofinancing target will be cascaded into regional targets according to the regional context and reflected in country strategic opportunities programmes (COSOPs). The methodology for accomplishing this has been shared with regional directors and endorsed by the Working Group on the Transition Framework.
2. This methodology builds upon the recognition of country-specific circumstances as reflected in historical performance, but also reflects IFAD's vision that all countries should make the utmost effort to provide domestic resources, commensurate with their income status.
3. It is understood that regional targets are not a new IFAD11 commitment, but a tool for internal accountability, and that the country-level targets are indicative. Ranges will be provided to guide the country directors' discussions when developing COSOPs.
4. Country targets to be cascaded into COSOPs will be set in consultation with the government and will take into account the nature of the projects proposed in the COSOP, the government's objectives and the country's fiscal situation.
5. Regional directors will be responsible for the achievement of regional targets, guided by the indicative country targets.
6. The methodology is based on the following three steps:
  - (i) Using the IFAD11 preliminary allocations by region and country, calculate the amount of domestic and international cofinancing as if the last three-year average ratio will be repeated. The resulting amount represents what would be leveraged if every country is able to maintain the ratio achieved in the last three years (i.e. 2015-2017).
  - (ii) Calculate the additional amount needed to reach the domestic and international targets for IFAD11.
  - (iii) Determine the additional amount needed in every region based on the proportion of their IFAD11 allocations as per the performance-based allocation system (PBAS). For example, if Latin America and the Caribbean has an allocation of 7 per cent, then it should be responsible for approximately 7 per cent of the needed increase in cofinancing.

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<sup>25</sup> The Report specifies that: "For IFAD11 specific counterpart funding targets will be agreed with governments during preparation of project concept notes, aiming towards the aggregate 1:0.8 domestic cofinancing target. Targets will be benchmarked by country income status, while taking the domestic fiscal situation and broader economic environment into account."

7. The regional targets are then cascaded into indicative country targets through the following steps:
  - (i) Start with any country's three-year average.
  - (ii) Assume that the increase needed by region will be absorbed in the following way:
    - (a) 90 per cent of the required increase will be absorbed by all countries;
    - (b) 10 per cent of the increase required will be absorbed:
      - For domestic cofinancing by the best performers, excluding countries with most fragile situations; and
      - For international cofinancing by the best performers.

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## Technical Note on In-kind Contributions

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Working Group on the Transition Framework — Second Meeting  
Rome, 28 June 2018

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For: Information

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## Abbreviations and acronyms

AWPB	Annual Work Plan and Budget
IFAD	International Fund for Agricultural Development
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
PIM	Project Implementation Manual

## Technical Note on In-kind Contributions

### Recommendation

1. The Working Group on the Transition Framework is invited to analyse and subsequently endorse the main elements of this document, as contained in paragraph 8. It is intended that the main elements be incorporated into the related strategy, which will be finalized later in the year.
2. In addition, the Working Group is asked to endorse the main concepts introduced in this document, which reflect in-kind contributions in the context of the cofinancing strategy and which address:
  - A broad definition of the elements defining in-kind contributions, including tax exemptions. This definition incorporates considerations found in that of the OECD, but also contains broader factors and elements.
  - The different implementation arrangements to reflect in-kind contributions during a project's life cycle – from design to the implementation and completion stages, including systems that will reflect the monitoring and reporting of the in-kind contribution.
  - The proposed approach to enhancing transparency and public access to information as to how in-kind contributions support project implementation and reflect the ownership of governments and implementing partners, to mobilize domestic resources, including beneficiaries and the private sector, through parallel cofinancing.
  - The mitigation actions considered to address risks related to in-kind contributions.

### I. Definitions

1. Borrower means a Member State that receives a loan and is designated as such in the financing agreement.
2. Entity means a project or programme that has been provided with financing by or through IFAD, by means of a loan and/or grant.
3. Eligible expenditure means project expenditures that may be financed under an IFAD-financed grant or loan pursuant to section 4.08 of the General Conditions for Agricultural Development Financing.
4. Financial engineering instruments refers to the fact that as part of an investment activity, the project may finance expenditure in respect of an operation comprising contributions to support financial engineering instruments for enterprises, primarily small and medium-sized, such as venture capital funds, guarantee funds and loan funds, and for guarantee or rural finance development funds.
5. In-kind domestic cofinancing or in-kind contribution is a non-cash contribution in the form of a good, work or service that provides support for both non-profit and for-profit organizations. It may consist either of the direct provision of a tangible asset to the project, or of an expenditure incurred directly by the contributor, benefiting the project and facilitating the meeting of its objectives. In-kind domestic cofinancing or contributions include: (i) goods; (ii) works; (iii) use of

services and facilities (for example, office space); (iv) professional services or expertise in the form of staff time; (v) provision of or access to equipment and special materials; and (vi) exemptions from tax that would otherwise need to be paid by the project in order to carry out its activities. In-kind contributions represent a stream and-or source of revenue, and although they are not monetary, they may represent a significant portion of the project's revenue.

6. Non-exchange transactions refer to the fact that an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without receiving approximately equal value in exchange.
7. Recipient means a Member State or other entity that receives a grant and is designated as such in the grant agreement.
8. Grant means a grant that is subject to the IFAD Policy for Grant Financing<sup>26</sup> and grants financed by supplementary funds,<sup>27</sup> as follows:
  - Type A grants, which are:
    - (i) Large grants (greater than and including US\$500,001 or equivalent);
    - (ii) Small grants (up to and including US\$500,000) that are assessed as medium- or high-risk, as determined by IFAD;<sup>28</sup>
    - (iii) EU-funded grants.
  - Type B grants, which are small grants (up to US\$500,000 or equivalent) that are assessed as low-risk, as determined by IFAD;
  - Type C grants, which are grants in any amount provided to United Nations agencies and multilateral development banks.

## II. Introduction and scope

9. Increasingly, IFAD-financed projects assemble financing from different sources, including counterparts, beneficiaries and implementing partners, and from supplementary funds.
10. Note that while eligible expenditures for IFAD financing need to be incurred and paid by the transfer of assets, usually in cash form, it is foreseen that other types of project financing may be made in non-cash form, including in-kind contributions. These are in fact eligible to be considered as part of the total value of a project. It may be considered that project value is underestimated without a full attribution of non-cash contributions by government, beneficiaries and other stakeholders.
11. Based on the above, it is fundamental that – when material and relevant – in-kind contributions to projects be reported, in addition to cash contributions. This is for various reasons, including:
  - (a) When factored into the project budget, in-kind contributions provide the real and effective cost of a project;
  - (b) In-kind contributions may be the only or main contribution that a Borrower/Recipient is able to make to a project;
  - (c) In-kind contributions demonstrate to donors that Borrowers/Recipients of IFAD financing are significant contributors to projects;

<sup>26</sup> As approved by the Executive Board at its 114<sup>th</sup> session of 22 and 23 April 2015. Although subject to the Policy, contribution agreements – including micro-grants (up to and including \$75,000 or equivalent) – are not subject to financial reporting and audit requirements.

<sup>27</sup> Any specific provisions required by the donor in relation to financial reporting and auditing are reflected in the grant agreement.

<sup>28</sup> Effective as of 1 January 2018, small grants assessed as either high- or medium-risk are considered Type A.

- (d) In-kind contributions will be included in the cofinancing ratio and will translate the real contribution of the Borrower/Recipient to the project, in addition to the contribution in cash.
12. Currently, in-kind contributions are not systematically recognized as part of the overall financing of IFAD-funded projects. This is for various reasons, including; (i) technical complexities in valuation and reliable measurement; (ii) the project and IFAD's historical lack of understanding of the importance of providing this data; (iii) uncertainty as to the effective implementation of this type of contributions; (iv) reluctance by auditors to provide their assurance as to amounts included in the financial statements; and (v) a lack of effective monitoring and reporting. Without reliable and timely reporting of these assets, it is not possible to fully ascertain a project's economic resources and activities, making financial statements imperfect and reporting of cofinancing incomplete.
  13. This technical note is applicable to directly supervised IFAD-funded projects and grants. Where supervision arrangements are in place with a cooperating institution (CI), IFAD will assess the CI's financial reporting and audit arrangements to ensure adequacy and alignment, to the extent feasible, with this technical note.

### III. Objectives

14. This technical note will allow IFAD to enhance its capabilities as an assembler of development finance. It provides clear guidance at the design, implementation and auditing stages of the life cycle of a project as to the recognition, measurement and reporting of in-kind contributions as part of domestic cofinancing. It will allow a systematic monitoring of in-kind contributions and enhance IFAD's ability to fully report on the mobilization of these resources.
15. The purpose of this technical note is to provide guidance on the definition of cofinancing in kind, the criteria for eligibility, and its recognition, measurement and reporting in the financial reporting of IFAD-financed projects and grants.
16. This technical note provides the guiding principles and methods to be applied in the recognition, measurement, reporting and disclosure of in-kind contributions. It is expected that these will be embedded in related procedures to be used as of IFAD11 onwards by the IFAD workforce, including both operational and financial staff and consultants involved in the design and supervision of projects. It will also be a source for the provision of advice to projects and ministries in setting up accounting systems, manuals and financial reporting, as well as for auditors in performing their work. It is vital that the importance of systematically monitoring and reporting in-kind contributions be highlighted at the earliest stage in the project cycle, in particular so as to be included in cost tabs, negotiations and accounting systems and manuals, and auditors' terms of reference. It is expected that there will be individual cases where further consultation as to the method of valuation and reporting may be required. In such cases, methods of recognition, measurement and reporting should be agreed with the financial management focal point of the project (Financial Management Services Division).

### IV. Recognition of in-kind domestic cofinancing

17. The contribution by an individual, unit or organization, of a service or product to an IFAD-funded project free of charge, is classified as in-kind contribution. All in-kind costs must be eligible, actual, evidenced and essential to the delivery of the project.
18. An in-kind contribution may be considered as incurred expenditure by government, beneficiaries or other implementing partners for the implementation of operations, under the conditions outlined below:
  - (a) The eligibility rules must be drawn up on the basis of the agreed AWPB and the project's costs;

- (b) The amount of expenditure must be material, relevant and duly justified by supporting documents having equivalent probative value to invoices, without prejudice to provisions set out in specific national regulations;
  - (c) In the case of in-kind contributions, the cofinancing from the contributor must not significantly exceed the total eligible expenditure planned for the project, when excluding the value of such contributions.
- 19. All in-kind contributions are recognized as assets and revenue when it is probable that the future economic benefits or potential service will flow to the entity and the fair value of the assets can be measured reliably.
- 20. Goods in-kind are assets transferred to or used by an entity in a non-exchange transaction, without charge, but may be subject to stipulations. Examples may include:
  - (a) Tangible goods;
  - (b) Use of services and facilities;
  - (c) Provision of or access to equipment; and
  - (d) Special materials.
- 21. Where "goods in-kind" are received or there is a binding arrangement to receive the goods without any condition, revenue is recognized simultaneously with asset recognition.
- 22. Conditions attached to the goods do not affect the asset price, since market participants would not normally consider these conditions.
- 23. "Services in-kind" are services provided by individuals and institutions to public-sector entities in a non-exchange transaction. Examples may include:
  - (a) Professional services provided by a third party who holds a recognized and relevant professional qualification;
  - (b) Expertise in the form of staff dedicated to the project by the borrower; and
  - (c) Tax exemptions.
- 24. Considering the nature of the assets related to services in kind, and the fact that they are immediately consumed, a transaction of equal value should be recognized in order to reflect the consumption of these services in kind.
- 25. An entity shall recognize a tax exemption as an in-kind contribution when the taxable event occurs and the asset recognition criteria are met. The reporting entity analyses the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied. For example:
  - (a) The taxable event for value added tax is the purchase or sale of taxable goods and services during the taxation period;
  - (b) The taxable event for customs duty is the movement of goods or services subject to duty across the customs boundary.
- 26. When a government provides an entity with the benefit of tax exemption or covers the taxes related to the purchase of goods, works and services, the amount related to the exempted taxes should be considered as the government's in-kind contribution.
- 27. Exclusions: When activities do not address the specific objectives of a project, they should not be considered as in-kind contributions. These activities may include:

- (a) Passive attendance at training courses, meetings, seminars and the like (which is to say, attendance with no input, as a member of the audience or group);
  - (b) Provision of pre-existing data/expertise/knowledge/tools (i.e. not generated over the duration of the project) that are publicly available free of charge; and
  - (c) Provision of all possible in-kind contributions items. If these are already paid, and the payment documents can be presented, provided that the purchase date is within the project duration. (As such, these items are then treated as cash cofinancing).
28. An in-kind contribution in respect of financial engineering instruments should be treated as expenditure paid at the time of the constitution of the fund(s), in those cases in which all of the criteria listed in (a), (b) and (c) below are met:
- (a) They consist in the provision of land or real estate, equipment or materials; research or professional activity or unpaid voluntary work (including unpaid professional services);
  - (b) Their value can be independently assessed and audited;
  - (c) In the case of the provision of land or real estate, the value is certified by an independent qualified valuer or duly authorized official body;
  - (d) In the case of unpaid voluntary work, the value of the work is determined taking into account the amount of time spent and the normal and reasonable hourly and daily rate for the work carried out.
29. Discounted sales of equipment and the discounted provision of services or advice (e.g. solicitors, accountants' or small and medium-sized enterprises staff time) are ineligible.

## V. Measurement of in-kind domestic cofinancing

30. In-kind contributions should be recognized at fair market value. "Fair market value" is defined as the agreed-upon price in an open and unrestricted market between knowledgeable and willing parties who are dealing at arm's length and who are fully informed. The fair market value is the price an entity would be expected to pay in such circumstances, after normal and educational discounts.
31. Tax exemptions should be recognized at their market value, which is equal to the gross amount of taxes corresponding to the goods or services purchased.
32. Legal restrictions fall into one of two categories – those that affect the entity, and those that affect the asset. Legal restrictions that affect the entity – such as a limitation prohibiting the sale of the goods – do not impact the underlying assets' fair value, because a hypothetical buyer would not consider them in a purchase decision. On the other hand, legal restrictions that limit the sale of contributions in kind to certain markets may affect the assets' fair value. For example, government vehicles put at the disposal of the project for the limited time of the project's implementation will limit the use of the vehicles, and this would be taken into consideration by a hypothetical buyer, thus potentially affecting their value. Projects should consider any legal restrictions that affect the asset when making fair value determinations.
33. In all cases, it is fundamental that the basis of measurement be determined in advance of recording and reporting, as it will be subject to external audit. Advance consultation may be made with the auditors, where relevant, or advice sought from IFAD, in order to facilitate a smooth audit process. Elements of valuation are contained in annex I.

## VI. Reporting and disclosure of in-kind domestic cofinancing

34. It is the ultimate responsibility of the project to ensure that the reported fair market value for all items involving an in-kind contribution be reasonable and correctly and fully disclosed in its financial statements.
35. The Project Implementation Manual (PIM) shall include clear guidelines that describe the accounting principles and methods used, to ensure that the value of in-kind cofinancing is accurately and timely stated. The basis and method of evaluating in-kind contributions shall be compliant with internationally recognized accounting standards and should be disclosed in the project's audited financial statements. It should be noted that in the event that national standards are used, the auditors will need to ensure the appropriateness of such treatment, in line with the underlying basis of accounting used in the project's financial statements.
36. An entity is encouraged to develop detailed and transparent valuation policies. An entity should seek valuation methodologies that exercise reasoned judgment in their interpretation of the "fair value" concept and their selection of source data when determining values. All relevant supporting documents that certify the value of in-kind contributions should be prepared by the project team and filed, in order to provide a clear audit trail.
37. The amount of the in-kind contribution should be reported according to the accounting principles agreed upon by the cofinanciers in the legal agreement or by-laws of the country. These principles may rely on the cost actually incurred by the contributor, or on standard cost equivalents defined, in order to ensure fairness among partners.
38. Drawing on the underlying principles in IPSAS accrual basis and IFRS, an entity shall disclose the following in the general purpose financial statements, either on their face or in the respective notes:
  - (a) The amount of in-kind contributions or revenue from non-exchange transactions recognized during the period, by major classes, with taxes and transfers shown separately;
  - (b) The amount of receivables recognized in respect of non-exchange revenue;
  - (c) The amount of assets recognized that are subject to restrictions, and the nature of those restrictions.
39. An entity shall disclose the following in the notes to the financial statements:
  - (a) The accounting policies adopted for the recognition of in-kind contributions or revenue from non-exchange transactions;
  - (b) For major classes of in-kind contributions or revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;
  - (c) For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and
  - (d) The nature and major classes of in-kind contributions received by the entity related to the funded project.
40. If the entity applies the IPSAS cash basis, all the information mentioned in paragraphs 30 and 31 and related to in-kind domestic cofinancing should be disclosed in the notes to the financial statements.

## VII. Risks related to in-kind domestic cofinancing

41. At design level and during the project's implementation, the finance officer, in collaboration with the project team, should regularly assess the related risk in order to monitor the timely and correct allocation of in-kind contributions.
42. Several typologies of risks can affect the recording and reporting of the in-kind contribution and its role in enhancing the project's performance, such as: risks related to the environment; scientific and technical risks; risks concerning manufacturing; and human and organizational risks. Annex IV of this document includes some guidance regarding the types of risks to be considered and monitored during the project life cycle.

## Elements of valuation of in-kind domestic cofinancing

In-kind contribution category	Eligible elements in fair value calculation	Non-eligible elements in fair value calculation
Use of land	If the contribution of land is within the project implementation period and is sufficient to fully reach the planned results and impact, the full price of the land plot may be shown, supported by official document or data with evidence of the price (Land Registration Certificate; Department of Statistics or other official institutional document).	If the use of land is not exclusive to the project, only that part dedicated to the project should be reflected in the cost used to value the contribution.
	If the contribution of the land is only for the duration of the project, use the official rent price per month, multiplied by the number of months. Price calculation should be supported by official documents and/or rental agreement, or evidence of actual use by the project or other similar documentation.	
Use of vehicles	Average cost per month or day at the official rent; price specific for that locality, multiplied by the number of days/months used,	
	Amortization of the vehicle is calculated as follows: <ul style="list-style-type: none"> <li>• subtract the fuel cost per km from the UN/national official rate used for private travel in that country per km;</li> <li>• multiply the number by the approximate number of km to be driven during the project.</li> </ul> <p>If fuel is also shown as in-kind, use the full cost at the UN official/national rate for private travel per km, multiplied by the total distance driven during the project.</p>	
Equipment, materials and supplies (for example, computer and electronic communications, plant and machinery)	If the contribution is with used equipment, materials and supplies, they are to be valued at: <ul style="list-style-type: none"> <li>• fair market value;</li> <li>• Institution book value.</li> </ul>	Equipment, material and supplies at list price or discounted list price
	If the contribution is with new equipment, materials and supplies, they are to be valued at: <ul style="list-style-type: none"> <li>• the selling price to most-favoured customers (if stock item);</li> <li>• cost of manufacture (if one-of-a-kind).</li> </ul>	Rental equivalents exceeding accepted values had the equipment been donated or sold
	If with loaned equipment, material and supplies, valuation is to be based on: <ul style="list-style-type: none"> <li>• rental equivalent based on depreciation;</li> <li>• rental equivalent at highest-volume rate.</li> </ul>	Development costs
	If the use is partial, straight-line depreciation of the full cost of the asset for the duration of project	
Use of buildings, meeting rooms, spaces or facilities	Donated meeting rooms, space or facilities for which a rental fee is usually charged. The space used should be specifically related to and necessary for the project.	

Goods in kind  
Fixed Assets

In-kind contribution category	Eligible elements in fair value calculation	Non-eligible elements in fair value calculation	
Goods in kind Intangible Goods	Use of software, new technologies and databases	Development costs of new software and new technologies that go beyond the scope of the project	
	Dissemination of results	Market price of asset/software for project duration	Cost of purchasing licences needed for the project, if not already provided by the institution
	Travel and subsistence costs	Development cost of new technologies related to the project	Costs to cover conference fees, travel, hotels, food, etc., to attend events, meetings, etc. that are unrelated to issues or topics related to the project.
	Reasonable out-of-pocket travel and subsistence expenses for work that is directly devoted to the funded project.	Cost depreciated over the duration of project	Use of air miles points to pay for travel and subsistence. Reasonable conference travel costs related to the funded project. Conference registration fees, or a proportion of these fees if only part of the conference focuses on issues or topics related to the project.
	Use of air miles points to pay for travel and subsistence. Reasonable conference travel costs related to the funded project. Conference registration fees, or a proportion of these fees if only part of the conference focuses on issues or topics related to the project.	Reasonable out-of-pocket travel and subsistence expenses for work that is directly devoted to the funded project.	Costs to cover conference fees, travel, hotels, food, etc., to attend events, meetings, etc. that are unrelated to issues or topics related to the project.

In-kind contribution category	Eligible elements in fair value calculation	Non-eligible elements fair value calculation
Services in-kind	Employees' salaries	<p>Actual portion of salary cost of the staff assigned to fulfil duties specifically related to and necessary for the project.</p> <p>Salaries and expenses of management activities not directly related to the project.</p> <p>Payments to the project director, co-applicants and/or collaborators as consulting fees (additional to basic salary).</p> <p>Salary and expenses for administrative support staff.</p>
	Labour such as professionals, experts, volunteers, workforce from the beneficiaries	<p>Fees for consulting and/or technical expertise directly related to the funded project at daily market rates in the country or area, calculated per day or per month, for example, number of days x market value per day</p> <p>Fees not related to the project</p>
	Partner remuneration	<p>Salary and benefits of partner institution employees (not those of the host institution) when they undertake activities related directly to the project</p> <p>Overhead based on the salary and benefits of partner institution employees.</p>
	Faculty remuneration	<p>Actual costs to the institution for release time from teaching duties (for example, the cost of hiring a sessional instructor for course release may be counted).</p> <p>Payments to the project director, co-applicants and/or collaborators as consulting fees (additional to basic salary).</p>
	Tax exemption	Total of taxation and tariff obligations forgiven.

## Example of in-kind domestic cofinancing at the design phase

1. During the design of the Resilient Land and Resource Management Project (RELAP) in West Bank and Gaza, the economist had developed ten models to represent the planned activities, organized under three main types of interventions: (i) resilient land development activities for orchards (four models); (ii) other resilient land development models: wadis, rangeland and integrated livestock system; and (iii) activities financed via grants: sheep breeding, bee-keeping and mushroom cultivation.
2. The models show that the total labour contributed by beneficiaries and valued at US\$14 per day (local wage) is worth US\$10.7 million (or 26 per cent of total project costs). If only the additional work required to implement IFAD's proposed activities is considered, then this represents 11 per cent of total project costs (as per table 1).

Table 1

### RELAP EFA tables quantifying family labour

	PY1	PY2	PY3	PY4	PY5	PY6
<b>Total family labour (USD)</b>	-	705 514	1 695 271	2 490 888	2 911 959	2 922 956
<b>Incremental family labour (USD)</b>	- 1 020 307	- 314 793	674 964	1 470 581	1 891 652	1 902 649
<b>Project costs (USD)</b>						
Component 1	17 684	5 361 441	7 048 265	6 980 524	5 068 841	194 275
Component 2	208 724	3 140 185	4 370 591	1 487 538	151 429	3 308
Component 3	719 390	976 269	616 247	462 332	332 305	244 655
D. Project Management	751 858	590 890	624 025	598 236	608 628	815 057
<b>Total costs (USD)</b>	1 697 655.57	10 068 785.20	12 659 127.46	9 528 630.08	6 161 202.95	1 257 295.00
(A) Total Family Labour over project years used	10 726 587		family labour per/day	60	NIS	
(C) Total incremental family labour	4 604 746		family labour per/day	14.2	USD	
(B) Total project cost USD	41 372 696					
A/B	26%					
C/B	11%					

3. These estimates could also be presented by type of activity, showing which intervention will require greater contribution from the beneficiaries.
4. On the other hand, government's contributions in terms of provision of services and facilities – such as the use of office space, provision of vehicles and seconded staff as well as tax exemption – should also be considered and quantified as in-kind contribution.
5. In the case of RELAP, the total government in-kind contribution was estimated at 16 per cent of total project costs.
6. This means that the total in-kind domestic contribution accounted for almost 27 per cent of total project costs, based on the conservative (incremental) estimate for the contribution from the beneficiaries of 11 per cent of total project costs, plus the 15 per cent from the government. Both contributions were presented in the Costab as reflected in table 2 below.

Table 2: Resilient Land and Resource Management Project (RELAP): Costab by components and financiers (US\$ '000)

	The Government in kind		The Government in cash		IFAD GRANT		OFID		GCF		Other entities		Beneficiaries in kind		Beneficiaries in cash		Village council		Total		
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount		
<b>Climate resilient land development</b>																					
1. Climate adapted land development approaches	110	15.2	-	-	223	30.7	60	8.2	60	8.2	273	37.6	981	0.6	-	-	-	-	-	-	1 708
2. Resilient land development	3 389	16.0	646	3.1	1 160	5.5	845	4.0	8 810	41.6	2 106	9.9	3 619	17.1	604	2.9	-	-	-	-	21 179
3. Investment in agricultural roads	443	16.0	-	-	66	2.4	-	-	-	-	-	-	-	-	-	-	240	8.7	-	-	2 766
<b>Subtotal</b>	<b>3 941</b>	<b>16.0</b>	<b>646</b>	<b>2.6</b>	<b>1 449</b>	<b>5.9</b>	<b>905</b>	<b>3.7</b>	<b>8 869</b>	<b>36.0</b>	<b>4 396</b>	<b>17.8</b>	<b>3 619</b>	<b>14.7</b>	<b>604</b>	<b>2.4</b>	<b>240</b>	<b>1.0</b>	<b>-</b>	<b>-</b>	<b>24 671</b>
<b>Market linkages for the rural poor</b>																					
1. Rural bulking of agricultural products	682	16.0	-	-	1 269	29.8	-	-	-	-	2 312	54.2	-	-	-	-	-	-	-	-	4 263
2. Inclusive entrepreneurship development support	95	1.9	-	-	103	2.0	-	-	3 032	59.5	1 193	23.4	-	-	676	13.3	-	-	-	-	5 098
<b>Subtotal</b>	<b>777</b>	<b>8.3</b>	<b>-</b>	<b>-</b>	<b>1 373</b>	<b>14.7</b>	<b>-</b>	<b>-</b>	<b>3 032</b>	<b>32.4</b>	<b>3 504</b>	<b>37.4</b>	<b>-</b>	<b>-</b>	<b>676</b>	<b>7.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9 362</b>
Public services for upscaling resilient agricultural land use	351	10.5	-	-	-	-	-	-	3 000	89.5	-	-	-	-	-	-	-	-	-	-	3 351
Project Management	1 483	37.2	520	13.0	1 744	43.7	44	1.1	99	2.5	99	2.5	-	-	-	-	-	-	-	-	3 989
<b>Total PROJECT COSTS</b>	<b>6 552</b>	<b>15.8</b>	<b>1 166</b>	<b>2.8</b>	<b>4 566</b>	<b>11.0</b>	<b>950</b>	<b>2.3</b>	<b>15 000</b>	<b>36.3</b>	<b>8 000</b>	<b>19.3</b>	<b>4 600</b>	<b>11%</b>	<b>1 280</b>	<b>3.1</b>	<b>240</b>	<b>0.6</b>	<b>-</b>	<b>-</b>	<b>41 373</b>
Government in kind contribution net of taxes	1 273																				
Government in kind contribution % of the total cost	3.1%																				

## Example of in-kind domestic cofinancing in financial reporting

1. In-kind domestic cofinancing could be reported in the face of financial statements.
  - According to the International Public Sector Accounting Standards (IPSAS) cash basis, the in-kind contribution will be reported in the notes to the financial statements. The additional disclosures encouraged<sup>29</sup> provide an example of disclosure in paragraphs 2.1.90(f) and 2.1.91.
  - According to the IPSAS accrual basis and IFRS, the in-kind contribution should be reported in the financial statements as assets (in the balance sheet statement) and non-cash income (in the profit and loss statement). Additional detailed information related to the accounting policies for in-kind contribution should be provided in the notes to the financial statements.
2. The notes to the financial statements of the Small Irrigation and Market Access Development Project in the Nippes and Goavienne Region financed by IFAD in Haiti show this reporting of in-kind domestic cofinancing:
 

“The Government of Haiti’s in-kind contribution was identified and assessed as follows:

  - The licence rights to use the financial and accounting software provided by the Ministry of Agriculture; the net value at the date of transfer of the right of use of the licence to the project was considered at fair market value. The annual amortization of the net value over the number of years of the project was considered to be annual in-kind contribution.
  - The use of the Ministry’s offices devoted full time to the project’s implementation team;
  - The use of office and IT equipment provided by the Ministry of Agriculture; the net value at the date of transfer of the right of use of equipment to the project was considered at fair market value. The annual amortization of the net value over the number of years of the project was considered to be annual in-kind contribution.
  - The vehicles and equipment (cars and motorcycles used by the supervisors);
  - The contribution in taxes: This contribution amounts to the total of tax exemptions granted to the project on the purchase of three vehicles and three motorcycles.
  - The salary of staff dedicated part-time to the project: The use of timesheets to determine the actual time devoted to the project, considering total gross regular salary (without bonuses).

The table below summarized the cumulative in-kind contribution of the Government of Haiti for the period from 2015 to 2018: ”

Description	Amount in United States dollars
Licence for accounting and financial software	36 492
Office space	9 655
Office and IT equipment	15 700
Vehicles and equipment	50 355
Salaries of part-time staff	17 127
Tax exemptions	102 877
<b>Total</b>	<b>232 206</b>

<sup>29</sup> IPSAS: *Financial Reporting under the Cash Basis of Accounting*; Appendix additional Disclosure; November 2017  
<https://www.iaasb.org/system/files/publications/files/Cash-Basis-IPSAS-2017.pdf>

## Examples of risks related to in-kind domestic cofinancing

Category of risk	Description
Human and organizational risks	<ul style="list-style-type: none"> <li>• Lack of experience and/or understanding on the part of the project manager and staff</li> <li>• High turnover of project manager and staff</li> <li>• Project team is unaware of codes, or regulations and lacks experience in quality assurance issues</li> <li>• Inadequate, weak or inconsistent procedures for internal controls</li> <li>• Missing or incomplete reporting to IFAD and auditors</li> <li>• Human conflict or poor negotiations with the contributors</li> <li>• Decision-making by the project team and steering committee takes too long</li> <li>• Dissemination of false or inaccurate information</li> <li>• Lack of transparency</li> </ul>
Project execution risks	<ul style="list-style-type: none"> <li>• Inadequate choice for a contribution/contributor</li> <li>• Unexpected withdrawal of the contributor from the project</li> <li>• Contributors' lack of motivation or reluctance to accept project alterations</li> <li>• Underestimation of the workload or contribution required to fulfil project requirements</li> <li>• Low level of the quality assurance systems, including those of a technical, accounting and reporting nature</li> <li>• Languages and cultural barriers that affect understanding of requirements</li> <li>• Legal issues and conflicts</li> </ul>
Technical risks	<ul style="list-style-type: none"> <li>• Project requirements are not clearly expressed or communicated</li> <li>• Missing or incomplete specifications</li> <li>• Difficulty in implementing due to procedural complications</li> <li>• Components and products that are not viable</li> <li>• Qualifications, official documentations, and required permissions are outdated or unsuitable</li> </ul>
Environmental risks	<ul style="list-style-type: none"> <li>• Instability of project requirements</li> <li>• Difficulties in partnerships and collaborations</li> <li>• Delays in procurement procedures</li> <li>• Regulatory changes, for example safety and environmental</li> <li>• Administrative and technical errors</li> <li>• Project acceptance by the social and human environment</li> <li>• Risk of incidents of a natural or political nature</li> </ul>

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## Revised Guidelines and Procedures for Results-based Country Strategic Opportunities Programmes

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For: Review

## Abbreviations and acronyms

ACP	agreement at completion point
AVP	Associate Vice-President
CCR	COSOP completion review
CLPE	country-level policy engagement
COSOP	country strategic opportunities programme
CRR	COSOP results review
CSN	country strategy note
CSPE	Country Strategy and Programme Evaluation
DSF	Debt Sustainability Framework
FIPS	Faster Implementation of Project Start-up
ICO	IFAD Country Office
IOE	Independent Office of Evaluation of IFAD
IMF	International Monetary Fund
IVI	IFAD vulnerability index
MFS	(countries with the) most fragile situations
NDC	Nationally determined contribution
OSC	Operational Strategy and Policy Guidance Committee
PAD	portfolio performance and disbursement
PBAS	performance-based allocation system
PIF	project identification form
PMD	Programme Management Department
RBA	Rome-based agency
RSPA	rural sector performance assessment
RTA	reimbursable technical assistance
SDG	Sustainable Development Goal
SECAP	Social, Environmental and Climate Assessment Procedures
SSTC	South-South and Triangular Cooperation
UMIC	upper-middle-income country
UNDAF	United Nations Development Assistance Framework

## Executive summary

1. The revised guidelines and procedures for results-based country strategic opportunities programmes (COSOPs) are a commitment prescribed in the Eleventh Replenishment of IFAD's Resources (IFAD11) that will "update IFAD's procedures for country strategies to reflect the IFAD11 commitments, ensuring that they become long-term transition strategies, and include provisions for joint country strategies with Rome-based agencies and other partners, and share with Members through the Executive Board or informal seminars". COSOPs will reflect this new content to ensure that they are aligned with IFAD's strategic objectives and the commitments made for IFAD11.

2. This document reflects the following IFAD11 commitments related to COSOPs:

### COSOPs as transition strategies

- COSOPs will include an analysis of transition and serve as transition strategies.
- They will serve to selectively identify the most strategic partners for leveraging finance and enhancing policy engagement, and the most effective modes of collaboration to achieve country goals.
- Cofinancing targets will be cascaded into regional and country-level targets to be agreed upon in the context of country strategies and based on national development strategies and priorities.

### Alignment with the Sustainable Development Goals, United Nations organizations and partners

- COSOP strategic objectives will be aligned with the Sustainable Development Goals, United Nations Development Assistance Framework and country development objectives.
- COSOPs will include a narrative on South-South and Triangular Cooperation to be included in an annex and incorporated into the main text.

### Tools to assess fragility

- COSOPs will serve as the primary tools for analysing fragility and will include fragility assessments for countries with the most fragile situations and other states upon selection.

### Transparency, communication and citizen engagement

- COSOPs will address issues of transparency and all new COSOPs will incorporate communications and visibility, as well as report on citizen engagement in COSOP planning.

### Mainstreaming themes

- Within IFAD's Social, Environmental and Climate Assessment Procedures, all COSOPs will include analyses of nationally determined contribution targets and commitments to understand how IFAD's programmes can contribute to achieving them.

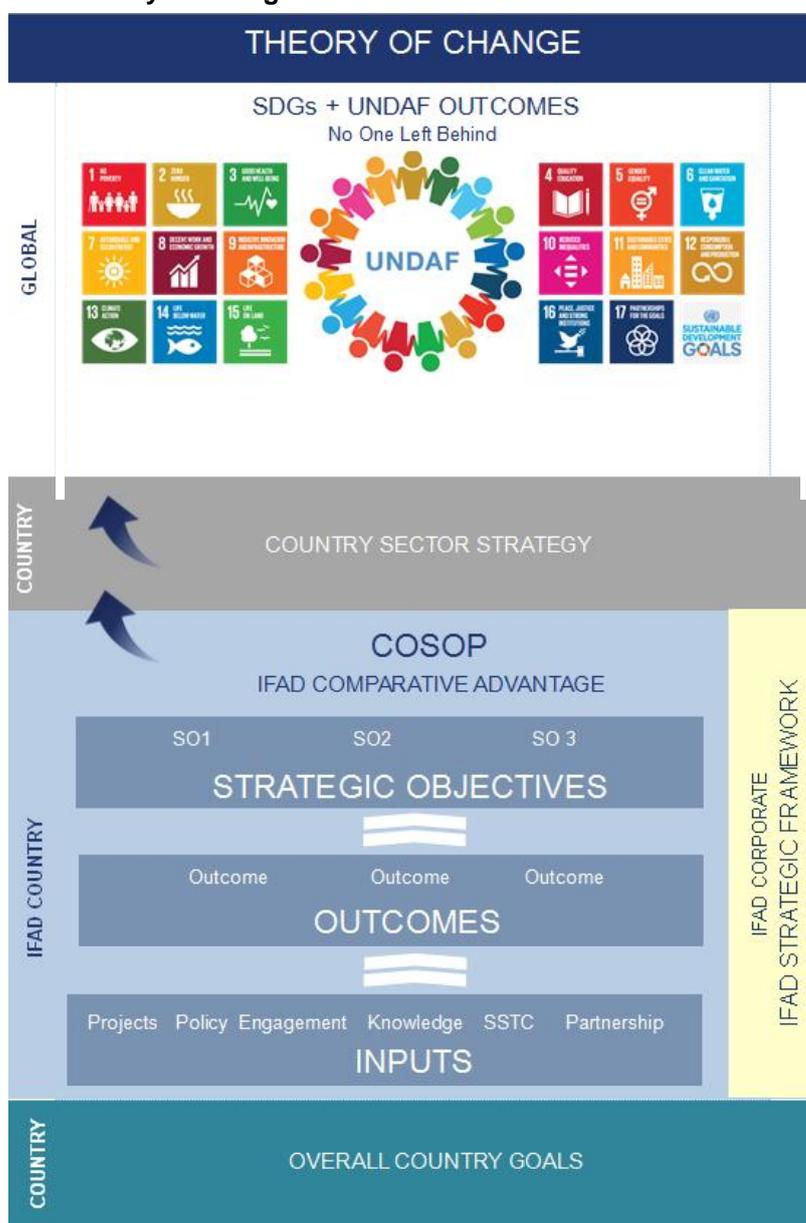
3. The timeline for implementing the new procedures is 1 January 2019.

# Revised Guidelines and Procedures for Results-based Country Strategic Opportunities Programmes

## I. Introduction

- Country strategies provide a framework for IFAD's engagement in inclusive and sustainable rural transformation at the country level. The outcomes of IFAD's engagement not only include country-level goals but contribute to the 2030 Agenda for Sustainable Development and IFAD's overarching mandate of achieving the Sustainable Development Goals (SDGs). Strategic objectives are defined based on each country's goals and visions, and IFAD's own mandate and comparative advantage. To achieve these strategic objectives, a comprehensive package of interventions is outlined in country strategies along with expected results and potential risks (see theory of change in figure 1).

Figure 1  
IFAD theory of change



2. Operational procedures related to country strategies have been updated<sup>1</sup> to reflect commitments made during the Eleventh Replenishment of IFAD's Resources (IFAD11). Key among these commitments is an understanding that COSOPs should become full-fledged transition strategies with medium-term scenarios and programmatic tools, offering a tailored plan of support for countries' development transformation and growth. Table 1 provides a comparison of requirements for COSOPs and country strategy notes (CSNs). These procedures become effective on 1 January 2019 and supersede the current procedures, which came into effect in August 2016. They apply to COSOPs with design plans and draft CSNs approved by regional directors after 31 December 2018.

Table 1  
**Comparison of requirements for COSOPs and CSNs**

<i>Requirement</i>	<i>COSOPs</i>	<i>CSNs</i>
Maximum length (words)	5,500	2,000
Duration	Up to 6 years	2 years
Design plan	✓	X
Results framework	✓	X
Results review*	✓	X
Completion review	✓	X
Review and disclosure mechanisms	Reviewed by the Executive Board Disclosed on IFAD website	Disclosed on IFAD website
Duration extension	Possible for 3 years	Possible for 12 months
Transition scenarios	✓	X
Fragility assessment (for countries with the most fragile situations [MFS])	✓	✓
Social, Environmental and Climate Assessment Procedures (SECAP) background study	✓	X
Nutrition	✓	✓
Gender	✓	✓
Youth	✓	✓
Indigenous peoples	✓	✓
Persons with disabilities	✓	✓
Climate (nationally determined contribution [NDC] analysis)	✓	✓
Strategic partnerships	✓	✓
Cofinancing targets	✓	✓ (where applicable)
Policy engagement	✓	✓
South-South and Triangular Cooperation (SSTC)	✓	X

\* If the COSOP duration is three years, a results review should be undertaken every year and a half; if the duration is four years, a results review should be undertaken every two years. If the duration is five years, a results review should be undertaken every two and a half years.

<sup>1</sup> These procedures include processes and guidelines for the preparation and implementation of IFAD country strategies. Earlier procedures referred to results-based country strategic opportunities programmes (COSOPs); however, a results focus is now embedded in the COSOP design.

## II. Basic principles underlying country strategies

3. For all countries with an active or proposed IFAD programme, a country strategy is prepared either in the form of a COSOP or a CSN.<sup>2</sup> The type of strategy depends on country characteristics, which determine the length of the period of engagement. COSOPs usually cover a period of six years, although they can be longer or shorter to align with country policies or the country's United Nations Development Assistance Framework (UNDAF). CSNs are shorter term, covering up to two years. Regardless of the type, there are basic principles that underlie all country strategies. These include mainstreaming key challenges and preparing a tailored package of project and non-lending interventions. There should be an active country strategy in place early in the IFAD11 period to ensure countries' eligibility for allocations through the performance-based allocation system (PBAS).
4. Mainstreaming key challenges. Meeting the SDGs will require special efforts to mainstream critical challenges into country strategies. These challenges vary according to country. In order to prioritize these challenges, each COSOP will contain a SECAP background study to determine mainstreaming interventions, which may include: better nutrition; gender equality and women's empowerment; productive employment for young rural people; indigenous populations (where applicable); and investments in mitigating and adapting to climate change – a reflection of countries' intended NDCs and IFAD's support will be included in all COSOPs. IFAD's targeting strategy is designed to reach the intended target group and mainstream any remaining challenges. For countries on the list of most fragile states, IFAD will assess the impact of fragility (defined as vulnerability to natural and man-made shocks, and weak governance structures) on IFAD's activities.<sup>3</sup> The IFAD Vulnerability Index (IVI) score for the country will be analysed and measures to offset or mitigate this fragility – particularly in the areas covered by the IVI – will be incorporated into the country strategy.
5. Different needs, adapted responses. Each of IFAD's borrowers is eligible for the Fund's services aimed at eradicating poverty and eliminating hunger. However, given the wide variety of country needs and conditions, country strategies must tailor support packages to meet diverse country needs. As part of IFAD's commitment to enhance its relevance in different country contexts, a coherent package of products has been developed, including: investment projects (funded by loans and grants); regional and country grants; policy engagement; strategic partnerships; knowledge products; reimbursable technical assistance (RTA); SSTC; institutional support; and capacity-building. The piloting of regional operations can support country programmes in addressing cross-border development challenges (e.g. in small states). Results-based lending pilots can help governments to advance sectoral reforms that improve the lives of smallholders. Box 1 below provides examples of different country contexts.

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<sup>2</sup> In addition to the fit-for-purpose document on Planned Global, Regional and Country Activities, IFAD will take further steps to communicate the COSOP pipeline to all Members through disclosure on IFAD's website.

<sup>3</sup> Efforts are under way to align the MFS list with the harmonized list being used by other multilateral development banks. Note that a fragility assessment may also be undertaken for countries where pockets of fragility can impact the effectiveness of IFAD's strategy and operations.

## Box 1

**Enhancing IFAD's relevance in different country contexts**

	LICs and LMICS	MFS	SIDS	UMICs
<b>Resources</b>				
Indicative PBAS share of core resources	90 per cent	25-30 per cent	Increased minimum allocation	10 per cent
Resource terms	Debt Sustainability Framework (DSF) grants; highly concessional or blend terms; and concessional partner loans enable leveraging for highly concessional lending	PBAS fragility sensitive allocation capped if absorption issues	Explore options for regional operations	Mainly ordinary terms; Main recipients of borrowed resources; targeting pockets of poverty and vulnerability
Cofinancing	Focus on limited domestic cofinancing and boosting international cofinancing	Focus on limited domestic cofinancing and boosting international cofinancing; Increasing mobilization of supplementary funds	Pool funding with partners; Increasing mobilization of supplementary funds to address specific challenges	Focus on unleashing domestic cofinancing (e.g. government, private) and assisting in coordinating international assistance for agriculture
<b>Examples of tailored packages</b>				
	<ul style="list-style-type: none"> <li>Greater project preparation e.g. start-up</li> <li>SSTC</li> <li>Partnerships to leverage cofinancing and scale up impact</li> <li>Capacity-building for weak institutions</li> <li>Simple design</li> <li>Focus on domestic food security</li> <li>No sophisticated value chain</li> <li>Coastal community development</li> </ul>	<ul style="list-style-type: none"> <li>Projects focus on capacity-building, resilience, root causes, vulnerable groups</li> <li>Strategic partnerships with Rome-based agencies (RBAs), United Nations country teams and civil society organizations</li> <li>Greater project preparation e.g. start-up</li> </ul>	<ul style="list-style-type: none"> <li>Support implementation of SIDS Accelerated Modalities of Action pathway</li> <li>Focus on climate resilience and market access</li> </ul>	<ul style="list-style-type: none"> <li>Non-lending component to country programme</li> <li>SSTC as provider</li> <li>RTA</li> <li>Innovation and government-led scaling up</li> <li>Partnerships to increase quality of knowledge solutions</li> <li>Policy engagement</li> <li>Pilot results-based lending</li> </ul>

Note: LICs = low-income countries; LMICs = lower-middle-income countries; SIDS = small island developing states; UMICs = upper-middle-income countries.

- Country-level policy engagement (CLPE) is a process in which IFAD can collaborate – both directly and indirectly – with partner governments and other country-level stakeholders to influence policies that create opportunities for inclusive and sustainable rural transformation. Policy engagement can address policy bottlenecks, which may hamper the achievement of a COSOP's strategic objectives or impact project implementation. It is informed by – and contributes to – the knowledge base on sustainable rural development. It can also help to expand development impact through innovation and experimentation with potential policy solutions. Finally, CLPE can enhance IFAD's relevance in providing a tailored package of services (e.g. for countries requesting non-financial support).
- Strategic partnerships. In order to develop country strategies that deliver maximum impact, IFAD will be selective in identifying the most strategic partners to leverage financing from and enhance policy engagement. This will expand IFAD's reach in support of country priorities. Partners will be chosen based on how much they can contribute to achievement of the country strategy and its strategic objectives. Country strategies will identify the most strategic and impactful partnerships tailored to diverse country contexts in line with the IFAD Partnership Strategy, Private Sector Strategy and cofinancing strategy, which are all being updated for IFAD11. Given the scope of IFAD's financial resources at the country level, identifying and leveraging partnerships is critical – especially to achieve IFAD's ambitious cofinancing targets. But partnerships are also important for scaling up effective innovations. In addition to government programmes,

innovative IFAD approaches can be supported by bilateral and multilateral partners' cofinancing or by stand-alone projects that build on IFAD's interventions. Strategic partnerships may also contribute knowledge or expertise, facilitating effective solutions to crucial challenges – including through vehicles such as SSTC. Engaging multi-stakeholder partners in-country can strengthen ownership (e.g. civil society advocacy and monitoring), and increase sustainable impact.

8. As a United Nations agency, IFAD's collaboration at the country level is crucial as part of the United Nations country team. This collaboration involves participation in the design and implementation of the UNDAF and coordinated action with the other RBAs in jointly tackling challenges related to agriculture and rural development. Each COSOP should demonstrate linkages with that country's UNDAF through its strategic objectives and specify how IFAD's planned financing will contribute to the country's broader United Nations financing portfolio. It should also include a framework for planning, implementing and monitoring multi-stakeholder partnerships. Whenever feasible, COSOPs should include provisions for joint country strategies with other RBAs. In these cases, a dedicated annex to the COSOP will identify areas of common engagement and the COSOP results framework will identify common indicators. Other United Nations partners can be identified to assist in meeting specific IFAD strategic objectives. Facilitated by a greater presence in or near countries, IFAD's visibility will be increased through its participation and strategic partnerships on the ground (e.g. IFAD could take the lead in a country-based working group on rural development).
9. Knowledge management. Country programmes' knowledge management systems provide a critical link between investment programmes and non-lending activities. Synergies among knowledge management, policy engagement, SSTC, monitoring and evaluation, and research (e.g. IFAD-supported research by CGIAR) needs to be tapped to achieve COSOP strategic objectives. COSOPs will describe how these synergies will support learning, knowledge-sharing and climate change adaptation in the country programme (e.g. scaling-up efforts, national policy processes and disseminating lessons learned). IFAD's knowledge may be a major element of COSOPs. For example, in UMICs seeking advice on rural poverty, project design, IFAD can provide supervision tools and policy advice for the agricultural and rural sectors. This is particularly the case when collaboration includes RTA.
10. SSTC encompasses partnerships and knowledge management to facilitate more dynamic knowledge flows. In IFAD11, a target was made to include a detailed SSTC narrative into 66 per cent of all new COSOPs. SSTC should be tailored to each country context in support of COSOP strategic objectives. A country may be a provider of knowledge and good practices for rural development or a receiver of such expertise. Country strategies should identify SSTC opportunities (e.g. technical cooperation, financing), including the identification of potential partners and an SSTC strategy. SSTC knowledge centres located in regional hubs are well placed to identify SSTC contributions to country strategies.
11. Transparency. Reflecting IFAD's commitment to transparency, enhancing the transparency of IFAD interventions at the country level can strengthen rural smallholders' ability to hold decision makers accountable for the use of IFAD resources. COSOPs will encourage governments and implementing partners to publish financial and results data through the International Aid Transparency Initiative and uphold the principles of the Open Government Partnership.
12. Citizen engagement. COSOPs should describe how beneficiary engagement will be promoted through IFAD's lending and non-lending activities. Particular attention should be paid to defining beneficiary feedback mechanisms during project implementation. Beneficiaries can use these tools to monitor and report on the quality of project service delivery, enabling project management teams to respond

in a transparent manner by adjusting project interventions or taking other necessary actions. The establishment of grievance mechanisms or third-party monitoring systems implemented by NGO partners should also be considered. In addition, mechanisms for supporting the engagement of beneficiaries and their organizations in policy processes should be defined. An annex attached to the COSOP should describe work with – and the outcomes of – consultations with civil society organizations.

13. Capacity-building. IFAD mainstreams capacity-building and empowerment throughout its lending and non-lending operations, and supports the strengthening of capacities within national and local governments, implementing agencies and rural people's organizations. COSOPs provide an opportunity to analyse weaknesses in country or institutional capacity, and identify how IFAD can utilize its lending, grants, RTA and non-lending expertise to improve capacity. During IFAD11 for example, grants such as the Program in Rural Monitoring and Evaluation (PRiME) and Advancing Knowledge for Agricultural Impact (AVANTI) have potential for strengthening government capacity.
14. IFAD visibility and communication outreach. In addition to increasing transparency through the promotion of IFAD-supported interventions, communicating the results and impact of these interventions increases IFAD's visibility. IFAD's decentralization is enhancing outreach by staff in hubs, regional SSTC/knowledge management centres and ICOs through engagement with traditional and social media, and representation at public events to strengthen IFAD's visibility. Subregional hubs and targeted communications will support these efforts. Within the development community, IFAD's participation in donor forums relevant to IFAD's mandate also increase awareness of IFAD's in-country strategy (e.g. leading working groups focused on the rural and agricultural sectors).

### III. Country strategic opportunities programmes

15. COSOPs are concise strategic documents identifying the key objectives and development results that IFAD intends to pursue in a country to improve the lives of the poorest and most food-insecure rural people in a sustainable manner. They are developed for all countries in which IFAD is actively engaged through projects or non-project activities, or both.
16. COSOPs comprise medium-term strategies for IFAD to assist a country as it transitions across the development spectrum. Within the COSOP period, country characteristics and situations may change. Transition scenarios included in COSOPs provide insights into the potential impacts on IFAD's programming and how to recalibrate IFAD's tailored package of interventions. These scenarios should include a "base case" reflecting the status quo and two additional scenarios modelling a potential improvement or deterioration in core country characteristics, including the macroeconomic situation. Alternative macroeconomic scenarios can be drawn from existing sources (e.g. the International Monetary Fund [IMF] World Economic Outlook Database and Article IV Consultations).
17. Theory of change. Developed jointly with governments, COSOPs begin from the country's vision of its own development goals and rural poverty reduction strategy. In dialogue with a wide representation of sectors and partners, COSOPs identify IFAD's strategic objectives, expected development results and potential risks. Based on the country context, each COSOP then outlines a unique and flexible programme of lending and non-lending activities to achieve those objectives. Annex I provides a draft annotated COSOP outline, which follows the logic of IFAD's theory of change.
18. Design based on experience. The COSOP design is based on IFAD's previous and ongoing engagement, and takes into account lessons learned – including what has worked and what has not – from COSOP results reviews, self-assessed

completion reports, COSOP evaluations, CSNs, impact assessments and feedback from consultations with stakeholders and partners. In addition to IFAD's own knowledge base, COSOPs draw on analyses conducted by others (including macroeconomic analyses and fragility, climate and nutrition assessments), and tailor them to the country engagement strategy.

19. Consultations. Given the importance of national ownership of COSOPs, they are prepared jointly with governments and local stakeholders (e.g. civil society organizations, smallholder farmers, the private sector and development partners). Broad consultations form an important part of COSOP preparation – both during drafting and after review by IFAD Management. The nature of in-country consultations varies depending on country circumstances, and may include workshops, focus groups and interviews. Following review by the Operational Strategy and Policy Guidance Committee (OSC), validation by in-country stakeholders is an important step.
20. Results-based design. The results logic for the theory of change is summarized in the COSOP results framework, which aligns IFAD's country strategy with the SDGs and UNDAF. Intermediate milestones and outputs assist IFAD in monitoring the COSOP throughout its life cycle. Ongoing IFAD projects and other interventions are important contributors to COSOPs and are summarized in COSOP documents. The results framework also lists specific IFAD interventions (i.e. project and non-project activities) needed to achieve COSOP objectives. Concrete indicators for non-lending activity deliverables (e.g. policy engagement, knowledge, partnerships, SSTC) should also be included in the results framework.
21. Risks and mitigation. An important element of the COSOP process is the identification of potential risks that may affect IFAD's engagement. These can include macroeconomic and political factors, climate change and related weather events, fragility, institutional capacity and fiduciary management. COSOPs identify how IFAD, working with the government, will manage risks to mitigate their impact on the country programme. Should risks materialize that significantly affect IFAD's programming, adjustments to the strategy and its financing can be considered during the midterm COSOP results review (CRR), or if necessary, in a new COSOP or CSN.
22. Projects submitted with COSOPs. IFAD projects are one kind of intervention utilized to achieve results. At least one project identification form (PIF) should be submitted as part of the COSOP documentation for discussion by the OSC. If a PIF is approved by the OSC, it will enter the pipeline only when the project concept note is approved. Instead, a project concept note can be attached to a COSOP if the project concept is at an advanced stage and the project design phase is expected to begin shortly after the OSC reviews the COSOP. If a project concept note is attached to the COSOP and approved by the OSC, the OSC date is considered as the project concept note approval date. Grant concept notes are not approved along with the COSOP but follow IFAD's grant procedures. To facilitate project implementation readiness, a Faster Implementation of Project Start-up (FIPS) instrument may be requested within a PIF or project concept note.
23. Approval. Following review by the OSC, COSOPs are submitted for approval by the Associate Vice-President (AVP) of the Programme Management Department (PMD) and presented to the Executive Board for review. COSOPs may also benefit from an earlier review by the Executive Board through an informal seminar. However, projects concepts within COSOPs are approved directly by the Executive Board once project design is complete and associated financing is secured.
24. Timing and duration. COSOPs are normally prepared every six years, with timing and duration aligned to country circumstances (e.g. national strategies, election cycles, UNDAF cycle). Some flexibility is warranted in the timing of COSOP preparation and COSOP completion reviews (CCRs) in line with country-specific

developments. The COSOP period may be extended for up to three years until the COSOP is replaced by a new COSOP or CSN. The original period of the COSOP should be indicated within the COSOP document and on the cover page.

#### IV. COSOP results review

25. As a medium-term strategy, the COSOP cycle provides flexibility with mid-course corrections. A light annual review will be undertaken as part of the portfolio review process and, at the mid-point of the COSOP period (or at least every three years), IFAD will engage with national stakeholders in a CRR. In the event of significant changes to the country context, the COSOP may be reviewed more often. These reviews assess progress towards results, lessons learned, risk factors encountered (e.g. exogenous shocks) and changes in country demand and priorities. Changes to the base case scenario envisaged during COSOP design should also be evaluated. For example, if the “low case” scenario emerges, the review should consider what types of interventions IFAD should curtail or engage in differently. Based on these factors, the objectives, interventions and intended results IFAD’s country strategy may be revised if appropriate. Cofinancing targets and resource allocations may also be adjusted in line with changed country conditions. Restructuring or cancellation of projects can also be considered to increase the flexibility in IFAD’s use of resources.
26. CRRs comprise a short self-assessment that answers key questions to summarize progress in implementing the COSOP and reviewing the strategy’s continuing relevance. CRRs also include recommendations regarding whether COSOPs should be extended. No extensions are granted without this review by governments, IFAD and other stakeholders. Although they do not require presentation to the Executive Board, CRRs are disclosed on the IFAD website following approval by the AVP, PMD. Annex II provides an outline of CRR questions.

#### V. COSOP completion review

27. Within six months after the end of a COSOP cycle, a CCR must be prepared. CCRs are a self-evaluation of COSOP strategic objectives and IFAD’s performance in achieving them. As agreed with the Independent Office of Evaluation of IFAD (IOE), CCRs follow a standard methodology for evaluating country programmes, including project and non-project activities. Results are assessed against indicators in the COSOP results framework. CCRs provide practical lessons from COSOP implementation that can inform the design of a new COSOP. They also contribute to IFAD’s knowledge base and can be shared regionally and globally. CCRs are approved by the AVP, PMD and submitted to the Executive Board together with the new COSOP. Annex III provides a CCR outline.

##### COSOP evaluation

28. IOE carries out country strategy and programme evaluations (CSPEs) periodically in selected countries.<sup>4</sup> The purpose of these evaluations is to assess the results of IFAD’s strategy and operations – usually over a 10-year period – and generate findings and recommendations that inform the subsequent COSOP. CSPE findings and recommendations are usually discussed with the government in a workshop and are included in an agreement at completion point (ACP). Each ACP is then signed by the government and IFAD Management, elaborating their response and proposed joint actions to follow up on evaluation recommendations. When available, new COSOPs are informed by CSPEs and their recommendations, and ACPs are included as an annex in new COSOPs.

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<sup>4</sup> Countries are selected based on criteria in IOE’s selectivity framework to ensure a geographic balance across all IFAD regions.

## VI. Country strategy notes

29. Reflecting the need to tailor country strategies to meet each country's circumstances, a transitional CSN may be prepared instead of a COSOP. When IFAD's PBAS allocation to a country is US\$5 million or less, a CSN may be appropriate, subject to approval by the AVP, PMD. CSNs may also be proposed for countries that do not receive a performance-based allocation but request other IFAD services (such as RTA). In exceptional circumstances, CSNs may be appropriate when: (i) there is uncertainty about the scope of IFAD's engagement in the country; (ii) the country has no medium-term development strategy to frame IFAD's support; (iii) IFAD has insufficient country knowledge (e.g., because of limited or no engagement in the country); (iv) the country is experiencing a period of uncertainty (e.g. pre-election, social crisis, natural disaster) or is in conflict; or (v) IFAD is seeking to align the COSOP period with that of a government strategy or political cycle. Annex IV presents an indicative CSN outline.
30. CSNs have a much shorter duration than COSOPs – up to 24 months – given the uncertain country circumstances for which they are utilized. They may be extended for an additional year if the reasons for their creation remain valid. CSNs do not require a project concept note or PIF, although a PIF may be attached. In addition, they do not require a results framework, corporate review, midterm results review or completion review. Where applicable to the country context, cofinancing targets may be included. CSNs are approved by the AVP, PMD and disclosed on IFAD's website. Lessons learned from CSNs should be integrated into subsequent COSOPs.

## VII. Financial resources to deliver the country strategy

31. Both COSOPs and CSNs indicate the resources necessary to finance IFAD's country strategy throughout its duration. The indicative resource envelope includes: (i) IFAD's lending/grant envelope for project financing; (ii) cofinancing from governments, development partners, the private sector and in-kind contributions; and (iii) estimated funding for non-lending activities.
32. Performance-based allocations. The amount and expected terms for the current cycle (i.e. DSF grants, highly concessional, blend or ordinary loans) attached to IFAD's resources should be indicated in each COSOP. In a given COSOP cycle, there are likely to be two or three IFAD replenishment PBAS allocations. Depending on a country's development during the COSOP period, the lending terms could change based on changes in gross national income per capita (GNIpc) and a country's creditworthiness. Consistent with IFAD's Transition Framework, changes are to be phased in over time. The performance-based allocation during the COSOP period can also change from one replenishment to the next depending on the rural sector performance assessment (RSPA) score, GNIpc, rural population level, IFAD vulnerability index (IVI) score and portfolio performance and disbursement (PAD) score; such changes can also occur within replenishments based on yearly adjustments. In line with the IFAD Transition Framework, alternative scenarios should be included (e.g. using IMF – or other – macroeconomic tools). Examining the implications of different changes in lending terms (including the cost of funds and impact on debt sustainability), and allocation amounts over time can facilitate planning and discussions between IFAD and governments.
33. Cofinancing targets. Cofinancing IFAD projects is an important means for maximizing impact through large and complementary interventions, increasing ownership by governments and beneficiaries, and enhancing sustainability beyond the project life cycle. In IFAD11, cofinancing targets will be cascaded into regional targets in order to provide indicative country targets reflected in COSOPs and CSNs. Amounts and types of cofinancing vary according to country context. For example, LICs tend to receive greater amounts of international official development assistance while UMICs tend to receive more domestic cofinancing.

Target ranges can be provided to guide COSOP design, recognizing the uncertainty involved in resource mobilization. The Operational Policy and Results Division will support countries and regions in setting targets by providing historical averages for domestic and international cofinancing. These figures are considered indicative and may shift with country context and changes in national economies.

34. Resources for non-lending activities. Policy engagement, partnerships and knowledge management are important IFAD interventions that complement projects and help IFAD to achieve its country-level strategic objectives. Cost estimates for undertaking these interventions (including dissemination) and identifying resources should be included in the COSOP in line with IOE recommendations. Reflecting IFAD's increasing focus on CLPE, the planned use of country allocations for such engagement should be highlighted. Grant resources for policy-related analysis may be provided. In addition, resources for non-lending activities can be tapped from other sources such as the China-IFAD SSTC Facility, RTA and supplementary grants. This work may include assessments of: (i) the policy context, the project-specific policy and legal framework, and policy gaps; (ii) national and local capacities for policy development; and (iii) policy implementation. These activities may also include monitoring of: policy implementation performance and effectiveness; national policy processes; and models for consultation with stakeholders. Additional activities include IFAD's direct participation in country-level policy processes that support project implementation, including studies and analyses requested by governments.

## VIII. Country strategy processes

35. The responsibility for preparing COSOPs and CSNs lies with country programme managers and Country Directors, with support from regional economists. The COSOP design process benefits from consultations with a range of stakeholders, including civil society organizations. Small in-house COSOP teams draw on specialist expertise, including from IFAD's: Environment, Climate, Gender and Social Inclusion Division (on mainstreaming cross-cutting issues); Sustainable Production, Markets and Institutions Division; Research and Impact Assessment Division; and technical support from the AVP, PMD as needed. IFAD's in-country teams draw on government collaboration and the representation of key stakeholders. Extensive consultations and workshops may be required during strategy preparation. With the decentralization of country programme managers, country directors and technical staff to ICOs and regional hubs, COSOP management teams may meet virtually.

## COSOP annotated outline

Length: maximum 5,500 words

### Executive summary

1. The executive summary includes: a summary of the country context and the government's plan that the COSOP supports; the overarching goal of the COSOP and strategic objectives and the target group; IFAD's project and non-lending interventions; and key risks to COSOP implementation.
2. The time frame of the COSOP should be indicated (including on the front cover), including when the previous COSOP or country strategy note (CSN) concluded and the dates of the COSOP completion review (CCR) and Country Strategy and Programme Evaluation (CSPE) when relevant.

### I. Country context – rural sector agenda – key challenges and opportunities

3. This section provides the basic country and rural sector background – the key challenges and opportunities – needed to understand IFAD's engagement as elaborated in the COSOP. It should include: (i) the macroeconomic setting (GNIpc, GDP growth, population growth and inflation) and debt sustainability (as relevant); (ii) an overview of poverty and its gender and youth dimensions, particularly within the rural sector (annex I); and (iii) a description of the constraints (including policies and regulations) to improving rural incomes through increased agricultural production and market access. This section should also highlight constraints related to government and local institutions' capacity. Future macroeconomic scenarios are presented, supplementing the base case with alternative high and low case projections. This information draws on existing International Monetary Fund macroeconomic and debt data, IFAD's rural sector performance score, World Bank country policy and institutional assessments, and IFAD's financial management assessment.
4. For countries with most fragile situations, this section contains a brief fragility assessment indicating key drivers of fragility in the rural sector and how IFAD's interventions are designed mitigate these drivers. This information draws on existing data (specific to the rural sector whenever possible).
5. In addition, this section includes a summary of the Social, Environmental and Climate Assessment Procedures (SECAP) background study's assessment of social, environmental, and climate issues, including the country's intended nationally determined contributions (NDCs) (annex II).

### II. Government programme, medium-term strategy and UNDAF

6. This section describes the country's current or forthcoming sector plan to which the proposed COSOP is aligned. It contains a brief analysis of priorities and target groups as well as major policy issues highlighted in the plan.
7. It also provides an overview of the United Nations Development Assistance Framework (UNDAF) objectives and articulates how IFAD's financing fits within this framework.

### III. Previous lessons and results and current IFAD engagement

8. This section summarizes key lessons learned from past IFAD programmes, projects and activities, drawing on the CCR (annex III) and CSPEs (annex VI: agreement at completion point [ACP]). It also draws on stakeholder consultations (annex V),

country surveys and lessons from background or thematic studies and impact assessments, including those of IFAD's development partners (noting how the proposed COSOP takes these lessons into account).

9. In addition, this section provides a brief description of IFAD's current engagement and portfolio. It highlights key portfolio indicators (time from approval to first disbursement, average age of the portfolio, portfolio management indicator, etc.). Lessons from financial management (e.g. use of country systems) are described.

#### IV. IFAD's country strategy

##### A. IFAD comparative advantage and overall goal

10. IFAD's comparative advantage in the country is summarized in line with the country goals and medium-term strategy. A brief description of the COSOP's overall goal is included along with the Sustainable Development Goals (SDGs) that the strategy contributes to.

##### B. Strategic objectives

11. Based on the country context, the UNDAF and the government's priorities and IFAD's comparative advantage in helping to achieve them, country-level strategic objectives are presented. A concise articulation of the theory of change for achieving each objective is given. This section then proposes a coherent combination of projects, programmes and non-lending activities (from the menu of IFAD interventions below) that is relevant to the country context. The strategic objectives and tailored package of inputs (including the existing portfolio and ongoing non-lending activities) are reflected in the COSOP results framework (annex VI) along with milestones to track progress toward expected outcomes. Together, the outcomes must contribute to IFAD's overall goal of supporting the country's development and rural transformation. They must also contribute to IFAD's support of the SDGs and the UNDAF.

##### C. Menu of IFAD interventions

12. Programme of loans and grants in support of projects and programmes: whenever relevant, COSOPs should note the potential for results-based lending as well as regional projects or programmes that contribute to the strategic objectives.
13. Country-level policy engagement (CLPE)<sup>5</sup> supports the achievement of COSOP strategic objectives through a variety of activities. For each strategic objective, the relevant policy context is summarized indicating priority areas, opportunities for new policy engagement and how the policy agenda will be pursued. Depending on the country context, policy engagement may be closely linked to facilitating the investment/grants programme. CLPE can also spur innovation with the piloting of novel policy solutions. In addition, CLPE should support scaling up and knowledge management agendas. Policy recommendations for selected issues related to the work of the Committee on World Food Security may provide useful inputs for policy engagement.
14. Capacity-building of governments, institutions and rural people's organizations should be mainstreamed into projects and programmes, and highlighted in strategy documents. All COSOPs should include a needs assessment and description of IFAD's comparative advantages through its lending and non-lending activities, and knowledge products.
15. Strategic partnerships. COSOPs must identify the highest-priority, most strategic and most realistic partnerships to support the achievement of each strategic objective. Such partnerships can increase IFAD's impact by providing projects with greater financial leverage. Other partnerships can enhance policy

<sup>5</sup> Policy engagement is defined as the set of processes through which IFAD collaborates, directly and indirectly, with partner governments and other stakeholders to influence the policy priorities and the design, implementation and assessment of national policies in support of poor rural people.

engagement to expand IFAD's reach and impact on national priorities. Civil society organizations and the private sector can support project implementation and leverage their own knowledge bases (annex VII).

16. Knowledge management provides a critical link between IFAD's investment portfolio and non-project operations, advancing its technical and policy-related contributions to rural transformation. Knowledge extracted from IFAD and other projects can help the Fund to achieve its strategic objectives. COSOPs describe the synergies between knowledge management, policy engagement, South-South and Triangular Cooperation (SSTC), monitoring and evaluation, and research (e.g. CGIAR research supported by IFAD).
17. SSTC encompasses aspects of partnerships and knowledge management. Needs, opportunities, partners for embedding SSTC should be detailed for each strategic objective. Depending on the country context, this cooperation may comprise the contribution of expertise (e.g. from upper middle-income countries [UMICs]) or engagement as a recipient SSTC (e.g. low-income countries and lower-middle-income countries). An annex on the SSTC strategy should be included in all COSOPs.
18. Targeting to mainstream key challenges. As outlined in the IFAD Policy on Targeting, relevant target groups and issues in the country should be identified (e.g. gender, youth, indigenous peoples, persons with disabilities) along with focus areas (e.g. nutrition, climate change). Based on the SECAP background study and in line with IFAD's strategic objectives, this section indicates how the COSOP will mainstream the relevant issues and reach target groups. It also contains an analysis of the country's NDCs and IFAD's support for achieving them.

## V. Innovations and scaling up for sustainable results

19. Innovations. This section details IFAD's comparative advantage in encouraging innovation through projects and associated non-lending interventions (e.g. policy experimentation, sharing knowledge through pilot activities). It describes how innovation fits the country context (e.g. setting up innovation platforms with the private sector may be more relevant in UMICS). Ongoing or previous IFAD grant-financed innovations that can be replicated or scaled up in the future portfolio are noted. Integrating information and communications technologies for development into projects and non-lending activities can be a valuable source of innovation and can enhance the scaling-up process.
20. Scaling up. Drawing on lessons learned and past results of IFAD interventions, this section summarizes IFAD's scaling-up strategy in the country. It describes how tapping into strategic partnerships (e.g. government inclusion in larger programmes, donor cofinancing, private sector involvement) can help to scale up successful innovations.

## VI. Implementing the COSOP

- A. Expected financial envelope and cofinancing targets
  21. This section presents the current PBAS allocation and the expected terms of the funding. Whenever relevant, this section should indicate whether Faster Implementation of Project Start-up resources are being requested to enhance project readiness.
  22. Because the COSOP may cover more than one PBAS allocation, low and high case scenarios (based on potential variations in portfolio-at-risk ratings and rural-sector performance scores) are presented in addition to the current PBAS. These scenarios (one or two paragraphs with a table) discuss the impact of changed country circumstances on potential changes in lending terms and IFAD's programming.

23. In addition to IFAD loans and grants from the PBAS, estimates are included of cofinancing targets expected from both domestic contributors (government, NGOs civil society, the private sector and beneficiaries) and international financiers (bilateral and multilateral organizations, foundations, etc.). If needed, an indicative range for the cofinancing target may be provided.

Table

**IFAD financing and cofinancing of ongoing and planned projects**

(Millions of United States dollars)

<i>Project</i>	<i>IFAD financing</i>	<i>Cofinancing</i>		<i>Cofinancing ratio</i>
		<i>Domestic</i>	<i>International</i>	
<b>Total</b>				<b>1:XX.X</b>

- B. Resources for non-lending activities
24. For any non-lending activities planned to achieve the strategic objectives, this section provides an indication of the amount and (whenever possible) source of funding (e.g. grants, SSTC, RTA, administrative budget).
- C. Key strategic partnerships and donor coordination (not covered in specific strategic objectives)
25. Beyond the specific partnerships proposed to meet individual strategic objectives, this section describes other key partnerships that help IFAD to increase its visibility and influence global or national policy issues (e.g. leadership of donor working groups or subgroups). Special attention should be given to explaining how IFAD will be visible as a credible partner through the COSOP, including in policy dialogue, knowledge management and disseminating innovative approaches. These strategic partners are also included in annex VIII.
26. In particular, the role and extent of foreseen partnerships with the private sector should be described in this section, by highlighting its contribution in supporting IFAD's interventions through either cofinancing, participation in design and/or implementation, knowledge sharing or other consultative roles.
- D. Partnerships with other members of the United Nations Development System.
27. If a UNDAF exists, the COSOP should explain how it is aligned with the UNDAF and IFAD's contribution to the UNDAF (see also COSOP results framework). When a UNDAF has not yet been elaborated, this section should note how IFAD will participate in its formulation to ensure that smallholder agriculture is mainstreamed in its design.
- E. Collaboration with other Rome-based agencies (RBAs).
28. This section discusses how the other RBAs will be involved in COSOP development and implementation, including RBAs' country-specific strategies and activities. Whenever feasible, a joint RBA strategy may be pursued.
- F. Citizen engagement and transparency
29. This section describes the type of beneficiary engagement that is envisaged as an integral part of IFAD's interventions, through stakeholder consultation, beneficiary feedback mechanisms during implementation (e.g. third-party monitoring arrangements or other entry points for mainstreaming citizen engagement in the project cycle). This section should also describe the arrangements that will be put in place to enhance the transparency of both IFAD's interventions and their results, and those of governments and implementing partners (e.g. through publishing financial results, resources related to the programme and outreach data).

## G. Programme management arrangements

30. A brief description of country-level COSOP management arrangements should indicate whether there is an IFAD Country Office (ICO) headed by a resident country programme manager or a regional hub headed by a Country Director. It should also indicate the presence of other IFAD staff, including technical staff. If there is no ICO, this section should indicate about how the COSOP will be managed (e.g. from neighbouring ICOs or regional hubs, headquarters or through the representation of another RBA or United Nations development partner). This section should also indicate whether the managing office is co-located with another RBA or United Nations development partner.
31. When relevant in countries with most fragile situations, this section should describe alternative programme management arrangements (e.g. security, third-party monitoring or implementation).

## H. Monitoring and evaluation

32. This section describes the arrangements established for monitoring progress towards results supported by the COSOP at regular intervals – either through the use of existing monitoring tools or the establishment of new ones. It also explains how IFAD projects and non-project activities enhance local- and national-level monitoring and evaluation capacity within the rural sector.
33. During consultations with governments and civil society organizations on COSOP development, governments should be encouraged to enhance transparency by contributing to the International Aid Transparency Initiative (e.g. disclosing knowledge and data collected during implementation).

## VII. Managing risks to the COSOP

34. This section presents the most likely risks to achieving the COSOP objectives and how IFAD will mitigate those risks (ratings: high, substantial, medium or low).

Table

**Risks to the COSOP**

Risks	Risk rating	Mitigation measures
Political/governance		
Macroeconomic		
Sector strategies and policies		
Institutional capacity		
Portfolio		
Fiduciary		
Environment and climate		
Social		
Other COSOP-specific risks		
Overall		

### List of mandatory annexes

- (I) Rural poverty and agricultural/rural sector issues
- (II) Transition scenarios
- (III) Fragility assessments (if applicable)
- (IV) SECAP background study covering mainstreaming areas (including NDC analysis) and targeting strategy
- (V) ACP of the last Country Programme and Strategy Evaluation
- (VI) COSOP preparation process – including engagement with civil society
- (VII) COSOP results framework
- (VIII) Strategic partnerships
- (IX) SSTC strategy
- (X) Country at a glance

## Example of a COSOP results framework

The results framework is prepared for the initial COSOP duration and updated through CRRs as needed for subsequent periods.

<b>Country strategy alignment</b> <i>What is the country seeking to achieve?</i>	<b>Related SDG UNDAF outcome</b>	<b>Key results for COSOP</b> <i>How is IFAD going to contribute?</i>			
<b>Sixth five-year plan 2011-2015:</b> <ul style="list-style-type: none"> <li>Promote growth by sustaining increases in labour productivity and job creation in manufacturing and services.</li> <li>Expand employment opportunities in lagging regions by improving connectivity with growth poles through better infrastructure and by investing in human capital.</li> <li>Stimulate women's participation in the labour force.</li> <li>Agriculture offers substantial scope to raise the yields and diversify agriculture from lower to higher value added production.</li> <li>Constraints and vulnerabilities to farm production are removed and agricultural incomes in lagging regions are raised.</li> <li>Adaptation to climate change is a national priority.</li> </ul>		<b>Strategic objectives</b> <i>What will be different at the end of the COSOP period?</i>	<b>Lending and non-lending activities* for the COSOP period</b>	<b>Outcome indicators**</b> <i>How will the changes be measured?</i>	<b>Milestone indicators</b> <i>How will progress be tracked during COSOP implementation?</i>
	SDG 1 SDG 2	1. Livelihoods of poor people in vulnerable areas are better adapted to climate change	- Lending/investment activities <ul style="list-style-type: none"> <li>Ongoing</li> <li>Indicative</li> </ul> - Non-lending/non-project activities <ul style="list-style-type: none"> <li>CLPE</li> <li>Partnerships</li> <li>SSTC</li> <li>Knowledge management</li> </ul>	- 8 million people benefiting from climate-resilient infrastructure. <ul style="list-style-type: none"> <li>100 per cent increase in traffic volume on village, district and union roads</li> <li>Increased and less variable income, assets and food security of 300,000 households living in vulnerable areas</li> <li>Increase in incomes from natural resources for 19,000 fishers</li> </ul>	- Climate-resilient infrastructure constructed (800 km of flood-proof roads, 100 cyclone shelters and livestock refuges, 200 village protection works, 10,000 ha covered by drainage and water control structures). <ul style="list-style-type: none"> <li>Labour contracting societies (groups of poor women carry out construction) involving 100,000 members and 10 million person days of employment</li> </ul>
	SDG XX  UNDAF outcome	2. Small producers and entrepreneurs benefit from improved value chains and greater access to markets.	- Lending/investment activities <ul style="list-style-type: none"> <li>Ongoing</li> <li>Indicative</li> </ul> - Non-lending/non-project activities <ul style="list-style-type: none"> <li>CLPE</li> <li>Partnerships</li> <li>SSTC</li> <li>Knowledge management</li> </ul>	- 20 per cent increase in production (area, animals, yields) <ul style="list-style-type: none"> <li>40 per cent increase in volume and value of sales made by producers (men/women).</li> <li>50 per cent increase in producer (m/f) income.</li> <li>10 per cent improvement in share of consumer prices accruing to producers.</li> </ul>	- 100,000 farmers can adopt improved, climate adapted technology (crop seeds, livestock and fish resources) for livelihoods <ul style="list-style-type: none"> <li>100 service providers offer specialized support to producers</li> <li>40,000 producers and traders (men/women) access financial services and obtain loans to the total of US\$XXX</li> </ul>
	SDG XX  UNDAF outcome	3. Policies for rural markets to enable producers and small traders to play a greater role in the management of markets	- Lending/investment activities <ul style="list-style-type: none"> <li>Ongoing</li> <li>Indicative</li> </ul> - Non-lending/non-project activities <ul style="list-style-type: none"> <li>CLPE</li> <li>Partnerships</li> <li>SSTC</li> <li>Knowledge management</li> </ul>	- Market regulations are modified and have a pro-poor focus <ul style="list-style-type: none"> <li>Market regulations are enforced and supervised</li> </ul>	- XX markets governed by new regulations <ul style="list-style-type: none"> <li>XX per cent increase in volume turnover of smallholder products</li> <li>Coffee sector study</li> </ul>

\* Specify concrete non-lending inputs.

\*\* Maximum 12 indicators; where appropriate, a **core indicator** (see EB 2017/120/R.7/Rev.1, Taking IFAD's Results and Impact Management System (RIMS) to the Next Level) may be used.

Indicators can be quantitative or qualitative.

## COSOP results review (CRR) outline

Length: maximum 2,000 words

### I. Purpose

1. The purpose of the COSOP results review (CRR) is to identify the mid-course corrections necessary to ensure that the COSOP remains relevant and effective through a systematic review of performance. In addition, the CRR is a means to inform the Executive Board and other stakeholders about those changes. It can also be used to extend or terminate a COSOP.
2. The CRR is a short document that responds to the following 10 questions:
  1. Have there been major changes to the country?
  2. Have any risks materialized or have new risks appeared?
  3. Are the country development goals supported by the COSOP still relevant?
  4. Are the COSOP objectives still relevant and likely to contribute to the country development goals outlined above?
  5. Is the combination of lending and non-lending activities presented at COSOP approval up-to-date and likely to deliver the expected outcomes?
  6. Is implementation on track?
  7. What is the progress in achieving the results described in the results framework?
  8. What changes should be made to the results framework, if any? Are the targets still relevant?
  9. What lessons from COSOP implementation may be valuable for other countries or regions?
  10. Does the COSOP period need to be extended or a new COSOP developed?

Annexes:

- (I) Results framework (at the time of design)
- (II) Results framework from the last CRR, including progress
- (III) Proposed changes to results framework

## COSOP completion review (CCR) outline

Length: Maximum 8,000 words

### I. Assessment of programme performance

1. This section assesses programme performance and its influence on COSOP outcomes as laid out in the results framework. While the evaluation is comprehensive, reporting of the findings should be concise.
2. It is important to note that the subject of the self-evaluation is not the country's progress toward its high-level development goals (e.g. reducing rural poverty), but progress toward achieving COSOP strategic objectives and their corresponding outcomes. COSOP strategic objectives are expected to contribute toward higher-level goals. However, IFAD-supported activities are usually only a small component of the country's overall development portfolio. Therefore, the contribution of each COSOP is relatively small in relation to the country's overall development progress, which is realized over a longer time frame than the COSOP period. As a result, COSOP outcomes occupy a relatively low level in the development results hierarchy – just above the development outcomes of IFAD-supported activities. For example, an IFAD programme may aim to influence productivity gains by farmers (COSOP outcome). If achieved, these gains will eventually increase targeted farmers' incomes and reduce poverty. In turn, this will contribute to the country's goal of reducing overall rural poverty (higher-level national development goal). This distinction is critical to determining IFAD's potential influence and avoiding undue attribution of country's development achievements to IFAD-supported programming. It also helps to ensure that the self-evaluation is realistic.
3. Outcomes formulated at COSOP design fall into two categories: (i) outcomes expected to be influenced by activities already being implemented; and (ii) those influenced by activities planned or intended for the COSOP period (typically in earlier years). Both categories are subject to change during implementation, especially the latter. These changes are captured in the COSOP results review (CRR), which updates the results matrix. As a result, the CCR assesses results of the last results framework as included in the last CRR while explaining any major changes made since COSOP design.
4. The overall performance of the COSOP is rated as an aggregate measure of progress toward COSOP strategic objectives and corresponding outcomes. It comprises a single rating of the programme performance without subratings for individual strategic objectives. The relevance of COSOP strategic objectives to the country's development priorities varies widely: the overall performance assessment should reflect the performance of the COSOP in contributing to the strategic objectives that are most important in terms of their scale of coverage. In addition, the CCR should include an assessment of the COSOP's contribution to strategic partnerships, given their critical importance. Although, this weighting of outcomes may help the reviewers to formulate a single performance rating, the rating should ultimately be driven by the country team's judgement, which should be explained in detail in the report.

### II. IFAD's performance

5. This section assesses IFAD's performance in designing the COSOP and managing its implementation. Since the expected outcomes are influenced by many factors within and outside the country, IFAD's performance could be different from programme performance (enabling or hindering the achievement of COSOP outcomes). In order to capture these potential differences, IFAD's performance in designing the COSOP and managing its implementation are evaluated separately.

### III. Lessons learned and recommendations

6. The ultimate objective of the CCR is to derive lessons from the design and implementation of the concluding COSOP in order to guide the design and implementation of the new COSOP. The report should include for lessons and recommendations as an integral part of the assessment. It should consider what the COSOP has delivered or focused on along with areas of high priority for the country that were left out. It should also identify areas of the development agenda that may require IFAD's engagement in the new COSOP period. These lessons and recommendations should be practical and derived from specific experiences rather than generic observations such as the importance of ownership or the need to be realistic about results.

Annexes:

- (I) Results framework (at the time of design)
- (II) Results framework (from the last CRR) with progress
- (III) Ratings matrix (in line with IOE evaluation methodology – see below)
- (IV) Comments from borrower

**CCR ratings matrix (see second edition of Evaluation Manual for details):**

<i>Assessment of country programme</i>	<i>Rating (1-6 scale)</i>
- Rural poverty impact	
- Relevance	
- Effectiveness	
- Efficiency	
- Sustainability of benefits	
- Gender equality	
- Innovation and scaling up	
- Natural resource management	
- Adaptation to climate change	
- Policy dialogue	
- Knowledge management	
- Strategic partnerships	
<b>Overall country programme achievements</b>	<b>Rating (1-6 scale)</b>
<b>Assessment of performance</b>	<b>Rating (1-6 scale)</b>
- IFAD performance	
- Borrower performance	

## Country strategy note (CSN) outline

Length: maximum 2,000 words

### I. Overview

1. A CSN is a short note structured around the objectives that IFAD expects to help the country to achieve in the short to medium term. CSNs do not have a results framework and are not required to include a COSOP results review or COSOP completion review. However, at the time that a CSN evolves into a COSOP, a thorough analysis of IFAD's performance must be conducted, including lessons learned during the CSN period. This analysis is then incorporated into the following COSOP.
2. Each CSN should include the following:
  - (a) Country diagnosis: Economic, agricultural and rural poverty context.
  - (b) Rationale for preparing a CSN and the time frame.
  - (c) Strategic objectives and expected short- (1-6 months) to medium-term (6-24 months) contributions (efforts should be made to identify specific outcomes).
  - (d) Indicative IFAD engagement (project and non-project) and lessons from past engagement.
  - (e) Risk management framework: The risk section should focus on risks to achieving the CSN goals. It is sometimes useful for discussions of risk to consider the risk of inaction. Such discussions emphasize the risks and rewards of both engagement and a lack of engagement.

Annex:

Previous CCR or CSN

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## Status of Reimbursable Technical Assistance and Way Forward

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For: Review

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## Abbreviations and acronyms

AsDB	Asian Development Bank
APR	Asia and the Pacific Region
COSOP	country strategic opportunity programme
DFID	United Kingdom's Department for International Development
ESA	East and Southern Africa Region
IFAD11	Eleventh Replenishment of IFAD's Resources
IFI	international financial institution
LAC	Latin America and the Caribbean Region
NEN	North East, North Africa and Europe Region
RAS	reimbursable advisory services
RBA	Rome-based agency
RTA	reimbursable technical assistance
WCA	West and Central Africa Region

# Status of Reimbursable Technical Assistance and Way Forward

## I. Introduction

1. In order to make the largest contribution possible to the 2030 Agenda for Sustainable Development and the Sustainable Development Goals, IFAD approved a new business model in June 2017 focused on results and innovation to increase its impact. This focus involves utilizing lessons learned to be realistic, as well as bold and innovative, in mobilizing, allocating and utilizing its resources. The transition framework is an important aspect of the Fund's business model, ensuring that IFAD provides the right mix of financial and non-financial instruments to engage with all of its Member States, regardless of their level of development.
2. Reimbursable technical assistance (RTA), the policy for which was approved by the Board in 2012, is an important potential tool in the basket of interventions that IFAD can offer its Member States. They serve as a primary source of non-lending assistance, helping to meet country programme objectives as laid out in country strategic opportunities programmes (COSOPs) and country strategy notes. Given that RTAs can be a means for IFAD to meet the needs of all Member States, it is time to take stock of the RTA, to see what lessons have been learned to date and how the instrument can be improved to adapt to IFAD's new methods of allocating and utilizing its resources.
3. Experience with RTA to date has been mixed. Demand has been relatively modest and some opportunities to design RTAs are on hold due to: changing circumstances in Member States; the instrument's lack of flexibility (in a few cases); and a lack of clarity within country or technical teams about how to move forward. Only two RTA agreements have been signed – both projects are currently ongoing. While initial interest was greater than current demand, IFAD has not actively generated demand by marketing the product broadly to Member States as part of its mix of instruments, nor has the value proposition of RTA been clearly defined. While the policy sets out three broad types of RTA products, country teams have not been given clear guidance on how the tool could be useful – either in addition to IFAD's traditional lending products or as a new product in countries that do not borrow from IFAD.
4. IFAD has a track record of adapting its business model as conditions in Member States change along with larger changes in the global economy. For example, as more states transition to higher-income status, with larger domestic budgets dedicated to development, IFAD's business model has adapted to increasingly focus on the poorest countries, where the poorest people live. The transition framework seeks to respond to the challenges posed by these changes. RTA is a critical means of ensuring that IFAD has a wide – and appropriate – set of tools to leverage the knowledge and expertise gained over its 40 years of operation to benefit rural poor people and smallholder farmers – even in countries where the need for ODA and IFAD's lending is, on aggregate, not as acute.
5. IFAD's Management believes that RTA could be a valuable instrument in two additional sets of countries. First, there are a number of countries that do not borrow from IFAD yet may still be interested in drawing on the Fund's expertise. Second, in low-income countries or countries in transition, the financing of RTA by a third party may make such instruments attractive. There is ample evidence to suggest that IFAD could play a role in designing projects for third-party development financiers with less experience in rural and agricultural development, but are interested in utilizing their resources to reach poor smallholder farmers and other traditional IFAD beneficiaries. Discussions are ongoing with the Government of Guinea and the Abu Dhabi Development Fund about the use of this approach.

6. In order to enable RTA to play a central role in the Fund's service offering for countries in transition to higher-income status – and clarify its potential role in other contexts – it is necessary to provide more details on this instrument and guidance on generating and meeting demand. This paper provides a review of experience to date – both within IFAD and benchmarked against other institutions – and sets out ideas about the potential demand for RTA, the product IFAD could seek to supply and what is required for IFAD to offer this revised product.

## II. RTA, IFAD's business model and the transition framework

7. The introduction of a transition framework is one of the innovations in IFAD's business model with the goal of establishing a comprehensive, predictable, transparent and sustainable package of support for borrowers. The proposed framework would include both IFAD's current instruments and new policies and instruments to ensure that IFAD provides the right mix of financial and non-financial tools to meet its Member States differing needs.
8. IFAD's enhanced business model, which was proposed and approved during consultations on IFAD's Eleventh Replenishment (IFAD11), focuses on four pillars: (i) resource mobilization; (ii) resource allocation; (iii) resource utilization and (iv) transforming resources. RTA plays a critical role in two of these four pillars: resource allocation and utilization. With regard to resource allocation, IFAD has committed to prioritize the number of countries eligible to borrow from its core resources through the performance-based allocation system (PBAS) during each replenishment cycle. As the sequence of countries accessing IFAD's resources changes, the value of additional financial instruments changes, particularly in countries where IFAD's expertise and experience are still highly valued.
9. Additionally, doing development differently, the core principle of the third pillar of the business model (resource utilization), requires the recognition that IFAD's resources are limited compared to national budgets for agriculture and rural development. IFAD's loans to countries further along in the development spectrum can serve as pilots that can inform future government programmes. RTA(s) provides an important means to ensure that IFAD's expertise and knowledge are transmitted to governments seeking to address rural poverty, low productivity, a lack of market access among smallholder farmers, malnutrition and marginalization of poor rural people (especially women, youth and indigenous people).
10. IFAD's business model also puts increasing emphasis on the importance of decentralization as a means of getting closer to governments in order to identify their specific needs and engage in policy discussions. RTAs could play a major role in future support in this respect.
11. Because IFAD is seeking to enhance its business model in order to make a larger contribution to the Sustainable Development Goals, and because the needs of IFAD's members are changing, IFAD's RTA should be reviewed to make sure that it is fit for purpose.

## III. What is RTA: IFAD's definition and modalities

12. At its 106<sup>th</sup> session in September 2012, the Executive Board approved RTA as an additional instrument to serve IFAD's Member States. In September 2016, the Executive Management Committee approved operational procedures that provide a framework for RTA implementation.
13. Under the current framework for RTA, IFAD can provide the following types of services:
  - (a) Operational assistance. This includes: (i) providing design services for full operations or specific programme components; and (ii) supervision and

implementation support services for full operations or specific components of projects. In the latter case, IFAD can provide full or partial technical assistance for project design, supervision and implementation support (including in the completion phase) for projects that IFAD is not financing through its programme of loans and grants.

- (b) Analytical and advisory assistance. This includes technical assistance in the form of studies, evaluations, strategy development, analysis or non-operational policy position papers.
- (c) Learning and knowledge sharing. This includes assistance related to programmes that entail exchanges of ideas, or coalition partnership building related to IFAD's mandate and priorities, including for capacity building purposes through events, conferences, meetings, training courses etc. It makes use of IFAD's convening power.

#### IV. IFAD's experience with RTA to date

##### A. Reviewing current RTA

14. Since 2015, IFAD's experience with RTA has been limited and only partially successful. Seven countries have approached IFAD to discuss the possibility of an RTA, with requests ranging from US\$400,000 to US\$4 million. While two RTAs – in Mauritius and Saudi Arabia – are active and ongoing (see box 1 below), RTA agreements with Algeria, Botswana, Chile, China and Guinea are on hold or under discussion (see table 1 below). While IFAD has received RTA requests to be financed both directly by governments and third parties (e.g. the Abu Dhabi Development Fund), the Fund's only two active RTA agreements are self-financed by the participating government. In several of the countries in which RTA agreements are on hold or still in discussion, delays in formalizing the RTA request were due to changing conditions within the country.

##### Box 1

##### IFAD's RTA in Mauritius and Saudi Arabia

###### Mauritius

In mid-2015, the Government of Mauritius and IFAD agreed to develop an RTA programme for the strengthening of its seed industry. The goal of this RTA is to support the Government in operationalizing its Seed Act and developing a national seed policy and strategy based on the country's comparative advantages in the national and regional markets. Key areas of investment included the: (i) creation of a suitable legal and regulatory environment for the seed sector; (ii) establishment of a quality-control system for seed testing and certification; (iii) development of procedures for field testing new varieties of high-priority crops for food security and export; and (iv) analysis of national, regional and global demand for seeds that can be produced in Mauritius. The RTA agreement was signed on 26 May 2016 for three years and a recent midterm review recommended a no-cost extension until May 2020. The total value of the contract is US\$1.15 million.

###### Saudi Arabia

The Kingdom of Saudi Arabia, through its Ministry of Environment, Water and Agriculture, requested RTA aimed at enhancing the productivity, profitability and climate change resilience of smallholders farmers' in the Jazan region. This RTA aimed to improve the management skills of producer organizations in that area. It employed a value chain development approach targeting coffee and mango, and focused on household and group cooperation for production and sustainable markets linkages. The US\$4 million agreement was signed in February 2018. The initial 36-month RTA is envisaged as a first phase of the investment and a pilot of RTA instrument. If successful, a much larger investment is foreseen in other regions of Saudi Arabia; initial results are promising.

Table 1

**IFAD's experience in negotiating RTA to date**

Client	Donor/Client	Amount (US\$ million)	Duration	Type of assistance	Year	Status
<b>Mauritius</b>	Government of Mauritius	US\$1.2	36 months	Capacity-building and technical assistance to develop a national policy	2016	Active
<b>Saudi Arabia</b>	Kingdom of Saudi Arabia	US\$4.0	36 months	Provision of sector-wide policy advisory services and support to the implementation of designated initiatives	2017	Active
<b>Algeria</b>	Technical support through RTA to help Algeria access new markets and create job opportunities for youth.				2018	Under discussion
<b>Botswana</b>	The Ministry of Finance is considering a request for IFAD assistance through RTA. An exploratory mission will take place in Q4 2018.				2018	Under discussion
<b>Chile</b>	IFAD is sharing its expertise on rural development approaches in building resilience among its vulnerable population, particularly through work with indigenous peoples in the Araucania region.				2018	Under discussion
<b>Guinea</b>	Abu Dhabi Development Fund	US\$0.5	7 months	Feasibility study and design of US\$30 million national agricultural project to be financed by the Abu Dhabi Fund for Development	2015	On hold
<b>China</b>	Asian Development Bank	US\$0.4	18 months	Capacity-building and technical assistance to develop a national policy	2016	On hold

## B. Lessons learned

15. While demand has been uneven and progress in RTA discussions limited, IFAD has also learned lessons about its ability to market such an instrument and respond quickly to demand when it arises. Some of these lessons are listed below:
  - RTA has not been specifically identified as a potential instrument in COSOPs or country strategy notes. The interest in RTA expressed thus far has been due to the efforts of individual country programme management teams and country directors.
  - There has been no centralized source of technical support within IFAD to facilitate the design or supervision of RTA, capture lessons learned and adapt practices to ensure successful delivery.
  - IFAD country and technical teams are often stretched in responding to demand for RTA due to the extent of the traditional lending portfolio.
  - There has been no specific training for country programme managers or country teams on the instrument and its potential application.
  - Supply packages have been too loosely defined.
  - IFAD has lacked concise marketing materials on RTA (either online or in print), reflecting a lack of involvement by both IFAD's Partnership and Resource Mobilization Division and Communications Division in RTA.
16. These lessons also emphasize the need to ensure that there is an RTA focal point in IFAD and that the fees associated with RTA fully cover IFAD's costs. Governments seeking RTA expect IFAD to respond quickly and efficiently to their requests: there is a need to ensure that this demand can be met quickly without compromising quality, and that lessons learned are captured. While procedures are already in place, a greater understanding of the instrument within IFAD is critical.
17. The slow uptake and the need for periodic adjustments are not surprising: the World Bank, with a reimbursable advisory services (RAS) portfolio of US\$100 million, has emphasized that the development of its RAS services has taken many years. Its RAS policies and procedures have recently been updated to address unexpected challenges such as adjusting its financial systems, aligning internal incentives and ensuring that management fees cover associated costs. The percentage of the World Bank's RAS portfolio focused on agriculture – approximately 2.5 per cent – is broadly similar to that of its agricultural lending (approximately 4.5 per cent).
18. In fact, all international financial institutions (IFIs) have some form of a RTA instrument: for example, the Asian Development Bank (AsDB) provides technical assistance aimed at financing the promotion of foreign trade, especially intra-regional trade, among its Member States. The Food and Agriculture Organization of the United Nations (FAO) provides RTA through its Special Fund for Development Finance Activities. A range of private consulting companies also provide technical advice on a commercial basis.
19. Evaluations conducted by the World Bank show that: a local presence is needed to ensure that country knowledge is sufficient and sustainable; and RAS services are more impactful when they are linked to local programmes. Evaluations of RTA undertaken by both the United Kingdom Department for International Development (DFID) and the World Bank emphasize the importance of continuous monitoring and evaluation, and building RTA on proven concepts.

## V. Redefining supply: IFAD's comparative advantage and RTA packages

### A. IFAD's comparative advantage

20. The expansion and redefinition of RTA at IFAD must build on the Fund's comparative advantages and focus on the thematic areas that support its strategic vision of inclusive and sustainable rural transformation.<sup>1</sup> IFAD's comparative advantages are rooted in its experience in supporting smallholder agriculture and rural development by designing and supporting the implementation of investment projects and national policies. Specifically:

- IFAD is recognized as a provider of high-quality solutions that focus on rural smallholder agricultural development – an area in which no other IFIs focus.
- IFAD targets the poorest households and communities in the most remote rural areas, and works to improve their productivity and economic well-being rather than other types of social outcomes.
- IFAD has substantial experience guiding the design of large government programmes and providing supervision and implementation support to those programmes.
- IFAD works on a cost-recovery basis only and is not for profit, making it more flexible and results focused, and less costly than private-sector actors.

21. The provision of RTA is expected to strengthen the economic livelihoods of smallholder farmers and other rural people in order to reduce poverty and food insecurity in rural areas, especially among marginalized groups such as women, rural youth and indigenous peoples. To this end, it is expected that all RTA services will be in the domains in which IFAD has concrete experience and knowledge. Where appropriate, IFAD will also draw on collaboration of other RBAs, especially FAO. Focus areas for IFAD identified in its Strategic Framework (2016-2025) include:

- Access to natural resources;
- Access to agricultural technologies and production services;
- Inclusive financial services;
- Nutrition;
- Diversified rural enterprise and employment opportunities;
- Rural investment environment;
- Rural producers' organizations;
- Rural infrastructure;
- Environmental sustainability; and
- Climate change.

### B. Principles of engagement

22. IFAD proposes that RTA be identified, embedded in COSOPs and country strategy notes whenever appropriate, and tailored to both demand and country context, including the scope and nature of IFAD's partnerships in the country.

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<sup>1</sup> IFAD Strategic Framework (2016-2025).

23. In all thematic areas, IFAD expects to apply its principles of engagement: targeting; empowerment; gender equality; innovation, learning and scaling up; and partnerships. All these dimensions are integral to IFAD's comparative advantages. In addition, given the significant impacts of climate change on poor rural farmers in all countries, IFAD's RTA should involve efforts to ensure that all investments are climate proof and assist farmers in adapting to climate change.
24. IFAD will guarantee the quality of its RTA through quality assurance and supervision processes similar to those in place for its lending programme. RTA will also be monitored and evaluated utilizing the Fund's existing tracking, reporting and evaluation systems, which will enable it to be delivered in a timely manner with maximum positive impact.

### C. Supply of RTA

25. One clear lesson learned from discussions with other IFIs is that RTA is most successful when it provides a mix of support, allowing these institutions to scale up quickly and build efficient technical assistance packages while maintaining quality and flexibility.
26. In order to develop standard support packages with efficient delivery and high-quality implementation, IFAD needs to marshal instruments such as the: (i) Multidimensional Poverty Assessment Tool, which provides data for decision making by providing a clear understanding of rural poverty at the household and village levels; (ii) household methodologies, aimed at harnessing families' potential for change; and (iii) Gender Action Learning System. The fund can also employ tools aimed at mapping and assessing the capacity of rural people's organizations such as the Community Driven Development Decision Tools for rural development programmes,<sup>2</sup> and tools aimed at assessing the strength of rural organizations.<sup>3</sup> IFAD toolkits in a range of thematic areas<sup>4</sup> will provide the building blocks of knowledge for delivering RTA services.
27. IFAD Member States are increasingly being asked to design and implement policies around their intended nationally defined contributions to the United Nations Framework Convention on Climate Change. These requirements provide an additional entry point for IFAD to provide RTA in the form of policy advice. IFAD has a comparative advantage in this area through its work on climate change mitigation with smallholder farmers.
28. As mentioned above, IFAD's RTA policy defines three types of support: (i) operational assistance; (ii) analytical and advisory services; and (iii) learning and knowledge sharing. The table below identifies examples of IFAD's potential offerings in these three categories, either individually or as a part of a package of programming.

<sup>2</sup> See for example: [www.ifad.org/documents/38714170/39150184/Community-driven+development+decision+tools+for+rural+development+programmes.pdf/93df0cc9-e122-49f3-b7d6-9111c01e7f3f](http://www.ifad.org/documents/38714170/39150184/Community-driven+development+decision+tools+for+rural+development+programmes.pdf/93df0cc9-e122-49f3-b7d6-9111c01e7f3f).

<sup>3</sup> See for example: [www.ifad.org/web/knowledge/publication/asset/39417249](http://www.ifad.org/web/knowledge/publication/asset/39417249) and [www.ifad.org/web/knowledge/publication/asset/39412322](http://www.ifad.org/web/knowledge/publication/asset/39412322).

<sup>4</sup> [www.ifad.org/web/knowledge/series?mode=search&catSeries=39130681](http://www.ifad.org/web/knowledge/series?mode=search&catSeries=39130681).

Table 2  
Examples of support to be provided through IFAD RTA

	<i>Theme 1: Inclusive value chain development</i>	<i>Theme 2: Access to agricultural technologies and production services</i>	<i>Theme 3: Adaptation to climate change</i>	<i>Theme 4: Improved nutrition</i>
<b>Operational assistance</b>	Design of national programme for smallholder cocoa production and marketing	Feasibility study for programme to promote pluralistic provision of farmer services	Support to the design of a pilot project for climate-smart smallholder agricultural development	Design of a multi-sector rural nutrition programme
<b>Technical assistance/ Policy support</b>	Capacity-building to government for developing a national strategy that supports inclusive agricultural value chains	Advice to government to define process for designing a national agricultural extension policy, and facilitating this process	Assistance to government officials in identifying a package of adaptation support to smallholder farmers	Evaluation of a government evaluation policy and its impact
<b>Knowledge/ Convening</b>	Convening and supplying knowledge products for an international conference on behalf of government on smallholder adaptation to climate change	Conducting a training course for government officials on farmer field schools	Organizing and supplying knowledge products for a bilateral donor workshop on climate change and agriculture aimed at government officials	Evaluation of a government nutrition policy and its impact, and facilitating an inter-ministerial seminar on nutrition

## VI. Increasing demand for IFAD's RTA: Estimating uptake

29. As cited above, experiences of other IFIs suggest that there is demand for RTA in agriculture comparable to that for lending in this sector. But IFAD must be realistic about the possible demand for a well-defined RTA product.
30. Three sources of data were utilized to estimate demand, and high-, low- and moderate-demand cases were generated. These sources of data were:
  - IFAD services to countries whose access to IFAD resources are estimated to be more limited during IFAD11;
  - IFAD's policy support, embedded in ongoing projects, as a proxy for potential utilization of IFAD's technical and policy assistance; and
  - An estimation of potential demand for RTA in low-income countries financed by third parties.
31. First, an estimation was made of the number of projects initiated over the past several years in countries where access to IFAD11 resources will likely be more limited during IFAD11 compared to past PBAS cycles. Assessing the number of projects previously financed by loans provided insights into potential demand for RTA. The analysis suggested that in the Asia and the Pacific (APR), Latin America and the Caribbean (LAC) and Near East, North Africa and Europe (NEN) regions, there could be demand during IFAD11 that cannot be met solely by lending. In some of these countries, IFAD could assist governments by offering RTA focused on designing nationally owned programmes utilizing IFAD's expertise.

32. Second, projects implemented during the last two replenishment cycles with an embedded policy development component were analysed. This data served as a proxy for potential demand for policy-related technical support through a better-defined and marketed RTA instrument. Table 3 below presents the results.

Table 3  
**Projects during IFAD9 and IFAD10 with a policy engagement component**

	<i>Average value of component</i>	<i>Countries</i>	<i>Example topics</i>
<b>APR</b>	US\$4.8 million	Bhutan, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Nepal, Philippines, Viet Nam	Pluralistic extension policy, inclusive irrigation policy, capacity strengthening for provincial planning and climate change adaptation
<b>ESA</b>	US\$6.8 million	Angola, Malawi, Rwanda, Uganda, Zambia	Policy development for the dairy sector, policy framework for agribusiness promotion, support for poverty graduation programmes
<b>LAC</b>	US\$8.6 million	Brazil, El Salvador, Mexico	Adaptation of strategies on women, indigenous peoples and youth to the agricultural sector; expansion of assistance to conditional cash transfer beneficiaries to focus on economic inclusion
<b>NEN</b>	US\$2.6 million	Bosnia and Herzegovina, Egypt, Jordan, Kyrgyz Republic, Tunisia	Policies for community-based pasture management and inclusive value chains; strengthening agricultural-sector planning
<b>WCA</b>	US\$2.4 million	Cameroon	Policy and institutional framework for youth entrepreneurship

33. The table above shows the wide range of countries utilizing IFAD resources to finance policy support and highlights the possibility that some countries may seek RTA for policy making rather than embedding these activities in lending programmes.<sup>5</sup> The analysis above also indicated the topics of current interest for policy support from IFAD.
34. Third, demand was forecasted for countries that do not borrow from IFAD; and low-income countries or in countries in transition that could utilize RTA financed by a third-party development partner. Based on an analysis of demand over and above IFAD's available lending resources, as well as experience to date with ongoing RTAs and the experience of the World Bank, potential demand was estimated.
35. Utilizing the three data sources above, it was then possible to estimate the number of countries that may demand RTA during IFAD11. Assuming scenarios of high, moderate and low RTA adoption, this provides a range of total demand of between 8 and 13 requests during IFAD11.
36. The analysis above suggests that IFAD could expect to develop three RTA packages per year during IFAD11, especially in APR, LAC and NEN. This would provide a broader set of experiences to build upon as IFAD strengthens its ability to define these packages and identify demand. An initial discussion with regional divisions and some countries indicated that these expectations are realistic. RTA experiences during IFAD11 are expected to lead to a gradual expansion of RTA utilization as countries progress on development pathways. These experiences will also enhance IFAD's ability to provide RTA services to institutions in developed economies looking to invest in IFAD borrowing countries.

<sup>5</sup> Ongoing analysis will provide further guidance regarding the costs and benefits of this approach for borrowing countries.

## VII. Way forward

37. The construction of an RTA pipeline depends on IFAD making a number of changes to its current practice. The paragraphs below provide a first outline of the types of changes required to re-design RTAs as an additional tool among IFAD's instruments.
- A. Reviewing and updating procedures**
38. IFAD's detailed procedures for RTA are broadly in line with the ideas and lessons set forth in this paper. However, the eligible activities and thematic areas require further clarification in order to integrate lessons learned to date and sharpen IFAD's comparative advantage in the delivery of these services. Similarly, the definition of potential clients must be revised and the costing structure and financing arrangements for RTAs must be reviewed to ensure that IFAD's RTA services are attractive to Member States, yet fully cover their delivery costs.
  39. IFAD must review the procedures for proposing, designing and approving RTAs to ensure that: (i) they are in line with those for IFAD's traditional lending products; and (ii) enhancements in project design, risk management and safeguards are fully reflected in RTA practice. RTA management arrangements must also be reviewed to ensure that RTAs receive the required supervision to maintain IFAD's reputation as a valuable provider of technical assistance.
- B. Building demand: Outreach and communications**
40. IFAD will develop an outreach and communications plan for RTA to ensure that there is sufficient clarity in the offer to potential clients. Building on this plan, IFAD must then ensure that teams actively: (i) explain the RTA instrument to Member States, donor countries and other development agencies; and (ii) establish reliable means to generate demand in different technical areas.
  41. These activities should lead to the definition of a clear demand pipeline, generated through discussions between country teams and governments (during COSOP design, results reviews or on other occasions), to be monitored, reported on and supported in a similar fashion to IFAD's pipeline of lending.
  42. The generation of an RTA pipeline will naturally lead to the inclusion of RTA into other IFAD business processes such as budget and human resource planning, quality assurance and compliance. This will require adjustments to IFAD's internal systems.
- C. Building supply capacity**
43. In order to build supply capacity for RTA, IFAD needs to define institutional roles and responsibilities, including: (i) a focal point that can respond to demand for RTA and consult within IFAD on the expertise required for designing responsive RTA packages; and (ii) those responsible for marketing and/or explaining the instrument to Member States and development partners.
  44. Drawing on updated procedures, training for staff will be required on the technical, legal and financial aspects of designing and implementing RTA. Training also provides opportunities to share experiences with successful RTA in order to develop support packages that build upon IFAD's comparative advantages.
  45. Finally, efforts are needed to create incentives for IFAD's provision of RTA. For example, RTA needs to be considered as an important complementary instrument to traditional financing. Where appropriate, RTA should be embedded in the process of defining country programmes. Staff should receive recognition for identifying, developing and managing RTA.

D. Conclusion

46. Work in the above-mentioned areas of RTA will commence during the remainder of 2018 to ensure that this instrument is utilized effectively throughout the IFAD11 period. IFAD will update the Executive Board on steps taken and further actions needed to re-shape RTAs, including time-bound commitments.

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## Technical Note on the Phasing-out/Phasing-in Mechanism

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Executive Board — 125<sup>th</sup> Session  
 Rome, 12-14 December 2018

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For: Information

## Technical Note on the Phasing-out/Phasing-in Mechanism

### Recommendation

1. The Working Group on the Transition Framework is invited to analyse and subsequently endorse the main elements of this document, as contained in paragraphs 1 to 4 of this document.
  - The phasing-out/phasing-in mechanism will allow for a smooth and predictable transition to IFAD's less concessional financing terms and will have no significant impact on IFAD's financial sustainability. Under this new mechanism, the financing terms for each country will be revised formally once per replenishment cycle. Reversals from less to more concessional terms will continue to be applied on an annual basis unless immediate application is called for due to the specific circumstances of the case.
  - The mechanism will apply for countries that are eligible for less concessional lending terms from IFAD11 onwards (i.e. that are subject to a change in financing terms from 2019 onwards). Therefore, it does not have retroactive effect from its approval date.
  - A formal review of the implementation experience with the mechanism may be carried out in the context of the Consultation on the Twelfth Replenishment of IFAD's Resources (IFAD12).
2. Upon endorsement, this will be reflected in the final Transition Framework document to be submitted to the Executive Board for approval in December 2018.

### I. Background

1. The transition of the development status of countries is a lengthy process that can take even decades. IFAD reassesses lending terms on an annual basis, and has developed a transition methodology involving a phasing-out/phasing-in period over the replenishment cycle based on objective criteria for countries moving from more concessional terms to less concessional terms. This approach allows marginal changes in the base criterion (i.e. GNI per capita) to stabilize before financing terms are hardened. Under this approach, financing terms for each country will be revised formally once per replenishment cycle. Reversals from less to more concessional terms will continue to be applied on an annual basis unless immediate application is called for due to the specific circumstances of the case.
2. This mechanism was proposed in the Approach to a Transition Framework EB 2017/122/R.34, which was approved by the Executive Board in December 2017. The objective of this technical note is to:
  - (a) Provide a more detailed overview of the mechanism;
  - (b) Present a comparison with other international financial institutions' (IFIs) practices;
  - (c) Estimate related financial implications;
  - (d) Provide a legal viewpoint on the introduction of the new mechanism;
  - (e) Consider accounting and loan administration matters including billing and reporting;
  - (f) Provide a summary of risk management considerations related to the mechanism including aspects related to transparency;
  - (g) Provide a summary of the above points.

## II. Overview of mechanism

3. Table 1 illustrates how phasing in less concessional terms over a three-year period would work.

Table 1  
**Example of phased approach to transition**  
(Millions of United States dollars)

<i>Year of replenishment period</i>	<i>Financing terms</i>		<i>Numerical example: financing of US\$60 million</i>	
	<i>Highly concessional/ blend</i>	<i>Blend/ ordinary</i>	<i>Old financing terms</i>	<i>New financing terms</i>
Year 0 (prior to start)	Discussions with borrower			
Year 1	67%	33%	US\$40	US\$20
Year 2	50%	50%	US\$30	US\$30
Year 3	33%	67%	US\$20	US\$40

### Box 1

#### Example of how phasing out/phasing in works

**Scenario:** As of 1 January 2019, a country's financing terms with IFAD change from highly concessional to blend terms due to a change in its GNI threshold.

IFAD engages in discussions with the borrower country regarding its lending programme for the next replenishment cycle 2019-2021.

If the country's lending programme (i.e. performance-based allocation system [PBAS] allocation) amounts to US\$60 million, IFAD will offer the following financing terms to the country:

- If the project is submitted for Executive Board approval during 2019, 67 per cent of the allocation will be granted on highly concessional terms and 33 per cent on blend terms;
- If the project is submitted for Executive Board approval during 2020, 50 per cent of the allocation will be granted on highly concessional terms and 50 per cent on blend terms;
- If the project is submitted for Executive Board approval during 2021, 33 per cent of the allocation will be granted on highly concessional terms and 67 per cent on blend terms.

Under current practice, the country would borrow the entire PBAS allocation on blend terms from 2019.

4. Some flexibility is envisaged in terms of the percentages indicated in box 1 at the request of the borrower, provided that the degree of concessionality of the overall package across the replenishment period is not negatively impacted. The Executive Board will have the authority to determine the eligibility of such cases on an individual basis.

## III. Comparison with other IFIs

5. A benchmarking of IFAD's practices vis-à-vis the transition frameworks adopted by peer IFIs (the World Bank Group [WBG], African Development Bank [AfDB], Asian Development Bank [AsDB] and Inter-American Development Bank [IDB]) indicates that all peers have formal frameworks in place, including transition support. An analysis of the approaches adopted is provided in appendix 1.
6. The formal transition frameworks define roles, responsibilities and timelines for the transition of borrowers from one set of financing terms to another. Transition periods normally coincide with replenishment periods, so that changes are known in advance and planned. At the International Development Association (IDA) the transition process is triggered when national income exceeds the threshold for at least two consecutive fiscal years. In AsDB, the policies governing eligibility for concessional terms are reviewed periodically during replenishment cycles. The process of transition normally takes about four years to complete after reaching the

income threshold, mirroring the AsDB replenishment cycle. Debt distress classification is, however, reviewed annually. In AfDB, the length of the transition process is usually two to five years.

7. Several multilateral development banks draw up customized transition programmes for borrowers. When IDA determines that a country should graduate, a graduation programme is formulated, usually as part of the country assistance strategy, comprising a planned phasing out of concessional lending and a phasing in of non-concessional lending through the International Bank for Reconstruction and Development (IBRD). Similarly, in AfDB, a transition programme is drawn up for each country changing credit status. This enables borrowers to continue to access concessional resources on hardened financing terms (mix-financing) through a tailored transition programme that allows for a gradual phasing out/phasing in, before completely moving to non-concessional resources. These resources offer a larger volume of AfDB and other funding than previously available to the borrower and provide incentives for voluntary acceleration of graduation.
8. In AsDB, the policies governing concessional terms eligibility are reviewed periodically during replenishment rounds. The process of graduation normally takes about four years to complete, from when the country reached the income threshold. This period mirrors the AsDB replenishment cycle. Debt distress classification is, however, reviewed annually.

#### IV. Estimate of related financial implications

9. The financial implications of the proposed approach to transition can be assessed by the impact on overall liquidity, taking into consideration changes in the principal repayment period and loan income for IFAD following the introduction of the phasing in the new financing terms during the replenishment period.
10. A simulation was carried out based on the final scenario for IFAD resources approved under the Eleventh Replenishment of IFAD's Resources (IFAD11) Consultation. Taking as an example five countries that are expected to change to less concessional terms (from highly concessional to blend terms), together with their related potential (not confirmed) PBAS allocation for the IFAD11 period, various scenarios were run to assess the difference between current practice and the future use of a phasing-out/phasing-in mechanism. Details of the simulation are provided in appendix II.
11. As a conclusion, the impact on overall liquidity in any of the scenarios is negligible. This result was to be expected considering the small projected PBAS allocation for the five countries in transition compared to total PBAS allocations for the same replenishment period (i.e. US\$295.4 million versus US\$3,500 million).
12. Similar results are achieved when running the same scenarios but changing the lending terms from blend to ordinary, as shown in appendix II.

#### V. Legal viewpoint on the introduction of the new mechanism

13. From a legal standpoint, the new methodology is in line with the Policies and Criteria for IFAD Financing, which were revised to this end in February 2018. The mechanism will apply for countries that are eligible for less concessional lending terms from IFAD11 onwards (i.e. that are subject to a change in financing terms from 2019 onwards). Therefore, it does not have retroactive effect from its approval date.
14. If a financing agreement includes financing that is being provided on two different types of lending terms, two different loans will be specified and the agreement will stipulate the interest rate, maturity period, etc. applicable to each loan.

15. By project closure, all funds should have been drawn down proportionately from the two loan accounts and the repayments proportionately allocated to the balances of the two loans.

## VI. Accounting and loan administration matters, including billing and reporting

16. Overall, the current systems and business processes that are in place to manage investment projects can accommodate the introduction of the phasing-in mechanism; however, adoption of the mechanism will mean that any financing to a borrower on specific terms must be recorded in both the Grant and Investment Projects System (GRIPS) and FlexCube as separate instruments per the underlying financial terms.
17. Schedule 2 of the financing agreement should clearly list the amounts by category for each financing instrument in order to ensure the timely and accurate inputs of loan administration details in FlexCube.
18. To ensure that proper disbursement controls are maintained by IFAD, the borrower should submit a separate Form 100 to support a withdrawal application for each financing instrument; however, the withdrawal application may also be submitted on a single form, provided that the application clearly lists the amounts by category for each financing instrument and that the same designated account banking instructions are used for each share of the financing. This approach is also consistent with the design of the newly implemented IFAD Client Portal.
19. Each financing instrument will have a separate amortization schedule and will generate a separate billing statement as the repayment schedule and interest charges will be unique to the approved lending terms of the loan.

## VII. Summary of risk management considerations related to the mechanism

20. On risks relating to delivery, the phasing in of the new financing terms across the replenishment period provides an effective incentive for earlier use of PBAS allocations in the initial years of the replenishment.
21. It is also envisaged that with this mechanism some countries will continue to borrow from IFAD because, either by law or by preference, they cannot or will not use hardened terms for certain types of expenditures. It is important that IFAD communicates with the ministry of finance and the implementing agency at an early stage in the design of new projects in order to mitigate any potential repercussions.
22. On risks related to IFAD's sustainability, the impact on overall liquidity for each scenario is negligible.
23. On risks related to transparency, implementation of this mechanism will be accompanied by the disclosure of allocated lending terms to each borrower/recipient on IFAD's website and enhanced dialogue with borrower/recipient at an early stage, before the replenishment cycle begins and also during it. This enhanced transparency and public disclosure will assist in mitigating IFAD's reputational risks.
24. On legal and operational risk, it is expected that the mechanism will not result in a major change in legal documents and systems, and that current IFAD capacities will ensure smooth implementation of the mechanism.
25. On risks related to borrowers, the debt servicing unit will differentiate project expenditures by source of financing so as to reconcile each withdrawal application and the associated interest calculation accruing to each financial instrument.

## VIII. Conclusion

26. The phasing-out/phasing-in mechanism will allow for a smooth and predictable transition to IFAD's less concessional financing terms and will have no significant impact on IFAD's financial sustainability. Under this new mechanism, the financing terms for each country will be revised formally once per replenishment cycle. Reversals from less to more concessional terms will continue to be applied on an annual basis unless immediate application is called for due to the specific circumstances of the case. The overall risk related to the operational, legal, accounting and loan administration areas and to IFAD's reputational exposure and transparency is assessed as low.

## Practices of IFAD and other IFIs

	IDA/IBRD	IFAD	AsDF/AsDB	AfDF/AfDB	IADB
<b>Public disclosure</b>	Country classification by eligibility to source of financing (IDA or/and IBRD), by income revenue category, by lending terms. Creditworthiness disclosed via a link to IMF website.	No	Country Performance rating- Yes Country Creditworthiness and credit ratings-not publicly available	Country Performance rating- Yes Country Creditworthiness and credit ratings-Yes	No
<b>Frequency and timing of transition</b>	Countries remain on blend terms for 2 replenishment cycles on average. Graduation process triggered when GNI threshold exceeded for at least 2 of 3 consecutive years.	Financing terms applied each year, 6 months after changes made by WB on July 1st	Review along with AsDF replenishment. Before replenishment period begins, ADB consults with donors on volume. Debt distress classification reviewed annually. Transition from AsDF to AsDB-normal process 4 years Full graduation beyond AsDB-normal process 5 years after crossing GNI thresholds.	Gradual phasing between AfDF and AfDB resources. For each country changing credit status, a transition programme is drawn up, defining modalities of support and AfDB role, length of transition and financing mix during that period. Normally 2-5 years after country has met both GNI and Creditworthiness criteria.	No specific period. Transition supported by a lending blending mechanism to ensure smooth reduction in concessionality rather than an abrupt change.
<b>Frequency and timing of reversal</b>	Yes-Annually	Yes- Annually	Yes-Annually	Yes- Annually plus consideration to access to specific financing related to fragility	Yes-to date no countries have "reverse-graduated"
<b>Acceleration of graduation</b>	Yes based on a discussion at country level	No	Yes based on a discussion at country level	Yes. Incentives for voluntary acceleration of graduation are offered	N/A

\* Ordinary capital resources which considers AsDB concessional core resources

## Estimate of related financial implications

- The starting point, or base scenario for this analysis has been based on the final scenario for IFAD resources approved in the IFAD11 Consultation, as shown below:

Millions of United States dollars		
Contributions	1 200	
Borrowing	430	
<b>Borrowing/Contributions</b>		<b>36%</b>
<b>PoLG</b>	3 500	
Grant	227	6.5%
DSF	586	16.7%
Highly Concessional	1 342	38.3%
<b>Total Concessional</b>	<b>2 155</b>	<b>61.6%</b>
Blend	543	15.5%
Ordinary	802	22.9%
<b>Liquidity ratio*</b>		<b>62.5%</b>

\* Minimum liquidity requirement (or MLR) is 60 per cent of the total of annual gross disbursements (cash outflows) and potential additional requirements due to liquidity shocks.

- In order to quantify realistically the transition impact of a loan, an example was taken for the following countries, that are expected to change to less concessional terms (from highly concessional to blend terms), together with their related potential (not confirmed) PBAS for the IFAD11 period, as follows:

Country	Current Financing terms	IFAD 11 Financing Terms Y1	IFAD 11 Financing Terms Y2	IFAD 11 Financing Terms Y3	Planned PBAS IFAD 11 (US\$ million)
Cameroon	HC	33% blend-67% HC	50% blend-50% HC	67% blend-33% HC	43.8
Ghana	HC	33% blend-67% HC	50% blend-50% HC	67% blend-33% HC	36.9
Kenya	HC	33% blend-67% HC	50% blend-50% HC	67% blend-33% HC	52.4
Zambia	HC	33% blend-67% HC	50% blend-50% HC	67% blend-33% HC	34.7
Bangladesh	HC	33% blend-67% HC	50% blend-50% HC	67% blend-33% HC	127.7

- Four scenarios were run based on the information above:
  - Current practice: at year 1, 100% of the five countries' allocation is moved to blend terms at once (not reproduced for Y2 and Y3 for simplicity)
  - Proposed transition: at year 1, 33.3% of the five countries' allocation is moved to blend terms (66.7% stays at highly concessional terms)
  - Proposed transition: at year 2, 50% of the five countries' allocation is moved to blend terms (50% stays at highly concessional terms)
  - Proposed transition: at year 3, 66.7% of the five countries' allocation is moved to blend terms (33.3% stays at highly concessional terms)
- Simulation of the transition in each of the above scenarios was achieved by changing the PBAS percentages for the specific year (1, 2 or 3). Specifically, a portion of the total balances for the five countries approved at HC terms was re-allocated to blend terms (100% for scenario a., 33.3% for scenario b., 50% for scenario c., and 66.7% for scenario d.). Original PBAS percentages (i.e. from base case) were re-instated the following year.

5. The EOY liquidity for the years 2019-2066 for each scenario was then compared to the base case liquidity, to calculate the extent of any deviation as a proxy for the magnitude of impact.
6. The results that were obtained are shown in the two charts below:

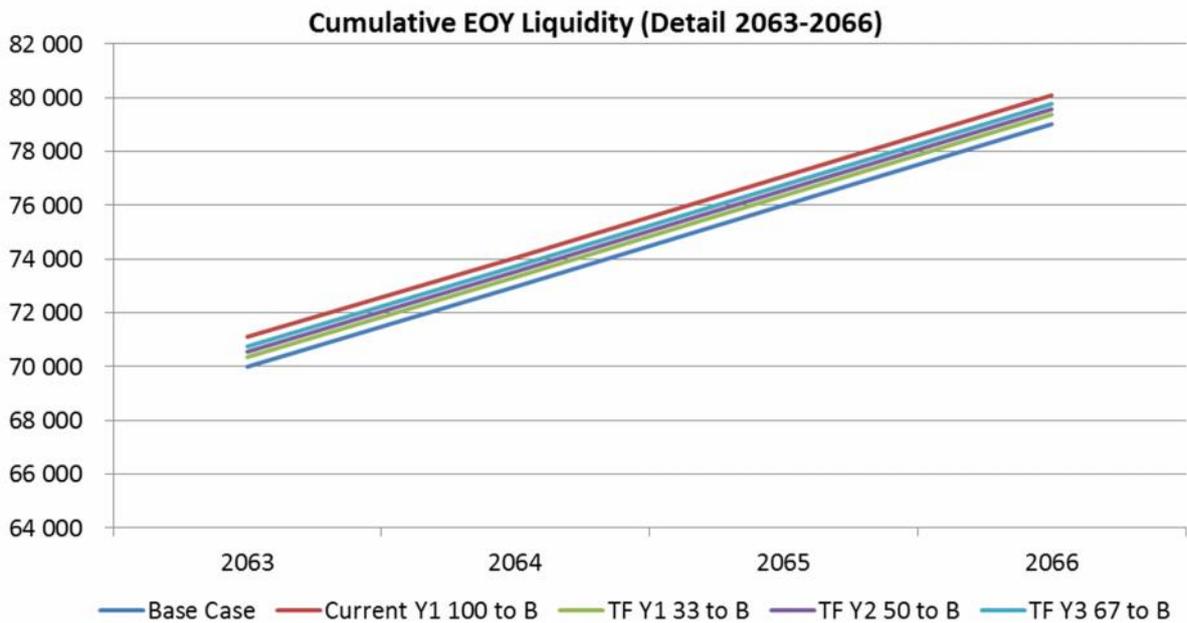
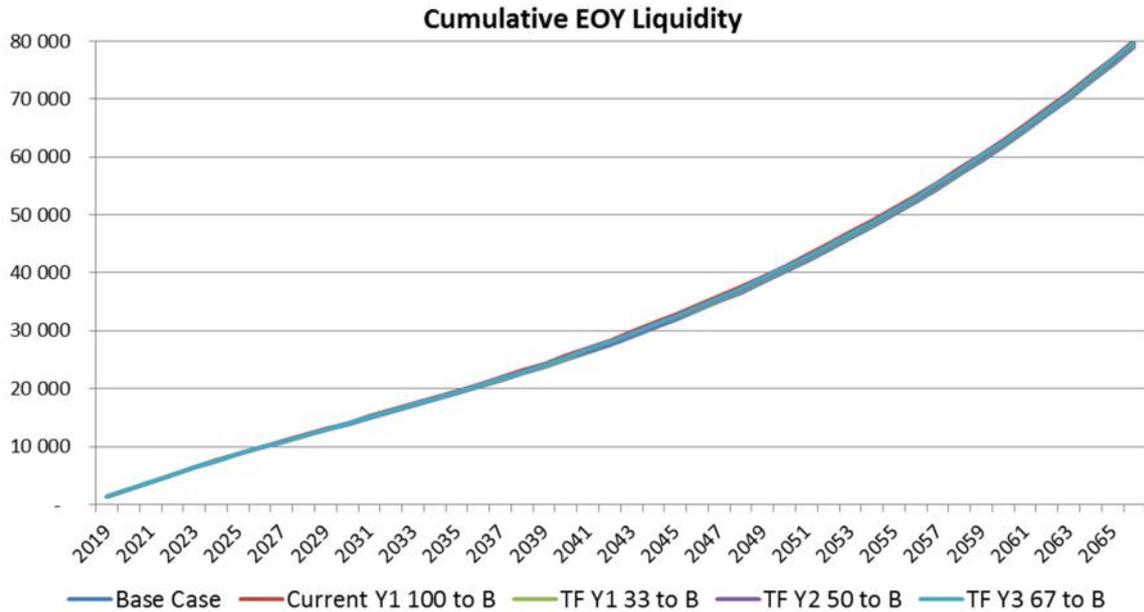


Table 2  
**Change in Net EOY Liquidity versus Base Case (US\$ million and %) – HC to Blend terms**

Year	2063		2064		2065		2066	
	Amount (US\$ million)	%	Amount (US \$ million)	%	Amount (US \$ million)	%	Amount (US\$ million)	%
Base Case	69 994		72 965		75 978		79 007	
Current Y1 100 to B*	71 092	1.60%	74 063	1.50%	77 076	1.40%	80 106	1.40%
TF Y1 33 to B	70 356	0.50%	73 327	0.50%	76 340	0.50%	79 370	0.50%
TF Y2 50 to B	70 554	0.80%	73 525	0.80%	76 538	0.70%	79 567	0.70%
TF Y3 67 to B	70 759	1.10%	73 730	1.00%	76 743	1.00%	79 772	1.00%

\* Current Y1 100 to B: current practice, at year 1, 100% of the five countries' allocation is moved from highly concessional to blend terms at once, TF Y1 33 to B: proposed transition: at year 1, 33.3% of the five countries' allocation is moved from highly concessional to blend terms, TF Y2 50 to B: proposed transition: at year 2, 50% of the five countries' allocation is moved from highly concessional to blend terms, TF Y3 67 to B: proposed transition: at year 3, 66.7% of the five countries' allocation is moved from highly concessional to blend terms.

7. As a conclusion, the impact on overall liquidity for any of the scenarios is negligible. This result was to be expected considering the small total projected PBAS allocation for the five countries that are in transition over the total allocation for the same replenishment period (i.e. US\$ 295.4 million/US\$ 3,500 million).
8. The results also clearly show that a smoother transition is achieved with the proposed phased approach, as all lines representing the Y1, Y2 and Y3 scenarios lie between the current practice scenario (top red line) and the base case (bottom blue line).
9. In fact, an immediate transition from highly concessional terms to blend terms as per current practice, is depicted by a sharp increase in liquidity (top red line), due to the direct application of less concessional terms for the borrowers, which generates increased cash inflows for IFAD. On the other hand, a smoother change of lending terms, as proposed in the transition approach, generates less cash inflows for IFAD in any of the years at the start of phasing in the less concessional terms.
10. Similar results are achieved when running the same scenarios but changing the lending terms from blend to ordinary.

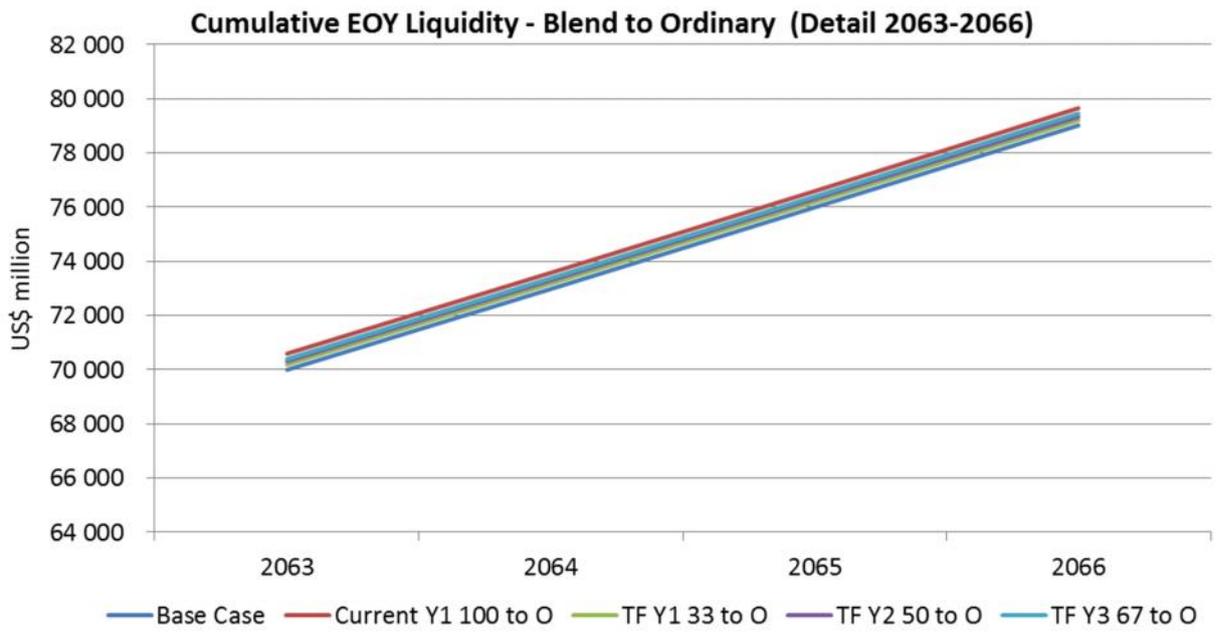
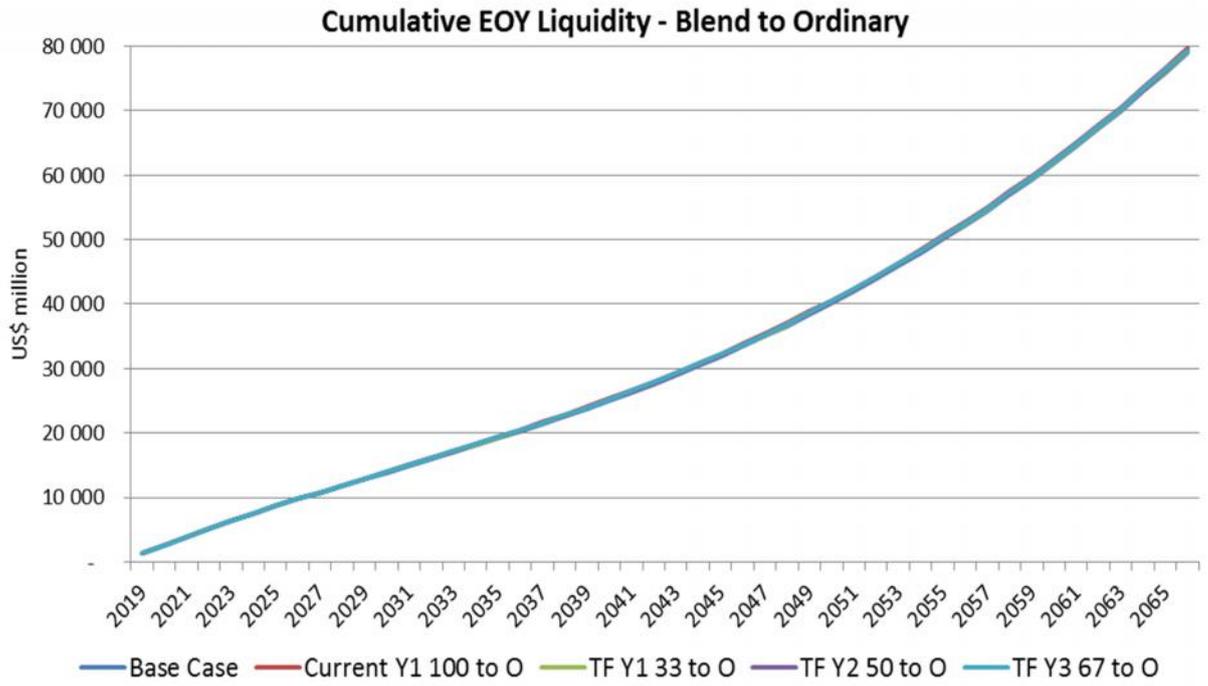


Table 3  
**Change in Net EOY Liquidity versus Base Case (US\$ million and %) - blend to ordinary terms**

Year	2063		2064		2065		2066	
	Amount (US\$ million)	%						
Base Case	69 994		72 965		75 978		79 007	
Current Y1 100 to O*	70 595	0.90%	73 578	0.80%	76 603	0.80%	79 645	0.80%
TF Y1 33 to O	70 195	0.30%	73 170	0.30%	76 187	0.30%	79 221	0.30%
TF Y2 50 to O	70 301	0.40%	73 278	0.40%	76 297	0.40%	79 333	0.40%
TF Y3 67 to O	70 406	0.60%	73 385	0.60%	76 406	0.60%	79 444	0.60%

\* Current Y1 100 to O: current practice, at year 1, 100% of the five countries' allocation is moved from blend to ordinary terms at once, TF Y1 33 to O: proposed transition: at year 1, 33.3% of the five countries' allocation is moved from blend to ordinary terms, TF Y2 50 to O: proposed transition: at year 2, 50% of the five countries' allocation is moved from blend to ordinary terms, TF Y3 67 to O: proposed transition: at year 3, 66.7% of the five countries' allocation is moved from blend to ordinary terms.

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## Concept Note on Regional Lending Operations

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For: Information

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## Appendices

Appendix I: Key parameters of regional lending operations across IFIs

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Appendix III: Audit and Financial Management in Regional Lending Operations

## Abbreviations and acronyms

AsDB	Asian Development Bank
AfDB	African Development Bank
COSOP	country strategic opportunities programme
GEF	Global Environment Facility
IDB	Inter-American Development Bank
IFAD11	Eleventh Replenishment of IFAD's Resources
IFI	international financial institution
PBAS	performance-based allocation system
RLO	regional lending operation

## Concept Note on Regional Lending Operations

### Recommendation for Working Group consideration

The Working Group on the Transition Framework is invited to analyse and subsequently endorse the proposed approach to IFAD's regional lending operations (RLOs). The work programme to be undertaken during the Eleventh Replenishment of IFAD's Resources (IFAD11) will include: (i) identifying areas of demand for potential IFAD engagement and countries with an interest in piloting regional operations; (ii) identifying pilots and necessary elements for project design and implementation, including procedures and learning areas; and (iii) the design and implementation of RLO pilots.

The proposal for consideration by the Working Group includes the following:

**Identification of pilot operations:** Regional divisions will promote the concept of regional lending operations among borrowing countries as part of pipeline discussions for the IFAD11 programme of loans and grants.

**Eligibility criteria:** IFAD11 RLO pilots: (i) must credibly demonstrate spillover effects, which yield development effectiveness and results that could not be generated through one or more single-country operations; (ii) would include two or more countries, with some flexibility for single-country operations with regional impact; and (iii) would be aligned with the strategic objectives of country strategic opportunities programmes in participating countries; and (iv) must be in an area of comparative advantage for IFAD financing relative to other sources of finance.

**Financing of pilots:** Pilot regional lending operations in IFAD11 may be financed through:

1. Part or all of the performance-based allocation system allocation for each participating country as per the terms established for each country category ("red", "yellow" and "green");
2. Regional grant-financed activities designed as an integral part of the RLO; and
3. Additional sources of financing, including funding for climate change and the environment such as the second phase of IFAD's Adaptation for Smallholder Agriculture Programme, and external funding sources such as the Global Environment Facility and the Green Climate Fund.

**Legal establishment:** Each participating country will have a separate financing agreement with IFAD for its own loan component, which will stipulate how the country-specific activities will contribute to the broader regional project. Agreements for regional grants will be signed with selected grant recipients, stipulating how the grant-funded activities will relate to ongoing IFAD loans in each participating country during implementation of the RLO.

**Executive Board approval:** The pilot regional lending operations will be presented to the Executive Board for approval regardless of the amounts to be financed.

**Learning from the pilot:** The pilot phase will emphasize learning to enhance the design of future operations; adequate resources (staff and funding) will be dedicated to this learning exercise.

The pilots are expected to be designed and launched during 2019 and 2020. Emerging findings from the design and early implementation of the pilots will be presented in a synthesis report to be presented in the context of the consultation on IFAD12. Based on these findings, a decision will be made regarding whether an enhanced approach to RLOs is needed.

### Key messages

1. As the world becomes more integrated, new approaches and tools are needed to address countries' evolving development needs. Regional lending operations (RLOs) represent a new instrument that IFAD can tailor to countries and regions to support them in realizing their full development potential.
2. Regional lending operations address cross-border development challenges that single countries have limited incentives to address individually.

3. Regional operations have been financed by other international financial institutions (IFIs) for more than a decade and are a powerful tool when used in the right contexts.
4. Although they sometimes require greater attention and coordination during design and implementation, regional operations provide benefits that single-country projects cannot deliver, as evidenced by independent evaluations conducted by the African Development Bank (AfDB) and others.
5. A number of challenges faced by smallholders require – or could benefit from – transboundary and regional approaches. For example, water resource management and agricultural pests and diseases know no boundaries. These issues are exacerbated by climate change, which is increasing the reach and severity of water scarcity and floods, and the spread of invasive species and pests. These are just some of the possible entry points for cross-border rural development projects that would be closely aligned with IFAD's mandate.
6. To pilot regional operations during the Eleventh Replenishment of IFAD's Resources (IFAD11), Management is proposing to leverage existing legal and financial instruments and current allocation mechanisms as further explained in paragraphs 15, and 36-42. This will provide sufficient time and experience to evaluate a separate allocation mechanism or set aside as available in all other international financial institutions (IFIs). These considerations will be analysed in conjunction with the review of the performance-based allocation system (PBAS) ahead of IFAD12.
7. It is proposed that the pilot RLO be designed and launched during 2019 and 2020.

## I. Background

8. In July 2017, the Secretary-General of the United Nations released the report *Repositioning the United Nations development system to deliver on the 2030 Agenda – ensuring a better future for all*. This report contains proposals in seven areas, one of which is a revamped regional approach for the United Nations.
9. IFAD's development assistance has traditionally been delivered using a country-driven model. In line with the United Nations reform process, IFAD has reaffirmed its commitment to improving cooperation with regional and subregional institutions. The Fund is strengthening its organizational architecture to better implement regional approaches. As part of its decentralization, subregional hubs are being established in all five regions covered by IFAD operations, enabling IFAD to gain efficiencies and make more meaningful contributions to regional and subregional processes.
10. In line with its enhanced regional approach, IFAD recognizes that regional lending operations can be a powerful tool to tackle development challenges that go beyond country borders. In a world that is increasingly characterized by global and regional economic integration, country-based solutions alone are not sufficient.<sup>1</sup>
11. Many major environmental threats to rural development are trans-boundary in nature. And many services required to address these threats – such as transport, disease prevention and natural resource and water basin management – are best provided at the regional level, building economies of scale, ensuring connectivity and extending access to goods and services. In addition, addressing these issues requires coherent regulations and standards across neighbouring countries. Multi-country solutions and pooling of resources can help leverage the resources of individual countries to achieve better and broader impact. This may be of

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<sup>1</sup> The contribution of a regional approach to the increased effectiveness of development actions has also been stressed by high-level forums that issued the Paris Declaration on Aid Effectiveness (2005), the Accra Agenda for Action (2008) and the Busan Partnership for Effective Development Cooperation (2011).

significant benefit to small countries (such as small island developing states), and vulnerable countries that suffer disproportionately from cross-border challenges such as natural disasters.<sup>2</sup>

12. The introduction of regional operations is one of the proposals included in the Approach Paper to a Transition Framework approved by IFAD's Executive Board in December 2017. It responds to requests from Member States to widen IFAD's range of tools that can support countries in their development transition. Regional lending operations should therefore be seen as an additional tool that can provide tailor-made solutions to countries and regions facing cross-border development challenges.
13. The Approach to a Transition Framework document (EB 2017/122/R.34) embraces the need for IFAD regional lending to supplement IFAD regional grants promoting regional innovation and capacity building. The Approach paper states that:
 

Vulnerabilities are cross-border in nature. Regional operations are in all IFIs a fundamental part of the broader strategy to promote regional integration, justified by their high potential for development impact. Specific strategic and operational frameworks have been established to recognize the specific features of regional operations, which offer the potential for higher economic returns compared to national operations but also involve significant additional challenges compared to standard country operations. Regional operations are also effective in providing regional public goods.
14. Furthermore, in the context of the Consultation on the Eleventh Replenishment of IFAD's Resources (IFAD11), Management committed to "explore options for regional lending operations" (IFAD11 commitment 3.6, monitorable action 36) and the institution aims to be ready to implement a first pilot during IFAD11.
15. During the pilot phase of IFAD11, the RLO pilots will be designed by deploying available financial sources and instruments (i.e. loans and country-specific grants through the PBAS, and the limited use of regional grants through the regional grants window). Experiences from IFAD11 will inform adjustments to the PBAS,<sup>3</sup> other finance sources and policies to support RLOs during IFAD12 and beyond.

## II. Overview of regional lending operations

16. RLOs support broader efforts at regional integration: they finance cross-border and multi-country interventions that impact a number of countries. Examples of critical issues that can best – or only – be addressed through RLOs include the following:
  - (a) Promoting regional connectivity: Support for transportation networks and other infrastructure that crosses borders or benefits multiple countries. Individual countries often lack incentives, regulations and planning processes, and sometimes the financial capacity (especially small countries) for these investments, which can be critical for better access to markets for groups such as smallholder farmers or nomadic pastoralists living in border regions.
  - (b) Expanding regional trade in agriculture and food products. Improved trade positively impacts growth, farmers' incomes and regional food security. Larger cross-border markets increase intraregional trade and help to drive innovation and growth.
  - (c) Protecting common goods and shared natural resources. Managing threatened natural resources (e.g. forestry and fishery resources) that cross

<sup>2</sup> Regional operations might also be useful to address cross-border fragility. This area will be explored further as part of IFAD's special programme for countries with fragile situations, which will be presented to the Executive Board in April 2019.

<sup>3</sup> A review of the PBAS formula for IFAD12 is already planned as requested by the Executive Board at its 121<sup>st</sup> session in September 2017.

national borders requires joint action by regional stakeholders. These operations can also help reverse land degradation and preserve biodiversity, as well as support multi-country disaster risk management.

- (d) Developing common standards supports harmonization in countries across a region, for example of financial regulations or sanitary and phytosanitary measures.
  - (e) Promoting security and reducing vulnerability: supporting regional labour markets and migration-related challenges.
17. A regional approach to operations has several advantages. RLOs provide a broad strategic framework to tackle development challenges that are shared by different countries in the same area, thus optimizing both planning and operational efforts and costs. They allow a pooling of resources, which is particularly important for smaller and fiscally constrained countries. They also promote South-South and Triangular Cooperation, and they may lead to best practice innovations that can be scaled up in other regions and regional institutions.<sup>4</sup>
  18. One major challenge of RLOs is the need for political alignment, integration and joint ownership among all countries benefiting from the operation. This requires policy dialogue and other non-lending services to pave the way for regional solutions and ensure alignment with participating countries' national priorities. Regional organizations are an integral part of many RLOs, facilitating policy alignment and ownership, and building capacity across countries. Ownership and alignment need to continue past the design stage, and be an integral part of implementation – reaching beyond the operations' life cycles.

### III. Regional lending operations in other IFIs

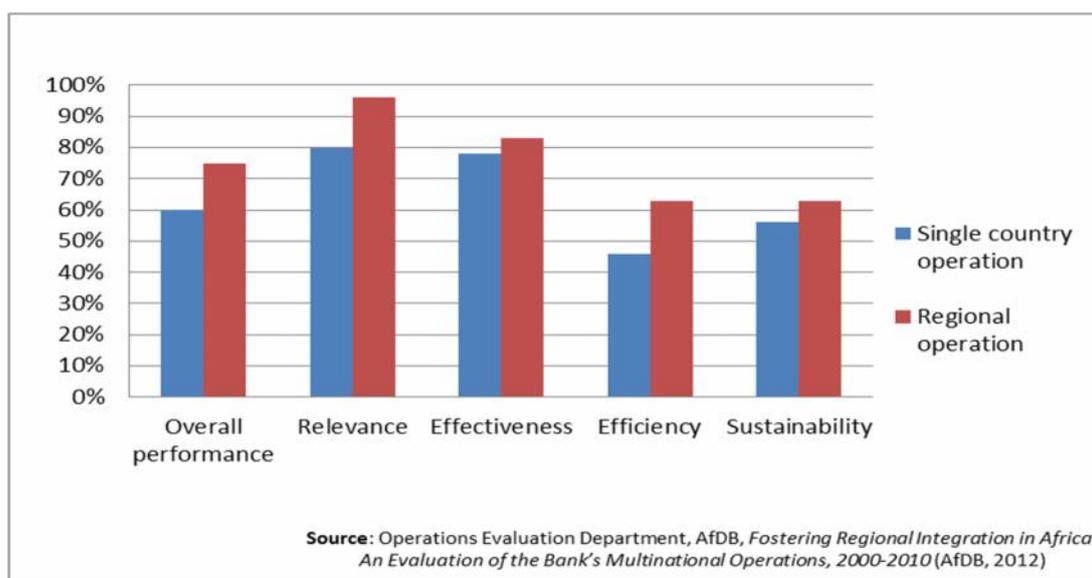
19. Regional and multilateral organizations, such as the regional development banks and the World Bank, can act as catalysts in the provision of multi-country activities and cross-border public goods through their ability to convene, generate and transfer knowledge, assist negotiations and provide funding. Several IFIs have introduced mechanisms for financing RLOs, including the World Bank, Inter-American Development Bank (IDB), Asian Development Bank (AsDB) and AfDB.
20. The original impetus for RLOs was a recognition of the need to manage common risks and further the goal of regional integration. IFIs have a comparative advantage in supporting RLOs given their long-standing role as conveners, strong policy engagement and regional expertise. As a result, RLOs have become an important aspect of IFIs' business, and some now identify RLOs as a corporate priority that includes lending targets (IDB at 15 per cent and AsDB at 30 per cent). Some IFIs have articulated strategies for regional integration, with evolving priorities focused on: the creation of markets and economic opportunities across borders (both integrating into global markets and furthering intra-regional markets); and managing regional public goods. Infrastructure has been identified by several IFIs as a priority sector for RLOs.
21. IFIs' criteria for RLOs have evolved over the years, but rest on the concept of "spillover effects" – generating positive (or mitigating negative) externalities across countries, or creating cross-border economic, social or environmental benefits. Some IFIs distinguish between RLOs and multi-country operations, with the former involving spillover effects and requiring concerted actions from a group of countries to accrue the intended benefits, and the latter requiring no collective action and benefits equalling only the sum of individual loans (e.g. multi-country small and

<sup>4</sup> Sandler, T., "Regional public goods and international organizations", in *The Review of International Organizations*, March 2006, Volume 1, Issue 1, p. 5-25. <https://link.springer.com/article/10.1007/s11558-006-6604-2>.

medium-sized enterprise initiatives). IFIs have varying requirements for the number of participating countries; however the majority of RLOs are single-country operations with spillover effects in other countries.

22. RLOs are predominantly financed through project investment lending instruments. In all cases, financing is provided through legal agreements for individual country loans. Grants for technical assistance, institutional development and capacity-building are common features of RLOs. The most common structure of an RLO is either a single-country loan or a sequenced or multi-phased operation with several participating countries, each receiving a single-country loan. Only the World Bank has supported RLOs including several countries simultaneously pursuing a common objective under the umbrella of a single regional project agreement supported by single-country loans.
23. Two hallmark characteristics of RLOs in IFIs are that: (i) most have dedicated funding (additional to PBAS funds) that has spurred significant demand;<sup>5</sup> and (ii) many RLOs include a role for regional organizations. IFIs collaborate with regional organizations by engaging them: to coordinate and facilitate RLOs; or by providing indirect support that is critical in enabling policy reforms to drive regional integration or other regional goals. These regional organizations can be sovereign entities (in rare cases taking on the IFI loans themselves) or specialized technical bodies. While the primary role of regional bodies is facilitation and coordination, national entities usually implement these operations.
24. The benefits of RLOs are in creating development impact that could not be achieved through a single-country operation with a national focus. Evaluations of RLO programmes at the World Bank (2007), AfDB (2012) and AsDB (2015) strongly suggest that RLOs perform as well or better than single-country operations (see figure 1). However, these results indicate that RLOs require additional time and costs due to the need for enhanced coordination and attention during design and implementation. Over the years, there have also been reports of slower-than-average disbursements through RLOs. Other challenges include: complex safeguard, financial management, procurement and legal issues; coordination challenges across countries and with regional organizations; additional needs for capacity-building at the regional and national levels; and internal challenges within IFIs.

Figure 1  
Percentage of satisfactory operations financed by AfDB (2000-2010).



<sup>5</sup> Evidence suggests that when incentive funding is reduced, demand for RLOs declines.

25. The vast majority of previous RLOs have financed infrastructure. Trade is another relatively common (although often difficult) issue addressed by RLOs. More challenging – and less common – RLOs finance the management of common resources. Few RLOs have focused on agriculture, primarily as a result of challenges in the sector. Agriculture is limited to certain geographic areas while the public sector's role is focused on services delivered at the national (not regional) level, and private-sector investments are typically not cross-border in nature. These challenges have made financing RLOs in agriculture less attractive to IFIs than those in other sectors. Experience suggests that there may be opportunities for RLOs related to agricultural value chains focused on: (i) developing common standards (i.e. for inputs or for output quality) to enhance competition and trade; (ii) cross-border public goods (such as crop technology development and adoption, and weather data); (iii) cross-border pest invasion; and (iv) nomadic pastoral livelihoods.
26. As part of the work programme for developing IFAD's RLO mechanism, the Fund will continue to learn from best practices in other IFIs. In order to build on these best practices and leverage the extensive experience of other IFIs, their RLOs (particularly those in the agricultural and rural development sectors) will be examined further for their relevance to IFAD, their impact and how this impact was measured.

#### IV. IFAD's comparative advantage for regional operations

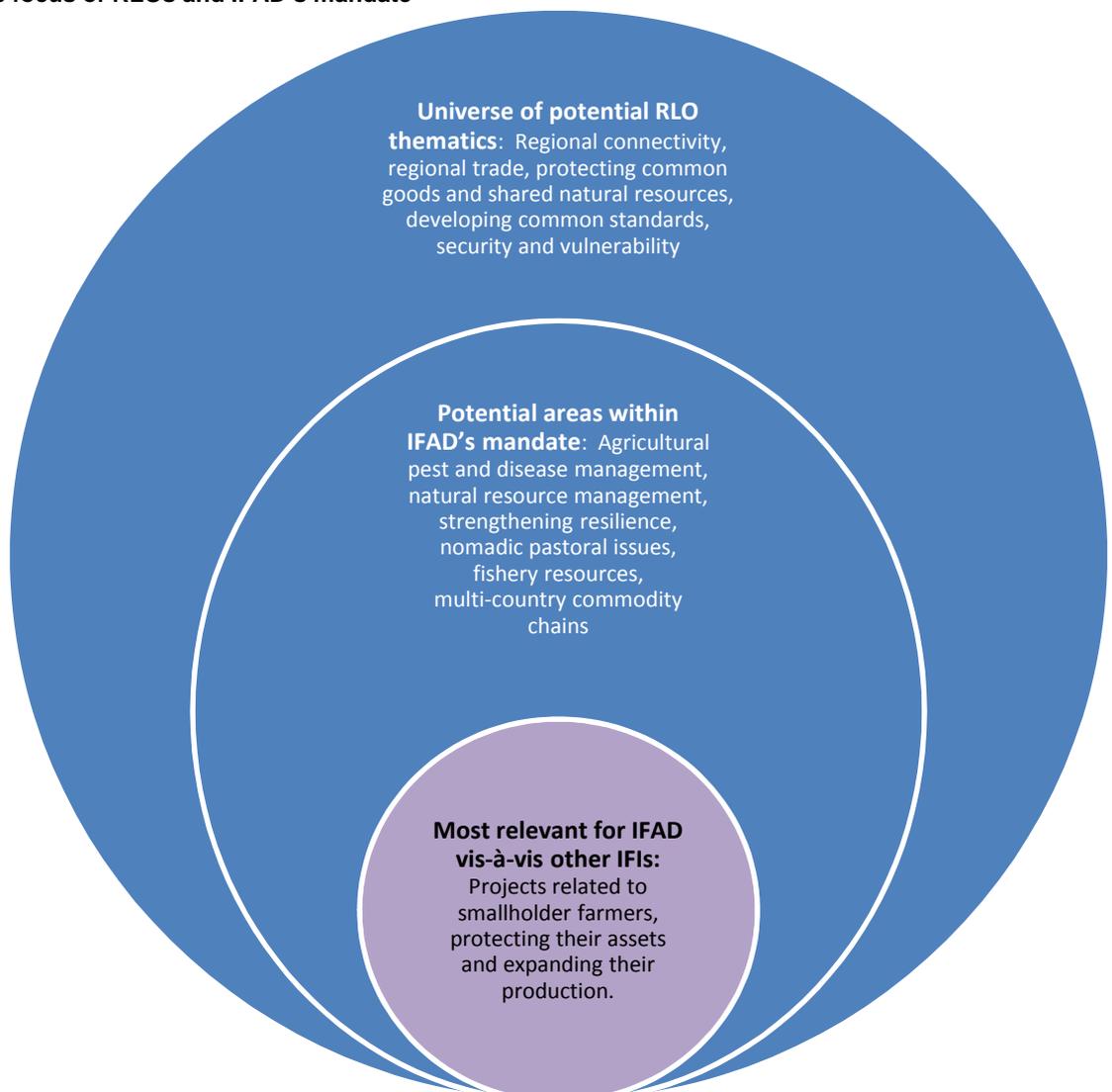
27. With its focus on single-country sovereign loans, IFAD is currently unable to provide sufficient support to countries in addressing development issues that are cross-border, multi-country or regional in nature. IFAD does support a number of regional activities through its regional grant programme<sup>6</sup> and other regional initiatives are funded through Global Environment Facility (GEF) supplementary funds.<sup>7</sup> However, these financing mechanisms are insufficient for many regions, sub-regions and countries to tackle pressing cross-border challenges. As a result, there is considerable unmet demand for IFAD's services.
28. IFAD has a comparative advantage that can complement and fill gaps left by other IFIs. These include bringing the needs and perspectives of smallholders into dialogues on identifying solutions to regional and cross-border issues. The Fund can also advocate for more attention to the regional dimensions of development challenges related to agriculture and rural development. These areas do not receive substantial support from other IFIs' regional programmes, which tend to focus on infrastructure.
29. A number of challenges faced by smallholders require trans-boundary and regional approaches. For example, water resource management and agricultural pests and diseases know no boundaries. These issues are exacerbated by climate change, which is increasing the reach and severity of water scarcity and floods, and the spread of invasive species and pests. Environment and natural resource issues such as biodiversity, air and water quality, water availability, soil functionality and climate stability have important impacts on agriculture and related value chains. These issues in turn impact socioeconomic development objectives such as food security, food safety, rural viability and animal welfare. Such challenges provide several entry points for cross-border rural development projects aligned with IFAD's mandate.

<sup>6</sup> Examples include support to the Farmers' Organizations in Africa Programme, the Alliance for a Green Revolution in Africa and the African Green Revolution Forum.

<sup>7</sup> Examples include the hub project aimed at providing regional services to the pilot programme on Fostering Sustainability and Resilience for Food Security in Sub-Saharan Africa – An Integrated Approach.

30. IFAD already has experience in addressing challenges related to climate change with a regional approach. The GEF-financed programme on food security (see footnote 7), which IFAD leads, aims to increase the adoption of resilient, improved production systems for sustainable food security and nutrition through integrated landscape management and sustainable food value chains in 12 African countries. IFAD has integrated a regional component into the programme, which promotes regional collaboration and South-South learning. This programme is a replicable example of how IFAD could work at the regional level.
31. IFAD will focus its support to RLOs on sectors and issues that draw on its comparative advantages and complement the work of other IFIs. In figure 2, the largest circle represents all the sectors covered by RLOs in other IFIs, the middle circle represents the sectors related to IFAD's mandate and the smallest circle represents the issues most closely aligned with IFAD's comparative advantages (and that complement the work of other IFIs). This last group is most likely to be identified as pilot RLOs.

Figure 2  
Thematic focus of RLOs and IFAD's mandate



## V. Demand for IFAD support for regional operations

32. There are several potential areas of IFAD's work that could benefit from regional operations. In each area, IFAD's comparative advantage in providing solutions will need to be compared with those of other institutions.
33. Building on early indications of demand for an IFAD RLO pilot, the following examples illustrate what the Fund's RLOs could focus on:<sup>8</sup>
  - (a) South Asian agricultural trade. IFAD's main areas of investment could comprise cross-border trade of agricultural products and support to agricultural logistics. A regional operation could be used to strengthen the marketing focus of IFAD-supported operations in this region, especially to facilitate transport from one South Asian Association for Regional Cooperation (SAARC) country to another. This would not only reduce waiting time at borders, but would also harmonize quality criteria, facilitate the development of agri-logistics facilities and enable the processing of higher-value products based on regional market demand.
  - (b) Caribbean climate-smart agriculture. Small island developing states, including those in the Caribbean, are particularly vulnerable to climate and economic shocks. However, these states also offer significant potential to increase the production of fresh fruits and vegetables, and develop fisheries by exploiting idle agricultural lands and waters. Such efforts could also mitigate these countries' high youth unemployment and migration. A programme focused on climate-smart agriculture and youth entrepreneurship in agricultural and fisheries value chains could: improve the attractiveness of rural jobs for youth using innovative technologies; motivate young people to remain in rural areas; and improve the quality of local diets.
  - (c) Africa's inland lakes. There are opportunities to strengthen the management of fishery resources in Africa's large inland lakes such as Lake Victoria and Lake Tanganyika. Proposals for regional operations, though grant-financed, have already been requested by the Lake Victoria Fisheries Management Organization, a specialized body of the East African Community.
  - (d) Regional livestock and nomadic pastoralists. IFAD-financed projects could contribute to managing significant cross-border livestock trade (e.g. South-East Asian, East African and Western African pastoral systems), and transhumance across East Africa, the Horn of Africa and the Sahel.
34. Management proposes to undertake an extensive consultation in order to identify possible candidates for pilot RLOs. This consultation will be facilitated by IFAD's enhanced field presence and undertaken in conjunction with discussions on PBAS programming, with a view to identifying one or more pilot operations by the end of 2018. This process will include the identification of regional operations led by other institutions that IFAD could cofinance, bringing the perspectives of smallholders to these operations' design and implementation.
35. Other IFIs have created incentives – such as dedicated windows and funding in addition to PBAS allocations – for countries to tackle regional issues. This has eliminated the dilemma many countries face in choosing between regional and national priorities, and will need to be addressed by IFAD after the pilot phase.

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<sup>8</sup> RLO pilots must be approved by the Executive Board. Therefore, the examples included in this concept note are for illustrative purposes only.

## VI. IFAD's approach in the pilot phase and beyond

36. Other IFIs including the World Bank have developed their approaches to RLOs over time, based on lessons learned. IFAD's Management proposes a similar approach by assessing experiences gained through the pilot (based on interim procedures) to inform future operational guidelines. The proposed way forward is outlined below.
37. Pilot and learning phase. The IFAD11 period (2019-2021) would constitute a pilot and learning phase in which IFAD's current financial instruments would be used to pilot two or three regional operations. The pilot RLOs would be governed by interim procedures.
38. The interim procedures for RLOs in IFAD11 will build on the following:
  - (a) Identification of pilot operations: In order to identify operations for the pilot phase, IFAD regional divisions would promote the RLO concept among borrowing countries as the programme of loans and grants for IFAD11 is being developed. These discussions would include options for RLOs in which IFAD takes the lead and assembles the required financing, and project ideas identified by other IFIs to which IFAD could provide cofinancing and influence the design by sharing smallholders' perspectives.
  - (b) Project design: The Fund's RLOs would build upon ongoing work and relationships with regional organizations and IFIs. The RLO design process may be more time-consuming than single-country operations since it requires significant policy engagement and coordination between borrowers to agree on common objectives, implementation modalities and timelines. Key characteristics of the design process include the following:
    - (i) In order to optimize the design and treat each RLO as one integrated project, the design process would be managed by one country programme manager or country director in coordination with the other country programme managers in participating countries.
    - (ii) All of IFAD's policies, procedures and review processes would apply to the design of RLOs, including its new development effectiveness matrix and assessments related to financial management (see appendix III for details). These policies and procedures would apply even if IFAD cofinances a RLO led by another institution.
    - (iii) The costs of RLO project design would be closely monitored to maintain parity with the budgets for single-country operations. IFAD's decentralization would facilitate coordination and engagement with partners throughout the RLO design process. Additional funds for RLO design may be sought from potential cofinancers.
  - (c) Financing of RLOs: RLO pilots in IFAD11 would be financed through IFAD's current financial instruments, regardless of whether IFAD is the lead agency or cofinancier:
    - (i) The PBAS allocation to each participating country in the RLO: participating countries could choose to include their full country allocation or a partial allocation in the RLO.<sup>9</sup> According to the financing terms of each country, PBAS allocations could consist of loan funds (for

<sup>9</sup> Other IFIs offering RLOs operate with ceilings on the share of performance-based allocations that countries can use for regional operations. The shares range from 10 per cent at the AfDB to 20 per cent at the AsDB and the World Bank. One rationale for these ceilings is to ensure that funds are also available for national priorities, especially in countries with small allocations. However, these other IFIs have larger performance-based allocations and usually finance several projects in one country. Since IFAD offers smaller PBAS allocations, it would not be efficient to set ceilings for IFAD11 RLO pilots since they might become too small. This issue may be reconsidered if a window for additional financing to RLOs is introduced at a later stage.

“green” and “yellow” countries), country-specific grants (for “green” countries only) or Debt Sustainability Framework grants (for “yellow” and “red” countries).<sup>10</sup> For “green” countries, country-specific grants<sup>11</sup> could be used to finance RLO-related activities such as incremental regional coordination, South-South and Triangular Cooperation, cross-border knowledge management and other activities supporting countries’ efforts towards regional integration.

- (ii) Regional grants: According to IFAD’s Policy for Grant Financing, IFAD grants should: (i) make a significant contribution to a global, regional or national public good related to IFAD’s mandate; (ii) focus on interventions in which grant financing has clear added value and a comparative advantage over regular loans; and (iii) not be used as a substitute for resources from IFAD’s administrative budget. IFAD regional grants are subject to competitive approval processes and are implemented by third parties (i.e. non-governmental entities). It is proposed that regional grants be used to finance regional public goods as an integrated part of RLOs, or to finance regional activities that would otherwise support the effectiveness of RLOs. The grants would seek to explicitly address issues that the investment loans could not.
- (iii) Additional cofinancing and partnerships: In line with IFAD’s proposed cofinancing strategy, Management proposes to identify and seek out additional sources of financing to complement core resources in financing RLO pilot operations. This includes mobilizing additional resources through the second phase of its Adaptation for Smallholder Agriculture Programme and IFAD’s partnerships with GEF and the Green Climate Fund, including from their regional windows. Management will learn from approaches taken with GEF in order to address regional and trans-boundary environmental challenges, and achieve results.
- (iv) IFAD may choose to cofinance RLOs identified by other organizations. In this case, the IFAD financing would be focused on issues relevant to IFAD’s mandate using the previously mentioned instruments.
- (d) Legal establishment: It is proposed that each participating country have a separate financing agreement with IFAD drawing on its PBAS allocation. Schedule 1 of the financing agreement – project description and implementation arrangements – would stipulate how the country-specific activities would fit into the larger regional project. Agreements for regional grants would include clear language detailing how regional activities will be coordinated with national actors during RLO implementation.
- (e) Negotiations of financing agreements: Prior to the formal negotiations, IFAD would engage in thorough consultations with all participating stakeholders in IFAD-led RLOs to ensure their agreement on activities within each country and across the entire region. Schedule 1 of the financing agreement on the project description and implementation arrangements should include similar elements. The formal negotiation process for each financial instrument would take place individually, building on prior agreement on the project description and implementation arrangements.

<sup>10</sup> Financing terms of each country are governed by the Policies and Criteria for IFAD Financing, and Proposed Arrangements for Implementation of a Debt Sustainability Framework at IFAD (EB/2007/90/R.2).

<sup>11</sup> Country-specific grants are included in countries’ PBAS allocations and are equivalent to 1.5 per cent of IFAD’s programme of loans and grants. Only “green” countries (countries not eligible for Debt Sustainability Framework grant financing terms) are eligible to receive this grant financing. Country-specific grants comprise: (i) loan-component grants (i.e. part of an investment project); or (ii) stand-alone grants. Both types of country-specific grants could be used to finance RLOs.

- (f) Lending terms: The applicable lending terms would be those of each borrowing country.
  - (g) Eligibility criteria: The eligibility the of specific sector and project types for RLOs would be governed by IFAD's current suite of policies in the same manner as single-country loan operations, including the Targeting Policy, Environment and Natural Resource Management Policy, and the IFAD Policy on Gender Equality and Women's Empowerment. However, in order to ensure development effectiveness, a unique set of eligibility criteria has been developed to prioritize selection of RLO pilots in IFAD11:
    - (i) Proposed regional operations must credibly demonstrate spillover effects yielding development effectiveness and results that could not be generated through one or more single-country operations.
    - (ii) RLO pilot operations in IFAD11 would include two or more countries, with some flexibility for single-country operations with regional impact. This practice is in line with those of peer organizations.
    - (iii) The focus of RLO pilot operations would be aligned with the strategic objectives of participating countries' country strategic opportunities programmes (COSOPs).
    - (iv) IFAD would need to have a clear comparative advantage in order to finance an RLO, relative to other sources of financing. It is important that these operations focus on IFAD's mandate of enabling inclusive and sustainable transformation of rural areas, based on lessons learned from similar operations.
  - (h) Mainstreaming agenda. RLOs would contribute to the IFAD11 mainstreaming agenda in the same fashion as single-country operations. They would need to be: nutrition sensitive; gender transformative; have a focus on environmental sustainability; and mainstream youth employment.<sup>12</sup>
  - (i) Synergies would be sought within IFAD's decentralized structure, taking advantage of the Fund's new regional hubs and regional approach to country programme delivery.
  - (j) Learning module at the project level: In pilot operations, special attention would be paid to monitoring, evaluation and learning, including adequate funding for learning from experience. At the design phase of the RLOs, there would be a focus on ensuring that the projects: (i) present a clear theory of change; (ii) make explicit any questions to be answered in future assessments; and (iii) have a clear data-collection strategy. Similar to single-country operations, RLOs would be analysed against IFAD's Development Effectiveness Framework.
  - (k) Approval: RLOs would be presented to the Executive Board for approval regardless of the amount to be financed. Ideally, all financing agreements would be presented to the Executive Board at the same time, although this is not a legal requirement. IFAD would coordinate with borrowing countries and grantees to ensure appropriate timing of loan and grant approvals.
39. Synthesis report with lessons learned. In late 2019 or early 2020 (once some RLO pilot operations have been designed and implementation started), IFAD will assess the benefits and challenges of this approach in order to estimate further demand for RLOs among borrowing countries. The findings will be summarized in a synthesis report that will be presented to the Executive Board. These findings will

<sup>12</sup> An overview of the overall commitments to mainstream nutrition, gender, youth and climate in IFAD11 can be found in table 1 on page 30 of the Report of the Consultation on the Eleventh Replenishment of IFAD's Resources (GC 41/L.3/Rev.1)

draw on both IFAD-led RLOs and those cofinanced by IFAD. Based on the findings of this assessment, Management will decide whether to pursue the development of an enhanced approach to RLOs and mainstream this approach into IFAD's service offerings.

40. Impact assessment. Upon project completion, at least one of RLO pilot will undergo a full impact assessment (even if it will be too late to inform an institutional approach). Efforts will be made to compare RLO impacts to those of single-country IFAD projects.
41. Enhanced approach to regional lending operations. Subject to the findings of the impact assessment mentioned above, an enhanced approach to RLOs would be included in the IFAD12 Consultation, which is expected to begin in 2020.
42. As with other IFIs, an enhanced approach would likely include a specific window for countries to access funds in addition to PBAS allocations for RLOs. IFAD's grant programme would be revisited at that time to assess whether regional grants should be enhanced or other grant sources mobilized to support RLOs. This enhanced approach would also identify the need for specific policies or strategies related to RLOs, along with any legal or procedural changes for RLOs beyond the pilot phase.<sup>13</sup> COSOP guidelines may also be adjusted to integrate the agenda for regional integration, which RLOs could help to further.

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<sup>13</sup> According to the Agreement Establishing IFAD, the Fund can also provide loans to inter-governmental organizations in which IFAD Members participate. In this case, IFAD may require governmental or other guarantees. Financing through inter-governmental organizations is another approach to regional operations that could be explored in IFAD12 or later. This approach does not seem feasible for IFAD11 since the PBAS currently allocates funds to countries and not regional entities.

## Key Features of Regional Lending Operations across IFIs

<b>KEY FEATURES OF REGIONAL LENDING OPERATIONS ACROSS IFIs*</b>				
	<b>WB</b>	<b>IDB</b>	<b>AsDB</b>	<b>AfDB</b>
<b>Program Launch</b>	2003 (for IDA countries as part of replenishment)	2005/2011	1994	1996 (formalized in 2000 framework)
<b>Strategy/Key Documents</b>	IDA Replenishment, mid-term reviews, and dedicated IDA reports on Regional Operations (2003-2018)	Grant financing only (2005); IDB Support to Global and Regional Integration in LAC (2010); Sector Strategy to Support Competitive Global and Regional Integration (2011) and 2012 Action Plan; Guidelines for the Classification and Validation of Operations Eligible for the GCI-9 Regional Cooperation and Integration Lending Priority (2013)	Regional Cooperation Policy (1994), Regional Cooperation and Integration Strategy (2006); Operational Plan for RCI (2016)	Economic Cooperation and Regional Integration Policy (2000); Regional Integration Strategy 2009-2012; Strategic and Operational Framework for Regional Operations (2008); Regional Integration Policy and Strategy 2014-2023 (2015)
<b>Corporate Priority</b>	Priority for IDA/ concessional financed countries	One of five strategic corporate priorities; target of 15% lending for Regional Operations (2011)	Emphasized in Strategy 2020 with lending target of 30% by 2020	Priority for ADF/ concessional financed countries
<b>Comparative Advantage</b>	Country and regional engagement dialogue underpinned by analytic work; leadership and convening power; experience with design of complex projects	Honest integration broker; access to regional networks and external resources; ability to bring together regional actors; high technical and operational standards; trusted partner; regional knowledge; regional ownership of IDB	Finance; knowledge; capacity building (for national and regional bodies); honest broker (catalyst and coordinator for regional cooperation and integration)	Leadership role for continental initiatives; knowledge broker and strategic partner for regional integration
<b>Defining Characteristics</b>	Spillover effects—generating positive externalities or mitigating negative ones across countries. Require a concerted action from a group of countries for all benefits to accrue	Cross-country focus; regional additionality; national subsidiarity; compensation of coordination failures	Direct or indirect cross-border economic, social or environmental net benefits	Benefits are superior to individual country operations or a multi-country operation; projects with regional impact and positive cross-border effects
	<b>WB</b>	<b>IDB</b>	<b>AsDB</b>	<b>AFDB</b>

<b>Number of Participating Countries</b>	Minimum 3 countries (2003); or 2 countries if one is FCS (2011); or single country project if deemed transformational (2014/15)	Single-country with regional spillovers, or multi-country.	Single-country with regional spillovers, or multi-country.	Single-or multiple country with cross-border benefits.
<b>Type of Instruments</b>	Investment Project Lending; grants	Regional policy-based lending and investment lending; grants	Investment lending; grants	Investment lending; grants
<b>Loan Structure**</b>	Both multiple single-country sequenced loans and multiple single-country coordinated loans	Predominantly one single country loan and multiple single-country sequenced loans	Predominantly multiple single-country sequenced loans and also one single-country loans	Predominantly one single country loan and multiple single-country sequences loans
<b>Dedicated/top up Funding</b>	Dedicated window for IDA countries; each RO funded with 1/3 PBA and 2/3 RO window. Cap of 20% annual PBA for ROs for small countries (2009); grant funding	Grant funding; launched in 2015 a modest set-aside for global and regional integration	Set-aside for ADF (concessional) countries; began with 5%, later raised to 10%, of overall ADF resources. 50% from PBA and 50% from set-aside. Ordinary Capital Resources (OCR), i.e. non-concessional, country set-aside introduced in 2015 with \$500 million pilot; grant funding	Dedicated envelope for concessional countries requiring 1/3 from PBA and 2/3 from dedicated RO envelope (with a 10% ceiling on PBA for small countries); grant funding
<b>Lending volumes</b>	\$14.1billion cumulative 2002-18	\$14.5billion for regional integration and \$103million for regional public goods	\$26billion 2003-14	\$3.8billion 2009-17
<b>Sector focus</b>	65-85% infrastructure; 7% agriculture	Primarily transport, energy and ICT; <1% agriculture	Primarily transport and power; 1% agriculture	Primarily infrastructure, with >50% transportation and energy; significant agriculture in early 2000s but since declined to 4%
	<b>WB</b>	<b>IDB</b>	<b>AsDB</b>	<b>AfDB</b>

<b>Evaluations</b>	The Development Potential of Regional Programs (2007); Approach Paper (2017) for evaluation of WBG support for fostering regional integration (evaluation forthcoming 2018)		Support for Regional Cooperation and Integration (2015)	Fostering Regional Integration in Africa: Evaluation of AfDB Multinational Operations 2000-2010 (2012)
<b>Evaluation Findings</b>	% satisfactory outcomes was higher for regional projects than overall average		Performance of RCI projects on average 81% successful compared with AsDB average of 61% and non-RCI of 59%	ROs rated satisfactory at 96% for relevance and 86% for effectiveness compared to 80% and 78% for single-country operations. 63% rated satisfactory for efficiency and sustainability compared to 46% and 56% for single-country operations

\* Each IFI has a specific name and acronym for its regional activities. The information in this table is culled from available documents, some of which have not been updated in recent years.

**\*\* Spectrum of Regional Operations (operational structures used in varying amounts by each IFI)**



**Challenges of Regional Lending Operations.** The challenges noted across the IFIs are relatively consistent, stemming from the technical complexity of the operations and the additional coordination and financing challenges inherent in multi-country operations. Challenges include:

- Lengthy timelines and higher project costs. One estimate<sup>14</sup> suggests that preparation and supervision costs for RLOs can be as much as 1.5 times that of single-country projects. Another estimate<sup>15</sup> suggests that RLOs are 73% more expensive to design and 36% more to supervise.
- ROs often generate very complex safeguard-related issues which require close and lengthy monitoring processes to ensure that affected people and concerned sites are dealt with in accordance to highest international standards.
- Procurement and financial management is complex, especially due to the number of counterparties involved.
- Additional support is needed for capacity building of both regional and national institutions.
- Risks from unexpected events (e.g. civil disturbance, political crises) in one or more countries can cause delays in the overall project.
- There is significant legal complexity, including multiple legal processes for each loan in a multicountry RO, which can delay project effectiveness and project start.<sup>16</sup>
- Donors wrestle with the complexities of supporting regional programs, and donor coordination and alignment issues are considerable.
- Regional institutions are key to implementing ROs but in many cases their political commitments have exceeded their capacity to deliver complex regional investment projects. The enabling environment for market integration is critical as is the framework for regional cooperation through eg Regional Economic Communities (SADC, SAARC, OECS) and sector/project specific regional institutions.
- Coordination between participating countries and regional organizations serving as implementing agencies can be challenging. Strong leadership is needed by national and regional champions as are strong and clear implementation and governance arrangements.
- Internally, the IFI business model remains a single-country operation model and is not well-adapted to the requirements of multi-country operations. This affects issues such as systems needed for tracking/monitoring regional projects, and how projects are rated upon completion.<sup>17</sup>

**Key lessons learned:** A number of lessons appear to emerge from the review of IFI experience, including: (i) defining and drawing on IFI comparative advantage and role for RLOs; (ii) country alignment and ownership; (iii) defining the role of regional organizations; (iv) timing and project duration; and (v) internal IFI capacity and resources.

<sup>14</sup> AfDB 2008 "Strategic and Operational Framework for Regional Operations", 2008

<sup>15</sup> WB "IDA14 Mid-term Review of the IDA Pilot Program for Regional Projects", Nov 2006

<sup>16</sup> Legal issues identified by the World Bank included: Agreeing on Protocols, International Legal Relationships Between Countries, Legal Status of the Regional Organization, Legal Covenants for Implementation, Assuring Commitment of Member States, Cross-effectiveness, and States under Provisional Status. See IDA14 Mid-term Review of the IDA Pilot Program for Regional Projects (Nov 2006).

<sup>17</sup> IFIs need to determine the weight of individual project ratings and how they affect the overall project rating. For instance, if the Completion Report for a four-country project suggests a Satisfactory in three countries but an Unsatisfactory in one country is the overall project rated Unsatisfactory?

## The Concept of Regional Public Goods

1. A good or service is defined as "public" when it satisfies the two criteria of being non-rival and non-excludable.<sup>18</sup>
  - (a) Benefits are non-rival when each individual's consumption of such a good leads to no subtraction from any other individual's consumption;
  - (b) Benefits are non-excludable when they are available to all would-be consumers once the good is supplied and it is infeasible to price units of a good in a way that prevents those who do not pay from enjoying its benefits.
2. These two properties of pure public goods give rise to market failures that may require either government provision or some form of cooperation among the benefit recipients. Non-exclusion results in a market failure because a provider cannot keep non-contributors from consuming the good's benefit (the free rider problem). Once the public good is provided, consumers have no incentive to contribute because their money can purchase other goods whose benefits are not freely available. Thus, the public good will be either undersupplied or not supplied. Benefit non-rivalry means that extending consumption to additional users results in a zero marginal cost. Exclusion based fees are inefficient because some potential users, who derive a positive gain, are denied access even though it costs society nothing to include them.

Figure 1  
The nature of Public Goods



3. Pure regional public goods are those services or resources whose benefits are shared by countries in a region and that satisfy the two above-mentioned conditions (non-rivalry and non-excludability). For purely public regional public goods, intervention by a global institution, regional organization, or other collective is required for provision.

<sup>18</sup> The theory of public goods was first postulated by Paul Samuelson in "The Pure Theory of Public Expenditure", *The Review of Economics and Statistics*, Vol. 36, No. 4, November 1954.

Figure 2  
Public Goods and their provision level



4. Regional efforts produce regional public goods (RPGs), and therefore are subject to the free-rider problem of financing public goods (and to market failures). Except for the largest countries, which have an incentive to supply themselves with these regional public goods, countries may seek to benefit from the investment of others.
5. The under provision of RPGs is related to the reluctance of countries to devote their national resources to supranational projects whose spill-overs are often not clearly identifiable, nor quantifiable. In many cases, in fact, the RPG itself does not generate direct revenues, but it only has an indirect positive influence. It is precisely here that a Regional or a Multilateral Development Bank (MDB) has a major opportunity to step in, since it can both coordinate as well as contribute to the financing of these essential regional capacities. To effectively exercise a leadership role, MDBs need to develop mechanisms for financing RPGs that do not depend solely on individual country borrowing decisions.<sup>19</sup>

#### Regional Public Goods in Agriculture

6. Apart from tradable commodities, such as food, fibre and fuel, agriculture also provides non-commodity outputs. The former production outputs are usually defined as the agricultural economic function. In contrast, the latter are referred to as environmental and social externalities of agriculture, which include agricultural landscapes, farmland biodiversity, water quality, water availability, soil functionality, climate stability (greenhouse gas emissions, carbon storage), food security, food safety, rural viability and farm animal welfare. Agricultural activities impact upon environmental functions, such as soil function, water purity, air quality, landscapes and biodiversity, resulting in either positive externalities (public goods) or negative externalities (public bad).<sup>20</sup>

<sup>19</sup> Pingali, P. and Evenson, R., *Handbook of Agricultural Economics*, Vol. 4, North Holland, Elsevier 2010, p. 3582-3583.

<sup>20</sup> Chen, Q., Sipiläinen, T. and Sumelius, J., "Assessment of Agri-Environmental Externalities at Regional Levels in Finland", *Sustainability*, n. 6, 2014.

## Audit and Financial Management in Regional Lending Operations

### Financial Management Assessment

1. Effective oversight and governance of IFAD's financial resources is vital to the Funds' ability to achieve its objectives and to be accountable to its stakeholders. In accordance with IFAD policies and procedures, the proceeds of IFAD financing can be used solely for the purposes intended under the financing agreements.
2. The purpose of this annex is to set some of the principles of financial management arrangements in RLOs. The non-country regional grants financial management requirements are covered by the existing grant procedures.
3. IFAD's Financial Management Services Division (FMD) will be responsible for carrying out a Financial Management assessment and associated risk for each participating country and proposed Project Implementation Units (PIUs) involved in the management of RLOs. The assessment will be performed in accordance with the risk based approach as documented in IFAD's Financial and Administrative Manual.
4. The assessment will also consider the degree of adequacy and efficiency in the following areas: (i) staffing and organisational structures; (ii) budgeting (systems of annual budget preparation and execution); (iii) funds flow and disbursement arrangements; (iv) internal control; (v) accounting systems, policies and procedures; (vi) reporting and monitoring; (vii) internal audit; and (viii) external audit arrangements.
5. As part of the financial management assessment, the opportunity to use country systems will be evaluated and promoted where appropriate standards exist<sup>21</sup>.

### Interim Financial Reports

6. Unaudited Interim Financial Reports (IFRs) will be required to be submitted to IFAD by each participating country individually. The content and format of IFRs will be prepared in accordance with IFAD Handbook for Financial Reporting and Auditing of IFAD-financed Projects. The opportunity to prepare and present to IFAD consolidated IFRs will be evaluated during design, and the relevant roles and responsibilities among participating countries will be identified and agreed.
7. The frequency of submission and period covered by IFRs, as well as any additional requirement to the minimum content of IFRs will be determined at the design stage in consultation with the participating countries. The requirements relating to the IFRs will be established in the respective financing agreements and/or letters to borrower/recipient.

### Annual project financial statements and external audit arrangements

8. Borrowers/recipients of participating countries will be required to submit to IFAD unaudited and audited project-specific financial statements annually, within four months and six months respectively from the end of the fiscal year. Each

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<sup>21</sup> IFAD has a strong commitment in the context of the Accra Agenda for Action to use country systems when appropriate standards exist

participating country under RLOs will prepare and deliver separate unaudited and audited financial statements. The opportunity to prepare and present to IFAD consolidated unaudited and audited financial statements will be evaluated, based also on the nature of underlining operations of the RLOs, during the design phase, and the relevant roles and responsibilities in this respect among participating countries will be identified and agreed, including the appointment of the auditor and the payment of its services.

9. The individual project's financial statements to be delivered by each participating country will be prepared in accordance with acceptable accounting standards<sup>22</sup> to IFAD. An alignment of the accounting standards adopted for preparation of individual financial statements will be encouraged.
10. In the event that a project's consolidated financial statements are prepared, a unified accounting standard acceptable to IFAD will be adopted for preparation of the individual and consolidated financial statements, and similarly for the auditing standards to be adopted for conducting the external audit.
11. The financial statements reporting period is generally twelve months and it expected to coincide with the participating countries' fiscal years. In the case of consolidated financial statements, an alignment of the reporting period will be determined in consultations with participating countries during the design.
12. As a general principle for RLOs, IFAD will require the use of consolidated IFRs, unaudited and audited financial statements whenever feasible and in agreement with participating countries.

#### Disbursement performance

13. The implementation of RLOs may be affected by the increased complexity of the projects, which could potentially result in slow disbursements and/or the need to extend the implementation period beyond the original time-frame. This risk will have to be taken into account during design and close monitoring and support will be required during implementation. In this respect, lesson learnt from the RLOs pilots will be documented as part of the findings which will presented to Executive Board.

#### Supervision and implementation support

14. FMD will carry out annual supervision missions and implementation support missions as required to identify risks and mitigation measures, follow-up on actions needed as appropriate and support the project management to ensure that effective financial management arrangements are in place. The learning from the pilot phase of RLOs will be documented and relevant procedures will be updated to incorporate lessons learnt and best practices as appropriate.
15. Similar to the arrangements indicated in paragraph 38b.a of the concept note, RLOs will ideally be managed by one IFAD Finance Officer, in coordination with the other IFAD Finance Officers assigned to countries participating in the RLOs.

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<sup>22</sup> As per IFAD Handbook for Financial Reporting and Auditing of IFAD-financed projects

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Investing in rural people

## Concept Note on Results-based Lending

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For: Information

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## Abbreviations and acronyms

AsDB	Asian Development Bank
AfDB	African Development Bank
ARRI	Annual Report on Results and Impact of IFAD Operations
DLI	disbursement-linked indicator
RB-COSOP	results-based country strategic opportunities programme
FIPS	Faster Implementation of Project Start-up
FLM	flexible lending mechanism
IDB	Inter-American Development Bank
IFI	international financial institution
LBR	loan based on results
M&E	monitoring and evaluation
PforR	Program-for-Results (World Bank)
RBF	results-based financing
RBL	results-based lending
SME	small and medium-sized enterprises
SWAp	sector-wide approach

## Recommendation

As one of its commitments under the Eleventh Replenishment of IFAD's Resources, (IFAD11), IFAD will develop a proposal to pilot results-based lending (RBL) for consideration by the Executive Board. Various forms of results-based financing have been utilized for many years by diverse development institutions and actors. IFAD will draw upon this experience to explore options in the future. The Working Group on the Transition Framework is invited to review and endorse the rationale for introducing RBL operations in IFAD and the proposal for the pilot phase as described below. The pilots will be presented to the Executive Board for approval during IFAD11. This initial proposal includes the following:

**Piloting a variety of RBL mechanisms:** IFAD will benefit from experimenting with different types of RBL to learn what best fits its capabilities and comparative advantages. This concept note outlines two main types of RBL undertaken by other international financial institutions (IFIs): project RBL and programmatic RBL. The proposal is for IFAD to introduce at least one of each type of RBL during the pilot phase.

**Piloting in specific areas:** There has been somewhat limited experience to date in both project and programmatic RBL in the agriculture sector. Potential focus areas for IFAD's pilot of project RBL could include: (i) public services to farmers such as extension services (e.g. business planning assistance) and infrastructure services (e.g. irrigation); and (ii) incentive programmes for behavioural change of smallholder farmers (e.g. crop conversion linked to climate adaptation). IFAD will explore other areas for project RBL pilots. Potential focus areas for piloting IFAD programmatic RBL could include support at the central, provincial and local levels of government as part of a broader government-owned programme.

**Partnering during the pilot phase:** The proposal suggests that IFAD's initial pilot of programmatic RBL be undertaken in partnership with an IFI that has experience with this type of RBL, drawing on technical assessments for the use of country systems undertaken as part of programmatic RBL. IFAD can review these assessments in its role as cofinancier. This approach will allow IFAD to gradually build the required competencies – both at headquarters and in the field – in all the aspects of RBL, including with government discussions, design, supervision and monitoring.

**Identification of pilot operations:** IFAD will undertake a demand-driven selection process, with regional divisions promoting the concept of RBL among borrowing countries. It is proposed that IFAD undertake at least two or three pilots (representing a modest proportion of annual project approval) over a six-year period. This will allow for a thorough assessment of the RBL process at the end of the pilot period.

**Financing of pilots:** Pilot RBL operations will be financed through part or all of the performance-based allocation system allocation for each participating country as per the terms established for each country category. Additional administrative resources will be dedicated for the design, implementation and assessment of the pilots.

**Duration of pilots:** The pilot phase will be time bound and designed as a learning effort. Based on the experiences of other IFIs, it is proposed that the pilots be undertaken during at least a six-year period in order to have sufficient experience to undertake a self-assessment of the design, implementation and results, with a mid-term review of the pilots to assess lessons learned after three years.

**Executive Board approval.** The proposal suggests that IFAD's RBL will not be guided by a new policy; instead, interim guidance will be provided to design and implement the pilots. The proposal further suggests that the pilot launch be accompanied by an indication of any policy waivers that may need to be approved by the Executive Board. Each pilot project will also be brought for discussion and approval by the Executive Board.

## Concept Note on Results-based Lending

### I. Background and rationale for IFAD results-based lending

1. IFAD is currently constrained by its menu of lending products. In contrast to other international financial institutions (IFIs), which have a wider choice of options, IFAD currently has a single lending instrument. With IFAD's increased focus on policy dialogue and partnership-building, it has been raising its profile to engage at a higher level of policy and institutional reform. Developing a lending mechanism to target IFAD's financing to the delivery of concrete results and broadening the scope of IFAD's financing to include areas critical to the delivery of broader government agricultural programmes has the potential to bring IFAD to the next level.
2. IFAD's Transition Framework calls for better tailoring of IFAD products to its Members. IFAD has mapped out a path to transition borrower countries in a predictable and sustainable way. It also envisages an IFAD that can respond to borrowers' demand for more tools and provide more flexibility in its support. To this end, IFAD will need to tailor support for Members on a differentiated basis, as recognized in the enhanced business model for Eleventh Replenishment of IFAD's Resources (IFAD11).
3. As one of its commitments under IFAD11, IFAD will pilot results-based lending (RBL). The IFAD11 commitment states that IFAD will pilot diversified products tailored to different country circumstances, noting that it will "develop a proposal to pilot results-based lending for consideration by the Executive Board".<sup>1</sup> The Corporate-Level Evaluation on IFAD's Financial Architecture<sup>2</sup> also underscored that RBL is a priority to add to IFAD's product menu.
4. IFAD aims to increase the effectiveness of its lending and non-lending activities. IFAD's overall project lending performance is good, with an aggregate rating of "moderately satisfactory", but there is an ambition to enhance this performance. The 2016 and 2017 Annual Reports on Results and Impact of IFAD Operations (ARRIs) suggest that adopting more strategic approaches, increasing coordination with other partners and focusing more on institutional development are key to increasing IFAD's effectiveness. IFAD now engages in activities beyond project lending including policy dialogue, knowledge management and partnership-building. These activities have also been rated in recent years as "moderately satisfactory" and there is a similar desire to enhance performance. An effort is under way to: build stronger linkages that enable the flow of knowledge from project management units to governments and other stakeholders; scale up successful experiences and results at the project level; support broader policy dialogue and partnership-building; and better link lending and non-lending activities. Enhanced non-lending activities would also be critical to any programmatic engagement in RBL.
5. RBL has the potential to scale up and increase IFAD's impact. The introduction of an RBL approach has the potential to increase IFAD's focus on results and higher-level impact. In both project and programmatic RBL, such a mechanism has the potential to draw on IFAD's experience with smallholder farmers and indigenous peoples, and scale up development impact among these groups.

<sup>1</sup> See GC 41/L.3/Rev.1, Report of the Consultation of the Eleventh Replenishment on IFAD's Resources, commitment 3.6, monitorable action 36.

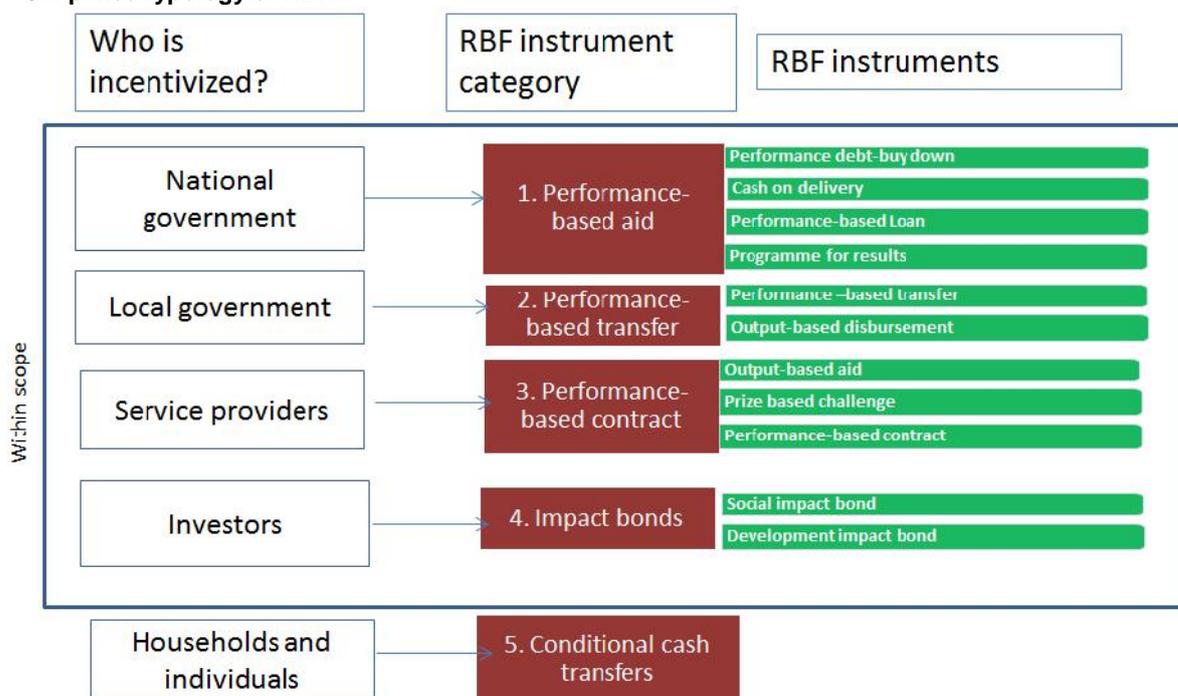
<sup>2</sup> See EC 2018/101/W.P.5.

## II. Results-based financing: Concepts and practice

### A. The spectrum of mechanisms

6. Over the past 20 to 30 years, there has been a large expansion of results-based financing (RBF).<sup>3</sup> While there is no commonly agreed definition of RBF, most institutions share the World Bank's perspective that it is "an umbrella term referring to any programme or intervention that provides rewards upon the credible, independent verification of an achieved result". This is in contrast to more traditional project or investment lending in which funds are disbursed against specific eligible expenditures.
7. A range of RBF instruments and modalities have been developed to accommodate different financiers, incentivize a variety of agents and fund different types of results along the results chain. RBF instruments can be grouped into five broad categories according to the incentivized agent. They range from performance-based aid, in which the incentivized agent is a national government, to conditional cash transfers, in which the incentivized agents are households and individuals, and include different categories of instruments and agents in between (see figure 1).

Figure 1  
Simplified typology of RBF



Source: Global Partnership on Output-Based Aid (June 2018).

8. IFIs have moved in the dual directions of more results-focused and more programmatic financing as part of their aid effectiveness efforts. IFIs and other development partners have increasingly experimented with a range of RBF instruments and other modalities to better reflect the principles of country ownership, alignment of donors around country strategies, use of country systems, donor coordination, and mutual accountability (see the appendix). IFIs have begun experimenting with more project-focused modalities, within the instruments' constraint of tying disbursements to expenditures. Over time, IFIs have included

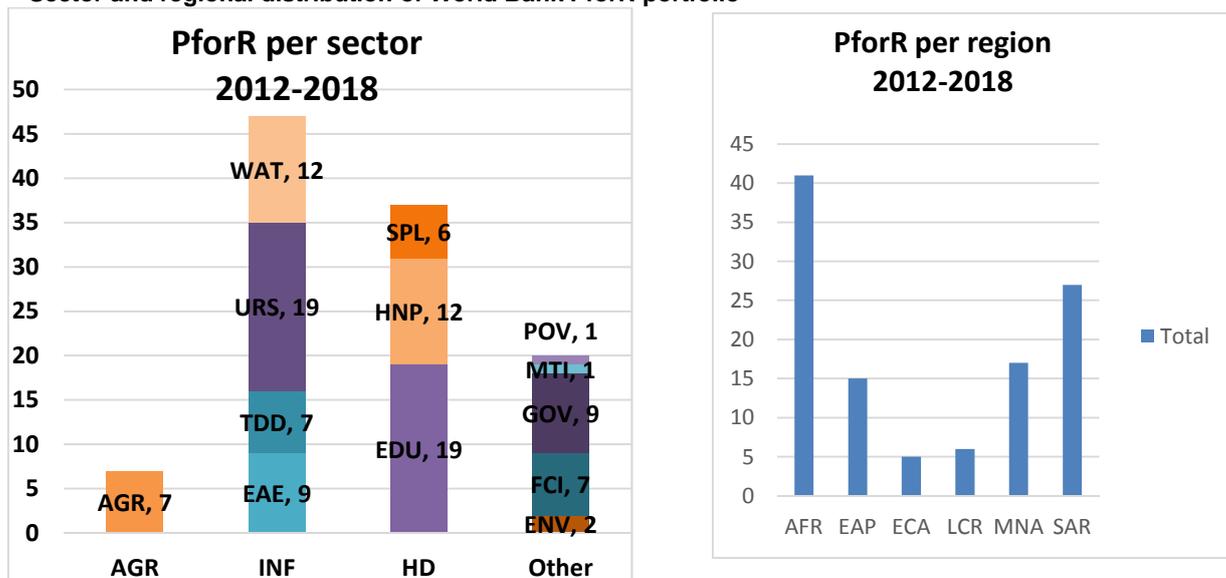
<sup>3</sup> Results-based financing is the term used most frequently by development partners and encompasses both loans and grants.

more programmatic RBL modalities such as the World Bank's Program-for-Results (PforR) financing instrument and similar instruments of regional development banks that support government-owned programmes and the use and strengthening of country systems.

## B. IFIs: Project- and programme-focused results-based financing

9. Within project or investment financing, IFIs have been experimenting with a range of RBF modalities for some time. These modalities have included output-based aid, conditional cash transfers, sector-wide approaches (SWAps) and investment lending with disbursement-linked indicators (DLIs). RBF as project or investment financing has been used across a range of sectors and countries. The evidence on the effectiveness of project-focused RBF approaches is still emerging, but preliminary indications are encouraging.
10. Four IFIs have expanded their suite of lending instruments to include programmatic RBF. They have introduced totally new programme-focused RBF instruments, which fill a gap between project-support and policy-support operations. The World Bank introduced PforR in 2012; the Asian Development Bank (AsDB) introduced a new RBL instrument in 2013 with a six-year pilot phase; the Inter-American Development Bank (IDB) introduced a new loan based on results (LBR) instrument in 2016, also with a six-year pilot phase; and the African Development Bank (AfDB) introduced a new RBF instrument at the end of 2017. In all cases, Board approval of the new instruments' introduction and associated policies and procedures was required. As with project-based RBF, it is still too early to be certain about the effectiveness and efficiency of these new instruments, but early reviews (from both the World Bank and AsDB) are encouraging.
11. The features of these new lending instruments are very similar. RBF through programme-focused operations has already been used across a range of sectors and countries (see figure 2). Their features include:
  - Financing and helping to strengthen borrowers' development programmes with clearly defined results;
  - Disbursing upon achievement of results and performance indicators, not inputs;
  - Focusing on strengthening the institutions, governance, capacity and systems essential for ensuring that the programmes achieve their expected results and can be sustained;
  - Providing assurance that development partners' financing is being used appropriately and that the environmental and social impacts of programmes are adequately addressed; and
  - Enhancing development organizations' ability to pool resources and focus directly on capacity-building.

Figure 2  
Sector and regional distribution of World Bank PforR portfolio



Source: World Bank database on PforR (2018).

Note for left figure: AGR = agriculture; INF= infrastructure; HD = human development; WAT = water; URS = urban rural and social development; TDD = transport and digital development ; EAE = energy and extra activities; SPL = social protection and labour; HNP = health, nutrition and population; EDU = education; POV = poverty; MTI = macroeconomics, trade and investment ; GOV = governance; FCI = finance competitiveness and innovation ; ENV = environment.

Note for right figure: AFR = Africa; EAP = East Asia and Pacific; ECA = Europe and Central Asia; LCR = Latin America; MNA = Middle East and North Africa; SAR = South Asia.

12. Countries are making the shift to more results-based approaches and development partners are building on lessons learned. Many countries from different regions and with different income levels are seizing the opportunity to make their own projects and programmes more results focused. This requires the commitment of governments and other implementing agencies to work in a performance-based and results-focused manner, and to develop the new capacities needed for this shift. A number of lessons have been learned from experience gained to date with both project- and programme-focused RBF, including the following:

- Up-front assessments are needed of countries, sectors and project contexts to ascertain if there are clearly defined results to be achieved, what behavioural change is needed to achieve these results and what actors need to be involved and incentivized.
- Developing an RBF operation requires continuous discussions with government counterparts on activity-output-intermediate outcome-final outcome results chains, the selection of indicators and payment structures, which determine the flow of funds.
- Additional training and knowledge-sharing for both management and staff are needed to develop an understanding of the range of RBF dimensions. There is also a need for additional guidance and in some cases new policies and procedures.

### C. Observations on agriculture-related results-based financing

13. To date, RBF has had a limited but growing application in the agricultural sector. Several factors specific to the agricultural sector pose challenges for RBF. Outcomes (such as production levels and smallholder income from agricultural production) may be highly variable over time and subject to external shocks, and there is considerable potential for measurement error. Relative to other sectors, agricultural RBF requires a greater focus on financial incentives and disbursements

as well as more output and intermediate outcome indicators (rather than final outcomes), including those that emphasize institutional and system strengthening, and reform.

14. Box 1 summarizes areas in the agricultural sector with potential for successful RBF support.

**Box 1**

**Areas of focus for agricultural RBF**

**Programme-focused RBF (based on PforR experience)** highlights institutional change, reform and investment: agriculture-specific PforR and other programme focused RBF address institutional and system strengthening across a range of agricultural services. These include: research and extension; irrigation development; land management; farmers' organizations; marketing; financial services; agricultural planning; management; regulation; and monitoring and evaluation (M&E). PforR focusing on broader issues of rural development and poverty reduction also includes a strong emphasis on infrastructure development, and in some cases the provision of social services. Programme-focused RBF has high potential to strengthen government expenditure planning and implementation of public expenditure programmes in the agricultural sector. This is consistent with IFAD's role in using public expenditures to track the level and quality of these expenditures on strategic programmes that are vital for smallholders.

**Project-focused RBF**, by contrast, often targets a specific beneficiary group. Examples include:

- Subsidies paid to groups of farmers that successfully implement investments in land management and irrigation;
- Performance-based grants to producer cooperatives and small and medium-sized enterprises (SMEs) with business plans for market development that have been approved and obtained financing;
- Performance-based agreements with financial institutions that have disbursements linked to jointly identified results (related to outreach with particular groups of farmers, quality of portfolio, etc.); and
- Economic incentives to competing private actors for the development and adoption of new agricultural technologies.

### III. Application to IFAD and potential pilots

#### A. IFAD's comparative advantage

15. IFAD's focus on smallholder farmers can shift the paradigm of government service provision at the local level. Within the many areas of support to the agricultural sector, IFAD's comparative advantage lies in its focus on smallholder farmers and rural communities, and its ability to connect them through value-chain support to broader markets. IFAD is particularly recognized for targeting the poorest segments of the farming sector in geographically remote areas. It is also noted for spearheading innovation and testing solutions at the local level, which can be replicated and scaled up. IFAD's focus on smallholder farmers and its experience with innovation enable it to support a shift in the provision of government services to be more performance- or results-based, increasing the impacts on its targeted beneficiaries. There is significant potential to introduce more participatory approaches to the development of results in RBL; IFAD could draw on its experience in this area, its hands-on approach and its relationships with rural communities and farmers' organizations to deliver meaningful project results.
16. IFAD can also bring the perspectives of smallholders to larger government programmes. The Fund can leverage its vast experience of supporting smallholders by bringing their perspectives to policies and programmes at the provincial and national levels. IFAD can draw on experience in supporting institutional development at the local level to influence programme delivery, policies and institutional development at higher levels of government. This would provide a significant opportunity for IFAD to scale up its impact in line with its scaling-up agenda,<sup>4</sup> while maintaining its focus on smallholder farmers. Governments' multi-year expenditure programmes for agriculture and rural

<sup>4</sup> Brookings, *Scaling up Programs for the Rural Poor: IFAD's experience, lessons and prospects (Phase 2)*, Brookings Global Economy and Development (January, 2013).

development aim to improve agricultural productivity through a variety of means such as connecting rural production to markets and encouraging investments in needed rural infrastructure and climate-smart production. When IFIs and donors join governments to finance these programmes, they can jointly support a variety of reforms (e.g. shift subsidies) and improve the performance of government agencies. They can also bring a results focus that increases the impact of both development partners' financing and the government programmes they are supporting. But with this focus on central governments and national programmes, development partners can easily lose sight of the smallholder perspective; IFAD could fill this crucial gap. A current example of IFAD putting this into practice is in Indonesia, where it is providing parallel financing to a large-scale irrigation development programme supported by AsDB. IFAD will integrate the perspectives of smallholder farmers to improve infrastructure planning, and will provide farmer capacity-building, value-chain financing and on-farm and off-farm institution-building.

17. IFAD has been endeavouring to expand its array of services to borrowers. Along with other IFIs, IFAD has experimented with flexible lending mechanisms (FLMs), sector-wide approaches and other forms of programmatic support. In 1998, the Executive Board approved a FLM, enabling IFAD to provide more continuous support through longer-range programmes including a series of loans and activities with evolving designs. The uptake of FLM after its introduction was vigorous: 20 FLM projects were approved between September 1998 and April 2002. However, a Board decision in 2002 limited FLM operations to those already approved or in the pipeline (until the mechanism had been thoroughly evaluated) and a management self-assessment in 2007 concluded that FLM had had only limited success. It was then agreed that no new FLM projects would be approved and the positive features of FLM would be integrated into other IFAD project designs. A subsequent effort involved the SWAp mechanism, spurred by the aid effectiveness agenda, with a focus on aligning donor support with country programmes and systems. IFAD introduced a policy for SWAps in 2005.<sup>5</sup> The SWAp concept was intended to bring together external assistance and domestic funds within a single-sector strategy and expenditure framework, owned and led by governments with development partners progressively aligning and harmonizing their procedures with country systems. While SWAps were relatively prevalent in social sectors, there was a less uptake in the agricultural sector<sup>6</sup> and IFAD did not engage in any new SWAps following the approval of the policy.
18. Lessons learned from these early initiatives can inform IFAD's development of RBL approaches going forward. While these two initiatives were not fully successful in achieving their goals, they introduced important elements that IFAD can build on in future RBL efforts. For instance, the triggers used for FLM tranches provided experiences that can be drawn on in the formulation and monitoring of DLIs. In addition, the programmatic nature of SWAps together with their focus on results built a foundation for programmatic RBF in other organizations.<sup>7</sup> These initiatives also provided a number of lessons on the critical foundations of RBL, including strong government leadership and institutional capacity of both government and IFI staff in order to develop appropriate results chains and DLIs. They underscored the challenges of adapting new approaches to the each organization's context and the effort needed to build ownership and institutional capacity within an organization.

<sup>5</sup> See EB 2005/84/R.5/Rev.1, IFAD Policy on *Sector-Wide Approaches for Agriculture and Rural Development*.

<sup>6</sup> The 2007 study of SWAps in agriculture noted only 15 operations worldwide (see *Formulating and Implementing SWAps in Agriculture and Rural Development*, Global Donor Platform for Rural Development).

<sup>7</sup> IFAD's experience with SWAps was limited to two or three projects, which were not considered fully successful. However, some valuable lessons were learned by IFAD and there were some positive results for its clients (e.g. more participatory and results-based delivery of services in the United Republic of Tanzania).

19. More recently, there have been promising initiatives to improve the results focus of IFAD's investment projects. Performance-based financing has been a growing element in microfinance and experiences from it have been shared with a variety of financial service providers and clients with the aim of improving access to financing. IFAD has introduced performance-based agreements<sup>8</sup> in a number of rural finance operations by employing outcome-based indicators that serve as triggers for fund disbursement and other project support.<sup>9</sup> An example is the Zambia Rural Finance Expansion Programme, which linked disbursements to quarterly baseline and impact survey reports. Performance-based agreements can take many forms to incentivize different actors. In Rwanda, the climate-resilient Post-Harvest and Agribusiness Support Project focuses on financial incentives to smallholder organizations and SMEs for developing business plans that are credible and bankable and can receive commercial loans (and for fully repaying the loans). These kinds of incentive payments linked to IFAD's own disbursements represent important innovations, which embed the achievement of results into IFAD projects. Efforts will be made to identify further examples of innovation in past and ongoing projects, and build on this experience as IFAD pilots RBL approaches.
20. IFAD has made a concerted effort to move more broadly towards a greater results focus. IFAD has established a structure for results measurement and management and M&E at the project, country and corporate levels. This includes project results matrices, results-based country strategic opportunities programmes (RB-COSOPs), the annual Report on IFAD's Development Effectiveness built upon the Results and Impact Management System, and the ARRI – IFAD's annual independent evaluation report. However, this structure has not been fully successful in shifting the Fund's focus towards results and outcomes. A 2013 study of IFAD found that "IFAD's results measurement and M&E are elaborate in design, but weak in implementation".<sup>10</sup> IFAD's internal annual reports have also noted that, while there has been progress on supervision and results management overall, M&E remains weak. This suggests that a more concerted effort to embed a results-based focus in projects and programmes (not only in results matrices attached to projects) could support an improved results orientation in IFAD. Close linkages and synergies with the results management framework in the COSOP and the results framework underpinning RBF instruments should be identified when selecting pilots.
21. IFAD is proposing dedicated resources to realize its ambition of moving beyond investment project lending and improve project preparation. Recognizing the contributions it could make in the policy arena, IFAD has expanded its knowledge services and is engaging more extensively in policy dialogue. While resources for expanding its non-lending services have been constrained, IFAD is now proposing Faster Implementation of Project Start-up (FIPS) instruments as a new source of funding to provide analytic and advisory services in support of policy engagement for the rural sector. This proposed funding would support policy-related analysis and engagement in policy processes relevant to rural sectors,

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<sup>8</sup> The accepted definition of a performance-based agreement in the provision of financing is that, "the agreement: (i) is clear and specific about the expected results and how they will be measured; and (ii) strengthens incentives for good performance by defining benefits (or sanctions) that are tied to the achievement (or non-achievement) of the expected results" (Consultative Group to Assist the Poor, *Performance-Based Agreements: Incorporating Performance-Based Elements into Standard Loan and Grant Agreements* (Washington, D.C., 2010).

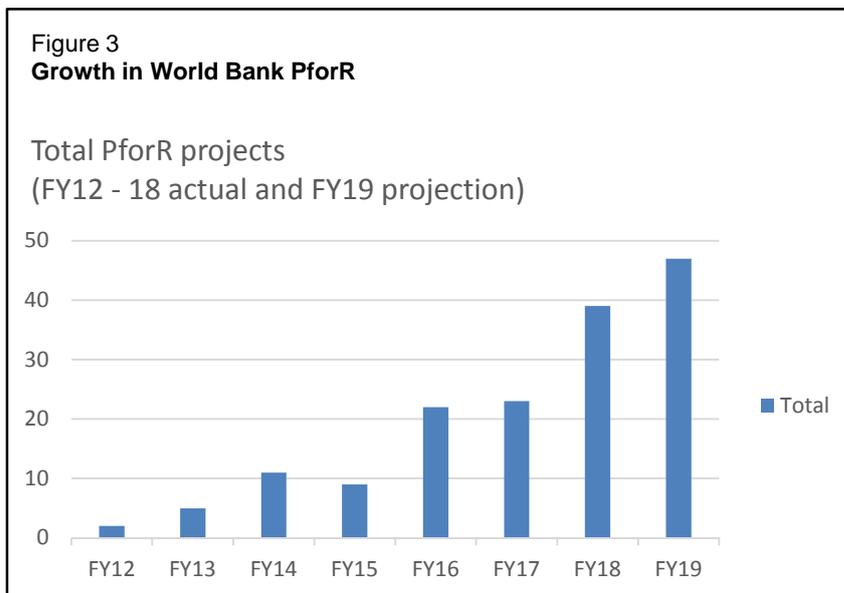
<sup>9</sup> See the IFAD "how to do" note, *Key performance indicators and performance-based agreements in rural finance*, (October 2014). This document notes that: (i) outcome-based indicators are mostly used for non-lending arrangements; (ii) subsidiary loan agreements are used between projects and financial service providers; (iii) grant agreements are used when support originates from an IFAD grant facility; (iv) management agreements are used when the financial service provider is mandated to execute a large part of the activities in an IFAD-supported project; and (v) other types of special agreements (e.g. letters of agreement) may also be used. A performance-based agreement may be used following structured dialogue involving IFAD and a financial service provider on the context, indicators, drivers of performance and sanctions.

<sup>10</sup> See footnote 4.

including national- and local-level assessments of the sectoral policy context, policy gaps and capability assessments for developing and implementing policies. FIPS funding is also envisaged to support partnerships, including consultations with key stakeholders. This funding will enable IFAD to prepare projects with a results-based focus (e.g. with better performance metrics for agricultural service delivery), and develop programmes that support broader government policy and institutional reform.

## B. Expressions of demand from borrowers

22. Demand from clients for RBL has been growing rapidly. The array of experiments in RBL is a testament to the shift in country demand. RBL has focused governments (not just donors) on the articulation of outcomes and on the activities, outputs and intermediate outcomes best suited to achieve these outcomes. It also recognizes the power of financial incentives to maintain this focus. In addition, RBL helps governments to become



more accountable to their citizens through its focus on demonstrating the performance and utility of government services. The programmatic form of RBL being deployed by IFIs has grown rapidly, as evidenced by the World Bank PforR initiative (see figure 3), providing evidence of the increase in demand by borrower countries. RBL has been identified as a priority for addition to IFAD's product menu. In assessing IFAD's financial architecture, a corporate-level evaluation was undertaken,<sup>11</sup> including inputs from governments and IFAD staff on expanding IFAD's product offering. Respondents suggested that more products would increase choice and flexibility so that borrowing countries could select the product that best meets their needs. There was strong agreement that IFAD should develop an RBL approach,<sup>12</sup> with financing that is disbursed according to the achievement of specific programme results and performance indicators. Some borrower countries signalled their interest in IFAD providing support through more results-based approaches to incentivize performance. They reported a preference for IFAD support that contributes strategically to government programmes and helps to build government capacity for managing expenditures and investment programmes.

## C. Process for selection of pilots

23. IFAD would benefit from experimenting with different types of RBL to learn what best fits its capabilities and comparative advantages. Management proposes that IFAD undertake a variety of pilot RBL activities. During the pilot phase, it is proposed that IFAD launch at least one RBL initiative supporting project-based lending and one supporting programmatic lending. The

<sup>11</sup> See footnote 2.

<sup>12</sup> From the corporate-level evaluation: Of non-IFAD respondents, 70 per cent assigned high or highest priority to developing an RBL product along with 59 per cent of IFAD respondents.

pilot phase will be time bound and designed as a learning effort. Based on experiences from other IFIs, it is proposed that the pilots be undertaken during at least a six-year period in order to gain sufficient experience to undertake a self-assessment of the design, implementation and results. A midterm review of the pilots would be conducted to assess lessons learned after three years.<sup>13</sup> Both AsDB and IDB have introduced six-year pilot programmes to allow ample time for review and evaluation. Depending on the outcome of these pilots, Management will propose a modality for mainstreaming a more permanent form of RBL at IFAD.

24. IFAD's project lending can support governments and incentivize other actors to be more results focused and emphasize the smallholder perspective. There is considerable potential for shifting IFAD's project lending toward a stronger and disbursement-linked results model, and making results a more integral part of IFAD's investment portfolio. This mechanism could be applied to a number of areas that IFAD currently supports, building on the limited performance-based financing currently offered. Given its focus on individual farmer families, IFAD's RBL would be particularly relevant to the provision of public services such as extension services, rural infrastructure and crop-conversion support linked to climate adaptation. Project RBL could also be applied to small-scale infrastructure given IFAD's role in enhancing smallholder returns and increased income levels.
25. The area of climate-smart techniques and investments also has significant potential for using financial incentives to change farmers' behaviour. IFAD will be encouraged to explore other areas for RBL pilots and will review ongoing projects and the pipeline of additional financing to explore components or projects in which a results-based focus could be introduced. Performance metrics linked to the delivery and results of these services would benefit from the inputs of smallholder farmers, facilitated by IFAD. These projects could feature results-linked payments from central governments to lower-level intermediaries or service providers, providing a clear incentive for intermediaries to deliver services that achieve targeted results. It would draw on IFAD's ongoing experience with performance-based agreements in rural finance and other IFIs' experiences with investment lending using disbursement-based indicators.
26. Programmatic-results lending will require a steeper learning curve for IFAD than project-based lending. For programmatic RBL, IFAD could play a useful role by bringing the smallholder perspective to large government-owned programmes. During the initial stages of the pilot, Management proposes that IFAD engage with another IFI that has experience with programmatic RBLs, enabling IFAD to gain experience during its initial foray into supporting programmatic RBLs. Taking on the role of cofinancier, IFAD would work together with the lead IFI in designing and implementing programmatic RBF, bringing the smallholder perspective into the design and potentially supervising a specific portion of the project and related DLIs. A robust system would be needed to assess IFAD's contribution and indicate future roles for IFAD in supporting programmatic RBL. To date, these programmes have required considerable capacity to convene and carry out discussions with governments on key policy and institutional development issues; it would be difficult for IFAD to undertake these activities alone. RBF also requires the capacity to assess the government systems to be used when financing is provided directly for a government expenditure programme. IFAD would initially

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<sup>13</sup> For example, the AsDB policy paper *Piloting a Results-Based Financing for Programs Modality* (August 2012) stressed that "to enable learning-by-doing, it is proposed that AsDB pilot the RBF for programs modality for 6 years. This is the minimum time frame required to yield sufficient information for a subsequent review of RBF for programs operations, including both their design and implementation aspects. During the pilot, AsDB will put in place measures for training, dissemination, consultation, and learning. AsDB will also learn from and exchange experiences with other development agencies. The experience derived from the pilot will inform the future policy direction of the RBF for programs modality." IDB's loan based on results pilot also has a six-year time frame.

need to rely on the lead IFI to carry out these technical assessments. Over time, there may be scope for IFAD to assume a leading role in a programmatic RBF, especially in small economies where IFAD may provide a significant portion of development financing for agriculture. There may also be opportunities for IFAD to support government programmes at the provincial level, especially in countries where central governments have encouraged provincial reform and expenditure programmes are dedicated to supporting remote areas and rural poor people.

27. IFAD will undertake a demand-driven selection process. It is proposed that a small number of pilots will be identified in the second half of 2018 and that IFAD will undertake at least two or three pilots (representing a modest portion of annual project approval) over a six-year period. This will allow for an assessment of processes and impact at the end of the pilot period. Management will request proposals from regional divisions to identify appropriate pilots based on input from government counterparts. Government commitment to developing RBL approaches in the agriculture sector will be critical and IFAD's ability to conduct frequent discussions with its counterparts on project results and DLIs (for example through field offices) will be an important selection criterion. In the case of programmatic RBL, IFAD will also consult with IFIs on potential PforR, RBL, RBF and LBR instruments in the pipeline. Key criteria for each type of pilot will be articulated to guide the selection and identification process.<sup>14</sup> The pilots will be submitted to the Executive Board for approval.
28. IFAD's pilots will need to be tailored to its scale and existing resources. RBL will require a shift in the way IFAD does business. In the short term, RBL in IFAD will need to be piloted using current resources. Borrowers will draw on existing IFAD11 performance-based allocation system resources to finance these new operations. The design and implementation of pilots will draw on existing budgets and staff. However, given the learning that will be required to carry out these new operations, Management suggests that additional resources be dedicated to the design and implementation of RBL pilots during IFAD11.
29. IFAD can draw on external expertise to support its efforts in RBL. Once candidates for pilots are identified, the design process will likely require additional support. Key design features include payment metrics, identifying the portion of funding attached to results, the pricing structure and the approach to verification. IFAD may need to engage consultants specialized in RBF to assist with this design. There are also considerable resources in the development community to support RBL design through donor-funded programmes and IFIs. Notably, the World Bank has developed training courses at different levels to build staff capacity on key aspects of programmatic RBL. The courses build staff capacity to make informed judgements about instrument design choices, including results frameworks and DLIs. The courses also assess areas of specific competence in broad fiduciary, environmental and social assessments for programme-focused RBL. Other institutions offer training that is more focused on project RBL. Once pilots are identified, IFAD will leverage these training courses for the necessary parties. The Capacity Scan programme (which supports governments in improving results and M&E capacity) is being piloted in the rural sector through the Advancing Knowledge for Agricultural Impact initiative to assess in-country results-based management systems and capacities, and identify shortfalls. These could

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<sup>14</sup> Criteria for pilot selection will be derived from the lessons learned in other IFIs. These include the consideration of countries that have demonstrated: good policy and implementation performance for at least the past two years (at both the macro and sectoral levels); and sound governance arrangements, including a functional M&E system and periodic accountability assessments by the central government (often led by the President's Office or the Ministry of Finance). Other key criteria for successful pilots will be for countries to have a well-defined agriculture programme as part of national expenditure and for there to be a clear understanding between the government and IFAD of the types of results to be achieved, the results chain to get there, the actors to be incentivized and the type of data available for monitoring results.

potentially be deployed for IFAD's pilot RBLs. As IFAD moves into more programmatic RBL, it may draw on country assessments (for example of public financial management) undertaken by IFIs and other donor-funded groups, or may outsource these assessments with financing from the proposed Technical Cooperation Facility for FIPS for environmental and climate assessment.

30. Some new competencies will be needed and some systems will need to be adjusted. To achieve more results-oriented financing either at the project or programmatic level, IFAD will need to place results at the forefront of project design and implementation. It will need to develop familiarity with the types of disbursement-linked indicators used in different agricultural operations, and focus discussions with governments on overall project objectives and the types of results that will be linked to disbursements. This will require an expanded in-house capacity to define results and measurable indicators, assess data sources for this measurement and determine the verification methods suitable for disbursement. These projects will also require extensive discussions with governments on changes to IFAD's current payment arrangements. In addition, IFAD will need to invest in relationships with in-country actors that can provide third-party verification of the achievement of results. In the case of programme-focused RBL, IFAD will need to strengthen its own competencies in the: technical assessment of broader agricultural development programmes; analysis of public expenditures on agriculture; and assessment of the systems underpinning these programmes (in addition to utilizing external expertise). Finally, IFAD will need to assess internal processing and payment systems in order to be able to process the new payment modality.
31. The inherent risks of developing the new approach will be recognized and mitigated. One of the major risks related to RBL is the possibility that a project will not disburse funds. This can be mitigated in a number of ways. For instance, with programmatic RBL, careful attention should be paid to the respective weight of each DLI. The agreement between the IFI and government should be explicit about what portion of the loan can be disbursed if there is only partial achievement of DLIs. Expectations may need to be adjusted since the timing of disbursements may be less predictable than for investment lending. For programmatic RBL, the use of country systems requires extensive ex-ante assessment and agreement between the government and IFI on programme action plans. IFAD will mitigate the lack of capacity for undertaking these assessments by relying on technical assessments undertaken by the lead IFI (to be reviewed and approved by IFAD). The risk of the government not fulfilling its obligations to the programme action plans can be mitigated by financing capacity-building efforts as part of the operation. In line with other IFIs' practices for programmatic RBL, advanced disbursements in the range of 15 per cent to 25 per cent at signing could be proposed for the borrower to begin the necessary enhancements of country systems if required as a project objective.<sup>15</sup>
32. The pilot phase will be time bound and designed as a learning effort, with full engagement of the Executive Board. The proposal suggests that IFAD's RBL will not be guided by a new policy; instead, interim guidance will be provided to design and implement the pilots. The proposal further suggests that the pilot launch be accompanied by an indication of any specific policy waivers that may need to be approved by the Executive Board. Each pilot project will be brought for discussion and approval by the Executive Board. The pilots will be structured to determine the best way forward for IFAD after they have been assessed. At that

<sup>15</sup> The World Bank directive for PforR states that, "To provide a Borrower with resources to allow the Program to start or to facilitate the achievement of DLIs, the Bank may agree to make an advance payment (following the effectiveness of the legal agreement for the Financing) of up to 25 per cent of the Financing (unless a higher percentage is approved by Management) for one or more DLIs that have not yet been met ('advance'). When the DLI(s) for which an advance has been disbursed are achieved, the amount of the advance is deducted (recovered) from the amount due to be disbursed under such DLI(s)."

time, Management, in consultation with the Executive Board, will review the need for any legal or policy changes to mainstream this effort.

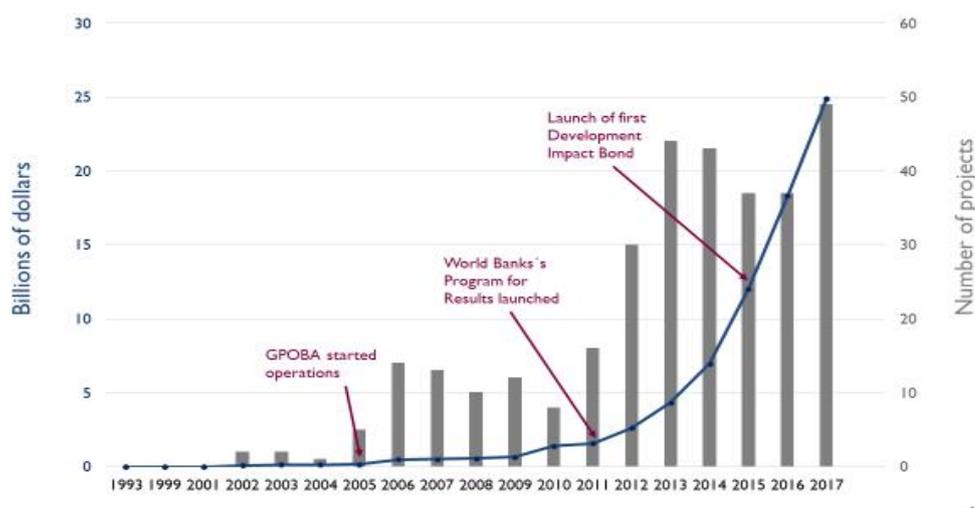
## RBF: The spectrum of the mechanism, experiences of other IFIs, lessons learned and focus on agriculture

### I. The Spectrum of Mechanisms

- Over the past twenty to thirty years there is been a large expansion in results-based financing (RBF).<sup>16</sup> From very small beginnings in the early 1990s,<sup>17</sup> the level of RBF financing topped \$25 billion in 2017 (see figure 1). There is no commonly agreed definition of RBF but most institutions would share the World Bank's (WB) perspective that it is "an umbrella term referring to any program or intervention that provides rewards upon the credible, independent verification of an achieved result".<sup>18</sup> This is in contrast to more traditional project or investment lending under which funds are disbursed against specific eligible expenditures. Most would also agree with the WB definition of results as "those elements within a results chain that lie beyond the input stage. They can be outputs, intermediate outcomes, final outcomes or – more likely – a mix." RBF agreements involve two central agents: a results funder and an incentivized agent. They also involve three important building blocks: selecting measurable results; setting up verification and payment mechanisms; and providing support to incentivized agents.

Figure 1  
Financing Tied to Results in Low and Middle-Income Countries

Over \$25 billion of development spending has been tied to results



Source: "A Practitioners Guide to Results-Based Financing"; Instiglio (2017), and the Instiglio RBF Database.

- A range of RBF instruments and modalities have been developed to accommodate different financiers, incentivize a variety of agents and fund different types of results along the results chain. RBF instruments can be grouped into five broad categories according to who is the incentivized agent, ranging from performance-based aid where the incentivized agent is a national government to conditional cash transfers where the incentivized agents are households and individuals, and different categories of instruments and agents in

<sup>16</sup> Results based financing is the term used most frequently by development partners (DPs) and encompasses all forms of finance (both loans and grants).

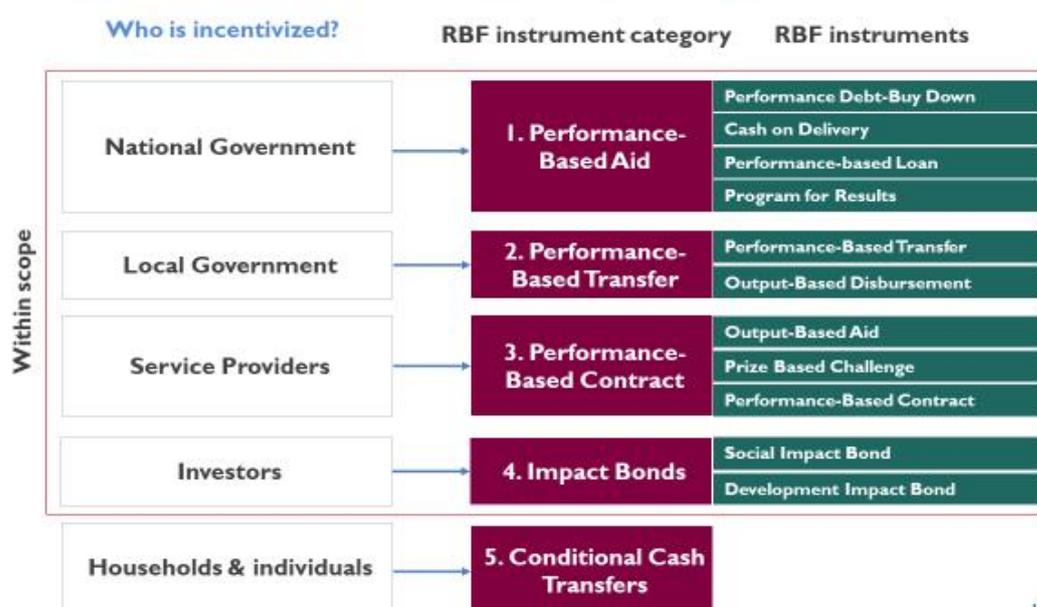
<sup>17</sup> In fact, RBF approaches were under implementation much before the 1990s with one of the earliest output-based aid schemes (broadly defined as seeking to tie disbursements to the achievement of specific outputs) focused on provision of reproductive health care services in South Korea in the 1960s (see Output-based Aid; A Compilation of Lessons Learned and Best Practice Guidance, GPOBA/IDA-IFC Secretariat, June 2009).

<sup>18</sup> World Bank, Results Based Financing in Education: Financing Results to Strengthen Systems, 2017.

between (see figure 2). Moreover, within each of these categories distinct instruments have been developed. In addition to which agent is being incentivized, they highlight what kinds of results are being financed (outputs, intermediate outcomes, final outcomes) and how involved the donor is in supporting the achievement of these results. As a form of performance-based aid, for example, cash on delivery is an instrument that focuses on “the power of incentives rather than guidance or interference”,<sup>19</sup> with donors being hands off on program activities and disbursing against final or near final outcomes. Program for Results (PforR)<sup>20</sup> by contrast is an instrument that is much more hands-on, with an emphasis on donor technical support to governments to improve institutions and systems and deliver results along the results chain, not just at the final outcomes stage. In the case of performance-based contracts where the incentivized agent is one or more service providers, instruments include output-based aid (OBA) where disbursements are tied to specific outputs as well as performance-based contracts where disbursements are explicitly linked to service providers successfully meeting or exceeding certain clearly defined minimum performance indicators. Choosing among these instruments requires determining which actors need to be involved and what kinds of results should be incentivized as well as what specific design features can maximize the value added of RBF to address a specific development challenge.

Figure 2  
Simplified Typology for RBF

### Distinguishes instruments by the type of agent being incentivized



Source: Global Program on Output Based Aid (GPOBA), June 2018.

- For most international financial institutions (IFIs) and other development partners (DPs) the focus on results has been one critical element in a broader effort to enhance the overall effectiveness of development assistance. The Aid Effectiveness agenda has focused heavily on results, together with other key principles including country ownership, alignment of donors around country strategies, use of country systems, donor coordination, and mutual

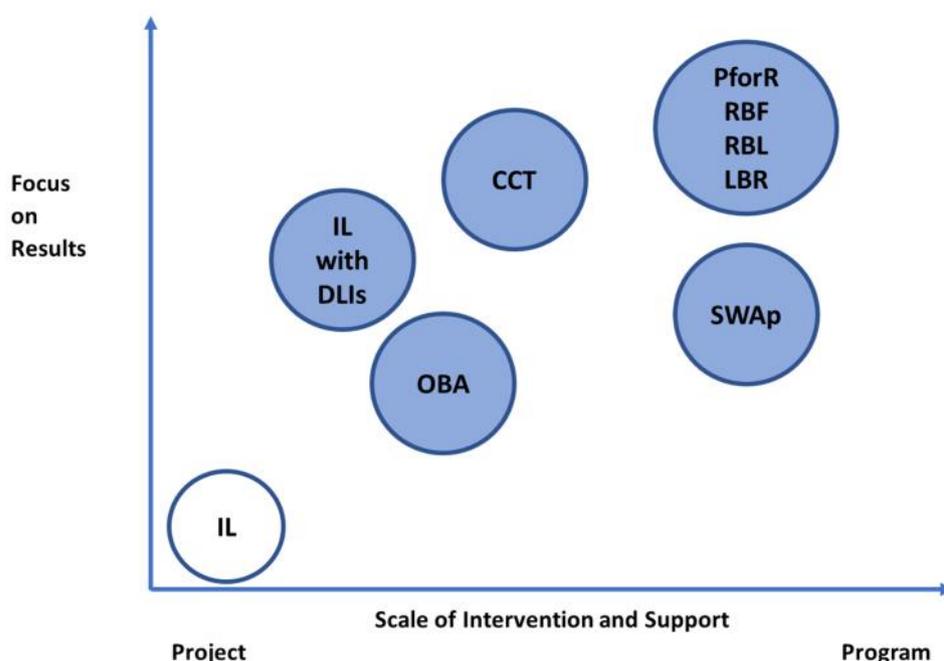
<sup>19</sup> Birdsall, N. and Savedoff, W. Cash on Delivery: A New Approach to Foreign Aid, Center for Global Development 2010.

<sup>20</sup> PforR is the RBF instrument introduced by the World Bank in 2012.

accountability. As part of this agenda, IFIs and other DPs have increasingly experimented with a range of RBF instruments and other modalities to better reflect these multiple principles to improve the delivery of development finance.

4. IFIs have moved in the dual directions of more results-focused and more programmatic financing as part of their aid effectiveness efforts. IFIs, in particular, were initially constrained by the limitations of their project financing instrument, where disbursements were tied to expenditures; as such they began their experimentation with more project focused modalities, such as OBA, conditional cash transfers (CCTs), sector wide approaches (SWAp) and investment lending with disbursement linked indicators (DLIs). Over time, IFIs have also focused on more programmatic RBL modalities such as the PforR instrument of the World Bank and similar instruments of the Regional Development Banks that are support government-owned programs and the use and strengthening of country systems (see figure 3).<sup>21</sup>

Figure 3  
Examples of RBF Modalities Supported by IFIs



## II. IFIs and Project Focused RBF

5. Within project or investment financing, IFIs have been experimenting with a range of RBF modalities for some time. For example, the concept of OBA was formally introduced into the WB in 2000 under the Global Program on Output-based Aid (GPOBA) that supports delivery of public services through targeted performance related subsidies. Some IFIs have also been supporting CCTs for many years and this modality has increased significantly in importance since the mid-1990s. In contrast to OBA which usually involves a “supply side” subsidy paid to the provider to incentivize it to deliver services, CCTs focus on the “demand

<sup>21</sup> This figure is intended only to be illustrative of the range of efforts underway to move from more traditional investment lending to more results-based and programmatic lending. Traditional investment lending itself focuses on how the expenditures financed can over time help achieve both outputs and outcomes and, in many cases, finances a range of activities that may be more akin to a program than a specific project. New approaches also vary in the extent to which they are results and programmatic focused and in some cases have been combined, e.g. SWAps with DLIs. The innovations within IL as well as the new modalities have provided important building blocks for the introduction of totally new programmatic and results-based instruments by four of the IFIs.

side” subsidies paid to final beneficiaries to incentivize them to seek particular services. In the period beginning in the mid-1990s an increasing number of IFI operations have also supported SWAs). In addition to helping advance donor alignment to country strategies and focus on institutional change and reform, SWAs have helped countries and DPs to align to a common results framework and apply coherent monitoring procedures.<sup>22</sup> Within its investment lending instrument, the World Bank has also made explicit provision for an option of investment project financing (IPF) with DLIs under which disbursements are dependent on both expenditures having been made and indicator targets having been met. In 2003 the Inter-American Development Bank (IDB) introduced the performance driven loan (PDL) as a 6-year pilot program. The PDL was similar to the World Bank IPF with DLIs, designed as an investment loan that disbursed once the project or program’s actual development results were achieved and the Bank verified the expenditures incurred by the Borrower to reach the results. Except for IDB’s PDL, which required Board approval of a new instrument, these examples of RBF have been introduced with additional guidance to staff but no changes in Board approved policies.

6. RBF under project or investment financing has been used across a range of sectors and countries. RBF under project financing has tended to concentrate on the social and infrastructure sectors and less on agriculture. OBA, for example, has been focused largely on the infrastructure and social sectors and GPOBA only recently approved its first operation in the agriculture sector. CCTs have been heavily focused on helping the poor have better access to the health and education sectors. SWAs were also first used largely in the social sectors but expanded to include water, transport and agriculture as well as other sectors. RBF under project financing has also been used in many different regions and countries. OBA has been particularly prominent in Africa and Latin America. The heaviest concentration of CCTs has been in Latin America but they have also been used in other regions and countries and in both middle and low-income countries. SWAs started in donor-intensive low-income countries in Africa and South Asia but later grew strongly in middle-income countries.
7. The evidence base on the effectiveness of project focused RBF approaches is still emerging. Unfortunately, many approaches to RBF have not been set up with rigorous evaluation components. Indeed, in many cases when RBL has been a component of a larger project, information systems make it difficult to track the implementation of those components separate from the overall. As a result, a consensus around the overall strengths, weaknesses and impact of project focused RBF has yet to emerge.<sup>23</sup> Nonetheless, preliminary indications are encouraging. For example, CCT operations financed by the WB compare well to the total WB portfolio and there is considerable evidence that CCTs have improved the lives of poor people.<sup>24</sup> An analysis of SWAp project performance by the World Bank also showed indicators that compared favorably with the overall lending portfolio, with the share of commitments at risk and problem projects significantly lower. There is also some, if limited, evidence that OBA projects have been more effective and less costly than traditional projects in achieving immediate objectives, although OBA has not always addressed issues of scalability and sustainability. On the downside, however, there have been concerns about the effectiveness of IDB’s PDL instrument due mainly to the double burden of verifying eligible expenditures and verifying development results and the fact that the results took too long to achieve; as a result, no new PDL operations have been approved since 2009.<sup>25</sup>

<sup>22</sup> FAO, Investment Lending Platform, Sector Wide Approaches, 2018

<sup>23</sup> GPOBA and Results for Development (RforD): Situating OBA in the context of RBF in education, February 2016

<sup>24</sup> WBG A New Instrument to Advance Development Effectiveness: Program-for-Results Financing, December 2011

<sup>25</sup> See IDB Proposal to Establish the Bank’s Sovereign Guaranteed Loan Based on Results – Revised Version, November 2016 for further discussion on the effectiveness of the PDL instrument.

### III. IFIs and Program Focused RBF

8. Four IFIs have expanded their suite of lending instruments to respond to a broad set of demands from clients. Many client countries are implementing their own programs for development and poverty reduction rooted within the country's legal, policy, regulatory and institutional environments. They are asking DPs for finance and expertise to improve their programs' effectiveness and efficiency in achieving results. In considering how best to respond to these demands, all four IFIs felt that their existing project-based and policy-based lending instruments were inadequate and that a new instrument (building on and taking account of some of the innovations and experimentation with existing instruments) would enable them to better focus on institutional and system strengthening in addition to investment and policy support (see Box 1).<sup>26</sup>
9. These IFIs have introduced a totally new program focused RBF

#### Box 1

#### The Missing Middle of IFI Instruments

**Policy support operations:** operations that support policy and institutional actions to achieve a country's overall development objectives and provide rapidly disbursing general budget support to help address development financing needs

**Program support operations:** operations that support government programs and institutional and system strengthening and that disburse against results

**Project support operations:** operations that support specific investment projects and disburse against specific expenditures and transactions

instrument. The WBG introduced the PforR instrument in 2012; the Asian Development Bank (AsDB) introduced a new RBL instrument in 2013 with a six-year pilot phase; the Inter-American Development Bank (IDB) introduced a new loan based on results (LBR) instrument in 2016 also with a six-year pilot phase; and the African Development Bank (AfDB) introduced a new RBF instrument at the end of 2017. In all cases, Board approval of the introduction of the new instrument and associated policies and procedures was required. In the case of the World Bank, the PforR instrument has already emerged as a significant new lending instrument with new PforR operations approved in the current fiscal year expected to total around \$11 billion in commitments. Meanwhile in the AsDB, expected future demand for the instrument has resulted in the Board raising the original 5 per cent ceiling on RBL commitments to 10 per cent even as the pilot phase is still on-going.

10. The specific features of these new lending instruments are very similar. Although different titles have been ascribed to these instruments, they have very similar features, namely:
  - Financing and helping strengthen borrowers' development programs with clearly defined results. These programs, comprising expenditures and activities, can be ongoing or new, sectoral or sub-sectoral, and national or subnational programs, as well as community development programs.

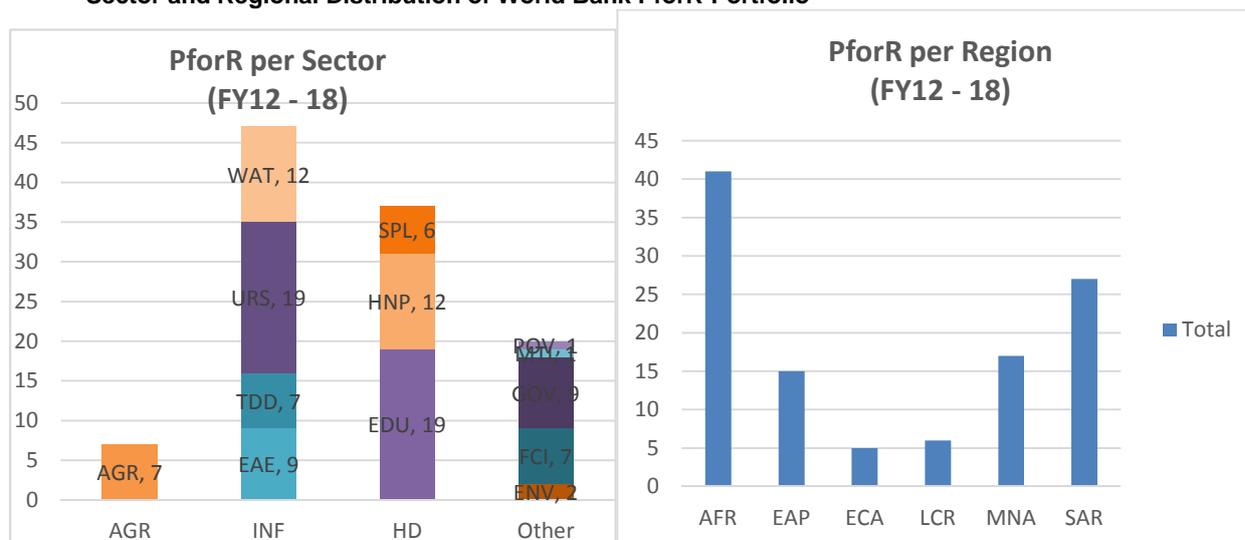
<sup>26</sup> The IDB structure is slightly different; IDB has two lending categories - an investment lending category and a policy-based lending category - and the LBR has been introduced as a new instrument under the investment lending category.

- Disbursing upon achievement of results and performance indicators, not inputs. Disbursements are determined by achievement of monitorable and verifiable indicators, rather than by inputs.<sup>27</sup>
  - Focusing on strengthening the institutional, governance, capacity, and systems that are essential to ensuring that the programs achieve their expected results and can be sustained. A priority area for both preparation and implementation support is to strengthen the capacity and systems of the institutions that implement the program, thereby enhancing development impact and sustainability.
  - Providing assurance that DP financing is used appropriately and that the environmental and social impacts of programs are adequately addressed. The program's fiduciary and environmental and social management systems need to be assessed and agreement reached with the borrower on any additional measures to provide the necessary assurances.
  - Enhancing the ability of development organizations to pool resources and focus directly on capacity building. DPs align their support around government-owned programs and are encouraged to co-finance a common program and coordinate their technical as well as financial support.
11. RBF through program focused operations has already been used across a range of sectors and countries. The WBG has approved the most operations to date (116 expected by end June 2018). Most of the operations have been in infrastructure and the social sectors, but the agriculture sector as well as other sectors are also making use of the instrument. The instrument has also been used by all regions and many countries, with the Africa and South Asia regions leading the way (see figure 4). Both middle and low-income countries have made use of the instrument with two thirds of the operations this fiscal year being in low-income (IDA eligible) countries. In the case of the ASDB initially it was the social sector that was keen to use RBL, but staff working in other sectors, such as energy, transport, and urban development are now also processing new RBL programs and a first RBL operation in the agriculture sector is under implementation. To date the ASDB has approved 16 operations for both low and middle-income countries. IDB has also approved three LBR operations while the AfDB is just getting started.

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<sup>27</sup> Disbursements finance the borrower's overall expenditure program rather than being linked to individual transactions for the purchase of works, goods and services.

Figure 4  
Sector and Regional Distribution of World Bank PforR Portfolio



Source: World Bank database on PforR (2018).

12. It is still too early to be certain about the effectiveness and efficiency of these new instruments, but the early reviews are encouraging. In the case of the World Bank, the two-year review of the PforR instrument in March 2015 concluded that “the PforR instrument has been successfully rolled out across a broad range of countries and sectors, policy requirements have been met, and implementation for all but one of the approved operations is broadly on track”.<sup>28</sup> In June 2016, a report by the World Bank’s Independent Evaluation Group (IEG)<sup>29</sup> came to broadly similar conclusions - noting in particular that the structure of assessments had proven to be appropriate, that the results frameworks were reasonably coherent, that issues of ownership and partnership were being well addressed in program documents and that the management of risks was progressing well. That report also included recommendations, particularly with respect to strengthening the design of the results frameworks and DLIs, strengthening the design and monitoring of Program Action Plans (PAPs) and strengthening the monitoring and reporting of results. Since then two PforR operations have closed and were rated Satisfactory. An independent assessment of the Rwanda Agricultural Transformation PforR<sup>30</sup> has also provided some encouraging findings. In addition, the Independent Evaluation Department (IED) of the AsDB has conducted a mid-term review of AsDB’s pilot program for RBL<sup>31</sup> and concluded that “the preliminary results of the RBL programs are promising and that the modality has significant potential to add value to AsDB operations”.

#### IV. Lessons Learned and Practical Implications

13. Countries are making the shift to more results-based approaches. Many countries from different regions and at different income levels are seizing the opportunity to make their own projects and programs more results focused. This requires commitment on the part of Governments and other implementing agencies to work in a performance-based and results-focused manner, and to develop the new capacities needed for this shift. They are attracted to the concept that RBF should help increase the effectiveness of development assistance by: making

<sup>28</sup> World Bank Group: Program-for-Results: Two-Year Review, March 18, 2015.

<sup>29</sup> World Bank Independent Evaluation Group: PforR: Early Stage Assessment of the Process and Effects of a New Lending Instrument.

<sup>30</sup> Unique Review of Rwanda Agriculture Program for Results, December 2017.

<sup>31</sup> Asian Development Bank Independent Evaluation Department: Results-Based Lending at the Asian Development Bank: An Early Assessment.

results more visible and drawing the attention of recipients to what really matters; ensuring that the needs for institutional, system and behavioral change are well aligned with the investments in hard infrastructure; ensuring that the interests of funders and recipients are well aligned to the welfare of beneficiaries; and incentivizing providers to deliver activities that more directly meet beneficiaries needs and improving accountability mechanisms. In this regard, it is important both that governments are clearly in the driver's seat with respect to the design of RBF approaches and programs and that both the overall results to be achieved and the specific DLIs are developed in a participatory manner with active engagement of all concerned stakeholders.

14. Employing an RBF approach requires significant upfront assessments. To determine if RBF is feasible in a given context, a rigorous assessment is needed of the country, sector and project situation to ascertain if there are clearly defined results to be achieved, what behavioral change is needed to achieve these results, and what actors need to be involved and incentivized. In the case of program focused RBF it is critical that these programs support Government designed programs and focus on institutional development and reform well beyond traditional investment projects. It is also necessary to carry out a careful assessment of the country's own systems in the given sector—fiduciary, governance, environmental and social-- in terms of performance, capacity and risks, and how these systems and capacities need to be strengthened to deliver broader programs and investments. Finally, coordination and co-financing with other DPs can be challenging, given differing operating modalities and timelines, the need to determine respective roles in the design and implementation of an operation etc. None of this is easy and, in some cases, may result in the design of RBF operations being more cumbersome and slower than for more standard project/investment operations. There are also cases (for example high value procurements or difficult environmental and social issues) where RBF is not appropriate and the use of the more a traditional project investment may be mandated by particular IFIs.
15. The challenges of disbursing against results should not be underestimated. Developing an RBF operation requires continuous discussion with Government counterparts on activity-output-outcome results chains, the selection of indicators and the payment structures which determine the flow of funds. It is also important to establish the approach to develop these results and indicators, for instance through government databases or more participatory approaches such as beneficiary surveys. This may be easier for some sectors than for others.<sup>32</sup> For example, in education there is reasonably clear evidence on the "line of sight" from an input (of getting books into the hands of children) to the output (having children use the books) to the outcome (that the children can read). In other sectors, such as agriculture, the pathway to final outcomes is likely to be less certain. Indicators for disbursement also need to be clearly defined, along with the means for independent verification.<sup>33</sup> The use and mix of output and outcome indicators will depend on the ability to influence the results. Consideration also needs to be given to the balance between different types of indicators (outputs, intermediate outcomes, final outcomes) and the speed of disbursements. Financial

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<sup>32</sup> The DIE study suggests that "result- based approaches are easiest to implement if there is a good understanding of the results chain and an explicit theory of change for setting appropriate incentives", *Results-based Approaches in Agriculture: What is the Potential?* (2016).

<sup>33</sup> For example in the case of the WBG PforR instrument, the DLI verification protocol needs to include at a minimum: clear definition of the DLI and how it will be measured; objective, detailed definition of what is required to consider the DLI as achieved; indication of whether disbursements associated with the DLI will be scalable; definition of the data sources that will be used to measure the DLI's achievement, including reporting frequency; baseline data and expected timing of DLI achievement clearly established based on comparable data sources; name of the government agency or third-party entity that will be responsible for providing relevant data and for verifying achievement of the DLI; and indication of the independence of the verification agency/party; source: WBG PforR Interim Guidance Note to Staff on DLIs and Disbursement Arrangements, June 2012.

planning can be more challenging because of the inherent uncertainty about the results the implementing organization will be able to deliver and feasible mechanisms for disbursing against results need to be determined, including disbursement scalability (meaning financing proceeds proportional to the progress toward achieving a DLI) as a risk reduction mechanism. Adequate monitoring frameworks need to be put in place and to include collection of baseline data of sufficient quality.

16. RBF requires clear policies and guidance as well as the capacity development of managers and staff in IFIs. This is particularly important in the case of more program focused RBF where the need for new operational policies and procedures has been most clearly established. The two-year review of the World Bank PforR instrument also noted that there was a clear need for more training and knowledge sharing and enhanced understanding of the instrument among managers as well as staff, including more cross-team learning. In this regard, it is critical to develop competencies to undertake assessments of country systems, including assessment of relevant technical systems as well as fiduciary, environmental and social, and broader governance systems. Competencies in the development of results frameworks and broader monitoring and evaluation systems as well as in the design and verification of specific DLIs are also essential. The IED review of the AsDB's RBL instrument also emphasized the importance of additional capacity development efforts and focused on: the determination of the appropriate context for deploying the instrument, program soundness assessment, DLI selection, results frameworks, monitoring and evaluation assessments, independent verification, design and monitoring of PAPs, and program fiduciary assessments.

## V. Observations on Agriculture Related RBF

17. RBF has had relatively limited, but growing, application to date in the agriculture sector. A 2017 scan of development programs in the agriculture sector that are utilizing RBF approaches<sup>34</sup> focused in particular on operations financed under the WB PforR program and the multi-donor AgResults program. Four agricultural PforRs are now under implementation (in Rwanda, Morocco, Vietnam and Punjab) and seven more are in various stages of preparation<sup>35</sup> (see Box 2). The AsDB is now supporting the Government of Indonesia to implement its first RBL operation in the agriculture sector.<sup>36</sup> AgResults has pilot projects in Zambia, Kenya and Nigeria<sup>37</sup> that provide results-based economic incentives to competing private actors to develop and ensure the uptake of new agricultural technologies. Recently GPOBA approved its first operation in the agriculture sector, for irrigation systems for small scale farmers in Burkina-Faso. The 2017 scan of RBF approaches in agriculture also noted that there is a central to local government grant program in China to support irrigation in Hebei province, as well as a development impact bond (DIB) in Peru focusing on sustainable cocoa and coffee production by indigenous people. In addition, there are examples of RBF components of otherwise more traditional agricultural investment projects, including components that feature performance-based contracts.
18. Several factors specific to the agricultural sector pose challenges for RBF. In particular agricultural outcomes (such as production levels or smallholder

<sup>34</sup> Instiglio, Results-Based Financing in Agriculture and Land Administration, 2017.

<sup>35</sup> Rwanda Transformation of Agriculture Sector Program, Vietnam National Targeted Programs Support, Punjab Agricultural and Rural Transformation, and Morocco Strengthening Agri-Food Value Chains.

<sup>36</sup> Indonesia Integrated Participatory Development and Management of Irrigation Program is now under implementation.

<sup>37</sup> AgResults is a multi-donor initiative which provides incentives for high impact ag innovations in research and delivery to promote global food security, health nutrition and benefit smallholder farmer. "Launched in 2010 to overcome market failures impeding the establishment of sustainable markets for developmentally beneficial agriculture innovations by offering results-based economic incentives ("pull financing") to competing private actors to develop and ensure the uptake of new agriculture technologies".

income from agricultural production) are highly variable over time, highly context specific and subject to external factors such as climate variability and changes in world market prices and final outcomes may take many years to achieve. In addition, there are a variety of actors in the agricultural sector—both public, non-profit and private—with a complex web of incentives. Because RBF is predicated on a good understanding of the results chain, developing financial incentives to change the behavior of specific stakeholders can be more challenging in the agricultural sector relative to social sectors (which focus on the provision of a social service to a targeted beneficiary group). This is largely because agriculture is a productive sector (not a public service) and identifying the behavior change needed by private actors to cause specific results, in the broader context of private and market forces, is very context specific. Measurement is also a key challenge. When RBF is financing outcomes, such as changes in productivity, these results will need to be based on longer term trends, and the RBF will need to support a longer-term effort. There is also considerable potential for measurement error in the agricultural sector: among other challenges, rural populations can be hard to measure, land boundaries can be ill-defined, and units of measure are often not standardized. All of these factors make agriculture a challenging sector for RBF and reinforce the importance of considering the full results chain and focusing financial incentives and disbursements as much if not more on some of the output and intermediate outcome indicators, including those that emphasize institutional and system strengthening and reform.

#### Box 2

#### Areas of Focus for Agriculture RBF

*Program focused RBF highlights institutional change, reform and investment: Agriculture-specific PforRs and other program focused RBF address institutional and system strengthening across a range of agricultural services including research and extension, irrigation development, land management, farmer organizations, marketing, financial services as well as issues of agricultural planning, management, regulation, monitoring and evaluation. PforRs focusing on broader issues of rural development and poverty reduction also include such components in addition to a strong emphasis on infrastructure development and in some cases the provision of other social services.*

*Project focused RBF by contrast often targets a specific beneficiary group. Examples include:*

- *Subsidies paid to particular groups of farmers that successfully implement investments in land management and irrigation*
- *Performance based grants to producer cooperatives and SMEs with business plans for market development that have been approved and obtained financing*
- *Performance based agreements with financial institutions with disbursements linked to jointly identified results with respect to outreach to particular groups of farmers, quality of portfolio etc.*
- *Economic incentives to competing private actors for the development adoption of new agricultural technologies.*

19. There are some areas in the agriculture sector with potential for successful RBF support (see box 2). First, it will likely be easier to design RBF to ensure output results related to the provision of public services to farmers, such as agricultural extension services (focusing on e.g., market information, or business planning assistance) and infrastructure services (such as roads, ports, irrigation, water, energy, market platforms). Second, direct support to farmers tying financing with the expected outcome of increased productivity or income will be more difficult, as there are many factors that can affect these outcomes. Providing incentives for e.g. increased farmer utilization of inputs such as seeds, fertilizer or finance may or may not have the intended effect on increased productivity or incomes, unless there is clear evidence to support this in a given context. There may, however, be potential to provide RBF to farmers if the expected behavioral change is well-understood and clearly tied to the outcome--for instance, incentive programs for farmers to change crop production to less water-intensive crops in drought-prone areas, or incentives for farmers to relocate production areas in flood prone zones. Third, there is significant potential to provide more programmatic RBF support at central, provincial and local

government levels for policy reform and institutional development in a broad swath of areas including property rights, land use planning, irrigation management, agricultural extension and research, disease and pest management, production subsidies etc. This more programmatic support can be coupled with physical investments as part of a broader government expenditure program such as those supported by WB PforRs in agriculture.

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Investing in rural people

## IFAD's Proposal for Piloting Results-based Lending

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For: Information

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Appendix The Disbursement-linked Indicator Matrix

## Abbreviations and acronyms

AsDB	Asian Development Bank
ARRI	Annual Report on Results and Impact of IFAD Operations
DLI	disbursement-linked indicator
FIPS	Faster Implementation of Project Start-up
FLM	flexible lending mechanism
IFI	international financial institution
M&E	monitoring and evaluation
PforR	Program-for-Results (World Bank)
RBF	results-based financing
RBL	results-based lending
SWAp	sector-wide approach

## Recommendation

As one of its commitments under the Eleventh Replenishment of IFAD's Resources, (IFAD11), IFAD will develop a proposal to pilot results-based lending (RBL) for consideration by the Executive Board. This proposal builds upon the Concept Note on Results-based Lending (TFWG 2018/3/W.P.2) presented to the Working Group on the Transition Framework and provides more streamlined information about the IFAD-specific proposal on how to pilot RBL.

The Working Group on the Transition Framework is invited to review and endorse the rationale for introducing RBL operations in IFAD and the proposal for a pilot phase as summarized below.

**Demand-driven voluntary pilots.** IFAD will undertake a demand-driven selection process, with regional divisions promoting the concept of RBL among borrowing countries. Piloting of the instrument in different countries to assess its suitability to a variety of development challenges will be encouraged. The decision to use the RBL instrument will be voluntary. No country will be obliged to adopt RBL instead of investment lending and no country will be excluded a priori from using RBL.

**Piloting a variety of RBL mechanisms:** IFAD will benefit from experimenting with different types of RBL to learn what best fits its capabilities and comparative advantages. This document outlines two main types of RBL undertaken by other international financial institutions (IFIs): project RBL and programmatic RBL. The proposal is for IFAD to introduce at least one of each type of RBL during the pilot phase.

**Piloting in specific areas.** Potential focus areas for IFAD's pilot of project RBL could include: (i) public services to farmers such as extension services (e.g. business planning assistance) and infrastructure services (e.g. irrigation); and (ii) incentive programmes for behavioural change of smallholder farmers (e.g. crop conversion linked to climate adaptation). IFAD will explore other areas for project RBL pilots. Potential focus areas for piloting IFAD's programmatic RBL could include support at the central, provincial and local levels of government as part of a broader government-owned programme.

**Partnering during the pilot phase.** The proposal suggests that IFAD's initial pilot of programmatic RBL be undertaken in partnership with an IFI that has experience with this type of RBL, drawing on technical assessments for the use of country systems undertaken as part of programmatic RBL. IFAD would participate as a cofinancier and would review these assessments. This approach will allow IFAD to gradually build the required competencies – both at headquarters and in the field – in all the aspects of RBL, including with government discussions, design, supervision and monitoring.

**Financing of pilots through PBAS allocations with additional administrative support.** Pilot RBL operations will be financed through part or all of the performance-based allocation system allocation for each participating country as per the terms established for each country category. Consistent with the voluntary spirit of the pilots, the decision as to the share of a country's PBAS allocation for IFAD11 to be devoted to RBL will remain with the country. There will be no additional "premium" allocation for RBL, nor will a portion of the PBAS allocation be set aside for it. Limited additional administrative resources will be dedicated to the design, implementation and assessment of the pilots.

## Recommendation (continued)

Duration of the pilot phase. The pilot phase will be time-bound and designed as a learning effort. Based on the experiences of other IFIs, it is proposed that the pilots be undertaken over a period of at least six years, in line with the typical duration of a programmatic RBL operation, to be able to evaluate its full cycle. It is proposed that IFAD undertake at least two or three pilots (representing a modest proportion of the projects approved annually). This will allow for an assessment of the RBL process at the end of the pilot period.

Self-assessment after three years to gather lessons learned. Three years after the approval of the first pilot, IFAD will undertake a self-assessment aimed at gathering the most wide-ranging lessons possible. The self-assessment will include: (i) the costs incurred for the design and supervision of the operation; (ii) the demand from borrowers; (iii) the role played by IFAD in designing the operation; (iv) the criteria used by IFAD to select the pilots; (v) the internal level of familiarity with the RBL instrument and the need for further learning/training; (vi) the disbursement trends of the ongoing operations; and (vii) the experience in data gathering by the independent assigned party as part of the verification protocol for disbursement-linked indicators

Realistic and shared choice of disbursement-linked indicators (DLIs). The selection of DLIs should take into consideration the practical aspects of measuring, monitoring and verifying achievement of the results, including the specific challenges of the agricultural sector. The DLIs should be clearly defined and measurable, with clear protocols for monitoring. The DLIs should be structured so as to take into account the country's context and the borrower's capacity, and should be realistic in considering whether it is feasible to achieve the results selected as DLIs during the implementation period.

Independent verification protocol for DLIs. A key feature of any RBL operation is the verification protocol of the DLIs agreed as part of the design between the lender and the borrowing government. An separate entity, independent from both the borrowing government and the lender, whose capacity and reliability are assessed as part of programme preparation, will be identified in the DLI matrix included in the project/programme document. The scope of the verification are the objective and quantitative measures related to numerical indicators agreed for each DLI with respect to agreed baselines. This process does not entail rating the project or assessing its performance. The Independent Office of Evaluation of IFAD (IOE) has no role in this process. IOE will assess the project/programme at completion in line with current rules for loan investment projects.

Executive Board approval of each pilot and, if needed, waivers. The proposal suggests that IFAD's RBL will not be guided by a new policy; instead, interim guidance will be provided by Management to design and implement the pilots. The proposal further suggests that the pilot launch be accompanied by an indication of any policy and/or procedural waivers that may need to be approved by the Executive Board. Each pilot project will also be presented to the Executive Board for discussion and approval.

## IFAD's Proposal for Piloting Results-based Lending

### I. Background and rationale for IFAD results-based lending

1. IFAD is currently constrained by its menu of lending products. In contrast to other international financial institutions (IFIs), which have a wider choice of options, IFAD currently has a single lending instrument. With IFAD's increased focus on policy dialogue and partnership-building, it has been raising its profile to engage at a higher level of policy and institutional reform. Developing a lending mechanism to target IFAD's financing at the delivery of concrete results and broadening the scope of IFAD's financing to include areas critical to the delivery of broader government agricultural programmes have the potential to bring IFAD to the next level.
2. IFAD has committed to piloting results-based lending (RBL) during the Eleventh Replenishment of IFAD's Resources (IFAD11). The IFAD11 commitment states that IFAD will pilot diversified products tailored to different country circumstances, noting that it will "develop a proposal to pilot results-based lending for consideration by the Executive Board".<sup>1</sup>
3. There is preliminary evidence from IFAD borrowers of a demand for RBL. In 2017, the Corporate-level Evaluation on IFAD's Financial Architecture was undertaken to assess IFAD's financial architecture, including inputs from governments and IFAD staff on expanding IFAD's product offering. Respondents suggested that more products would increase choice and flexibility, enabling borrowing countries to select the product that best meets their needs. There was strong agreement that IFAD should develop an RBL approach,<sup>2</sup> with financing that is disbursed according to the achievement of specific programme results and performance indicators. Some borrower countries signalled their interest in IFAD providing support through more results-based approaches to incentivize performance. They reported a preference for IFAD support that contributes strategically to government programmes and helps build government capacity for managing expenditures and investment programmes. While it is recognized that such surveys do not equal commitments, and that there might be different levels of understanding of the instrument, they provide an encouraging starting point for proposing the instrument.
4. IFAD's Transition Framework calls for better tailoring of IFAD products to its Members. IFAD has mapped out a path to transition borrower countries in a predictable and sustainable way. It also envisages an IFAD that can respond to borrowers' demand for more tools and provide more flexibility in its support. To this end, IFAD will need to tailor support for Members on a differentiated basis, as recognized in the enhanced business model for IFAD11.
5. IFAD aims to increase the effectiveness of its lending and non-lending activities. IFAD's overall project lending performance is good, with an aggregate rating of "moderately satisfactory", but there is an ambition to enhance this performance. The 2016 and 2017 Annual Reports on Results and Impact of IFAD Operations (ARRIs) suggest that adopting more strategic approaches, increasing coordination with other partners and focusing more on institutional development are key to increasing IFAD's effectiveness. IFAD now engages in activities beyond project lending including policy dialogue, knowledge management and partnership-building. These activities have also been rated in recent years as "moderately

<sup>1</sup> See GC 41/L.3/Rev.1, Report of the Consultation of the Eleventh Replenishment on IFAD's Resources, commitment 3.6, monitorable action 36.

<sup>2</sup> From the corporate-level evaluation on IFAD's Financial Architecture: Of non-IFAD respondents, 70 per cent assigned high or highest priority to developing an RBL product along with 59 per cent of IFAD respondents.

satisfactory” and there is a similar desire to enhance performance. An effort is under way to: build stronger linkages that enable the flow of knowledge from project management units to governments and other stakeholders; scale up successful experiences and results at the project level; support broader policy dialogue and partnership-building; and better link lending and non-lending activities. Enhanced non-lending activities would also be critical to any programmatic engagement in RBL.

6. RBL has the potential to scale up and increase IFAD’s impact. The introduction of an RBL approach has the potential to increase IFAD’s focus on results and higher-level impact. In both project and programmatic RBL, such a mechanism has the potential to draw on IFAD’s experience with smallholder farmers and indigenous peoples, and scale up development impact among these groups.

## II. IFAD’s proposal for piloting results-based lending

### A. Leveraging IFAD’s comparative advantage

7. IFAD’s focus on smallholder farmers can shift the paradigm of government service provision at the local level. Within the many areas of support to the agricultural sector, IFAD’s comparative advantage lies in its focus on smallholder farmers and rural communities, and its ability to connect them to broader markets through value chain support. IFAD is recognized, in particular, for targeting the poorest segments of the farming sector in geographically remote areas. It is also noted for spearheading innovation and testing solutions at the local level that can be replicated and scaled up. IFAD’s focus on smallholder farmers and its experience with innovation enable it to support government services in becoming more performance- or results-based, increasing the impact on its target group. There is significant potential to introduce more participatory approaches to promoting results attainment in RBL; IFAD could draw on its experience in this area – its hands-on approach and its relationships with rural communities and farmers’ organizations – to deliver meaningful project results.
8. IFAD can also bring the perspectives of smallholders to larger government programmes. The Fund can leverage its vast experience of supporting smallholders by bringing their perspectives to bear on policies and programmes at the provincial and national levels. IFAD can draw on experience in supporting institutional development at the local level to influence programme delivery, policies and institutional development at higher levels of government. This would provide a significant opportunity for IFAD to scale up its impact in line with its scaling-up agenda,<sup>3</sup> while maintaining its focus on smallholder farmers. Governments’ multi-year expenditure programmes for agriculture and rural development aim to improve agricultural productivity through a variety of means, such as linking rural production to markets and encouraging investments in needed rural infrastructure and climate-smart production. When IFIs and donors join governments to finance these programmes, they can jointly support a variety of reforms (e.g. shift subsidies) and improve the performance of government agencies. They can also introduce a results focus that increases the impact of both the development partners’ financing and the government programmes they are supporting. However this focus on central governments and national programmes can make it easy for development partners to lose sight of the smallholder perspective; IFAD could fill this crucial gap. A current example of IFAD putting this into practice is in Indonesia, where it is providing parallel financing to a large-scale irrigation development programme supported by the Asian Development Bank (AsDB). IFAD will integrate the perspectives of smallholder farmers to improve

<sup>3</sup> Brookings, *Scaling up Programs for the Rural Poor: IFAD’s experience, lessons and prospects (Phase 2)*, Brookings Global Economy and Development (January, 2013).

infrastructure planning, and will provide farmers with capacity-building support, value-chain financing and support for on-farm and off-farm institution-building.

## B. Learn from IFAD's own experience

9. IFAD has been endeavouring to expand its array of services to borrowers. Along with other IFIs, IFAD has experimented with flexible lending mechanisms (FLMs), sector-wide approaches (SWAp) and other forms of programmatic support. The uptake of FLM after its introduction in 1998 was vigorous: 20 FLM projects were approved between September 1998 and April 2002. However, a Board decision in 2002 limited FLM operations to those already approved or in the pipeline (until the mechanism had been thoroughly evaluated) and a Management self-assessment in 2007 concluded that FLM had had only limited success. It was then agreed that the positive features of FLM would be integrated into other IFAD project designs. A subsequent effort involved the SWAp mechanism. IFAD introduced a policy for SWAps in 2005.<sup>4</sup> The SWAp concept was intended to bring together external assistance and domestic funds within a single-sector strategy and expenditure framework, owned and led by governments with development partners progressively aligning and harmonizing their procedures with country systems. While SWAps were relatively prevalent in social sectors, there was less uptake in the agricultural sector<sup>5</sup> and IFAD did not engage in any new SWAps after the approval of the policy.
10. Lessons learned from these early initiatives can inform IFAD's development of RBL approaches going forward. While these two initiatives were not fully successful in achieving their goals, they introduced important elements that IFAD can build on in future RBL efforts. For instance, the triggers used for FLM tranches provided experiences that can be drawn on in the formulation and monitoring of DLIs. In addition, the programmatic nature of SWAps together with their focus on results built a foundation for programmatic results-based financing (RBF) in other organizations.<sup>6</sup> These initiatives also provided a number of lessons on the critical foundations needed for RBL, including strong government leadership and institutional capacity of both government and IFI staff in order to develop appropriate results chains and DLIs. They underscored the challenges of adapting new approaches to each organization's context and the effort needed to build ownership and institutional capacity within an organization.

<sup>4</sup> See EB 2005/84/R.5/Rev.1, IFAD Policy on Sector-Wide Approaches for Agriculture and Rural Development.

<sup>5</sup> The 2007 study of SWAps in agriculture noted only 15 operations worldwide (see *Formulating and Implementing SWAps in Agriculture and Rural Development*, Global Donor Platform for Rural Development).

<sup>6</sup> IFAD's experience with SWAps was limited to two or three projects, which were not considered fully successful. However, some valuable lessons were learned by IFAD and there were some positive results for its clients (e.g. more participatory and results-based delivery of services in the United Republic of Tanzania).

11. More recently, there have been promising initiatives to improve the results focus of IFAD's investment projects. Performance-based financing has been a growing element in microfinance and experiences from it have been shared with a variety of financial service providers and clients with the aim of improving access to financing. IFAD has introduced performance-based agreements<sup>7</sup> in a number of rural finance operations by employing outcome-based indicators that serve as triggers for fund disbursement and other project support.<sup>8</sup> An example is the Zambia Rural Finance Expansion Programme, which linked disbursements to quarterly baseline and impact survey reports. Performance-based agreements can take many forms to incentivize different actors. These kinds of incentive payments linked to IFAD's own disbursements represent important innovations, which embed the achievement of results into IFAD projects. Efforts will be made to identify further examples of innovation in past and ongoing projects, and build on this experience as IFAD pilots RBL approaches.
  12. IFAD has made a concerted effort to move more broadly towards a greater results focus. IFAD has established a structure for results measurement and management, and M&E at the project, country and corporate levels. This includes project results matrices, results-based country strategic opportunities programmes (RB-COSOPs), the annual Report on IFAD's Development Effectiveness (RIDE) built upon the Results and Impact Management System (RIMS), and the ARRI – IFAD's annual independent evaluation report. However, this structure has not been fully successful in shifting the Fund's focus towards results and outcomes. A 2013 study of IFAD found that "IFAD's results measurement and M&E are elaborate in design, but weak in implementation".<sup>9</sup> IFAD's internal annual reports have also noted that, while there has been progress on supervision and results management overall, M&E remains weak. This suggests that a more concerted effort to embed a results-based focus in projects and programmes (not only in results matrices attached to projects) could support an improved results orientation in IFAD. Close linkages and synergies with the results management framework in the COSOP and the results framework underpinning RBF instruments should be identified when selecting pilots.
- C. Demand-driven voluntary pilots
13. The pilot phase will be demand-driven and of a voluntary nature. It is proposed that a small number of pilots will be identified in the second half of 2018 and in the first quarter of 2019 by interacting with regional divisions. Management will request proposals from regional divisions to identify appropriate pilots based on input from government counterparts and on criteria that would indicate the suitability of the instrument to the development problem.
  14. The choice to use the RBL instrument is voluntary. No country will be obliged to use it and no country will be excluded upfront from using it. Capacity assessment will be undertaken and, if needed, appropriate measures for capacity-building and risk mitigation will be put in place for the pilots in interested countries. The amount

<sup>7</sup> The accepted definition of a performance-based agreement in the provision of financing is that, "the agreement: (i) is clear and specific about the expected results and how they will be measured; and (ii) strengthens incentives for good performance by defining benefits (or sanctions) that are tied to the achievement (or non-achievement) of the expected results" (Consultative Group to Assist the Poor, *Performance-Based Agreements: Incorporating Performance-Based Elements into Standard Loan and Grant Agreements* (Washington, D.C., 2010).

<sup>8</sup> See the IFAD "how to do" note, *Key performance indicators and performance-based agreements in rural finance*, (October 2014). This document notes that: (i) outcome-based indicators are mostly used for non-lending arrangements; (ii) subsidiary loan agreements are used between projects and financial service providers; (iii) grant agreements are used when support originates from an IFAD grant facility; (iv) management agreements are used when the financial service provider is mandated to execute a large part of the activities in an IFAD-supported project; and (v) other types of special agreements (e.g. letters of agreement) may also be used. A performance-based agreement may be used following structured dialogue involving IFAD and a financial service provider on the context, indicators, drivers of performance and sanctions.

<sup>9</sup> See footnote 2.

of funds dedicated to RBL under each country's PBAS allocation remains voluntary, to be decided between IFAD and the country, according to the scope of the RBL type and operation. Each country will be free to decide whether to dedicate the entire PBAS allocation or a portion of it to the RBL operation.

#### D. Pilot a variety of RBL mechanisms in specific areas

15. IFAD should strive to pilot different types of RBL to learn what best fits its capabilities and comparative advantage, by experimenting with both project RBL and programmatic RBL.
16. IFAD's project lending can support governments and incentivize other actors to be more results-focused and emphasize the smallholder perspective. There is considerable potential for shifting IFAD's project lending towards a stronger and disbursement-linked results model, and making results a more integral part of IFAD's investment portfolio. This mechanism could be applied to a number of areas that IFAD currently supports, building on the limited performance-based financing currently offered. Given its focus on individual farmer families, IFAD's RBL would be particularly relevant to the provision of public services such as extension services, rural infrastructure and crop-conversion support linked to climate adaptation. Project RBL could also be applied to small-scale infrastructure given IFAD's role in enhancing smallholder returns and increasing income levels.
17. The area of climate-smart techniques and investments also has significant potential for using financial incentives to change farmers' behaviour. IFAD will be encouraged to explore other areas for RBL pilots and will review ongoing projects and the pipeline of additional financing to explore components or projects in which a results-based focus could be introduced. Performance metrics linked to the delivery and results of these services would benefit from the inputs of smallholder farmers, facilitated by IFAD. These projects could feature results-linked payments from central governments to lower-level intermediaries or service providers, providing a clear incentive for intermediaries to deliver services that achieve targeted results. It would draw on IFAD's ongoing experience with performance-based agreements in rural finance and other IFIs' experiences with investment lending using disbursement-based indicators.
18. In programmatic results-based lending, IFAD could play a useful role by bringing the smallholder perspective to large government-owned programmes. Over time, there may be scope for IFAD to assume a leading role in programmatic RBF, especially in small economies where IFAD may be providing a significant portion of development financing for agriculture. There may also be opportunities for IFAD to support government programmes at the provincial level, especially in countries where central governments have encouraged provincial reform and expenditure programmes are dedicated to supporting remote areas and rural poor people.

#### E. Partnering during the pilot phase

19. The complexity of the instrument, which is partially related to its novelty, is well acknowledged. IFAD will therefore partner with other IFIs especially for programmatic RBL. During the initial stages of the pilot, Management proposes that IFAD engage with another IFI that has experience with programmatic RBLs, enabling IFAD to gain experience during its initial foray into the area. Taking on the role of cofinancier, IFAD would work together with the lead IFI in designing and implementing programmatic RBF, bringing the smallholder perspective into the design and potentially supervising a specific portion of the project and related DLIs. A robust system would be needed to assess IFAD's contribution and indicate future roles for IFAD in supporting programmatic RBL. To date, these programmes have required considerable capacity to convene and carry out discussions with governments on key policy and institutional development issues; it would be difficult for IFAD to undertake such activities alone. RBF also requires the capacity

to assess the government systems to be used when financing is provided directly for a government expenditure programme. IFAD would initially need to rely on the lead IFI to carry out these technical assessments.

20. IFAD will draw on external expertise to support its efforts in RBL. Once candidates for pilots are identified, the design process will likely require additional support. Key design features include payment metrics, identifying the portion of funding attached to results, the pricing structure and the approach to verification. IFAD may need to engage consultants specialized in RBF to assist with this design. There are also considerable resources in the development community to support RBL design through donor-funded programmes and IFIs. Notably, the World Bank has developed training courses at different levels to build staff capacity on key aspects of programmatic RBL. The courses build staff capacity to make informed judgements about instrument design choices, including results frameworks and DLIs. The courses also assess areas of specific competence in broad fiduciary, environmental and social assessments for programmatic RBL. Other institutions offer training that is more focused on project RBL. Once pilots are identified, IFAD will leverage these training courses for the necessary parties. The Capacity-Scan programme (which supports governments in improving results and M&E capacity) is being piloted in the rural sector through the Advancing Knowledge for Agricultural Impact initiative to assess in-country results-based management systems and capacities, and identify shortfalls. These could potentially be deployed for IFAD's RBL pilots. As IFAD moves into more programmatic RBL, it may draw on country assessments (for example of public financial management) undertaken by IFIs and other donor-funded groups. It may also outsource these assessments with financing from the proposed Technical Cooperation Facility of the Faster Implementation of Project Start-up (FIPS) mechanism, for environmental and climate assessment. IFAD is a member of the Multilateral Development Bank (MDB) Working Group on financial management where the issues related to fiduciary aspects of programmatic RBL are often discussed. IFAD will be able to draw on vast experience in this field and apply it to its pilot proposals.

#### F. Financing of pilots through PBAS allocation

21. RBL pilots will need to be tailored to IFAD's scale and financed from a country's PBAS allocation. For the pilot phase, borrowers will draw on their existing IFAD11 performance-based allocation to finance RBL operations. There will not be any bonus or set-aside in the PBAS for countries willing to pilot RBL. Neither will there be a prescribed share of usage of a country allocation. Each country will be free to decide which portion, if any, to be dedicated to RBL. Additional financing for well-performing projects/programmes will be allowed in line with current procedures for investment projects.<sup>10</sup>

#### G. Dedicated resources to support design of pilots

22. The design and implementation of the pilots will be undertaken by existing staff. However, given the learning that will be required to carry out these new operations, Management suggests that limited additional resources be dedicated to the design and implementation during IFAD11.
23. Recognizing the contributions it could make in the policy arena, IFAD has expanded its knowledge services and is engaging more extensively in policy dialogue. While resources for expanding its non-lending services have been constrained, IFAD is now proposing FIPS instruments as a new source of funding to provide analytic and advisory services in support of policy engagement for the rural sector. This proposed funding would support policy-related analysis and engagement in policy processes relevant to rural sectors, including national- and local-level assessments

<sup>10</sup> In line with other IFIs' procedures, additional financing for RBL follows the same procedures as investment projects.

of the sectoral policy context, policy gaps and capability assessments for developing and implementing policies. FIPS funding is also envisaged to support partnerships, including consultations with key stakeholders. This funding will enable IFAD to prepare projects with a results-based focus (e.g. with better performance metrics for agricultural service delivery), and develop programmes that support broader government policy and institutional reform.

#### H. Duration of pilot phase

24. The pilot phase will last six years and the number of operations will be tailored to capacity assessments. It is proposed that IFAD undertake at least two or three pilots (representing a modest portion of annual project approval) over a six-year period. This will allow for an assessment of processes and impact at the end of the pilot period. Both AsDB and the Inter-American Development Bank (IDB) have introduced six-year pilot programmes to allow ample time for review and evaluation.<sup>11</sup> Depending on the outcome of these pilots, Management will propose a modality for mainstreaming a more permanent form of RBL at IFAD.

#### I. Self-assessment after three years

25. A self-assessment will be undertaken three years after the approval of the first pilot. Management believes that the first three years of pilot will yield a number of lessons, including (i) the costs of design and supervision; (ii) demand from borrowers; (iii) the role played by IFAD in designing the operation; (iv) an assessment of the criteria used by IFAD to select the pilots; (v) staff familiarity with the RBL instrument and the need for further learning/training; (vi) the disbursement trends of the ongoing operation; and (vii) the experience with the independent assigned party in data gathering as part of the DLI verification protocol.

#### J. Criteria for selecting potentially successful pilots

26. Criteria for selecting pilots will be based on lessons learned and will include government willingness and commitment. The uptake of the instrument will be of a voluntary nature: no country will be obliged to use RBL and neither will any country be excluded ex ante from using it. The decision about the use of the instrument will be the result of a joint analysis of the development problem by IFAD and the borrower and the conclusion that RBL might be a more effective solution than a traditional investment project. Government commitment to developing RBL approaches in the agriculture sector will be critical, and IFAD's ability to conduct frequent discussions with its counterparts on project results and DLIs (for example through field offices) will be an important selection criterion. In the case of programmatic RBL, IFAD will also consult with IFIs on potential Program-for-Results (PforR), results-based lending, results-based financing and loan-based-on-results instruments in the pipeline to seek opportunities for cofinancing programmes that are aligned with IFAD's mandate. Criteria for pilot selection will be also derived from the lessons learned at other IFIs. One key criterion for successful programmatic pilots will be for countries to have a well-defined agriculture programme as part of national expenditure and for there to be a clear understanding between the government and IFAD of the types of results to be achieved, the results chain to get there, the actors to be incentivized and the type of data available for monitoring results.

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<sup>11</sup> For example, the AsDB policy paper *Piloting a Results-Based Financing for Programs Modality* (August 2012) stressed that "to enable learning-by-doing, it is proposed that AsDB pilot the RBF for programs modality for six years. This is the minimum time frame required to yield sufficient information for a subsequent review of RBF for programs operations, including both their design and implementation aspects. During the pilot, AsDB will put in place measures for training, dissemination, consultation and learning. AsDB will also learn from and exchange experiences with other development agencies. The experience derived from the pilot will inform the future policy direction of the RBF for programs modality." IDB's loan based on results pilot also has a six-year time frame.

## K. Realistic and shared choice of DLIs<sup>12</sup>

27. The choice of the right DLI is key: It should be jointly made and realistic. In RLB, disbursements are made based on the achievement of certain targets, as agreed in the definition of DLIs. During the programme preparation, IFAD will work with the borrowers to identify a set of indicators selected from the programme's results framework to be included in the DLI matrix. Capacity will be built to design DLIs, and to guarantee a common understanding of the targets to be reached as well as the payment modalities. During implementation, monitoring the achievement of DLIs allows the IFI and the borrowers to assess progress towards a programme's development objectives and to redirect it as needed. While DLIs vary in nature, they should be driven by desired outcomes or outputs; these can also be intermediate outcomes or outputs. The selection of DLIs should also take into consideration the practical aspects of measuring, monitoring and verifying achievement of the results. The DLIs should be clearly defined and measurable, with clear protocols for their monitoring. They should be structured so as to take account of the country's context and borrower capacity, and they should be realistic when considering whether it is feasible to achieve the DLI results selected during the implementation period. In this regard, it is important that governments are clearly in the driver's seat with respect to the design of RBL approaches and programmes and that both the overall results to be achieved and the specific DLIs to be used are developed in a participatory manner with active engagement by all stakeholders.

## L. Independent verification of DLIs

28. The DLI verification protocol must be solid and agreed upon. During the preparation of the RBL operation, IFAD will work with partners and the borrower to develop and agree upon the DLI verification protocol that substantiates the achievement of the DLIs. The verification protocol should include, as a minimum, the following:
- Clear definition of the DLI and how it will be measured.
  - Objective, detailed definition of what is required in order to consider the DLI as achieved.
  - Indication of whether disbursements associated with the DLI will be scalable.
  - Definition of the data sources that will be used to measure the DLI's achievement, including reporting frequency.
  - Baseline data and expected timing of DLI achievement clearly established based on comparable data sources.
  - Name of the government agency or third-party entity that will be responsible for providing relevant data and for verifying achievement of the DLI.
29. The DLI verification protocol should be an integral part of the monitoring and reporting arrangements for the RBL operation, and teams should agree upon the process through which the achievement of each of the DLIs will be verified. The DLI verification protocol and related verification arrangements are to be attached as an annex to the design document.
30. Verification of DLIs must be credible and independent. IFAD will work with the borrower to agree upon appropriate arrangements that will ensure credible verification of the achievement of DLIs. These arrangements could include the programme's established monitoring systems if they are assessed as having the

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<sup>12</sup> This section and the next one are largely sourced from the World Bank Programme for Results Guidance note (2012) which is a benchmark for the DLI choice and verification protocol, followed by all other IFIs who have introduced programmatic RBL.

capacity to produce objective, good quality and reliable data that will allow the timely verification of DLI achievement. In addition, external verification mechanisms, including the use of an independent agency in the country (e.g. the government statistics agency) or third parties (e.g. NGOs, private sector verification agencies, academic institutions) may be used. Any external institution providing verification must also be assessed to ensure that it has the experience and capacity to undertake credible verification. The primary objective is to ensure that a credible mechanism is in place for monitoring, measuring, and verifying the achievement of the DLIs. In some cases the World Bank has used external firms or consultants (both local and international). Firms can offer capacity and credibility when the independence of government agencies is questionable. The verification costs are normally part of the programme costs.

31. Verification is focused on the quantitative measures of outputs, intermediate outcomes or outcomes as described in the project document. It is not a subjective assessment of project performance and it is not performed in consultation with the Independent office of Evaluation of IFAD (IOE). IOE has no role in assessing nor verifying the measures attached to DLIs. IOE will evaluate the project/programme at completion, as is the current practice for investment projects.

#### M. Risk mitigation measures

32. The inherent risks of developing the new approach will be recognized and mitigated. One of the major risks related to RBL is the possibility that a project will not disburse funds. This can be mitigated in a number of ways. For instance, with programmatic RBL, careful attention should be paid to the respective weight of each DLI. The agreement between the IFI and the government should be explicit about what portion of the loan can be disbursed if there is only partial achievement of DLIs. Expectations may need to be adjusted since the timing of disbursements may be less predictable than for investment lending. For programmatic RBL, the use of country systems requires extensive ex ante assessment and agreement between the government and the IFI on programme action plans. IFAD will mitigate the lack of capacity for undertaking these assessments by relying on technical assessments undertaken by the lead IFI (to be reviewed and approved by IFAD). The risk of the government not fulfilling its obligations relative to the programme action plans can be mitigated by financing capacity-building efforts as part of the operation. In line with the practices of other IFIs for programmatic RBL, advanced disbursements in the range of 15 per cent to 25 per cent at signing could be proposed for the borrower to begin the necessary enhancements of country systems, if required as a project objective.<sup>13</sup> The specific risks related to the agricultural sector, as detailed in the Concept note on Results-based Lending, will be further mitigated by selecting primarily DLIs linked to outputs and intermediate outcomes, which are less challenging to measure.

#### N. Executive Board approval

33. The pilot phase will be time bound and designed as a learning effort, with the full engagement of the Executive Board. The proposal suggests that IFAD's RBL will not be guided by a new policy; instead, interim guidance will be provided by Management to design and implement the pilots supported. The pilot phase will be time bound and designed as a learning effort. The proposal further suggests that the pilot launch be accompanied by an indication of any specific policy/procedure waivers that may need to be approved by the Executive Board.

<sup>13</sup> The World Bank directive for PforR states that, "To provide a Borrower with resources to allow the Program to start or to facilitate the achievement of DLIs, the Bank may agree to make an advance payment (following the effectiveness of the legal agreement for the Financing) of up to 25 per cent of the Financing (unless a higher percentage is approved by Management) for one or more DLIs that have not yet been met ('advance'). When the DLI(s) for which an advance has been disbursed are achieved, the amount of the advance is deducted (recovered) from the amount due to be disbursed under such DLI(s)."

Each pilot project will be brought for discussion and approval by the Executive Board. At that time, Management, in consultation with the Executive Board, will review the need for any legal or policy changes to mainstream this effort. Maximum attention will be given to legal and fiduciary requirements, by building on lessons already learned through the MDB forum.

## The Disbursement-linked Indicator matrix<sup>14</sup>

1. The payment mechanism under each disbursement-linked indicator (DLI) should be clear and reflected in the DLI matrix. The financing amount allocated per DLI is determined by the IFI, in discussions with borrowers, based on the relative importance of the indicator to provide the incentive needed for achieving overall Program goals and outcomes. The more significant the DLI is for the achievement of the expected Program results, the more consideration should be given to assigning a higher portion of the financing amount to it.
2. Payment against one DLI can be proportionate. In discussions with the borrower, the Fund may agree to make disbursements against a DLI scalable—with the disbursement of financing proceeds proportional to the progress towards achieving the DLI. The decision to define scalable disbursements for a DLI should take into careful consideration the effect of a partial achievement of the indicator on the continued progress in the Program's results framework and on the eventual achievement of the entire development objective. In other words, scalability of disbursements may not apply to all DLIs. For instance, if a DLI refers to an action (e.g. modernization of procurement system in place), then it is either done or not. For each DLI with scalable disbursement, teams agree with the borrower on the formula to determine the amount of financing proceeds to be disbursed relative to the level of achievement of the DLI.
3. The DLI matrix will ensure clear overview of milestones and expected disbursements. The DLIs and the financing amounts allocated to the achievement of each DLI are recorded in the DLI Matrix. Taking into account the number of DLIs, the expected timing of DLI achievement, and the client's expected financing needs, the task team proposes an indicative time table for DLIs achievement and disbursement (e.g., on an annual, semi-annual, or quarterly basis). This time table is part of the DLI Matrix. A DLI can be specific to one period or defined to have stepwise targets over a series of periods. If DLIs are not achieved in the period initially planned, and are not time bound, they need not expire; the financing amount allocated to those DLIs may be made available for disbursement if the DLI is realized in later periods prior to the closing date. Similarly, if DLIs are achieved ahead of the expected period, disbursements can be claimed ahead of schedule. Lastly, if a DLI is not achieved by Program completion, the financing amount allocated to this DLI is not disbursed.

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<sup>14</sup> This section is largely sourced from the World Bank Programme for Results Guidance note (2012) which is a benchmark for the DLI choice and verification protocol, followed by all other IFIs who have introduced programmatic Results Based Lending.

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Investing in rural people

## Results from the Analysis on IFAD Cofinancing and Main Elements of the Cofinancing Strategy

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Executive Board — 125<sup>th</sup> Session  
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For: Information

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## Abbreviations and acronyms

AfDB	African Development Bank
AsDB	Asian Development Bank
APR	Asia and the Pacific
CPM	country programme manager
ESA	East and Southern Africa
GEF	Global Environment Facility
GRIPS	Grant and Investment Projects System
ICO	IFAD Country Office
IVI	IFAD Vulnerability Index
LAC	Latin America and the Caribbean
LIC	low-income country
NEN	Near East, North Africa and Europe
NS	not significant
OECD	Organisation for Economic Co-operation and Development
RSP	rural sector performance
Spanish Trust Fund	Spanish Food Security Cofinancing Facility Trust Fund
UMIC	upper-middle-income country
WCA	West and Central Africa

## Recommendation

1. The Working Group on the Transition Framework is invited to take note of the additional information provided in section VI of the present document.
2. Furthermore, the Working Group is asked to analyse and endorse the main elements that the cofinancing strategy will address, as presented in section VII and summarized here below. Management proposes that the strategy:
  - Define a clear vision for IFAD in the context of cofinancing in order to emphasize IFAD's role – as envisaged in the business model – as that of an assembler of development finance.
  - Highlight the link between the IFAD's decentralized structure and cofinancing.
  - Highlight the strong role of discussions at the level of country strategic opportunities programmes and project design to communicate expectations about cofinancing levels.
  - Build on lessons learned from the experience of IFAD and other multilateral development banks (MDBs) and also be informed by evaluations related to cofinancing conducted by IFAD and other MDBs.
  - Draw on the results of the quantitative analysis, the qualitative feedback from focus groups, an internal survey and interviews with operational staff in Rome and in the field.
  - Focus on the different sources of cofinancing driven by different factors, as shown by both the quantitative and the qualitative analyses and explain which sources of cofinancing should be prioritized.
  - Assess different modalities of cofinancing and make recommendations on those most suitable for IFAD.
  - Recommend steps to enhance measurement of in-kind and private sector cofinancing.
  - Consider country factors and regional differences in guiding the cascading of the corporate cofinancing targets to regional level and, through country strategic opportunities programmes, to country level.
  - Take account of cofinancing as a means not only of bringing additional funding but also, importantly, of leveraging the complementary knowledge and expertise of partners.
  - Identify changes in IFAD's processes that may be required for successful implementation of the strategy.
  - Emphasize implementation and include an action plan that clearly defines the roles and responsibilities within IFAD to support the strategy, as well as plans for monitoring results.
  - Include the methodology for cascading corporate targets into indicative regional targets as presented to and endorsed by the Working Group.

## Executive summary

### A. Key messages

1. IFAD's overall cofinancing during the 20-year period from 1995 to 2014 shows a decreasing trend from the period covered by the Eighth Replenishment of IFAD's Resources (IFAD8). The highest cofinancing ratio was achieved during IFAD8, while IFAD10 appears to be the most challenging replenishment cycle thus far. The international development context between 2010 and 2012, together with the food crisis, may have driven the exceptional cofinancing recorded in IFAD8. Contributions from the Spanish Food Security Cofinancing Facility Trust Fund were also a significant source of cofinancing during IFAD8 (see section I.A).
2. Significant differences in levels of cofinancing exist between regions and within each region, and a few key countries drive the cofinancing ratio (see section I.B).
3. A quantitative analysis was undertaken to determine the drivers of IFAD's domestic and international cofinancing. The results of the analysis will help provide the basis for the development of IFAD's cofinancing strategy and action plan in line with the relevant IFAD11 commitment.<sup>1</sup>
4. The results of the analysis identified several statistically significant variables related to country, project and specific IFAD-defined characteristics (see section II) as follows:
  - Most notably, income level, rural institutional performance, fragility and vulnerability matter, as does rural population size;
  - Large projects with extended partnerships are found to be key to resource mobilization; and
  - IFAD's relationship with the country, using the number of projects managed by a country programme manager and in the portfolio as a proxy, also has a significant impact.
5. Furthermore, a strong correlation was found between a country's rural sector performance and IFAD Vulnerability Index (IVI) scores and cofinancing (see section III).
6. Preliminary findings, therefore, call for a differentiated approach at region and country level, as the same requirements cannot be applied across the board within a single income category.
7. The criticality of recognizing and reporting in-kind domestic contributions from governments, beneficiaries and implementing partners has not been emphasized to date in IFAD. This has led to a historical underestimation of such contributions, which can be significant in certain projects.
8. A technical note on in-kind domestic cofinancing has been prepared. It provides clear guidance at the design, implementation and auditing stages of a project life cycle on the systematic recognition, measurement and reporting of in-kind contributions. The note will be included in the strategy for IFAD cofinancing and the action plan.
9. IFAD's engagement with the private sector is multifold. While IFAD deploys considerable efforts to record data on private contributions leveraged by its projects, the potential for underestimation must still be addressed and an effort made to capture the catalytic effects (see section VI).

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<sup>1</sup> See GC 41/L.3/Rev.1, Report of the Consultation on the Eleventh Replenishment of IFAD's Resources, annex I: IFAD11 matrix of commitments, monitorable actions and timeline.

10. Management proposes that the main elements to be addressed by the cofinancing strategy draw on the findings of the quantitative and qualitative analyses and are presented in section VII.

**B. Next steps**

11. Drawing on the studies and analytics, including the technical note on in-kind contributions, the next step will be to finalize the strategy and action plan – which were called for as an IFAD11 commitment – including inputs for new design and implementation procedures.

# Additional Results from the Analysis on IFAD Cofinancing and Main Elements of the Cofinancing Strategy

## Background

1. To address the development challenges facing the world as articulated in the 17 Sustainable Development Goals (SDGs) under the 2030 Agenda for Sustainable Development, investments of all kinds from multiple sources need to be assembled and maximized at both the national and international level and involving both public and private resources.
2. One of the main directions in the business model for IFAD11 is that IFAD must become a catalyst of development finance, to enhance its impact over and above the ambitious target of an IFAD11 programme of loans and grants of US\$3.5 billion. Therefore a cofinancing target ratio of 1:1.4 has been set, up from the IFAD10 target of 1:1.2.
3. To support reaching this target, IFAD committed to undertake a cofinancing analysis and develop a strategy and accompanying action plan "to reach a cofinancing ratio of 1:1.4 (international 1:0.6 and domestic 1:0.8), define different forms of cofinancing and methodologies for their calculation, including quantification of in-kind contributions, improve monitoring and reporting on cofinancing by source and country category, and better measure IFAD's crowding in of private investment".<sup>2</sup>
4. Cofinancing is discussed in the context of IFAD's Transition Framework, where IFAD not only wants to identify how to best support countries to tackle their specific development challenges, but also to identify what a country's fair contribution should be, and how other development partners should collaborate in a coherent manner.
5. This document presents the results of the cofinancing analysis, complemented by qualitative information gathered through a wide-ranging consultation with staff. It presents, as requested at the first meeting of the Working Group on the Transition Framework, the main elements to be addressed by the cofinancing strategy and associated action plan.

## I. Historical patterns in IFAD cofinancing data

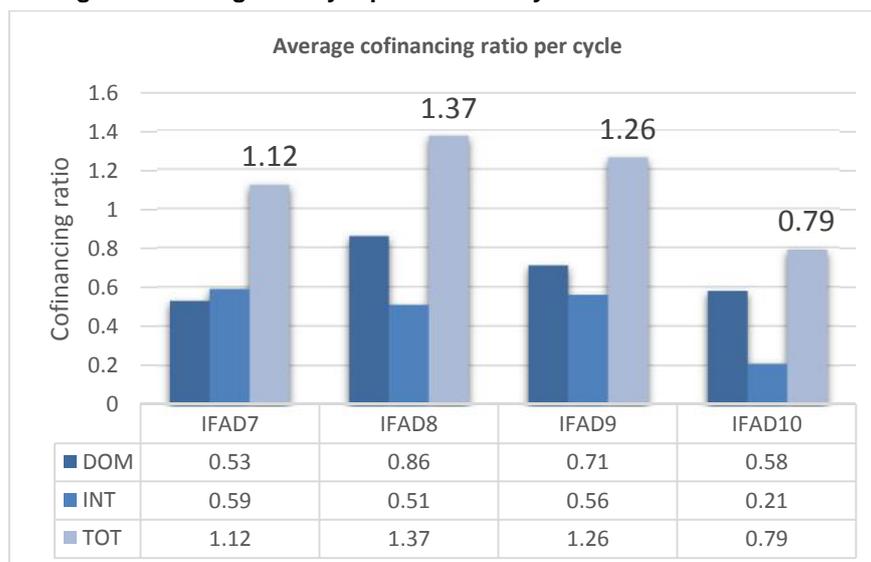
### A. Cofinancing by replenishment cycle

6. Figure 1 shows the evolution of IFAD's average domestic and international cofinancing ratio achieved during the past four replenishment cycles. The highest total cofinancing ratio was recorded in IFAD8, driven by domestic cofinancing. The highest international cofinancing ratio was achieved during IFAD7. The peak in IFAD8 may be attributable to an exceptional cofinancing amount in the East and Southern Africa (ESA) region, triggered by the 2010-2012 international food crisis. In addition, the Spanish Food Security Cofinancing Facility Trust Fund (Spanish Trust Fund), mobilized in 2011, provided significant international cofinancing during this period.

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<sup>2</sup> See footnote 1.

Figure 1  
Average cofinancing ratio by replenishment cycle



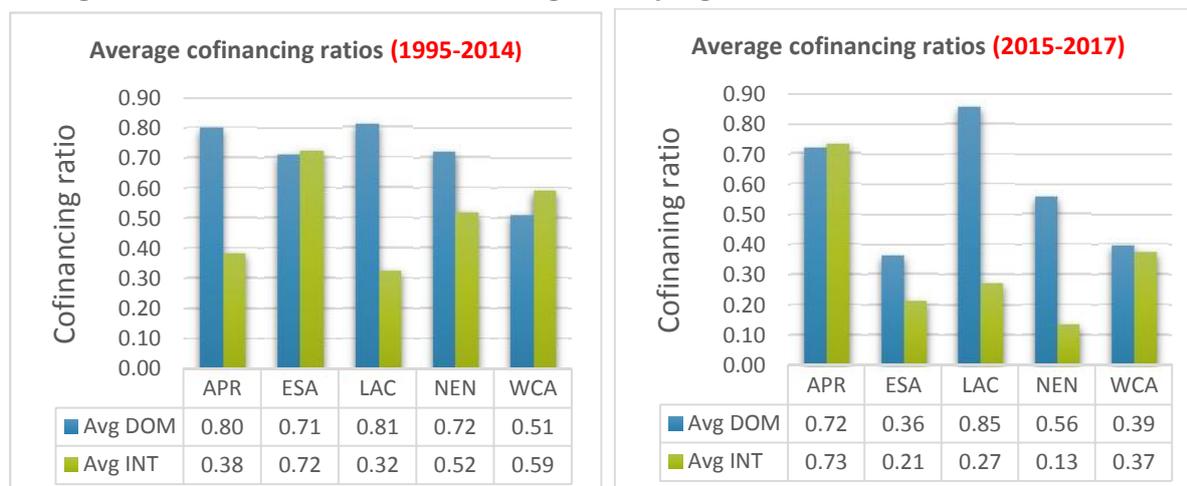
Source: Grant and Investment Projects System (GRIPS), investment projects financing data as of March 21, 2018.

## B. Regional differences in cofinancing

7. Figure 2 below compares the average domestic and international cofinancing ratios of IFAD's five regional divisions. On average, considering the period between 1995-2017, the Asia and the Pacific (APR) and Latin America and the Caribbean (LAC) divisions recorded the highest domestic cofinancing ratio. The top countries driving domestic cofinancing in APR are middle-income countries: India (1:1.54), China (1:1.46), Maldives (1:0.88), Philippines (1:0.82) and Bangladesh (1:0.67). In LAC, domestic cofinancing is driven by Brazil (1:1.88), Argentina (1:1.79), Bolivarian Republic of Venezuela (1:0.91), Ecuador (1:0.91) and Paraguay (1:0.76).
8. The highest international cofinancing ratios between 1995 and 2014 were recorded in ESA and West and Central Africa (WCA). However, the past three years have been challenging for ESA, which posted a significant decrease, while WCA maintained its performance. APR, on the other hand, has seen a significant improvement.
9. The top five countries in ESA are Eswatini<sup>3</sup> (1:3.88), Angola (1:1.34), Madagascar (1:1.33), United Republic of Tanzania (1:0.99) and Burundi (1:0.97). In WCA, international cofinancing is the highest in Togo (1:1.51), Ghana (1:1.13), The Gambia (1:1.06), Niger (1:1.02) and Mali (1:0.85). LAC recorded the lowest international cofinancing ratio on average over the period. This was attributable in part to the high volatility of donors' contributions in the region. Another major constraint to resource mobilization in LAC is the shift in national priorities from rural to urban development issues as the region experiences increasing urbanization.

<sup>3</sup> Effective 19 April 2018, the Kingdom of Swaziland has been renamed to the Kingdom of Eswatini.

Figure 2  
Average domestic and international cofinancing ratios by region 1995-2014 and 2015-2017

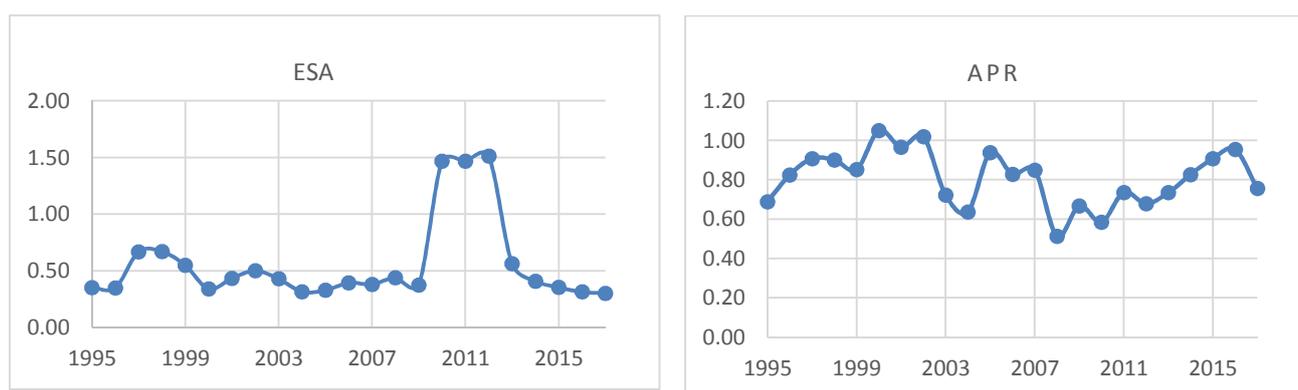


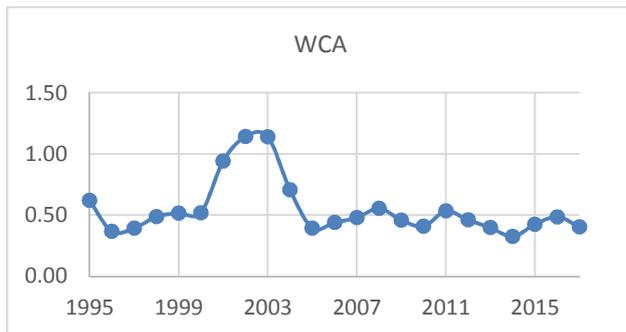
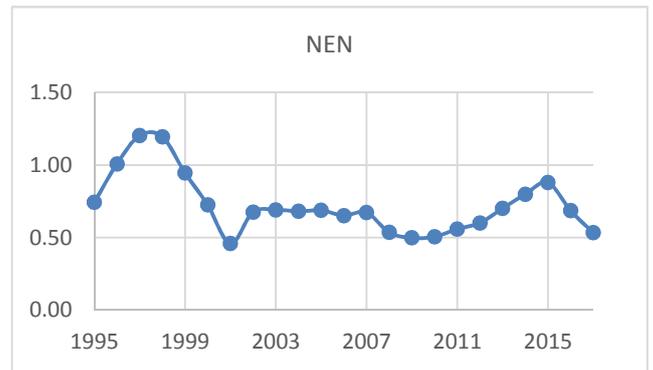
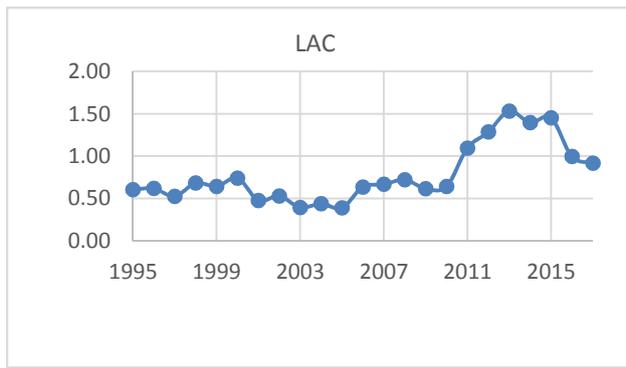
Source: GRIPS, investment projects financing data as of March 21, 2018.

### C. Regional trends in cofinancing

10. Figure 3 below displays trends in domestic cofinancing ratios within the five regional divisions. Domestic cofinancing between 1995 and 2017 shows a downward trend in all regions except LAC. It is the highest in APR on average; however, this masks a declining trend over time. ESA has experienced the most stable domestic cofinancing over time although the average absolute value remained low.
11. As seen in figure 3, WCA has experienced difficulty in maintaining substantial domestic resources over time. On one hand, highly constrained economic conditions and high country fragility may explain this trend. On the other hand, the region can be considered as having the greatest development challenges as most of the countries are low-income countries with a considerable number of development projects and initiatives competing for limited public budgets.

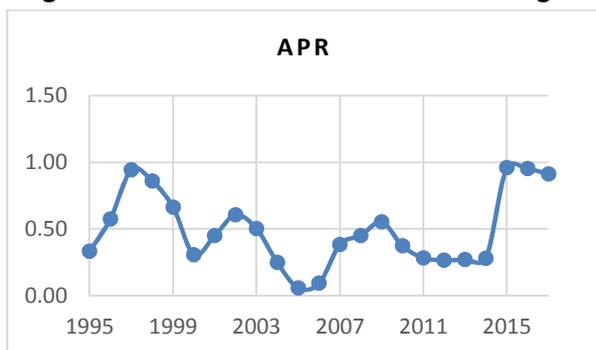
Figure 3  
Regional trends in domestic cofinancing ratios 1995-2017





12. High variability can be observed in international cofinancing across years. This lack of stability needs to be addressed, but also offers historic learning opportunities – in terms of project characteristics, donor types and institutional changes – where cofinancing ratios have significantly improved.
13. International cofinancing ratios during the period 1995-2017 follow a declining trend in all regions except for LAC between 2007-2014 (see figure 4). Nevertheless, the level of international cofinancing is the lowest in LAC on average.

Figure 4  
Regional trend in international cofinancing ratios 1995-2017

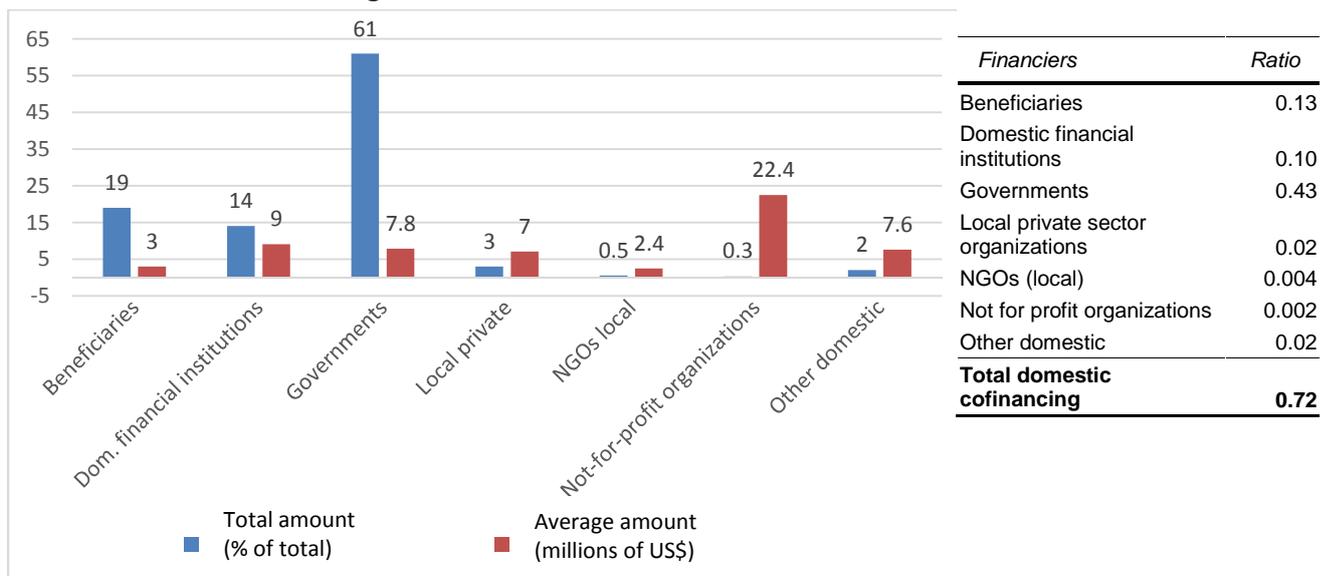




D. Types of cofinanciers in IFAD projects

- 14. Over the last 20 years, 94 per cent of total domestic cofinancing came from governments, beneficiaries and domestic financial institutions. The overall domestic cofinancing ratio for the 20-year period was 0.72.
- 15. The breakdown of domestic and international cofinancing by type of financier as presented below supports the development of mapping donors with key areas of interest, thereby helping IFAD to adopt a more informed selective approach to resource mobilization.

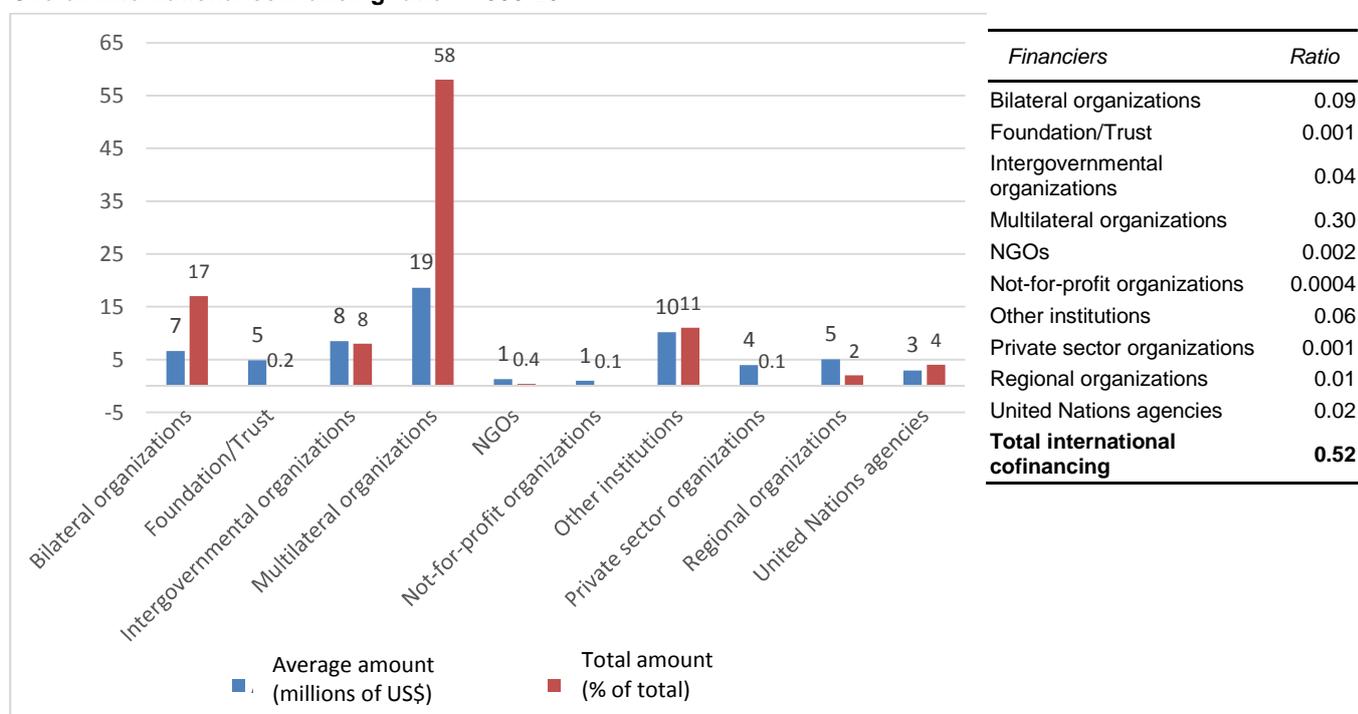
Figure 5  
Overall domestic cofinancing ratio – 1995-2014



Source: GRIPS, investment projects financing data as of October 10, 2017.

16. International cofinancing has been driven mainly by multilateral, bilateral and intergovernmental organizations, which provide about 83 per cent of the total international contributions.
17. As expected, over the period analysed, 58 per cent of contributions came from multilateral organizations. Regionally, the main multilateral contributions came from the International Development Association, the Global Environment Facility (GEF), the African Development Bank (AfDB) and the Global Agriculture and Food Security Program.
18. Bilateral donor organizations contributed 17 per cent of the cofinancing, mainly from the Agence Française de Développement, the Spanish Trust Fund and the SNV Netherlands Development Organisation.
19. Preliminary discussions within IFAD also confirmed that leveraging pooled cofinancing, as in the case of the Spanish Trust Fund and GEF, rather than single-project cofinancing, provides a better and more stable source of resources.

Figure 6  
Overall international cofinancing ratio – 1995-2014



## II. Analysis of the drivers of cofinancing: Method and results

### A. Methodology

20. The aim of this analysis is to identify the factors that influence IFAD's cofinancing performance. The first part of the analysis focuses on data on the approved cofinancing committed by the project partners at design phase. In a second part, the analysis focuses on investigating differences between the amount of cofinancing committed at approval and the actual amount disbursed during the lifetime of the projects. This second aspect will be included in the next iteration of the report.
21. For each of these two parts of the analysis, a two-step approach has been adopted. The first step is a quantitative analysis performed using regression models, trend analysis and descriptive statistics. The second step complements the quantitative

analysis with qualitative information from discussions with key internal informants such as regional economists and portfolio advisors.

22. Cofinancing data is disaggregated into domestic and international contributions to align with Management's approach in setting separate targets for these two aspects. Cofinancing ratios are computed yearly based on a three-year moving average. This method has the advantage of smoothing outlier values in the ratios compared to current practices at other multilateral development banks.

23. Details on the regression model and the source of data are found in appendix I.

#### B. Selection of key variables of interest and results

24. While most studies on aid allocation rely on country-related macroeconomic variables and to some extent project-related variables to capture these three dimensions of the aid allocation framework, this study extends the common framework by including variables under IFAD's direct control. This distinctive feature will be a key source of information for the cofinancing strategy.

#### C. Country-related variables

##### Income level

25. Two aspects of the countries' income level are considered. The first aspect pertains to the poverty status and is captured by; (i) gross national income per capita (GNIpc); (ii) income status: low-income country (LIC), lower-middle-income country (LMIC) or upper-middle-income country (UMIC). As expected, the results of the panel regression confirm that income, expressed both as GNIpc and as income category, has a positive correlation with domestic cofinancing.
26. The second aspect of income level is growth in GDP as an indicator of a country's economic performance. The data show that the higher the GDP growth, the higher the level of international cofinancing. The opposite effect is recorded on domestic financing. One explanation of this result may be that countries with growing GDP attract more foreign direct investment, thus reducing the need for financing from the national budget.
27. The results of the effect of income on cofinancing are presented in table 1. The coefficients represent the size of the estimated effect of each variable. For example, being in the LIC category lowers a country's domestic cofinancing ratio by an estimated 29 per cent.

Table 1  
**Income variables**

Variables	Country factors			
	Domestic ratio		International ratio	
	Impact	Coefficient <sup>a</sup> (%)	Impact	Coefficient <sup>a</sup>
<b>Income effect</b>				
GNIpc growth	+	2**	Not significant (NS)	(0.012)
LIC	-	(29)***	NS	0.02
UMIC	+	34***	-	(0.35)*
GDP growth	-	(3)***	+	0.03**

<sup>a</sup> International ratio is specified in level form, hence the coefficients are in absolute incremental value of the ratio. Domestic ratio is specified in a logarithmic form, hence the coefficients are in percentages.

Note: The star (\*) indicates the statistical significance level of the coefficient (\*\*\* p<0.01, \*\* p<0.05, \* p<0.1).

##### Population

28. Population density (measured as the number of inhabitants per km<sup>2</sup>) and rural population size (measured as a percentage of total population) are used to capture the population effect on domestic and international cofinancing.

29. Population density. Since need increases with population size, the analysis shows that population density has a statistically significant effect on international cofinancing, in line with past studies.
30. Rural population. As most of the poor in developing countries live in rural areas, the size of the rural population is correlated with poverty status. Data confirm the expectation of a negative effect of rural population size on domestic cofinancing.

Table 2  
**Population variables**

Variables	Country factors			
	Domestic ratio		International ratio	
	Impact	Coefficient (%)	Impact	Coefficient
<b>Population effect</b>				
Population density	NS	0.022	+	0.00084***
Population growth	NS	5.1	NS	0.008
Rural population (% total pop.)	-	(0.7)**	NS	(0.00132)

Note: The star (\*) indicates the statistical significance level of the coefficient (\*\*\* p<0.01, \*\* p<0.05, \* p<0.1).

### Fragility status

31. The effect of country fragility on cofinancing is estimated through three predictors included in the model, namely the country's classification as "in a fragile situation",<sup>4</sup> the occurrence of natural disasters in the country (number of times) and the total population affected by the natural disaster.
32. The regression analysis confirms the assumption that fragility is negatively correlated with domestic cofinancing, which is 30 per cent lower in countries with fragile situations than in non-fragile situation countries. On the other hand, fragility is positively correlated with international cofinancing.
33. International cofinancing is also positively correlated with the total number of people affected by natural disasters, but the relationship is not significant.
34. The data show that international cofinancing is significantly less when a country experiences conflicts or experiences high exposure to natural disasters. This result points to the conclusion that fragility embeds both a risk and a humanitarian need dimension that affects foreign aid allocation differently. While the humanitarian dimension has a positive effect on international cofinancing, fragility and the associated risks have a negative impact.

Table 3  
**Fragility variables**

Variables	Country factors			
	Domestic ratio		International ratio	
	Impact	Coefficient (%)	Impact	Coefficient
<b>Fragility effect</b>				
If country with fragile situation	-	(30.4)***	NS	0.169
People affected by natural disaster	+	3.12e-07**	NS	1.81e-09
Occurrence of natural disaster	+	2.30***	-	(0.0221)*
State conflict	NS	(0.105)	-	(0.287)**

Note: The star (\*) indicates the statistical significance level of the coefficient (\*\*\* p<0.01, \*\* p<0.05, \* p<0.1).

<sup>4</sup> As per the Harmonized List of Fragile Situations used by the Organisation for Economic Co-operation and Development (OECD).

### III. Project-related factors

35. Project characteristics such as size and sector are of strategic importance when it comes to mobilizing development funds.
36. Findings on the effect of project size are presented below. Insights on the distribution of domestic and international cofinancing amounts across the project sector are presented in appendix II.

#### Project size

37. The project size variable is included by clustering projects into small (total budget  $\leq$  US\$18.8 million), medium (US\$18.8 million  $<$  total budget  $<$  US\$49.12 million) and large projects (total budget  $\geq$  US\$49.12 million). This categorization is based on the following distribution:

Small project = total budget  $\leq$  US\$18.8 million (25<sup>th</sup> percentile)

Medium project = US\$18.8 million  $<$  total budget  $<$  US\$49.12 million

Large project = total budget  $\geq$  US\$49.12 million (75<sup>th</sup> percentile)

38. The analysis clearly shows that small projects tend to attract significantly less domestic cofinancing than do larger ones. This result is in line with what internal consultations have revealed on the effect of a larger portfolio and calls for a more programmatic approach in IFAD engagement with developing countries.

Table 4

#### Selected project variables

Variables	Project-related factors			
	Domestic ratio		International ratio	
	Impact	Coefficient (%)	Impact	Coefficient
<b>Project size</b>				
Small project size	-	(0.3)***	-	(0.22)**

Note: The star (\*) indicates the statistical significance level of the coefficient (\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ ).

#### A. IFAD-related factors

39. IFAD-related variables are potential organizational factors that place the institution in a distinctive position, either positive or negative, to leverage resources for the development projects or programmes supported.
40. Among the factors considered are lending terms, the country programme manager (CPM) profile, the presence of IFAD Country Offices (ICOs) and the number of partnerships mobilized for a specific project.
41. The data shows that the higher the value of the portfolio managed by one CPM, the higher the domestic cofinancing. One way to interpret this is that IFAD's presence in the country is more relevant, and more in line with the Government's priorities, therefore more likely to attract domestic cofinancing. The more experienced the CPM in a country, the higher the domestic cofinancing ratio. In fact, every additional year of experience acquired in a country cause the domestic ratio to increase by about 4 per cent on average – and this marginal effect is significant.
42. Regarding international cofinancing, results show that countries where CPMs manage large portfolios mobilize less international cofinancing. This seems to imply that large portfolios, while they attract more domestic resources, reduce the need for additional international actors. In contrast, the number of projects managed by CPMs is positively correlated with international cofinancing. Each additional project added to a CPM's portfolio results in an increase in the international cofinancing ratio of 0.045 points.
43. The presence of ICOs also seems to positively drive the cofinancing ratio, especially international cofinancing.

Table 5  
Selected IFAD-related variables

Variables	IFAD-related factors			
	Domestic ratio		International ratio	
	Impact	Coefficient (%)	Impact	Coefficient
<b>CPM's profile</b>				
CPM's experience	+	0.0378**	NS	(0.0128)
Number of projects managed	NS	(0.0246)	+	0.0448*
Value of portfolio managed	+	1.14e-09**	-	(2.98e-09)***
ICO presence	NS	0.0903	+	0.242*

Note: The star (\*) indicates the statistical significance level of the coefficient (\*\*\* p<0.01, \*\* p<0.05, \* p<0.1).

44. A high domestic cofinancing ratio translates into a high international ratio and vice versa. A large domestic contribution in a project translates into strong ownership from the recipient and therefore supports foreign donors' willingness to collaborate in such a project.
45. As expected, countries that succeed in building an extended partnership for IFAD's projects mobilize more domestic and international cofinancing. On average, the marginal effect on domestic cofinancing of every additional financing partner (domestic or international) in a project is about 4.4 per cent. For the international ratio, the marginal effect of an additional financing partner is an increase of 0.15 points. These effects are strongly significant.

Table 6  
Other significant IFAD variables

Variables	IFAD-related factors			
	Domestic ratio		International ratio	
	Impact	Coefficient (%)	Impact	Coefficient
<b>Project financing terms</b>				
Non-concessional loans	NS	(0.291)	NS	0.101
Number of financiers	+	4.38**	+	0.153***
International ratio	+	25***	na	-
Domestic ratio	na	-	+	0.536***

Note: The star (\*) indicates the statistical significance level of the coefficient (\*\*\* p<0.01, \*\* p<0.05, \* p<0.1).

#### IV. Correlation between cofinancing and country characteristics as reflected in rural sector performance and IFAD Vulnerability Index

- A. Rural sector performance
46. Further dimensions that IFAD will be focusing on to enhance its ability to evaluate country characteristics, in line with the Approach to a Transition Framework, are the country performance variables included in the performance-based allocation system formula, specifically rural sector performance (RSP)<sup>5</sup> and the IVI. The link between these variables and cofinancing was investigated using correlation tests.
47. Results show that domestic cofinancing is positively correlated with a country's RSP score, whereas international cofinancing is negatively correlated with the RSP score, meaning that countries with weak rural institutional capacity (RSP score class 1)<sup>6</sup> attract more international cofinancing while countries with higher RSP scores attract less.

<sup>5</sup> The RSP score, compiled by IFAD every three years in countries where it intervenes, is used as a measure of the quality of policies and institutions in areas related to rural development and rural transformation.

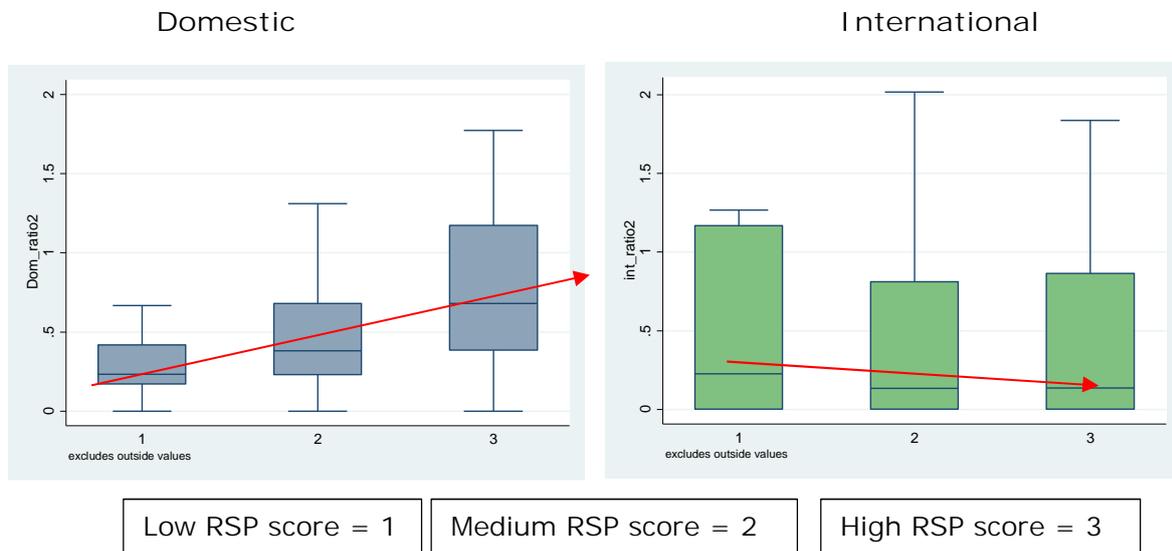
<sup>6</sup> The categorization is done based on the distribution below:

- Low RSP (class 1) = RSP score ≤ 3.165 ( 10<sup>th</sup> percentile).
- Medium RSP (class 2) = 3.165 < RSP score < 4.32.
- High RSP (class 3) = RSP score ≥ 4.32 ( 75<sup>th</sup> percentile).

48. The figure below shows the distribution of domestic and international cofinancing ratios during the period 2007-2015 for countries with a low, medium and high RSP score.

Figure 7

**Correlation between cofinancing and rural sector performance**



49. The results of the univariate panel regressions reveal a strong positive correlation between domestic cofinancing ratios and rural sector institutional performance (column 1 of table 7), meaning that on average countries with a high RSP score also record a significantly higher domestic ratio.

Table 7

**Univariate regression between RSP and cofinancing**

<i>Variables</i>	<i>Domestic ratio</i>	<i>International ratio</i>
RSP score	0.492***	(0.237)
Constant	(1.188)**	1.692**
Observations	583	583
Number of countries	93	93

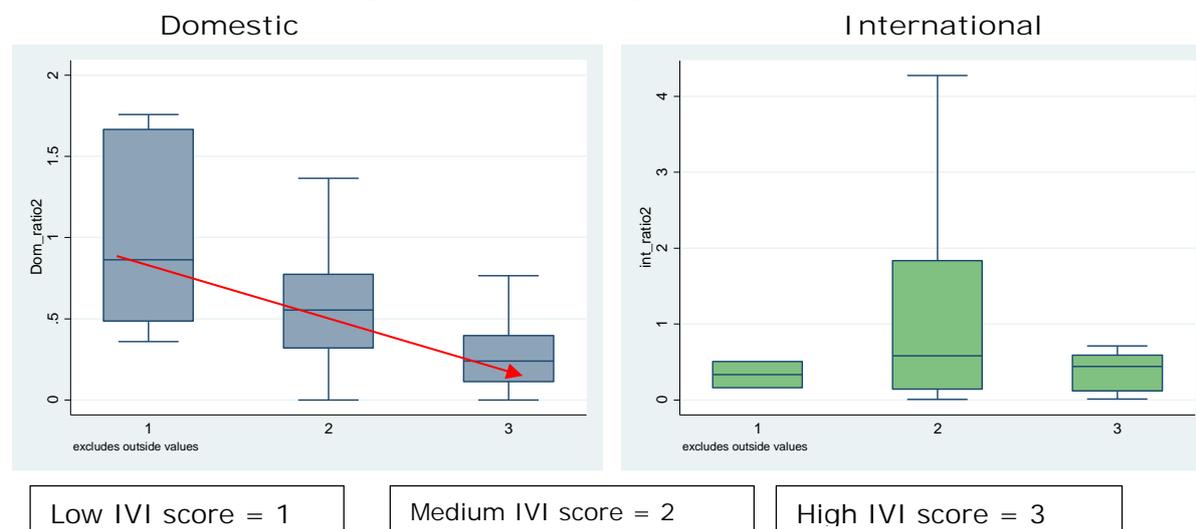
Note: The star (\*) indicates the statistical significance level of the coefficient \*\*\* p<0.01, \*\* p<0.05, \* p<0.1.

## B. IFAD Vulnerability Index

50. The same test was performed on the link between cofinancing and the IVI, which is used as a measure of a country's overall vulnerability.<sup>7</sup> This showed that the domestic cofinancing ratio is negatively correlated to the country's IVI score<sup>8</sup> (see figure below). On the other hand, there is a positive correlation between the international cofinancing ratio and the IVI score. However, this pattern seems to be true only when comparing low IVI and medium IVI score countries.

Figure 8

### Correlation between cofinancing and IFAD Vulnerability Index scores



51. The result of the univariate regression model<sup>9</sup> corroborates the negative correlation detected between domestic cofinancing and the IVI. Regarding international cofinancing, the correlation test shows that, as mentioned above, very high vulnerability may be negatively correlated with international cofinancing due to the risk factor.

Table 8

### Univariate regression between IVI and cofinancing

Variables	Domestic ratio	International ratio
IVI score	(0.437)*	(0.117)
Constant	1.644***	0.612
Observations	61	61
R-squared	0.047	0.000

Note: The star (\*) indicates the statistical significance level of the coefficient \*\*\* p<0.01, \*\* p<0.05, \* p<0.1.

## V. In-kind cofinancing

52. According to the OECD definition, an in-kind contribution from project stakeholders is the transfer of ownership of a good or asset, other than cash, or the provision of a service, without any counterpart. As such, in-kind contributions can be either tangible or intangible goods transferred to an entity in a non-exchange transaction, without charge but which may be subject to stipulations, as well as services provided by individuals to an entity in a non-exchange transaction

<sup>7</sup> The IVI was created to capture the multidimensionality of rural poverty. It is an index of 12 equally weighted indicators that measures rural vulnerability in terms of exposure, sensitivity and lack of adaptive capacity to endogenous and exogenous causes and/or events. Each of these sub-indicators can be associated with one or more of the IVI focus areas, namely food security, nutrition, inequality and climate vulnerability.

<sup>8</sup> This categorization is done based on the below distribution:

- Low IVI = IVI score  $\leq$  0.33 ( 10<sup>th</sup> percentile)
- Medium IVI = 0.33 < IVI score < 0.58
- High IVI = IVI score  $\geq$  0.58 ( 75<sup>th</sup> percentile)

<sup>9</sup> Here ordinary least squares are considered since only the year 2017 is used.

(i.e. salaries; labour – both professional and volunteer; partner remuneration; faculty remunerations and tax exemption). In-kind contributions represent a source of revenue, and although they are not monetary, may represent a significant portion of the project's revenue.

53. It is fundamental that in-kind contributions to projects are reported in addition to cash contributions for various reasons:
  - They are part of the effective cost of a project when factored into the project budget;
  - They may be the only or main contribution made by a borrower or recipient to a project;
  - They demonstrate to donors that borrowers and recipients of IFAD financing are significant contributors to projects and have buy-in; and
  - They will be included in the cofinancing ratio and supplement the real contributions of borrowers and recipients to projects, in addition to contributions in cash and tax exemptions.
54. Over the years 1995-2014 the overall contribution from beneficiaries was 19 per cent. From about 10 project case studies undertaken, beneficiaries' in-kind contribution is roughly estimated to be on average 13 per cent of the project total costs. In-kind contributions can also come from governments, mainly in the form of tax exemptions, services and supplies from governments and implementing partners. This part must be tracked in a more effective, consistent and analytical way.
55. Currently, in-kind contributions are not systematically recognized as part of the overall financing of a project for various reasons: (i) technical complexities in valuation and reliable measurement, including inconsistent use of accounting systems to monitor and report; (ii) a lack of understanding about the importance of providing this data; (iii) uncertainty as to the effective implementation of this type of contribution; and (iv) reluctance by auditors to provide assurances on amounts included in the financial statements. Without reliable and timely reporting of these assets, it is not possible to ascertain fully a project's economic resources and activities, making financial statements imperfect and reporting of cofinancing incomplete.
56. An internal technical note on in-kind domestic cofinancing has been prepared in order to provide clear guidance at the design, implementation and auditing stages of a project life cycle on the recognition, measurement and reporting of in-kind contributions as part of cofinancing. The note is being presented to the Working Group and will form part of the strategy. This will allow for systematic monitoring of in-kind contributions and enhance IFAD's ability to fully report on the mobilization of these resources.

## VI. Cofinancing from the private sector (expanded)

### A. Definitions

57. Private sector engagement in development projects can be incentivized through either financial (e.g. loans, grants, guarantees and equity) or non-financial means (e.g. policy dialogue, technical assistance and capacity-building). This distinction is important because it affects the way private sector contributions are measured and reported, i.e. as a mobilization effect or catalytic effect. The MDBs and the OECD have conceived new definitions and methodologies to measure the total amount of private cofinancing mobilized. However, additional work is still needed to explore ways to measure and report on the larger-scale private investment that has been catalysed by MDB interventions.
58. According to the OECD-DAC,<sup>10</sup> the term "mobilization" qualifies the direct causal link between private finance made available for a specific project and an official intervention. The term "leverage" is usually associated with a ratio. "Catalytic effect" generally refers to the results of actions aimed at stimulating positive change, which may be financial (amounts mobilized) or non-monetary (knowledge transfer, sharing of new practices, introduction of a policy, etc.). It is generally recognized that the measurement of catalytic effect requires collective efforts from the MDBs to overcome the inherent challenges to its estimation and attribution.
59. The MDB definition goes a step further in distinguishing between types of private sector contributions. Under the MDB definition, private cofinancing can be split into two key elements: private direct mobilization (PDM) and private indirect mobilization (PIM). PIM is the mobilization type most commonly reported by MDBs. It refers to financing from private entities that is provided in connection with a specific activity being financed by an MDB – a project for instance – but there is no legally binding financial agreement between the MDB and the private entity. PDM has a more stringent definition, i.e. it is a subset of private mobilization and refers to a situation in which financing from a private entity is provided on commercial terms and has a stronger, more binding commitment that evidences the role of the MDB to secure that contribution. Examples are guarantees provided by the MDB to the private sector to become involved in a project or fees paid by governments to an MDB to tender private sector participation. Total private sector mobilization is the sum of private direct mobilization and private indirect mobilization.<sup>11</sup>
60. While these definitions are very clear in theory, in practice it can be challenging to differentiate and apply them in a rigorous way. It should also be noted that efforts by MDBs are geared, in the first instance, towards capturing the contribution. The distinction between PDM and PIM is perceived as being of secondary importance.
61. Consultations with IFAD experts revealed that private-sector investments targeted at government-led projects and provided through a pooling of resources in support of project activities are tied to an expected return. Private organizations are willing to cofinance a specific project activity as long as the activity itself or the target beneficiaries contribute to the business goals of the organization. Therefore such cofinancing falls under PIM.

### B. IFAD's engagement with the private sector

62. IFAD-funded projects mainly engage with the domestic private sector (i.e. input providers, commodity traders, agroprocessors, agents of large commodity-trading or exporting companies, supermarkets, or local or national financial institutions). Only in very few cases do they work directly with international companies (e.g. Nestle in Ghana, or Mars in Indonesia). Therefore, private sector contributions are typically combined with IFAD funds to support the following activities: (i) provision

<sup>10</sup> OECD, Private finance mobilization by official development finance interventions, February 2016.

<sup>11</sup> See MDB Methodology for Private Investment Mobilization. – Reference Guide – April 2017.

of training, extension services and technical assistance to producers; (ii) provision of agricultural inputs and other production factors (labour); and (iii) investment in production and post-production assets (buildings, facilities, equipment, materials). The rule of thumb is that project funds should never be used to replace private funds but rather be a tool to reduce risks and transactions costs for the private and financial sector in dealing with the IFAD target group, hence leveraging their contributions.

63. In the case of a public-private partnership (PPP) or a public-private-producer partnership (4P) scheme, if projects require the private sector to submit a business plan as an instrument to engage in such a scheme under a cost-sharing arrangement, then information about the private sector contribution in the business plan is available as it is part of the project's budget. This approach is currently adopted only in a number of projects in IFAD's portfolio.
64. Consultations further revealed that contributions from the private sector materialize during implementation, meaning that they are sometimes only partly captured in the initial design document and project costing. Data on private-sector cofinancing currently recorded in IFAD's systems therefore refers only to such cases where it was possible to estimate, at design, the participation by private sector entities in terms of their capital investments and services (in cash and/or in-kind), which would fall under the MDB definition of PDM or PIM. IFAD is committed to taking steps to enhance such measurement by: (i) ensuring that at project design at least an estimate of the cofinancing amount is provided; (ii) leveraging project monitoring and evaluation systems in order to ensure constant tracking of the materialization of such contributions; and (iii) including specific guidance in the terms of reference of supervision missions to this end.
65. Between 1995 and 2014, about 37 IFAD projects received private contributions. Average private cofinancing as officially recorded at design represented about 12 per cent of the total project costs. This share of private cofinancing is also reflected in case studies undertaken on five projects. Boxes 1 to 4 below provide examples of private sector participation in IFAD projects that falls under private domestic mobilization or international direct and indirect mobilization and is captured by IFAD systems.

#### Box 1

##### Example of private indirect mobilization – domestic cofinancing

##### Liberia: Tree Crops Extension Project (TCEP)

The overall development goal of the TCEP is "to improve the livelihoods and climate change resilience of rural households in Nimba County". The development objective is to improve the incomes and climate change resilience of smallholder cocoa producers in the county. The project was approved in 2015 with a total cost of approximately US\$30.7 million.

The project has four components:

- (i) Revitalization of cocoa plantations;
- (ii) Rehabilitation and maintenance of roads;
- (iii) Service provision for value chain development; and
- (iv) Project coordination, monitoring and evaluation.

Private sector partners were expected to contribute with US\$0.9 million to the first component. Their contribution took the form of: (a) cofinancing for upstream investments; (b) technical assistance for rehabilitation and training in production and post-harvest handling; (c) market access through contractual arrangements with the project-supported cooperatives for commercialization and exportation of their cocoa and coffee; and (d) working capital for the cooperatives to buy products.

**Box 2****Example of private indirect mobilization – domestic cofinancing****Myanmar: Fostering Agricultural Revitalization in Myanmar Project**

The project is focused on introducing regional and global best practices to develop a sustainable and scalable model for smallholder agriculture and rural development across Myanmar's central dry zone. It supports land consolidation and development, productive infrastructure, agricultural and business services, flow of knowledge and capacity-building to promote an inclusive development model. The project goal is to improve the economic status of poor rural women and men in the target area and increase the incomes of smallholder and landless households.

The project was approved in 2014 with an estimated total cost of US\$27.8 million.

The project has two components:

- (i) Agricultural infrastructure
- (ii) Agricultural and business services

The private sector partners contributed US\$2.4 million (9 per cent of total costs) towards the second component. These resources were used towards materials for farm demonstration plots and market promotion related to value chain development. They also accounted for 60 per cent of the funding for agribusiness investments, with the remainder supported by 40 per cent in matching grants.

**Box 3****Example of private indirect mobilization – international cofinancing****Indonesia: Rural Empowerment and Agricultural Development Scaling-up Initiative**

The programme goal is to support the growing prosperity of Indonesian smallholder farming families, and empower rural households in the programme area with the skills, confidence and resources to sustainably improve their farm and non-farm incomes and livelihoods through a scalable programmatic approach.

The programme was approved in 2017 with an estimated cost of US\$55.3 million.

The programme has four components:

- (i) Village agriculture and livelihoods development
- (ii) Services, inputs and market linkages
- (iii) Policy and strategy development support
- (iv) Programme management

The private sector partners involved in the programme are international companies. Cofinancing is mainly expected from Mondalez and Mars in an amount of US\$2.2 million (4 per cent of the total costs). The private sector contribution will support – together with the IFAD loan – cocoa production and marketing support activities under component 1.2 and component 2.

## Box 4

Example of private direct mobilization – domestic cofinancing from private sector partners through a 4P scheme

## Sri Lanka: Smallholder Agribusiness Partnerships Programme

The programme development objective is to sustainably increase the incomes and quality of diet of 57,500 smallholder households (initially) who are involved in commercially oriented production and marketing systems.

The programme is demand-driven and the willingness and commitment of stakeholders (agribusiness and value chain actors, including the private sector and farmers'/producers' organizations) is critical. Joint financing (i.e. cost-sharing), risk-sharing, competitive selection of partners and viable business plans are among the overarching principles of the programme. These principles will be pursued through the promotion of mutually beneficial 4Ps between private companies and smallholder farmers, which will be detailed in 4P business plans. Financing of the 4P business plan will be through a cofinancing/cost-sharing arrangement that includes: (i) matching grants provided by the programme; (ii) credit from participating financial institutions (facilitated by the programme-supported line of credit) as part of the beneficiary contribution; and (iii) private-sector (agribusiness) contributions.

The lead programme agency is the Presidential Secretariat, which is well placed to ensure effective mobilization and coordination among the various public agencies and with private sector partners (including financial institutions, companies and associations) that have either direct implementation responsibilities or a supporting role (e.g. research, training, mobilization or complementary extension services).

The programme was approved in 2017 and has an estimated total cost of US\$105 million.

The programme has three components:

- (i) Access to commercial partnerships
- (ii) Access to rural finance
- (iii) Programme management and policy dialogue

The contribution from private-sector partners is US\$17 million, and the participating financial institutions, both private and government-owned, will contribute US\$9.8 million in support of activities under components 1 and 2.

66. There are frequent examples where private sector actors contribute to the development objectives of IFAD-supported projects through parallel financing; these examples constitute what the OECD defines as a financial catalytic effect of IFAD's investments. As mentioned earlier, this type of involvement requires joint efforts by the contributing partners to better estimate cofinancing amounts at design, and – perhaps even more importantly – to track if the contributions actually materialize. The quantification of the contributions ex ante (i.e. at project design) depends on a dynamic and demand-driven process that takes place during project implementation. In addition, since some of these contributions are in-kind and not known a priori (e.g. the availability to utilize for a project a pre-existing asset whose value must be quantified), private sector actors tend to be reluctant to share precise information about the capital and services they will invest.
67. As all MDBs face similar challenges in estimating the amount of private sector investments catalysed by their projects, there is an active MDB working group on the topic. The working group is reviewing several case studies (among them IFAD). A preliminary report issued by the working group on 20 April indicated that the MDBs have not identified a universal standardized method to estimate these catalytic effects. Consultations are ongoing to develop a joint framework and

methodology to measure the private investment catalysed by the MDBs' financing and advisory activities.

## VII. Main elements that the cofinancing strategy will address

### A. Rationale and context

68. The cofinancing strategy will respond specifically to IFAD11 commitment 1.2, monitorable action 5, to: "Undertake a cofinancing analysis and develop an action plan to reach a cofinancing ratio of 1:1.4 (international 1:0.6 and domestic 1:0.8), define different forms of cofinancing and methodologies for their calculation, including quantification of in-kind contributions, improve monitoring and reporting on cofinancing by source and country category, and better measure IFAD's crowding in of private investment."
69. The strategy will be framed within the overall global development context and the efforts of the global community to move from "billions" to "trillions"<sup>12</sup> in investments of all kinds (public and private, national and international) to meet the SDGs. The strategy will be an important plank in the Fund's progress toward becoming an assembler of development finance in line with the business model for IFAD11, and its broader approach to partnership and resource mobilization to help meet the SDGs.
70. As part of the enhancements introduced in all dimensions of the IFAD11 business model, the cofinancing strategy will be synergistic with, and inform other, IFAD11 commitments aimed at: (i) developing a framework to strategically monitor IFAD's partnerships at country, regional, global and institutional level;<sup>13</sup> and (ii) updating the IFAD Private-Sector Strategy.<sup>14</sup> In addition, the revised country strategic opportunities programme (COSOP) procedures – another IFAD11 commitment<sup>15</sup> – will include guidance on discussing cofinancing for country-specific cofinancing efforts, taking account of corporate and regional-level targets.

### B. Lessons from experience

71. Management proposes that the cofinancing strategy draw on lessons from IFAD's own experience, including its extensive work on partnerships. The analysis of cofinancing presented in the first part of this paper (sections I to IV) is an important part of this learning, as are the ongoing consultations within IFAD.
72. A key finding emerging from the analysis of IFAD's cofinancing experience is the dominance of certain sources of cofinancing. On the domestic front, these include the Member State governments, project beneficiaries and domestic development finance institutions. On the international front, these include multilateral and bilateral sources. In addition to emphasizing these sources, the strategy will target the mobilization of private investment, which is now widely recognized as an imperative to meet the global ambitions of the SDGs. The analysis and internal consultations also show that the drivers of cofinancing levels are very different for these different sources.
73. The results of the staff survey confirmed this finding. When asked about the importance of different sources of domestic cofinancing in achieving better results in Member States, respondents ranked government and beneficiary contributions (cash and in-kind) as the highest, followed by domestic financial institutions and the private sector. When asked about international cofinancing, respondents

<sup>12</sup> See "From Billions to Trillions: Transforming Development Finance – Post-2015 Financing for Development: Multilateral Development Finance" prepared jointly by the AfDB, Asian Development Bank (AsDB), European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank (IDB), International Monetary Fund and World Bank Group for the Development Committee meeting held on 18 April 2015.

<sup>13</sup> IFAD11 commitment 3.4, monitorable action 32.

<sup>14</sup> IFAD11 commitment 1.2, monitorable action 6.

<sup>15</sup> IFAD11 commitment 3.4, monitorable action 31.

ranked the multilateral development banks highest, followed by bilateral institutions and facilities/trust funds.

74. Five key messages that emerge from the internal consultations are worth highlighting in the context of formulating the strategy. First, effective, early consultations with cofinancing partners – domestic and international – can promote higher levels of cofinancing. Such consultations are likely to require time and effort. Second, country conditions such as fiscal space have a significant bearing on the levels of government cofinancing. Government preferences and practices drive the potential levels of multilateral and bilateral financing. Third, the difference between IFAD's policies and practices (e.g. for procurement) and those of other development partners can be a significant bottleneck in attracting cofinancing from these partners. "Pooled arrangements" such as with the Spanish Trust Fund and GEF avoid such constraints. Fourth, strong, active relationships with partners at the institutional level can facilitate cofinancing discussions at country/project level. IFAD has likely been underestimating in-kind contributions from governments and from beneficiaries in light of the challenges of measuring such contributions. Finally, CPMs highlight the absence in the past of clear and consistent signals from IFAD leadership about the importance of attracting cofinancing.
75. While there has been no Independent Office of Evaluation of IFAD (IOE) evaluation of cofinancing specifically, the formulation of the strategy will learn from other related evaluations, such as IOE's 2018 Corporate-Level Evaluation (CLE) on IFAD's Financial Architecture, and two recent evaluation synthesis reports (ESRs), on the partnerships and scaling up of results, both of which address cofinancing as a significant form of partnership.<sup>16</sup> The ESR on partnerships notes that cofinanced projects often perform better despite trade-offs in the form of slower disbursements. However, cofinancing has been less effective in leveraging resources. The report emphasizes that IFAD should refine its cofinancing strategy beyond the global level and move more strongly to the country level, providing relevant support for country teams.
76. The recent CLE on IFAD's financial architecture also provides insights into IFAD's performance in mobilizing cofinancing. It concludes that cofinancing and national counterpart funding add important resources from international organizations and national partners. It further states that the level of funding of MDBs in agriculture and the amounts committed by bilateral and multilateral sources for climate change-related projects suggest that there are further opportunities for scaling up the results of IFAD-funded interventions.
77. The formulation of the strategy will draw on the experience of the MDBs in this field.<sup>17</sup> For instance, an evaluation of cofinancing at AsDB found that leveraging through cofinancing in projects was more ad hoc than driven by strategic goals set forth in country strategies.<sup>18</sup> An evaluation by the AfDB, focused on trust funds,<sup>19</sup> cautions about high transaction costs for trust fund management that are sometimes not covered by additional administrative resources.

### C. Principles and main elements

78. The cofinancing strategy will be framed by the commitment to reach the established cofinancing targets for the IFAD11 period and will be coherent with the larger IFAD mandate and objective of delivering scaled up impact for rural people

<sup>16</sup> See IOE ESRs: Building partnerships for enhanced development effectiveness – a review of country-level experiences and results; and IFAD's Support to Scaling up of Results.

<sup>17</sup> It should be noted that there is no common understanding of the term "cofinancing" across different organizations. While IFAD and AfDB include government financing associated with IFAD projects under domestic cofinancing, AsDB, IDB and the World Bank do not consider government funding as cofinancing. In the past, the World Bank concerned itself with "counterpart government funding" but no longer monitors it. As a result, cofinancing as defined in IFAD is monitored only at IFAD and AfDB.

<sup>18</sup> See AsDB Independent Evaluation, "Effectiveness of Asian Development Bank Partnerships" (2016).

<sup>19</sup> See AfDB Operations Evaluation Department, "Trust Fund Management at the African Development Bank – An Independent Evaluation" (2013).

in Member States, with cofinancing seen as a means to that greater end. The strategy will also take account of opportunities to go beyond the direct impact of IFAD projects in order to expand the resources (domestic and international, public and private) dedicated to agriculture and rural development.

79. Cofinancing can create synergies and complementarities. The cofinancing strategy, much like IFAD's Partnership Strategy, will emphasize complementarity as a key principle. The strategy will approach cofinancing not only as a means of bringing additional funding but also, importantly, as a way to leverage the complementary knowledge and expertise of partners. Similarly the strategy will consider the impact of cofinancing on the sustainability of IFAD-funded projects.
80. The strategy will propose using diverse modalities for cofinancing, based on the principles discussed above. IFAD would build on successful examples of joint financing, parallel financing, supplementary funds, single and multi-donor facilities/trust funds, and funding at the institutional, programme and project levels. In particular, supplementary funds are a proven instrument to attract cofinancing for IFAD's lending programme and to deliver it to recipients through a single channel, simplifying administration and reducing the burden on recipients. They are a particularly important means of scaling up interventions in LICs and LMICs, of supporting IFAD's engagement in fragile situations and of enhancing engagement with civil society, for example farmers' organizations.
81. The strategy is proposed to be differentiated by cofinancing source since evidence gathered for the analysis showed different drivers for different sources. Within this differentiated framework, the strategy will take account of the specific opportunities and challenges associated with different country groupings. This will also help to guide the broad directions for cascading the overall cofinancing targets to the regional level and, through results-based COSOPs, to the country level.
82. For each cofinancing source, the strategy will seek to answer the following broad questions: (i) what are the main drivers under IFAD's influence and how can IFAD ensure that these are leveraged in the most effective way; (ii) what are the main constraints to higher levels of cofinancing and how can these be alleviated; (iii) what are the modalities that IFAD should focus on; and (iv) what institutional support can the Fund provide to enable the cofinancing agenda for IFAD11 to be successful.

#### Governments

83. Government contributions represent about 60 per cent of the total domestic cofinancing leveraged per project. Both the quantitative and the qualitative analysis found this to be the most important source of domestic cofinancing.
84. Contributions from governments depend on the country-specific conditions that drive domestic cofinancing.
85. Government financing is vital as a demonstration of ownership and engagement through implementation. It is also critical for sustainability after project completion and, potentially, for promoting policy dialogue and scaling up beyond the original project scope. Drawing on the results of the quantitative analysis, which show a clear link between domestic cofinancing and country factors, the strategy will take account of: country-specific characteristics such as income level; fiscal space; vulnerability to fragility and conflict; project size; alignment with national priorities; and the stable presence of IFAD as a partner in the country. It will highlight the importance of discussions with governments at appropriate levels, beginning with the dialogue around COSOP formulation.
86. The quantitative analysis highlighted regional differences that need to be accounted for. For instance, given that APR and LAC are the top regions in terms of domestic resource mobilization over several years, the strategy will learn from the best practices that have supported the positive trend observed in these regions.

Attention will be paid to these country factors and regional differences in guiding the cascading of the overall cofinancing targets to regional and country level.

#### Beneficiaries

87. Beneficiaries are the second largest source (19 per cent) of domestic cofinancing and arguably the most important partner for successful impact on the ground. Participation of beneficiaries and beneficiary organizations in the financing of IFAD-funded projects also promotes buy-in and, potentially, sustainability of project outcomes.
88. In this area, particular attention will be paid to the measurement and reporting of beneficiary contributions. The issue of in-kind contributions to IFAD-funded projects from different sources, notably government and beneficiaries, will also be addressed. A standardized methodology for measurement and reporting of these contributions will be included as part of the strategy and action plan.

#### Domestic development finance institutions

89. Such institutions account for some 14 per cent of domestic cofinancing linked to IFAD's rural finance operations. Based on a further review of these operations, the cofinancing strategy will explore options for increasing the level of cofinancing from this source by exploring incentive mechanisms for these institutions to contribute to IFAD's projects, for instance through the provision of guarantees or 4P mechanisms.

#### Multilateral partners (including cofinancing from MDBs and United Nations agencies)

90. Cofinancing from multilateral organizations – typically other MDBs and other intergovernmental organizations – accounts for about 70 per cent of international cofinancing. The analysis of experience to date indicates that the AsDB, AsDB and World Bank account for 75 per cent of the cofinancing from multilateral organizations. Other organizations such as the European Union and the Islamic Development Bank have provided limited intermittent support. The IDB and the Andean Development Corporation (CAF) are notably absent.
91. Overall, the analysis suggests that the approach to multilateral partners and to cofinancing has been ad hoc. The strategy will propose a systematic approach based on strong relationships and ongoing interaction on project pipelines, etc. This will entail consolidating relationships that are relatively strong and reinvigorating others. It will also give specific attention to tapping global facilities such as GEF and, for climate-vulnerable countries, different climate-related funds. More flexibility to align IFAD procedures with those of multilateral donors to facilitate joint financing, as stressed during internal consultations, will also be considered.
92. The strategy will recognize the main levers that IFAD has for successful partnerships and complementarities with each of these categories. Importantly, the complementarity of IFAD financing with that of other MDBs for maximizing synergy and combined impact will also be taken into account. In APR, for example, the elaboration of a memorandum of understanding with AsDB was the foundation for successful international cofinancing.

#### Bilateral partners

93. Bilateral partners account for 17 per cent of international cofinancing in IFAD projects. Evidence points to the success and efficiency of bilateral arrangements such as with the Spanish Trust Fund, which represents by far the most successful bilateral partnership in IFAD's projects. The Spanish Trust Fund alone accounted for about 64 per cent of contributions received from bilateral partners over the last decade. Attention will be paid also to long-standing successful bilateral partnerships.

94. The strategy will address the requirements for entering into such arrangements. Internal consultations point to the challenges of working with bilateral partners only at the country level. The strategy will propose measures to supplement these interactions with agreements and understandings reached at the level of the partner capitals.

#### Private sector

95. Both domestic and international private-sector organizations provide joint and parallel financing to IFAD's projects, albeit in limited amounts. Mobilizing private investment – at both the domestic and the international levels – at a much larger scale is vital to meet the global ambitions of the SDGs and can be a source of expertise. This would include investments from commercial enterprises, private financial institutions, microfinance institutions and corporate foundations committed to the SDGs.
96. The strategy will also focus on improving the measurement and reporting of such cofinancing, which has been a challenge to date especially with regard to parallel financing of IFAD-funded projects. Parallel financing should be included in the measurement of IFAD's broad mobilization efforts in instances where there is clear complementarity of interventions, the scope or the programmes are aligned, the framework for collaboration is defined (e.g. through a memorandum of understanding) and there are clear synergies.

#### IFAD's processes and culture

97. The strategy will also address the processes that IFAD requires for successful implementation. As evidenced throughout the consultations, more attention should be paid to cofinancing at design stage so as to identify potential partners through a participatory process.
98. Better dissemination of the economic benefits, impact and results of successful projects should be emphasized as a means to attract cofinancing.
99. IFAD's enhanced decentralization model should be analysed to identify how ICOs (known to be positively correlated with cofinancing) can best be leveraged to build longstanding partnerships.

### D. Action Plan

100. The strategy will emphasize effective implementation. To this end, an action plan will be formulated that clearly defines the:
- Role of IFAD leadership;
  - Roles and responsibilities of the Programme Management Department in building and sustaining institutional partnerships that can lead to greater cofinancing;
  - Role of country directors and CPMs in identifying opportunities for and realizing cofinancing at the country and project level, facilitated by their country presence under the new model;
  - Support to be provided by central units such as Partnership and Resource Mobilization Office in brokering and sustaining institutional partnerships and supporting country- and project-level efforts where needed; and
  - Enabling actions to align IFAD processes and procedures with those of partners to facilitate cofinancing.

### E. Monitoring

101. The strategy will pay specific attention to monitoring results in terms of mobilizing cofinancing, both domestic and international, including from the private sector. Measurement of cofinancing, particularly with respect to in-kind contributions, poses some challenges; these are being addressed in parallel with the formulation

of the cofinancing strategy and specific guidance will be included in the strategy paper and action plan.

## Data sample

1. Using Panel regression model, an econometric estimation of the determinants of domestic and international cofinancing ratios is conducted.<sup>20</sup> This analysis has been complemented by distributional trend analysis that highlights the main historical patterns in the cofinancing data. The data sample used for this analysis is described below.

### Source of data

2. Investment Projects approved before 1995 and beyond 2014 have been excluded from the sample, restricting the analysis timeframe to a 20 year period from 1995 to 2014.<sup>21</sup>
3. Other external databases have been consulted to complement the project data with country-level socioeconomic information. These sources include the World Bank's development indicators and governance indicators databases, IDEA<sup>22</sup>'s Global State of Democracy Indices, etc. Table 1 presents the structure and distribution of the sample.

Table 1

### Panel Sample data

<i>Data description</i>	
Source	GRIPS data + external databases
Period	Projects approved between 1995-2014
Number of Projects	APR: 141 ESA: 103 LAC: 90 NEN: 103 WCA: 122
Number of Countries	109
Total Observations	Country x Year: 543

<sup>20</sup> A panel regression model is applied to identify the most significant factors that impact domestic and international cofinancing in IFAD supported projects. The model allows the estimation of the magnitude and direction of impact of each explanatory factor. A challenge worth noting when conducting such analysis is the restricted number of studies in the literature addressing domestic cofinancing. The literature on aid allocation, albeit relatively old, is well documented on the factors explaining foreign donors' aid giving behavior, but lack substantially, empirically tested information on the incentives behind counterpart contributions. The (Word Bank, 2013) is at our knowledge the only study that had investigated determinants of counterpart funds in development projects using empirical estimation.

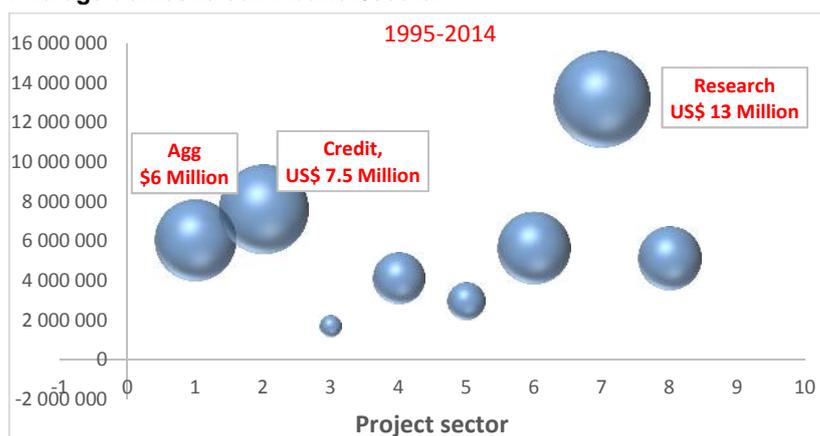
<sup>21</sup> Multiple reasons motivate this sampling decision, worth mentioning is the poor quality of the data reporting prior to early 90's when IFAD has no Corporate Databases put in place to systematize and automate the reporting of the financing and results data. Another reason is that most of the notable institutional changes or operational procedures that reinforce IFAD's role as assembler of development Funds (Business Model, IFAD partnership Strategy, General Conditions for Agricultural Development Financing etc.) occurred within the period of the last 10 years.

<sup>22</sup> IDEA : (International) Institute for Democracy and Electoral Assistance

## Project sectors

1. The integration of donors' interests and compliance with their funding eligibility criteria is of crucial importance for an effective resource mobilization strategy. Projects 'partners adopt a selective approach in cofinancing, favoring programs whose development objectives align with their own priority areas or contribute significantly to the national strategic frameworks for poverty reduction and sustainable development. Therefore, identifying projects characteristics that incentivize most domestic and international cofinancing can support the elaboration of a more tailored approach to resource mobilization.
2. Figure 1 displays average domestic cofinancing invested per project priority sector.<sup>23</sup> The data show that on average, between 1995 and 2014, projects implementing research activities have attracted more domestic cofinancing than others. Following the research sector, projects providing financial services and projects promoting agricultural development are respectively the second and third top projects to attract more domestic counterpart funding. In recent years (2015-2017), domestic cofinancing priority areas have shifted with more focus on Irrigation projects, Rural development projects and projects promoting marketing activities respectively.

Figure 1  
Average domestic contribution/sector\*

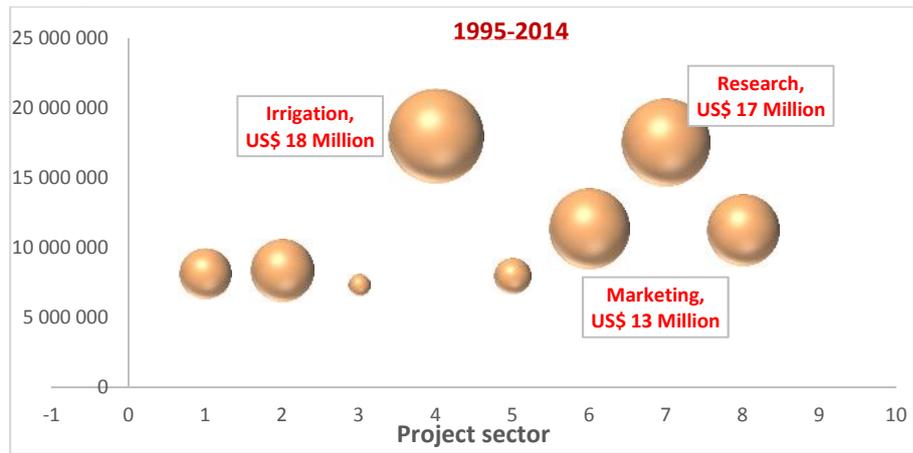


\* See footnote 13 below.

3. The top three project sectors to attract most international cofinancing are respectively in irrigation, research and marketing sectors. Over the past three years, this pattern has not changed for the distribution of international cofinancing per project sector with still Irrigation projects, research projects and marketing projects driving on average more funding.

<sup>23</sup> The categorization used is: 1 Agriculture, 2 Credit, 3 Fishery, 4 Irrigation, 5 Livestock, 6 Marketing, 7 Research, 8 Rural development. This categorization is currently under review.

Figure 2  
**Average International contribution/sector\***



\* See footnote 13 above.

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## Technical Note on In-kind Contributions

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For: Information

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## Abbreviations and acronyms

AWPB	Annual Work Plan and Budget
IFAD	International Fund for Agricultural Development
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
PIM	Project Implementation Manual

## Technical Note on In-kind Contributions

### Recommendation

1. The Working Group on the Transition Framework is invited to analyse and subsequently endorse the main elements of this document, as contained in paragraph 8. It is intended that the main elements be incorporated into the related strategy, which will be finalized later in the year.
2. In addition, the Working Group is asked to endorse the main concepts introduced in this document, which reflect in-kind contributions in the context of the cofinancing strategy and which address:
  - A broad definition of the elements defining in-kind contributions, including tax exemptions. This definition incorporates considerations found in that of the OECD, but also contains broader factors and elements.
  - The different implementation arrangements to reflect in-kind contributions during a project's life cycle – from design to the implementation and completion stages, including systems that will reflect the monitoring and reporting of the in-kind contribution.
  - The proposed approach to enhancing transparency and public access to information as to how in-kind contributions support project implementation and reflect the ownership of governments and implementing partners, to mobilize domestic resources, including beneficiaries and the private sector, through parallel cofinancing.
  - The mitigation actions considered to address risks related to in-kind contributions.

### I. Definitions

1. Borrower means a Member State that receives a loan and is designated as such in the financing agreement.
2. Entity means a project or programme that has been provided with financing by or through IFAD, by means of a loan and/or grant.
3. Eligible expenditure means project expenditures that may be financed under an IFAD-financed grant or loan pursuant to section 4.08 of the General Conditions for Agricultural Development Financing.
4. Financial engineering instruments refers to the fact that as part of an investment activity, the project may finance expenditure in respect of an operation comprising contributions to support financial engineering instruments for enterprises, primarily small and medium-sized, such as venture capital funds, guarantee funds and loan funds, and for guarantee or rural finance development funds.
5. In-kind domestic cofinancing or in-kind contribution is a non-cash contribution in the form of a good, work or service that provides support for both non-profit and for-profit organizations. It may consist either of the direct provision of a tangible asset to the project, or of an expenditure incurred directly by the contributor, benefiting the project and facilitating the meeting of its objectives. In-kind domestic cofinancing or contributions include: (i) goods; (ii) works; (iii) use of services and

facilities (for example, office space); (iv) professional services or expertise in the form of staff time; (v) provision of or access to equipment and special materials; and (vi) exemptions from tax that would otherwise need to be paid by the project in order to carry out its activities. In-kind contributions represent a stream and-or source of revenue, and although they are not monetary, they may represent a significant portion of the project's revenue.

6. Non-exchange transactions refer to the fact that an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without receiving approximately equal value in exchange.
7. Recipient means a Member State or other entity that receives a grant and is designated as such in the grant agreement.
8. Grant means a grant that is subject to the IFAD Policy for Grant Financing<sup>1</sup> and grants financed by supplementary funds,<sup>2</sup> as follows:
  - Type A grants, which are:
    - (i) Large grants (greater than and including US\$500,001 or equivalent);
    - (ii) Small grants (up to and including US\$500,000) that are assessed as medium- or high-risk, as determined by IFAD;<sup>3</sup>
    - (iii) EU-funded grants.
  - Type B grants, which are small grants (up to US\$500,000 or equivalent) that are assessed as low-risk, as determined by IFAD;
  - Type C grants, which are grants in any amount provided to United Nations agencies and multilateral development banks.

## II. Introduction and scope

9. Increasingly, IFAD-financed projects assemble financing from different sources, including counterparts, beneficiaries and implementing partners, and from supplementary funds.
10. Note that while eligible expenditures for IFAD financing need to be incurred and paid by the transfer of assets, usually in cash form, it is foreseen that other types of project financing may be made in non-cash form, including in-kind contributions. These are in fact eligible to be considered as part of the total value of a project. It may be considered that project value is underestimated without a full attribution of non-cash contributions by government, beneficiaries and other stakeholders.
11. Based on the above, it is fundamental that – when material and relevant – in-kind contributions to projects be reported, in addition to cash contributions. This is for various reasons, including:
  - (a) When factored into the project budget, in-kind contributions provide the real and effective cost of a project;
  - (b) In-kind contributions may be the only or main contribution that a Borrower/Recipient is able to make to a project;
  - (c) In-kind contributions demonstrate to donors that Borrowers/Recipients of IFAD financing are significant contributors to projects;

<sup>1</sup> As approved by the Executive Board at its 114<sup>th</sup> session of 22 and 23 April 2015. Although subject to the Policy, contribution agreements – including micro-grants (up to and including \$75,000 or equivalent) – are not subject to financial reporting and audit requirements.

<sup>2</sup> Any specific provisions required by the donor in relation to financial reporting and auditing are reflected in the grant agreement.

<sup>3</sup> Effective as of 1 January 2018, small grants assessed as either high- or medium-risk are considered Type A.

- (d) In-kind contributions will be included in the cofinancing ratio and will translate the real contribution of the Borrower/Recipient to the project, in addition to the contribution in cash.
12. Currently, in-kind contributions are not systematically recognized as part of the overall financing of IFAD-funded projects. This is for various reasons, including; (i) technical complexities in valuation and reliable measurement; (ii) the project and IFAD's historical lack of understanding of the importance of providing this data; (iii) uncertainty as to the effective implementation of this type of contributions; (iv) reluctance by auditors to provide their assurance as to amounts included in the financial statements; and (v) a lack of effective monitoring and reporting. Without reliable and timely reporting of these assets, it is not possible to fully ascertain a project's economic resources and activities, making financial statements imperfect and reporting of cofinancing incomplete.
  13. This technical note is applicable to directly supervised IFAD-funded projects and grants. Where supervision arrangements are in place with a cooperating institution (CI), IFAD will assess the CI's financial reporting and audit arrangements to ensure adequacy and alignment, to the extent feasible, with this technical note.

### III. Objectives

14. This technical note will allow IFAD to enhance its capabilities as an assembler of development finance. It provides clear guidance at the design, implementation and auditing stages of the life cycle of a project as to the recognition, measurement and reporting of in-kind contributions as part of domestic cofinancing. It will allow a systematic monitoring of in-kind contributions and enhance IFAD's ability to fully report on the mobilization of these resources.
15. The purpose of this technical note is to provide guidance on the definition of cofinancing in kind, the criteria for eligibility, and its recognition, measurement and reporting in the financial reporting of IFAD-financed projects and grants.
16. This technical note provides the guiding principles and methods to be applied in the recognition, measurement, reporting and disclosure of in-kind contributions. It is expected that these will be embedded in related procedures to be used as of IFAD11 onwards by the IFAD workforce, including both operational and financial staff and consultants involved in the design and supervision of projects. It will also be a source for the provision of advice to projects and ministries in setting up accounting systems, manuals and financial reporting, as well as for auditors in performing their work. It is vital that the importance of systematically monitoring and reporting in-kind contributions be highlighted at the earliest stage in the project cycle, in particular so as to be included in cost tabs, negotiations and accounting systems and manuals, and auditors' terms of reference. It is expected that there will be individual cases where further consultation as to the method of valuation and reporting may be required. In such cases, methods of recognition, measurement and reporting should be agreed with the financial management focal point of the project (Financial Management Services Division).

### IV. Recognition of in-kind domestic cofinancing

17. The contribution by an individual, unit or organization, of a service or product to an IFAD-funded project free of charge, is classified as in-kind contribution. All in-kind costs must be eligible, actual, evidenced and essential to the delivery of the project.
18. An in-kind contribution may be considered as incurred expenditure by government, beneficiaries or other implementing partners for the implementation of operations, under the conditions outlined below:
  - (a) The eligibility rules must be drawn up on the basis of the agreed AWPB and the project's costs;

- (b) The amount of expenditure must be material, relevant and duly justified by supporting documents having equivalent probative value to invoices, without prejudice to provisions set out in specific national regulations;
  - (c) In the case of in-kind contributions, the cofinancing from the contributor must not significantly exceed the total eligible expenditure planned for the project, when excluding the value of such contributions.
19. All in-kind contributions are recognized as assets and revenue when it is probable that the future economic benefits or potential service will flow to the entity and the fair value of the assets can be measured reliably.
  20. Goods in-kind are assets transferred to or used by an entity in a non-exchange transaction, without charge, but may be subject to stipulations. Examples may include:
    - (a) Tangible goods;
    - (b) Use of services and facilities;
    - (c) Provision of or access to equipment; and
    - (d) Special materials.
  21. Where "goods in-kind" are received or there is a binding arrangement to receive the goods without any condition, revenue is recognized simultaneously with asset recognition.
  22. Conditions attached to the goods do not affect the asset price, since market participants would not normally consider these conditions.
  23. "Services in-kind" are services provided by individuals and institutions to public-sector entities in a non-exchange transaction. Examples may include:
    - (a) Professional services provided by a third party who holds a recognized and relevant professional qualification;
    - (b) Expertise in the form of staff dedicated to the project by the borrower; and
    - (c) Tax exemptions.
  24. Considering the nature of the assets related to services in kind, and the fact that they are immediately consumed, a transaction of equal value should be recognized in order to reflect the consumption of these services in kind.
  25. An entity shall recognize a tax exemption as an in-kind contribution when the taxable event occurs and the asset recognition criteria are met. The reporting entity analyses the taxation law in its own jurisdiction to determine what the taxable event is for the various taxes levied. For example:
    - (a) The taxable event for value added tax is the purchase or sale of taxable goods and services during the taxation period;
    - (b) The taxable event for customs duty is the movement of goods or services subject to duty across the customs boundary.
  26. When a government provides an entity with the benefit of tax exemption or covers the taxes related to the purchase of goods, works and services, the amount related to the exempted taxes should be considered as the government's in-kind contribution.
  27. Exclusions: When activities do not address the specific objectives of a project, they should not be considered as in-kind contributions. These activities may include:
    - (a) Passive attendance at training courses, meetings, seminars and the like (which is to say, attendance with no input, as a member of the audience or group);

- (b) Provision of pre-existing data/expertise/knowledge/tools (i.e. not generated over the duration of the project) that are publicly available free of charge; and
  - (c) Provision of all possible in-kind contributions items. If these are already paid, and the payment documents can be presented, provided that the purchase date is within the project duration. (As such, these items are then treated as cash cofinancing).
28. An in-kind contribution in respect of financial engineering instruments should be treated as expenditure paid at the time of the constitution of the fund(s), in those cases in which all of the criteria listed in (a), (b) and (c) below are met:
- (a) They consist in the provision of land or real estate, equipment or materials; research or professional activity or unpaid voluntary work (including unpaid professional services);
  - (b) Their value can be independently assessed and audited;
  - (c) In the case of the provision of land or real estate, the value is certified by an independent qualified valuer or duly authorized official body;
  - (d) In the case of unpaid voluntary work, the value of the work is determined taking into account the amount of time spent and the normal and reasonable hourly and daily rate for the work carried out.
29. Discounted sales of equipment and the discounted provision of services or advice (e.g. solicitors, accountants' or small and medium-sized enterprises staff time) are ineligible.

## V. Measurement of in-kind domestic cofinancing

30. In-kind contributions should be recognized at fair market value. "Fair market value" is defined as the agreed-upon price in an open and unrestricted market between knowledgeable and willing parties who are dealing at arm's length and who are fully informed. The fair market value is the price an entity would be expected to pay in such circumstances, after normal and educational discounts.
31. Tax exemptions should be recognized at their market value, which is equal to the gross amount of taxes corresponding to the goods or services purchased.
32. Legal restrictions fall into one of two categories – those that affect the entity, and those that affect the asset. Legal restrictions that affect the entity – such as a limitation prohibiting the sale of the goods – do not impact the underlying assets' fair value, because a hypothetical buyer would not consider them in a purchase decision. On the other hand, legal restrictions that limit the sale of contributions in kind to certain markets may affect the assets' fair value. For example, government vehicles put at the disposal of the project for the limited time of the project's implementation will limit the use of the vehicles, and this would be taken into consideration by a hypothetical buyer, thus potentially affecting their value. Projects should consider any legal restrictions that affect the asset when making fair value determinations.
33. In all cases, it is fundamental that the basis of measurement be determined in advance of recording and reporting, as it will be subject to external audit. Advance consultation may be made with the auditors, where relevant, or advice sought from IFAD, in order to facilitate a smooth audit process. Elements of valuation are contained in annex I.

## VI. Reporting and disclosure of in-kind domestic cofinancing

34. It is the ultimate responsibility of the project to ensure that the reported fair market value for all items involving an in-kind contribution be reasonable and correctly and fully disclosed in its financial statements.
35. The Project Implementation Manual (PIM) shall include clear guidelines that describe the accounting principles and methods used, to ensure that the value of in-kind cofinancing is accurately and timely stated. The basis and method of evaluating in-kind contributions shall be compliant with internationally recognized accounting standards and should be disclosed in the project's audited financial statements. It should be noted that in the event that national standards are used, the auditors will need to ensure the appropriateness of such treatment, in line with the underlying basis of accounting used in the project's financial statements.
36. An entity is encouraged to develop detailed and transparent valuation policies. An entity should seek valuation methodologies that exercise reasoned judgment in their interpretation of the "fair value" concept and their selection of source data when determining values. All relevant supporting documents that certify the value of in-kind contributions should be prepared by the project team and filed, in order to provide a clear audit trail.
37. The amount of the in-kind contribution should be reported according to the accounting principles agreed upon by the cofinanciers in the legal agreement or by-laws of the country. These principles may rely on the cost actually incurred by the contributor, or on standard cost equivalents defined, in order to ensure fairness among partners.
38. Drawing on the underlying principles in IPSAS accrual basis and IFRS, an entity shall disclose the following in the general purpose financial statements, either on their face or in the respective notes:
  - (a) The amount of in-kind contributions or revenue from non-exchange transactions recognized during the period, by major classes, with taxes and transfers shown separately;
  - (b) The amount of receivables recognized in respect of non-exchange revenue;
  - (c) The amount of assets recognized that are subject to restrictions, and the nature of those restrictions.
39. An entity shall disclose the following in the notes to the financial statements:
  - (a) The accounting policies adopted for the recognition of in-kind contributions or revenue from non-exchange transactions;
  - (b) For major classes of in-kind contributions or revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;
  - (c) For major classes of taxation revenue that the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and
  - (d) The nature and major classes of in-kind contributions received by the entity related to the funded project.
40. If the entity applies the IPSAS cash basis, all the information mentioned in paragraphs 30 and 31 and related to in-kind domestic cofinancing should be disclosed in the notes to the financial statements.

## VII. Risks related to in-kind domestic cofinancing

41. At design level and during the project's implementation, the finance officer, in collaboration with the project team, should regularly assess the related risk in order to monitor the timely and correct allocation of in-kind contributions.
42. Several typologies of risks can affect the recording and reporting of the in-kind contribution and its role in enhancing the project's performance, such as: risks related to the environment; scientific and technical risks; risks concerning manufacturing; and human and organizational risks. Annex IV of this document includes some guidance regarding the types of risks to be considered and monitored during the project life cycle.

## Elements of valuation of in-kind domestic cofinancing

In-kind contribution category	Eligible elements in fair value calculation	Non-eligible elements in fair value calculation
Goods in kind Fixed Assets	<p>Use of land</p> <p>If the contribution of land is within the project implementation period and is sufficient to fully reach the planned results and impact, the full price of the land plot may be shown, supported by official document or data with evidence of the price (Land Registration Certificate; Department of Statistics or other official institutional document). If the contribution of the land is only for the duration of the project, use the official rent price per month, multiplied by the number of months. Price calculation should be supported by official documents and/or rental agreement, or evidence of actual use by the project or other similar documentation.</p>	<p>If the use of land is not exclusive to the project, only that part dedicated to the project should be reflected in the cost used to value the contribution.</p>
	<p>Use of vehicles</p> <p>Average cost per month or day at the official rent; price specific for that locality, multiplied by the number of days/months used,  Amortization of the vehicle is calculated as follows:  <ul style="list-style-type: none"> <li>• subtract the fuel cost per km from the UN/national official rate used for private travel in that country per km;</li> <li>• multiply the number by the approximate number of km to be driven during the project.</li> </ul> <p>If fuel is also shown as in-kind, use the full cost at the UN official/national rate for private travel per km, multiplied by the total distance driven during the project.</p> </p>	
	<p>Equipment, materials and supplies (for example, computer and electronic communications, plant and machinery)</p> <p>If the contribution is with used equipment, materials and supplies, they are to be valued at:  <ul style="list-style-type: none"> <li>• fair market value;</li> <li>• Institution book value.</li> </ul> <p>If the contribution is with new equipment, materials and supplies, they are to be valued at:  <ul style="list-style-type: none"> <li>• the selling price to most-favoured customers (if stock item);</li> <li>• cost of manufacture (if one-of-a-kind).</li> </ul> <p>If with loaned equipment, material and supplies, valuation is to be based on:  <ul style="list-style-type: none"> <li>• rental equivalent based on depreciation;</li> <li>• rental equivalent at highest-volume rate.</li> </ul> <p>If the use is partial, straight-line depreciation of the full cost of the asset for the duration of project</p> </p></p></p>	<p>Equipment, material and supplies at list price or discounted list price</p> <p>Rental equivalents exceeding accepted values had the equipment been donated or sold</p> <p>Development costs</p>
	<p>Use of buildings, meeting rooms, spaces or facilities</p> <p>Donated meeting rooms, space or facilities for which a rental fee is usually charged. The space used should be specifically related to and necessary for the project.</p>	

In-kind contribution category	Eligible elements in fair value calculation	Non-eligible elements in fair value calculation	
Goods in kind Intangible Goods		Development costs of new software and new technologies that go beyond the scope of the project	
	Use of software, new technologies and databases	Market price of asset/software for project duration	Cost of purchasing licences needed for the project, if not already provided by the institution
	Dissemination of results	Development cost of new technologies related to the project	Cost depreciated over the duration of project
	Travel and subsistence costs	Reasonable out-of-pocket travel and subsistence expenses for work that is directly devoted to the funded project.	Costs to cover conference fees, travel, hotels, food, etc., to attend events, meetings, etc. that are unrelated to issues or topics related to the project.
		Use of air miles points to pay for travel and subsistence.	
		Reasonable conference travel costs related to the funded project.	
	Conference registration fees, or a proportion of these fees if only part of the conference focuses on issues or topics related to the project.		

In-kind contribution category	Eligible elements in fair value calculation	Non-eligible elements fair value calculation
Services in-kind	Employees' salaries	<p>Actual portion of salary cost of the staff assigned to fulfil duties specifically related to and necessary for the project.</p> <p>Salaries and expenses of management activities not directly related to the project.</p> <p>Payments to the project director, co-applicants and/or collaborators as consulting fees (additional to basic salary).</p> <p>Salary and expenses for administrative support staff.</p>
	Labour such as professionals, experts, volunteers, workforce from the beneficiaries	<p>Fees for consulting and/or technical expertise directly related to the funded project at daily market rates in the country or area, calculated per day or per month, for example, number of days x market value per day</p> <p>Fees not related to the project</p>
	Partner remuneration	<p>Salary and benefits of partner institution employees (not those of the host institution) when they undertake activities related directly to the project</p> <p>Overhead based on the salary and benefits of partner institution employees.</p>
	Faculty remuneration	<p>Actual costs to the institution for release time from teaching duties (for example, the cost of hiring a sessional instructor for course release may be counted).</p> <p>Payments to the project director, co-applicants and/or collaborators as consulting fees (additional to basic salary).</p>
	Tax exemption	Total of taxation and tariff obligations forgiven.

## Example of in-kind domestic cofinancing at the design phase

1. During the design of the Resilient Land and Resource Management Project (RELAP) in West Bank and Gaza, the economist had developed ten models to represent the planned activities, organized under three main types of interventions: (i) resilient land development activities for orchards (four models); (ii) other resilient land development models: wadis, rangeland and integrated livestock system; and (iii) activities financed via grants: sheep breeding, bee-keeping and mushroom cultivation.
2. The models show that the total labour contributed by beneficiaries and valued at US\$14 per day (local wage) is worth US\$10.7 million (or 26 per cent of total project costs). If only the additional work required to implement IFAD's proposed activities is considered, then this represents 11 per cent of total project costs (as per table 1).

Table 1  
RELAP EFA tables quantifying family labour

	PY1	PY2	PY3	PY4	PY5	PY6
<b>Total family labour (USD)</b>	-	705 514	1 695 271	2 490 888	2 911 959	2 922 956
<b>Incremental family labour (USD)</b>	-	1 020 307	314 793	674 964	1 470 581	1 891 652
<b>Project costs (USD)</b>						
Component 1	17 684	5 361 441	7 048 265	6 980 524	5 068 841	194 275
Component 2	208 724	3 140 185	4 370 591	1 487 538	151 429	3 308
Component 3	719 390	976 269	616 247	462 332	332 305	244 655
D. Project Management	751 858	590 890	624 025	598 236	608 628	815 057
<b>Total costs (USD)</b>						
	1 697 655.57	10 068 785.20	12 659 127.46	9 528 630.08	6 161 202.95	1 257 295.00
(A) Total Family Labour over project years usd	10 726 587			family labour per/day	60	NIS
(C) Total incremental family labour	4 604 746			family labour per/day	14.2	USD
(B) Total project cost USD	41 372 696					
A/B	26%					
C/B	11%					

3. These estimates could also be presented by type of activity, showing which intervention will require greater contribution from the beneficiaries.
4. On the other hand, government's contributions in terms of provision of services and facilities – such as the use of office space, provision of vehicles and seconded staff as well as tax exemption – should also be considered and quantified as in-kind contribution.
5. In the case of RELAP, the total government in-kind contribution was estimated at 16 per cent of total project costs.
6. This means that the total in-kind domestic contribution accounted for almost 27 per cent of total project costs, based on the conservative (incremental) estimate for the contribution from the beneficiaries of 11 per cent of total project costs, plus the 15 per cent from the government. Both contributions were presented in the Costab as reflected in table 2 below.

Table 2: Resilient Land and Resource Management Project (RELAP): Costab by components and financiers (US\$ '000)

	The Government in kind		The Government in cash		IFAD GRANT		OFID		GCF		Other entities		Beneficiaries in kind		Beneficiaries in cash		Village council		Total Amount	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%		
<b>Climate resilient land development</b>																				
1. Climate adapted land development approaches	110	15.2	-	-	223	30.7	60	8.2	60	8.2	273	37.6	981	0.6	-	-	-	-	-	1 708
2. Resilient land development	3 389	16.0	646	3.1	1 160	5.5	845	4.0	8 810	41.6	2 106	9.9	3 619	17.1	604	2.9	-	-	-	21 179
3. Investment in agricultural roads	443	16.0	-	-	66	2.4	-	-	-	-	2 017	72.9	-	-	-	-	240	8.7	-	2 766
<b>ibtotal</b>	<b>3 941</b>	<b>16.0</b>	<b>646</b>	<b>2.6</b>	<b>1 449</b>	<b>5.9</b>	<b>905</b>	<b>3.7</b>	<b>8 869</b>	<b>36.0</b>	<b>4 396</b>	<b>17.8</b>	<b>3 619</b>	<b>14.7</b>	<b>604</b>	<b>2.4</b>	<b>240</b>	<b>1.0</b>	<b>-</b>	<b>24 671</b>
<b>Market linkages for the rural poor</b>																				
1. Rural bulking of agricultural products	682	16.0	-	-	1 269	29.8	-	-	-	-	2 312	54.2	-	-	-	-	-	-	-	4 263
2. Inclusive entrepreneurship development support	95	1.9	-	-	103	2.0	-	-	3 032	59.5	1 193	23.4	-	-	676	13.3	-	-	-	5 098
<b>ibtotal</b>	<b>777</b>	<b>8.3</b>	<b>-</b>	<b>-</b>	<b>1 373</b>	<b>14.7</b>	<b>-</b>	<b>-</b>	<b>3 032</b>	<b>32.4</b>	<b>3 504</b>	<b>37.4</b>	<b>-</b>	<b>-</b>	<b>676</b>	<b>7.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9 362</b>
Public services for upscaling resilient agricultural land use	351	10.5	-	-	-	-	-	-	3 000	89.5	-	-	-	-	-	-	-	-	-	3 351
Project Management	1 483	37.2	520	13.0	1 744	43.7	44	1.1	99	2.5	99	2.5	-	-	-	-	-	-	-	3 989
<b>tal PROJECT COSTS</b>	<b>6 552</b>	<b>15.8</b>	<b>1 166</b>	<b>2.8</b>	<b>4 566</b>	<b>11.0</b>	<b>950</b>	<b>2.3</b>	<b>15 000</b>	<b>36.3</b>	<b>8 000</b>	<b>19.3</b>	<b>4 600</b>	<b>11%</b>	<b>1 280</b>	<b>3.1</b>	<b>240</b>	<b>0.6</b>	<b>-</b>	<b>41 373</b>
Government in kind contribution net of taxes	1 273																			
Government in kind contribution % of the total cost	3.1%																			

## Example of in-kind domestic cofinancing in financial reporting

1. In-kind domestic cofinancing could be reported in the face of financial statements.
  - According to the International Public Sector Accounting Standards (IPSAS) cash basis, the in-kind contribution will be reported in the notes to the financial statements. The additional disclosures encouraged<sup>4</sup> provide an example of disclosure in paragraphs 2.1.90(f) and 2.1.91.
  - According to the IPSAS accrual basis and IFRS, the in-kind contribution should be reported in the financial statements as assets (in the balance sheet statement) and non-cash income (in the profit and loss statement). Additional detailed information related to the accounting policies for in-kind contribution should be provided in the notes to the financial statements.
2. The notes to the financial statements of the Small Irrigation and Market Access Development Project in the Nippes and Goavienne Region financed by IFAD in Haiti show this reporting of in-kind domestic cofinancing:

"The Government of Haiti's in-kind contribution was identified and assessed as follows:

- The licence rights to use the financial and accounting software provided by the Ministry of Agriculture; the net value at the date of transfer of the right of use of the licence to the project was considered at fair market value. The annual amortization of the net value over the number of years of the project was considered to be annual in-kind contribution.
- The use of the Ministry's offices devoted full time to the project's implementation team;
- The use of office and IT equipment provided by the Ministry of Agriculture; the net value at the date of transfer of the right of use of equipment to the project was considered at fair market value. The annual amortization of the net value over the number of years of the project was considered to be annual in-kind contribution.
- The vehicles and equipment (cars and motorcycles used by the supervisors);
- The contribution in taxes: This contribution amounts to the total of tax exemptions granted to the project on the purchase of three vehicles and three motorcycles.
- The salary of staff dedicated part-time to the project: The use of timesheets to determine the actual time devoted to the project, considering total gross regular salary (without bonuses).

The table below summarized the cumulative in-kind contribution of the Government of Haiti for the period from 2015 to 2018:"

<sup>4</sup> IPSAS: *Financial Reporting under the Cash Basis of Accounting*; Appendix additional Disclosure; November 2017  
<https://www.iaasb.org/system/files/publications/files/Cash-Basis-IPSAS-2017.pdf>

<b>Description</b>	<b>Amount in United States dollars</b>
Licence for accounting and financial software	36 492
Office space	9 655
Office and IT equipment	15 700
Vehicles and equipment	50 355
Salaries of part-time staff	17 127
Tax exemptions	102 877
<b>Total</b>	<b>232 206</b>

## Examples of risks related to in-kind domestic cofinancing

Category of risk	Description
Human and organizational risks	<ul style="list-style-type: none"> <li>• Lack of experience and/or understanding on the part of the project manager and staff</li> <li>• High turnover of project manager and staff</li> <li>• Project team is unaware of codes, or regulations and lacks experience in quality assurance issues</li> <li>• Inadequate, weak or inconsistent procedures for internal controls</li> <li>• Missing or incomplete reporting to IFAD and auditors</li> <li>• Human conflict or poor negotiations with the contributors</li> <li>• Decision-making by the project team and steering committee takes too long</li> <li>• Dissemination of false or inaccurate information</li> <li>• Lack of transparency</li> </ul>
Project execution risks	<ul style="list-style-type: none"> <li>• Inadequate choice for a contribution/contributor</li> <li>• Unexpected withdrawal of the contributor from the project</li> <li>• Contributors' lack of motivation or reluctance to accept project alterations</li> <li>• Underestimation of the workload or contribution required to fulfil project requirements</li> <li>• Low level of the quality assurance systems, including those of a technical, accounting and reporting nature</li> <li>• Languages and cultural barriers that affect understanding of requirements</li> <li>• Legal issues and conflicts</li> </ul>
Technical risks	<ul style="list-style-type: none"> <li>• Project requirements are not clearly expressed or communicated</li> <li>• Missing or incomplete specifications</li> <li>• Difficulty in implementing due to procedural complications</li> <li>• Components and products that are not viable</li> <li>• Qualifications, official documentations, and required permissions are outdated or unsuitable</li> </ul>
Environmental risks	<ul style="list-style-type: none"> <li>• Instability of project requirements</li> <li>• Difficulties in partnerships and collaborations</li> <li>• Delays in procurement procedures</li> <li>• Regulatory changes, for example safety and environmental</li> <li>• Administrative and technical errors</li> <li>• Project acceptance by the social and human environment</li> <li>• Risk of incidents of a natural or political nature</li> </ul>

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