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Investing in rural people

Enhancing IFAD's business model for inclusive and sustainable rural transformation

Note to Consultation members

Focal points:

Technical questions:

Adolfo Brizzi
Acting Associate Vice-President
Policy and Technical Advisory Division
Tel.: +39 06 5459 2450
e-mail: a.brizzi@ifad.org

Henock Kifle
Senior Adviser to the President
Tel.: +39 06 5459 2425
e-mail: h.kifle@ifad.org

Dispatch of documentation:

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

Consultation on the Tenth Replenishment of IFAD's Resources —
Second Session

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For: **Review**

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Abbreviations and acronyms

CLEE	Corporate-level evaluation of IFAD's institutional efficiency and the efficiency of IFAD-funded operations
COSOP	country strategic opportunities programme
CRA	Change and Reform Agenda
DSF	Debt Sustainability Framework
GEF	Global Environment Facility
HR	human resources
ICO	IFAD country office
IDA	International Development Association
ICT	information and communications technology
IFI	international financial institution
LIC	low-income country
M&E	monitoring and evaluation
MIC	middle-income country
PoLG	programme of loans and grants
PTA	Policy and Technical Advisory Division
RBA	Rome-based agency
RMF	results measurement framework
SDR	special drawing right

Executive summary

Introduction

1. This paper presents IFAD's business model, understood as the method that IFAD uses to deliver its programme of work (POW) for the purpose of realizing its vision of reducing rural poverty and enhancing the food and nutrition security and the resilience of poor rural people. The paper also discusses how IFAD plans to enhance its business model under the Tenth Replenishment of IFAD's Resources (IFAD10), with the goal of improving the Fund's effectiveness and efficiency for scaled-up impact.

Key elements of IFAD's business model

2. IFAD's core business is mobilizing financial resources from its Member States, governments, rural households and the private sector for investments in rural people and in agricultural and rural development. IFAD's own internal resources combined with the external resources it mobilized enabled it to finance a programme of loans and grants (PoLG) of nearly US\$3 billion under IFAD8. The same level of operations is projected for IFAD9.
3. The overarching goal for IFAD's investments is enabling poor rural people to improve their food and nutrition security, raise their incomes and strengthen their resilience.
4. The vehicles of IFAD's investments are the programmes and projects that it helps governments, smallholder farmers and other stakeholders to develop and implement.
5. IFAD's country operations are guided, at the higher level, by its Strategic Framework, which is updated periodically, and by the body of policies that IFAD has developed. The Strategic Framework provides the overall goal and strategic objectives of IFAD, the thematic focus areas for its operations, and its principles of engagement.
6. IFAD views scaling up its results and impact as mission-critical. It therefore sees partnerships and policy dialogue as essential for achieving its goals. Through its partnerships and cofinancing arrangements, IFAD seeks to leverage its own resources, experience and knowledge, all of which are essential for scaled-up impact.
7. The allocation of IFAD's loan and grant resources to individual countries is governed by the performance-based allocation system (PBAS). The PBAS is a rules-based system that uses a formula incorporating measures of country needs and country performance.
8. IFAD views effective country presence as essential for its business. Accordingly, it has accelerated the decentralization of its organization as part of the Change and Reform Agenda (CRA) launched in 2009. IFAD currently has 40 country offices, with plans to add 10 more. IFAD also gives high priority to continuous development of its own technical expertise. It is currently reorganizing its technical advisory capacity to support the work of the regional divisions more effectively.
9. IFAD's country operations are supported by a service delivery platform consisting of financial management, human resources management and information and communications technology (ICT) systems, and other business support services. Through its CRA, IFAD has undertaken a series of organizational changes and business process reforms.
10. Of prime importance to IFAD is its results measurement framework (RMF), which enables it to measure the outcomes and results of its operations and to learn from the programmes and projects it finances. Monitoring and evaluation systems in

projects are essential components as they continuously provide data that feed into the RMF. Under IFAD9, a series of improvements to strengthen the RMF are being introduced, including the launch in 2013 of a programme for impact evaluation studies.

Programme and project delivery

11. IFAD's system for delivering its programmes and projects consists of a cycle that begins with the origination of country programmes and projects and runs through implementation, completion and follow-up. Underlying IFAD's country operations is the fundamental principle that a country's own agricultural and rural development strategy must be the cornerstone and driver of IFAD-supported programmes and projects.
12. IFAD's operations in a country start with formulating and agreeing on the country strategic opportunities programme (COSOP). The COSOP is a joint product of the government, IFAD, and other stakeholders and partners. The projects that IFAD finances and the policies that it advocates at country level are designed in a manner consistent with the objectives set out in the COSOP. They are also guided by IFAD's Strategic Framework and policies.
13. An important element of the project design process is the quality enhancement and quality assurance processes that IFAD undertakes for each project. These aim at improving the quality of projects to ensure that the project design and policy advice are of the highest order.
14. Approved projects have a financing plan that includes an IFAD loan or grant, along with the cofinancing arrangements. The terms for IFAD financing vary depending on the income level of countries and include grants under the Debt Sustainability Framework (DSF), highly concessional loans and loans on intermediate and ordinary terms.
15. In order to assist the government in implementing the project as designed, and to ensure that the expenditure of funds is in accordance with the agreed financial plan, IFAD staff supervise each project. The intensity of IFAD supervision has increased in recent years, as IFAD has started providing stronger implementation support to help solve problems and to follow up on policy advice. In part, this has been made possible by its expanding country presence.
16. Implementation periods usually last from four to eight years depending on the project. At completion, the project's results and impact, including the impact of the policy advice provided, are evaluated by IFAD Management and the government, and verified by the Independent Office of Evaluation of IFAD. The results of the project completion assessments feed back into the design of subsequent IFAD engagements in the country and into IFAD's own institutional knowledge base.

IFAD's service delivery platform

17. IFAD's service delivery platform provides the essential services that enable IFAD to deliver its programmes and projects. Such services include human resources management, financial management, ICT systems and other business support services such as travel and procurement. Under the 2009 CRA, IFAD undertook a number of organizational changes and actions to improve the quality of its business processes, contain costs and enhance institutional effectiveness and efficiency. These are discussed below.
18. **Financial management.** One of the major organizational changes was the creation of a separate Financial Operations Department (FOD) in 2011 to strengthen financial management and support for IFAD's country operations. In addition, the budget unit was significantly strengthened to enable it to undertake a more results-focused and strategic budget preparation process, to allocate budget resources optimally, and to enhance the day-to-day management of the budget.

19. **Human resources (HR) management.** IFAD has undertaken a series of HR reforms under the CRA. A job audit exercise was carried out in 2010-2011 to map out the structure and deployment of IFAD staff. The information gathered has enabled IFAD to undertake annual strategic workforce planning (SWP) exercises. As a result of these two initiatives, IFAD has rationalized the staffing of its organizational units in line with its business and strategic needs.
20. **Information and communications technology systems.** IFAD's ICT system is critical for the efficient functioning of its business model both for the delivery of its programmes and projects and for the service delivery platform. A major upgrading of IFAD's ICT architecture is under way under IFAD9. This is expected to lead to considerable streamlining of IFAD business processes, resulting in significant efficiency gains by the end of the IFAD9 period.

Effectiveness and Efficiency of IFAD's business model

21. IFAD's business model has enabled it to reach an increasing proportion of its target population and to raise the impact on rural poverty and the food and nutrition security of poor households. The business model has also allowed IFAD to deliver its PoLG more efficiently, as IFAD has been able to implement a much larger programme while its administrative budget has remained relatively flat.
22. **Contributions to country programmes and project outputs.** The 2013 Report on IFAD's Development Effectiveness (RIDE) presented data on 253 projects that were active in 2012. The total number of beneficiaries of IFAD-supported projects in 2012 stood at 78.7 million people – a 33 per cent increase over 2011 and about 87 per cent of the target of 90 million set for 2015. The proportion of women beneficiaries has increased, with the overall distribution between men and women now standing at 51:49 per cent respectively.
23. The total financial commitment for the projects under implementation is about US\$12.3 billion, of which IFAD's share is US\$5.4 billion. Other contributors include domestic financial institutions and governments (US\$3.9 billion, 32 per cent) and international cofinanciers (US\$2.9 billion, 24 per cent).
24. Using the project performance metric of moderately satisfactory or better, the 2013 RIDE reports that during the last four years (2010-2013) there have been dramatic improvements in the performance of projects in terms of rural poverty impact. And in relation to the targets set for 2015, most indicators, with the exception of project economic efficiency, have either surpassed the targets or are on track to reaching them by 2015.
25. **Efficiency of the business model.** Data indicate that IFAD's efficiency ratio – defined as the ratio of the administrative budget to the volume of the PoLG – has improved considerably, declining from over 16 per cent in 2007 to 12 per cent in 2013. The ratio is projected to fall further in 2014 and 2015. Underlying these improvements is the large expansion in the PoLG and the programme of work over the past seven years against a backdrop of a flat or slowly expanding administrative budget.

Enhancing IFAD's business model

26. It is evident from the findings of the RIDE presented above that IFAD has, over the years, built up a business model that has enabled it to deliver value effectively and efficiently. Despite the progress made however, IFAD will need to take further steps to enhance its business model under IFAD10 to consolidate gains and to better equip it to respond to growing opportunities and emerging challenges.
27. These steps will not involve dramatic new approaches. Instead, what is being proposed is a consolidation of initiatives undertaken in previous years, and mainstreaming of key approaches, such as scaling up, that have been in the works and tested for some time. The key actions proposed for IFAD10 are discussed below.

28. IFAD will take additional measures to effectively scale up sustainable programmes and projects by including scaling up in the project design. IFAD will also expand and deepen country dialogue and engagement in global policy debates. Broader and more effective partnerships will be built, as these are essential for scaling up and for leveraging IFAD's financial resources, experience and knowledge. IFAD will also take additional measure to better differentiate its work in middle income and fragile states. Following the ongoing review of IFAD's grant programme, IFAD will develop a new grant policy to ensure more strategic use of resources. IFAD will strengthen knowledge generation and sharing and undertake more effective monitoring and evaluation (M&E) – and will use the results in impact analysis. And IFAD will take action to improve project efficiency; strengthen its gender architecture; mainstream climate change adaptation in all operations; develop new instruments to expand engagement with the private sector; and deepen South-South and triangular cooperation.
29. IFAD's service delivery model will undergo continued enhancement: financial management, including risk management, will be strengthened; human resource reforms will be consolidated and the ICT architecture will continue to be upgraded. Other business support services will be further streamlined for greater efficiency and cost-containment. And the adoption of a new RMF for IFAD10 will ensure that IFAD remains focused on results and impact.

Expected outputs

30. For IFAD9, IFAD established a target of reaching 90 million people with its operations, 80 million of whom to be moved out of poverty by 2015. Although achievement of this target is yet to be determined, the IFAD10 programme of work paper has set a preliminary impact target of between 70 million and 90 million people to be moved out of poverty, depending on the IFAD10 Replenishment level to be agreed among Members.

Enhancing IFAD's business model for inclusive and sustainable rural transformation

I. Introduction

1. During the first session of the Consultation on the Tenth Replenishment of IFAD's Resources (IFAD10), Members requested IFAD to prepare a paper on its business model for consideration at the Consultation's second session in June 2014. This paper responds to that request. It presents IFAD's business model – understood as the method that IFAD uses to deliver its programme of work (POW) for the purpose of realizing its vision of reducing rural poverty and enhancing the food and nutrition security and the resilience of poor rural people. The paper also discusses how IFAD plans to enhance its business model under IFAD10, with the goal of improving the Fund's effectiveness and efficiency for scaled up impact. A separate paper has been prepared on the proposed Strategic Vision for IFAD, 2016-2025, providing the broad framework and direction for IFAD's business model and the proposed IFAD10 POW, also presented in a separate paper.
2. The paper is organized as follows. Section II presents the salient features of IFAD's current business model. Section III briefly discusses the effectiveness and efficiency of IFAD's business model.¹ In section IV proposals for enhancing the business model under IFAD10, covering both programme and project delivery and IFAD's service delivery platform, are made. Section V briefly lays out the expected outcomes for IFAD10, and section VI presents some general conclusions.

II. IFAD's Business Model

A. Key elements of the business model

3. IFAD's core business is mobilizing financial resources from its Member States, governments, rural households and the private sector to invest in rural people and in agricultural and rural development. The overarching goal, consistent with IFAD's original mandate, is enabling poor rural people to improve their food and nutrition security, raise their incomes and strengthen their resilience.²
4. The vehicles used by IFAD for its investments are the programmes and projects that it helps governments, smallholder farmers and other stakeholders develop and implement. IFAD-supported projects combine finance with knowledge and policy engagement, based on IFAD's own experience and lessons learned from best practices elsewhere. It is this combination of finance with agriculture and rural development know-how focused on rural poor people and smallholder farmers that makes IFAD's interventions unique. The programme and project cycle that IFAD uses to provide its financial and technical support is one of the main pillars of IFAD's business model and is discussed in more detail below.
5. IFAD mobilizes resources from its Member governments and other institutions through: (i) its triennial replenishment exercise ;(ii) supplementary funds that Member States and other institutions may provide to support specific projects and initiatives; and (iii) sovereign loans to IFAD. IFAD has succeeded in mobilizing a successively higher volume of resources. IFAD's own internal resources combined with the external resources it mobilized enabled it to finance a programme of loans and grants (PoLG) of US\$3 billion under IFAD8. The same level of operations is projected for IFAD9.

¹ A more detailed discussion is found in "IFAD at the Midterm of the Ninth Replenishment" (IFAD10/1/R.2) tabled at the first session of the IFAD10 Consultation.

² See IFAD Strategic Framework 2011-2015.

6. IFAD views scaling up its results and impact as mission-critical. It therefore sees partnerships and policy dialogue as essential for achieving its goals, underscoring IFAD's catalytic role. Through partnerships and cofinancing arrangements, IFAD seeks to leverage its own resources, experience and knowledge, all of which are essential for scaled-up impact.
7. IFAD's country operations are guided, at the higher level, by its Strategic Framework, which is updated periodically. The Strategic Framework provides the overall goal and strategic objectives of IFAD, the thematic focus areas for its operations and its principles of engagement. In addition to the Strategic Framework, the body of policies and strategies that IFAD has developed and updated over the years – such as its gender policy and guidelines, private sector strategy, and indigenous peoples policy – guide IFAD's interventions in specific thematic areas.
8. Similar to other international financial institutions (IFIs), IFAD's allocation of its loan and grant resources to individual countries is governed by a performance-based allocation system (PBAS). The PBAS is a rules-based system that uses a formula incorporating measures of country needs (measured by population and per capita gross national income [GNI]) and country performance (the broad policy framework, rural development policy and portfolio performance). Under the PBAS, annual resource allocations are made in three-year cycles (corresponding to the IFAD replenishment period). Uniquely, IFAD's approach includes a special provision for rural sector performance that is weighted heavily in the overall assessment of country policies and institutions.
9. IFAD views effective country presence as essential for its business. Staff and consultants based in the field are more effective in providing continuous support for policy advice, project design, supervision and partnership building. Accordingly, decentralization was accelerated under the Change and Reform Agenda (CRA), launched in 2009. IFAD currently has 40 country offices and intends to add a further 10. As IFAD works in 97 countries, the plan is for half of the countries to be directly served by a country office. The remaining half includes countries with small programmes, country programmes easily handled from an office located in a neighbouring country, or a country whose programme can easily be handled from headquarters.
10. IFAD gives high priority to continuously developing its technical expertise. It is currently reorganizing its technical advisory capacity through the Policy and Technical Advisory Division (PTA) and the Environment and Climate Division to support the work of the regional divisions. Technical teams are being integrated with country programme management teams and in-house expertise is being expanded to areas of high demand to reduce dependency on consultants and to enhance knowledge retention within IFAD. The new approach will be pursued under IFAD10, with emphasis on providing better technical backstopping to IFAD's country offices.
11. IFAD's country operations are supported by a service delivery platform consisting of financial management, human resources management, and information and communications technology (ICT) systems, and other business support services. The service delivery platform constitutes another major pillar of IFAD's business model. Through its CRA, IFAD has undertaken a series of organizational changes and business process reforms to strengthen its service delivery platform.
12. Under IFAD9, a series of improvements to strengthen the RMF are being introduced, including the launch in 2013 of a programme for impact evaluation studies. The data collected from the RMF and the ensuing analysis are reported to the Executive Board in the annual Report on IFAD's Development Effectiveness

(RIDE).³ The knowledge gained through such data collection and analysis feeds into the design of future country strategic opportunities programmes, projects and policy advice and is also channelled back into the institutional knowledge base, contributing to IFAD's work in other countries.

B. Programme and project delivery – the IFAD project and programme cycle

13. **Country strategy.** Figure 1 shows IFAD's project, policy and programme cycle, illustrating the cycle beginning with the origination of country programmes and projects through to implementation, completion and follow-up.

Figure 1
IFAD's programme and project cycle



14. **Underlying IFAD's country operations is the fundamental principle that a country's own agricultural and rural development strategy must be the cornerstone and driver of IFAD-supported programmes and projects.**⁴ As the agricultural and rural development challenges, as well as the challenges faced in rural poverty reduction are unique to each country, IFAD's country-level work must necessarily start with the country's own development plans and its poverty reduction strategy. Such an approach enables IFAD to be responsive to the development plans and needs of each country, at both the national and local levels. Further, as country ownership is essential for the success of any plan or programme, IFAD believes that embedding its support in the country's own

³ See most recent report (EB 2013/110/R.12, Add.1 and Corr.1).

⁴ IFAD is often requested to provide technical assistance when countries formulate agricultural policies or subsector policies. Such occasions provide IFAD with an opportunity to make available the experience and lessons learned from its own operations as well as best practices learned from other development partners. A recent case in point is the assistance IFAD provided to the Government of Uganda in the formulation of the country's rural finance/microfinance policy.

agricultural and rural development programme is the only way of ensuring that IFAD's support does indeed achieve its intended goals and results.⁵

15. While IFAD seeks to respond to country needs and plans, its contributions must also be guided by its own Strategic Framework and policies. Indeed, as shown in Figure 1, it is the confluence of a country's agricultural development plans and IFAD's potential financial and technical contributions that results in the formulation and agreement of the country strategic opportunities programme (COSOP). The COSOP is a joint product of the government, IFAD, and other stakeholders and partners, including in most cases, other donors.
16. A COSOP provides the general framework for IFAD's country operations. It defines the results to be pursued by IFAD and its partners in the country. It describes the actions that will be taken to realize those results in terms of the policies, programmes and projects to be supported by the country, IFAD and the country's other development partners. The COSOP also indicates the financial resources that will be provided by all parties. COSOPs are prepared every three to five years for countries in which IFAD has significant operations.
17. **Project and policy design.** The projects that IFAD finances and the policies that it advocates at country level are designed in a manner consistent with the objectives set out in the COSOP. IFAD does not design the projects and formulate policy recommendations single-handedly. These are increasingly designed and formulated by teams that are led locally and include IFAD staff, consultants and staff from other donor agencies and, to a growing extent, the private sector. These partners are expected to cofinance the projects and support the jointly developed policies.
18. An important element of project design is the quality enhancement and quality assurance processes that IFAD undertakes for each project. These aim at improving the quality of projects to ensure that the design and policy advice are of the highest order. Following IFAD's own quality enhancement process, which was recently reformed to be more responsive to the needs of country teams, the project design is checked by independent consultants – the quality assurance process – before its submission to the Executive Board. Projects and policy advice found wanting are rejected or are sent back for redesign.
19. Projects approved for financing have a financing plan that includes an IFAD loan or grant, along with the cofinancing arrangements. The terms for IFAD financing vary depending on the income level of countries. For low-income countries, IFAD provides either grants for countries that are eligible under the Debt Sustainability Framework (DSF)⁶ or highly concessional loans that are comparable to the terms of the International Development Association (IDA). For middle-income countries (MICs) IFAD provides loans on ordinary terms that are close to market interest rates and which are slightly above the London Interbank Offered Rate (LIBOR).⁷ IFAD also provides loans on intermediate terms for countries whose GNI falls between IDA-only and MIC countries. A minimum of 60 per cent of IFAD financing must be provided on highly concessional terms or as grants.
20. **Project and policy implementation.** Increasingly, policy advice and follow up are included as part of project design and country strategy. Once agreement is reached

⁵ This approach has resulted in IFAD receiving high marks on assessments of its alignment with country programmes under the Paris agenda, and positive feedback from surveys of clients in developing countries (see document IFAD10/1/R.2, IFAD at the Midterm of the Ninth Replenishment).

⁶ Introduced in 2005, the joint World Bank/IMF debt sustainability framework is a standardized framework for conducting public and external debt sustainability analysis in low-income countries. It aims to help guide the borrowing decision of these countries, provide guidance for creditors' lending and grant allocation decisions.

⁷ The IFAD reference rate applicable to loans on non-concessional terms is based on a composite special drawing right (SDR) LIBOR six-month composite rate plus a variable spread. The spread applied by IFAD is a weighted average of the spreads applied by the International Bank for Reconstruction and Development (IBRD) to its variable rate loans for the same semester.

between IFAD's project team and the government on the final project design, the project proposal is submitted to the Executive Board for final approval, after which implementation begins. Programme and project implementation is always the responsibility of the government and/or local authorities. With the consent of the government, responsibility for implementation can sometimes be delegated to NGOs, civil society or the private sector.

21. **Supervision and implementation support.** In order to assist the government in implementing the project as designed, and to ensure that the expenditure of funds conforms to the agreed financial plan, IFAD staff supervise each project.⁸ The intensity of IFAD supervision has increased in recent years, as IFAD has started providing stronger implementation support to help solve problems and to follow up on policy advice. The supervision process also contains fiduciary checks on project financial management, accounts, audits, procurement, management effectiveness and anticorruption actions. Supervision reports are prepared for each project based in part on data gathered by IFAD staff from M&E systems established for each project.⁹
22. IFAD's enhanced supervision and implementation support has in part been made possible by its expanding country presence. IFAD has observed that supervision and implementation support, as well as policy advice, are most effective when provided on a continuous basis. Effective country presence is essential for such support.¹⁰ The supervision of projects by IFAD staff has changed the nature of IFAD's relationship with recipient governments. It has enabled IFAD to extend its collaboration beyond financing to become an even stronger partner capable of providing effective implementation support and policy advice to governments and other stakeholders.
23. **Project completion.** Implementation periods usually last between four and eight years, depending on the project. At completion, the project's results and impact are evaluated (see figure 1) by IFAD Management and the government (self-evaluation), and then verified the Independent Office of Evaluation of IFAD (IOE). Such evaluations now also include an assessment of the impact of the policy advice provided. The evaluation results are reported to the Executive Board through the Report on IFAD's Development Effectiveness (RIDE). IOE reports separately to the Board through its Annual Report on the Results and Impact of IFAD Operations (ARRI). The results of the project completion assessments also feed back into the design of subsequent IFAD engagements in the country and into IFAD's institutional knowledge base.

C. IFAD's service delivery platform

24. IFAD's service delivery platform provides the essential services that enable IFAD to deliver its programmes and projects. Such services include human resource management, financial management, ICT systems and other business support services such as travel and procurement. The efficient provision of such services is crucial for ensuring that IFAD delivers its programmes and projects effectively and at the lowest possible cost and also for achieving the efficiency targets that Members have set for IFAD in the IFAD9 results measurement framework (RMF).

⁸ Direct supervision by IFAD staff was introduced in IFAD7 as part of a major change in IFAD's business model. Prior to 2005, IFAD entrusted its "cooperating institutions" with supervising the projects it financed. Its involvement was thus limited to providing project finance.

⁹ A recent IOE evaluation report on IFAD's decision to assume direct supervision of its projects noted that this decision has enabled IFAD to get "closer to the ground" and understand the country context more fully. It has also facilitated more direct follow up with implementing agencies and to resolve problems more quickly. In addition, it has also allowed IFAD to achieve closer cooperation with other partners and nurture partnership with multiple stakeholders. "IFAD's Direct Supervision and Implementation Support: Evaluation Synthesis". July 2012.

¹⁰ See IFAD Country Presence Strategy 2014-2015 (EC 2013/81/W.P.7, Add.1, paragraph 21).

25. Under the 2009 CRA, IFAD undertook a number of organizational changes and actions to improve the quality of its business processes, to contain costs, and to enhance institutional effectiveness and efficiency. These are discussed below.
26. **Financial management.** One of the major organizational changes brought about by the CRA was the creation of a separate Financial Operations Department (FOD) in 2011 to strengthen financial management and support to IFAD's country operations. In addition, the budget unit was significantly reinforced to enable it to undertake a more results-focused and strategic budget preparation process; allocate budget resources more optimally, and strengthen the day-to-day management of the budget.
27. Following the creation of FOD, project financial management was placed under the Controller's responsibility to ensure the separation of operational and fiduciary responsibilities. FOD has gone further by improving IFAD's approach to financial management support and the disbursement of funds to its programmes and projects. As an integral part of the project supervision process, the quality of financial supervision has improved and the period between application of funds and disbursement has been drastically reduced.
28. FOD has also introduced a new financial model for IFAD based on the sustainable cash flow approach that has aligned IFAD's practices with the standards of other IFIs. The new model enables IFAD to maximize the availability of internal resources to finance IFAD programmes and projects, subject to clear minimum liquidity requirements. FOD has taken further steps to enhance financial management by creating a new Financial Planning and Analysis Unit (FPA). The Unit engages in financial forecasting and decision analysis to ensure that the impacts of IFAD's financial modalities are fully taken into account in resource allocation decisions, additional resource mobilization efforts, and other strategic decision-making processes. Further strengthening of FPA is envisioned under IFAD10 to enable FOD to manage the financial risks that IFAD may face as it embarks on mobilizing additional resources through innovative approaches.
29. **Human resources management.** Effective HR management is a key element of IFAD's business model, as the deployment of the right skills, competencies, and staff in line with strategic objectives and needs is essential for its effective functioning. Towards this end, IFAD has undertaken a series of HR reforms under the CRA. It undertook a job audit exercise in 2010-2011 to map out the structure and deployment of IFAD staff. The information gathered has enabled IFAD to undertake annual strategic workforce planning (SWP) exercises in 2012 and 2013, as part of the annual budget preparation process.
30. As a result of these two initiatives, IFAD has rationalized the staffing of its organizational units in line with its business needs. The annual SWP exercise has allowed IFAD to reduce positions in low-priority functions while increasing the staffing of units critical for the efficient functioning of the business model. In addition, in line with IFAD's expanding country presence, a greater percentage of staff are locally recruited, leading to considerable cost savings. The SWP has also enabled IFAD to rebalance the staffing distribution between Professional and General Service staff, with a significant decline in the latter category. For key core activities, the use of consultants has been reduced, with many tasks previously performed by consultants now allocated to staff. The strengthening of in-house training programmes for staff has facilitated these shifts.
31. **ICT systems.** IFAD's ICT system is critical for the efficient functioning of its business model in terms of both delivery of programmes and projects and the service delivery platform. Under IFAD9, a major upgrading of IFAD's ICT architecture is under way. This includes integration of core IT platforms; upgrading of IFAD's software systems to provide more efficient and effective support to IFAD country offices (ICOs); improvement of systems to support IFAD's operational M&E

processes; and implementation of mobile technologies to allow access to IFAD systems via a range of devices such as smart phones and tablets. These upgrades are expected to lead to considerable streamlining of IFAD business processes, and hence significant efficiency gains by the end of the IFAD9 period.

32. **Other support services.** Under the CRA, IFAD has also given much attention to improving internal business processes, reducing costs and shortening response times. All IFAD organizational units have reviewed their business and administrative processes in line with the IFAD9 commitment. Of particular note are the efforts made to: improve the administrative processes for the governing bodies; enhance IFAD's procurement system in the context of the common procurement team of the Rome-based agencies (RBAs) and through further delegation of authority for low-value procurement; further streamline and consolidate travel policy, rules and processes, including changes in the rules governing travel entitlements; and undertake a business process review of records management and archive functions.

III. The effectiveness and efficiency of IFAD's business model

33. By virtue of its business model, IFAD has been able to reach an increasing proportion of its target population and to raise its impact on rural poverty and the food and nutrition security of poor households. The business model has led to more efficient delivery of the PoLG: IFAD has significantly increased its programme of loans and grants while its administrative budget has remained relatively flat. IFAD's contribution to country programmes, project outputs and impact are discussed below, drawing on the 2013 RIDE.¹¹

A. Contributions to country programmes and project outputs

34. The 2013 RIDE collected data on 253 projects that were active in 2012. In terms of total beneficiary outreach, the total number of beneficiaries of IFAD-supported projects in 2012 stood at 78.7 million – a 33 per cent increase over 2011 and about 87 per cent of the target of 90 million set for 2015. The total financial commitment for the projects under implementation is about US\$12.3 billion, of which IFAD's share is US\$5.4 billion. Other contributors include domestic financial institutions and governments (US\$3.9 billion, 32 per cent) and international cofinanciers (US\$2.9 billion, 24 per cent).
35. Programme and project activities in which a large number of beneficiaries participated include: natural resources management (3.2 million participants); crop production technologies (4.5 million people trained); livestock production technologies (2.6 million people trained); rural financial services (5.5 million voluntary savers; 2.46 million active borrowers); marketing (nearly 20,000 groups formed); microenterprises (1.5 million people trained in business and entrepreneurship); and community management (2.7 million people trained).
36. With respect to the gender distribution of beneficiaries, the proportion of women beneficiaries is on the increase with the overall distribution between men and women now standing at 51:49 per cent respectively. The rapid growth in women beneficiaries in recent years is in part explained by the larger share of women among rural finance beneficiaries. This trend fits well with IFAD's policies on gender and targeting.
37. A pronounced increase in the number of people benefiting from microenterprise-related services, marketing, and community institution-building can also be discerned as an aggregate trend. This reflects the increasing share of value chain

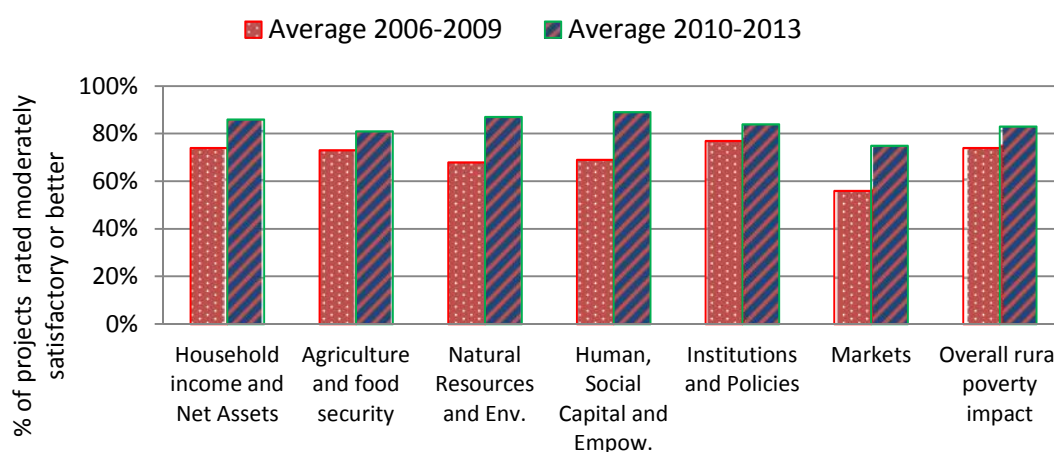
¹¹ The issues discussed in this section are presented in greater detail in the document "IFAD at the Midterm of the Ninth Replenishment" (IFAD10/1/R.2) tabled at the first session of the IFAD10 Consultation in February 2014.

projects in the portfolio and the emphasis being laid on adopting a more inclusive approach to targeting.

B. Contributions to development outcomes and impact

38. IFAD evaluates the performance of projects at completion using generally accepted indicators such as relevance, effectiveness, efficiency, rural poverty impact, gender equality, sustainability of benefits, innovation and learning, replication and scaling up, and government performance. A summary of the results reported in the 2013 RIDE is presented below.
39. Using the project performance metric of moderately satisfactory or better, the 2013 RIDE reports that during the last four years (2010-2013), there have been dramatic improvements in project performance in terms of rural poverty impact when compared to the previous four years (2006-2009). As shown in figure 2 below, improvements are particularly pronounced in the areas of human and social capital and empowerment; markets; natural resources and environment; and household income and net assets. Performance with regard to food security and agricultural productivity is also better. Of particular interest is the marked improvement in access to markets, which reflects the enhanced effort by IFAD to link smallholders with markets.

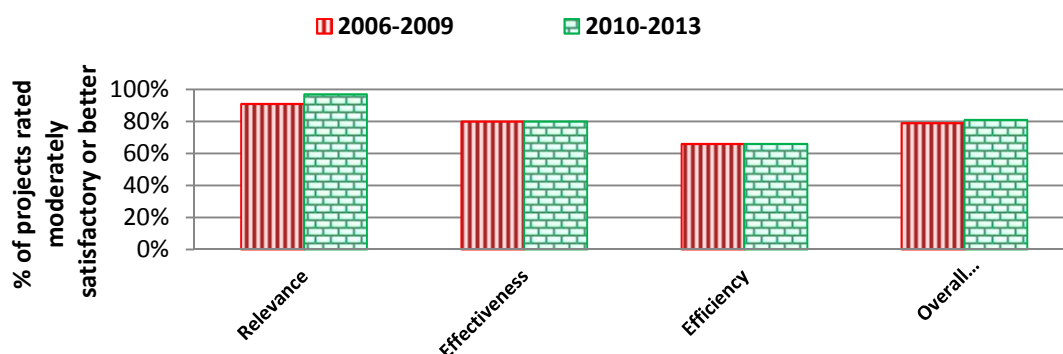
Figure 2
Recent trends in rural poverty impact



Source: Graphs constructed from data in "Report on IFAD's Development Effectiveness" (EB2013/110/R.12/Rev.1), 2013

40. Results are varied with regard to performance on other indicators of development impact – relevance, effectiveness, efficiency and overall project impact. The relevance of projects remains high and shows some improvement; project effectiveness and overall project impact have been rated lower but remain stable; the efficiency outcome remains relatively low and is one of the main areas where improvements are needed. Overall project performance remains high and stable.

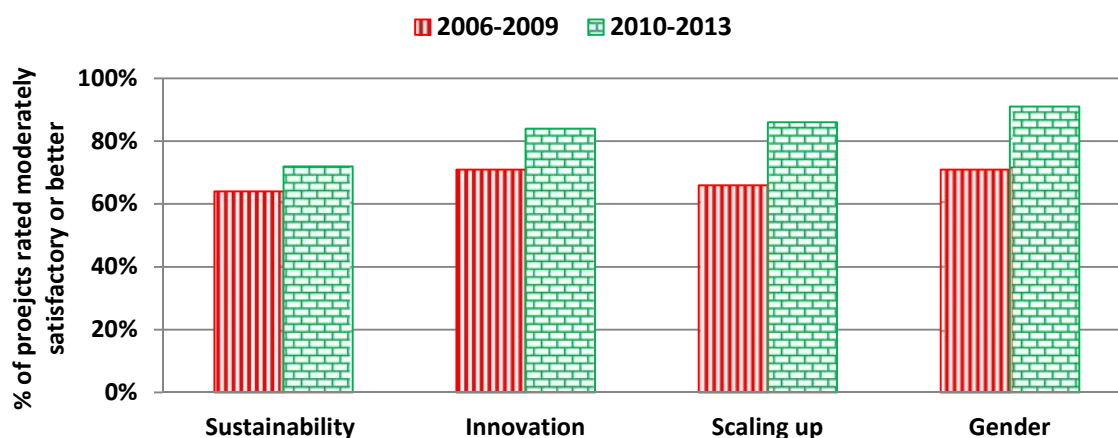
Figure 3
Project performance



Source: Graphs constructed from data in the 2013 Report on IFAD's Development Effectiveness (EB 2013/110/R.12/Rev.1).

41. Project performance in relation to the other four indicators – gender, innovation, scaling-up and sustainability – has registered major improvements. More specifically, a dramatic leap forward has been made in terms of both scaling up and innovation. Performance on gender has shown a similar improvement. Progress has also been made on sustainability and ownership.

Figure 4
Recent trends in sustainability, innovation, scaling up and gender



Source: Graphs constructed from data in "Report on IFAD's Development Effectiveness" (EB2013/110/R.12/Rev.1), 2013

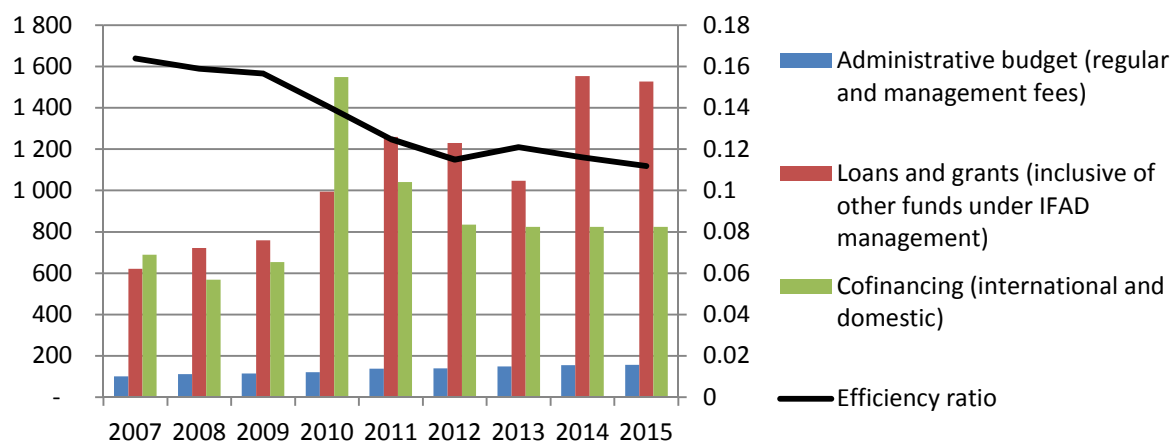
42. **Project performance against 2015 targets.** When compared to the targets set for 2015 by the IFAD9 Consultation, the actual results for 2013 are higher for relevance and gender equity. For rural poverty impact, innovation, scaling up, and environmental and natural resource management, actual results are above the baseline figures and can be considered on track towards 2015 targets. With respect to sustainability, long-term trends are positive and the current level of achievement is fairly close to the target set for 2015. Effectiveness on the other hand is at par with the baseline figures. Project efficiency and government performance, in contrast, are weaker relative to both the baseline figures and the targets. In sum, while most indicators show improvements over baseline figures, pointing to an upward trend in performance, more effort is needed for project economic efficiency and government performance to meet targets for 2015.

C. The efficiency of IFAD's business model

43. In figure 5, the growth of IFAD's PoLG, the volume of cofinancing generated and IFAD's overall efficiency ratio – defined as the ratio of the administrative budget to the PoLG – are shown for the period 2007-2013 and projected for 2014 and 2015. As can be seen, institutional efficiency has improved considerably with the efficiency ratio declining from over 16 per cent in 2007 to 12 per cent in 2013. It is projected to fall further in the remaining two years of 2014 and 2015.¹²
44. Underlying these improvements is the major expansion in the programme of loans and grants and programme of work in the past seven years against the backdrop of a flat or slowly expanding administrative budget. The improvements in overall efficiency are attributable to a number of actions taken by IFAD in recent years. These include: (i) keeping increases in headquarters staff in check and – in the case of the Programme Management Department (PMD) – relying more on locally recruited staff in country offices; (ii) reducing payments to cooperating institutions; and (iii) efficiency gains in key business processes.

Figure 5

Administrative budget (regular and management fees) compared to loans and grants, inclusive of other funds under IFAD management and cofinancing
(Millions of United States dollars; efficiency ratio (%) measured on the right axis)



45. The improvements in efficiency were also accomplished in part by financing larger projects. The number of investment projects approved by the Executive Board has not changed significantly since 2007, while investment projects have become larger on average. As IFAD's administrative cost per project does not increase at the same rate as the increase in the size of loan or grant, larger projects permit IFAD to commit and disburse more money per United States dollar of administrative cost.

IV. Enhancing IFAD's business model under IFAD10

46. It is evident from the findings of the RIDE presented above that, over the years, IFAD has built up a business model that has enabled it to deliver value effectively and efficiently. It has succeeded in expanding its operations by raising a significant amount of resources from its Member States. It has established strong relationships with governments and smallholder farmers enabling it to design and implement programmes and projects with the full participation of all stakeholders. It has also succeeded in leveraging its own resources to increase investment in smallholder farming. And in recent years, under the CRA, it has taken steps to improve the efficiency of its service delivery platform.

¹² This will in part depend on successful mobilization of additional resources by IFAD to finance a total PoLG of US\$3 billion or higher in the remaining two years of IFAD9.

47. Despite the progress made, IFAD will need to take further steps to enhance its business model under IFAD10 both to consolidate gains and to better equip it to respond to growing opportunities and emerging challenges.¹³ These steps will not involve dramatic new approaches. Instead, what is being proposed is a consolidation of initiatives undertaken in previous years, and mainstreaming of key approaches, such as scaling up, that have been in the works and tested for some time.¹⁴ The key actions proposed under IFAD10 are discussed below.

A. Enhancing programme and project delivery

48. **Scaling up and sustainability.**¹⁵ To have more significant impact on a larger number of rural poor people will require increased attention to scaling up successful programmes and to catalysing broader partnerships. Only successful programmes that have demonstrated their sustainability should be scaled up. Towards this end, IFAD will take steps to ensure that every country programme and project considers and plans for scaling up instead of assuming that good ideas and successful projects will be scaled up by governments or other stakeholders. In IFAD10, all country strategies and project designs will be required to have an explicit scaling-up strategy, which will be evaluated *ex ante* and implemented should the programme or project show success. Progress on the strategy will be monitored during project supervision. Knowledge sharing is important to scaling up, and the proposed work on knowledge management (see below) will be an important component of the scaling-up agenda.
49. **Country policy dialogue.** A significant scaling-up agenda will entail careful identification of national drivers to achieve impact at scale, and local institutional mechanisms that can operate sustainably at scale. Relatively small projects can work independently of a weak national policy environment, but large-scale programmes cannot. IFAD will therefore have to engage more forcefully in country policy dialogue, provide advice in policy implementation and help to build national and local capacity to enhance the policy environment for agriculture and rural development.
50. **Global policy work.** The policy context for agricultural development and rural poverty eradication at the national level is in large part shaped by global policy debates and outcomes. For this reason, IFAD has become an increasingly active player in global policy dialogue, in order to influence the agenda and make it more supportive of the interests of smallholder farmers and, more broadly, of rural women and men. IFAD brings to this dialogue knowledge and insights drawn from concrete operational experience. These will be strengthened under IFAD10 through the implementation of a research and publications strategy aimed at mining IFAD's knowledge in a more systematic manner.
51. During IFAD9 IFAD stepped up its engagement in international policy processes, participating in G8 and G20 deliberations, in the Secretary-General's High-Level Task Force on the Global Food Security Crisis, in the ongoing goal setting for the post-2015 development agenda, and as a member of the Steering Committee of the Global Agriculture and Food Security Program (GAFSP). IFAD has worked with the Food and Agriculture Organization of the United Nations (FAO) to produce papers on gender in agriculture and on *The State of Food and Agriculture*. It has also supported the work of the Committee on World Food Security (CFS). IFAD brings a very specific perspective to global agriculture debates, with its focus on smallholders, rural poor women and men, and indigenous peoples. Increasingly, IFAD's views and counsel are sought in this respect, as well as on climate change,

¹³ For a more in-depth discussion of the opportunities and challenges, see A Strategic Vision for IFAD 2016-2025: Enabling inclusive and sustainable rural transformation (IFAD10/2/R.2).

¹⁴ See IFAD at the midterm of the Ninth Replenishment (IFAD10/1/R.2) tabled at the first session of the IFAD10 Consultation, in February 2014.

¹⁵ A paper on scaling up will be presented at the third session of the IFAD10 Consultation, in October 2014.

land issues and public-private partnerships. This work will continue to expand during IFAD10.

52. **Partnership-building.** IFAD is operating in an increasingly dynamic context – with new lines drawn by rising economies and fragile environments. Coupled with these complexities are the emergence of new voices from non-traditional donors and increasing interest from the private sector in agricultural development. To further strengthen IFAD’s role as a catalyst of rural investment in this environment and to facilitate the scaling up of successful projects, IFAD will deepen its partnerships. Mobilizing a broader spectrum of partners has the potential of not only raising investments in smallholder agriculture but also of capturing a wider selection of technical skills for programme design and implementation.
53. Building on lessons and successes achieved during IFAD9, IFAD will enter into partnerships in all the projects that it supports. It will elevate its partnership with the RBAs to a strategic level by collaborating on key issues with FAO and the World Food Programme, in line with the distinct comparative advantage of each institution. It will seek collaboration on new innovative financing streams and will engage more strategically with private-sector partners – both donors and companies – to deliver benefits for rural groups and small producers. IFAD will do this by leveraging the social capital and trust that it has built through decades of agricultural and rural investment.
54. IFAD has learned that successful partnership-building is time- and resource-intensive. To support partnership goals under IFAD10, it will invest more in its capacity to broker and create internal incentives to expand the strategic and practical use of partnerships.
55. **Differentiated approaches for fragile states, low-income countries and MICs.**¹⁶ IFAD Member States have called for a clearer differentiation in IFAD’s approach to fragile and conflict-affected countries, to other low-income countries, and to MICs. As discussed above, IFAD’s approach to programme and project development is to align interventions with a country’s agricultural plans through jointly developed COSOPs. This approach enables IFAD to tailor its interventions and support to each partner country’s stated needs and strategy. The lessons that IFAD has learned from its operations in fragile states and MICs and the direction that its future operations will take in these countries are discussed below.
56. Fragile states cut across different categories: they can be MICs as well as low-income countries. They can experience country-, region or area-specific fragility; they may be fragile in some respects and not others, and they may also move in and out of conditions of fragility. Some fragile states are also post-conflict states. In 2013, IFAD’s assessment of project performance in fragile states revealed that the main issue lay in weak capacity to implement projects and programmes: projects were less likely to be well managed, and significantly less likely to be sustainable after donor funding ran out. In the light of this finding, IFAD is sharpening its focus on building capacity and strengthening institutions in fragile states and will continue to do so under IFAD10. A partnership developed with FAO during IFAD9 to provide hands-on technical assistance to problem projects in five fragile states will be expanded to cover all fragile states served by IFAD. Other service providers, in addition to FAO, will also be engaged. The planned assistance will cover capacity-building at both the project and the government levels to manage agriculture projects and agriculture policy.
57. The assessment of project performance in fragile states also revealed that IFAD’s comparative advantage in working in these countries lies in its ability to address poverty from the perspective of the poor. IFAD’s projects in fragile states

¹⁶ See annexes I and II for a more detailed discussion of IFAD’s approach in fragile states and in MICs.

- concentrate on building resilience and capacity to cope with shocks. Specifically, IFAD helps people to withstand such shocks through their own local organizations, rather than relying entirely on government assistance. The assessment found that IFAD projects perform best when projects are: (i) implemented at the community level by empowering communities; (ii) focused on strong community participation, particularly of rural women; and (iii) implemented with partners such as NGOs and civil society organizations that complement both the government's and IFAD's work.
58. IFAD will further build on these strengths to better support fragile states in delivering development results. Generally, fragile states also require simpler projects, greater involvement by IFAD in supervision and a more flexible approach to implementation support. IFAD has included a country's fragility as a criterion in choosing a country for the establishment of an IFAD country office.¹⁷
 59. IOE is currently undertaking an evaluation of IFAD's work in fragile states which will be issued in 2014. Following discussion of the findings, Management will prepare a strategy for IFAD's work in fragile states that incorporates the recommendations of the evaluation. These will be submitted to the Executive Board in 2015, before the start-up of the IFAD10 period.
 60. At the other end of the spectrum, MICs are an even more varied group, ranging from lower middle-income countries like Swaziland, to upper middle-income countries such as Turkey and the Bolivarian Republic of Venezuela. Some MICs are also fragile states. The needs of MICs regarding agriculture and rural poverty reduction are similarly diverse. IFAD's approach is to adapt its support to the specific context and needs of each country, rather than follow a standardized MIC model.
 61. IFAD believes that it should remain engaged in MICs for the following reasons: (a) some MICs have large numbers of rural poor, including smallholders; (b) MICs have indicated genuine demand for IFAD's services and are Members in good standing; (c) MICs have fragile regions; (d) their agricultural development experience provides important lessons for low-income countries; (e) they contribute to global food security and respond to the threats of climate change; and (f) they make a critical contribution to IFAD's financial viability through their repayment of loans and increasing amounts of replenishment contributions.
 62. As per its mandate, IFAD works in the poorest and most remote regions of MICs. These regions often are little different from rural areas in low-income countries in terms of the livelihoods of the rural poor and the rural development challenges they face. In several MICs, IFAD has supported large rural development projects that have had a marked impact in improving the livelihoods of poor rural people. It has also succeeded in promoting more inclusive rural development strategies by engaging in policy dialogue with several MICs to create a more favourable policy environment for smallholder farmers. During IFAD10, and in line with the IFAD policy on Engagement with Middle-Income Countries,¹⁸ IFAD will take additional similar actions.
 63. IFAD has set up a reimbursable technical assistance programme largely to serve MICs that seek only technical advice. The first projects under this programme are being discussed with Algeria, China and Mauritius. They will be expanded under IFAD10. IFAD has also amended its General Conditions for Agricultural Development Financing to facilitate lending to MICs in currencies other than special drawing rights, a preference of several MICs in the Latin America region. IOE has recently completed an evaluation synthesis on IFAD's engagement in middle-income countries. The evaluation synthesis has two key objectives: (i) generate lessons and insights on opportunities and challenges for IFAD's engagement in MICs; and

¹⁷ Of IFAD's 40 country offices, 18 are in fragile states and of the planned additional 10 country offices, six will be located in fragile states. Nearly half of IFAD country offices will thus be operating in fragile states.

¹⁸ EB 2011/102/R.3/Rev.1

- (ii) identify issues for further reflection in the strategic directions, priorities and instruments for IFAD's engagement in MICs in the future. Following the review of the IOE findings by the Executive Board, IFAD's MIC strategy will be updated and submitted for the approval of the Executive Board in 2015.
64. In addition, as proposed in the companion paper on the IFAD10 programme of work, Management will engage the Executive Board in an examination of the PBAS formula, which determines the share of resources going to MICs versus other categories of recipients of IFAD funds.
65. **Grant policy.** IFAD grants are a key instrument for policy dialogue, innovation, knowledge sharing and building national capacities in agriculture and rural development. At present, Management is conducting a review of the IFAD Policy on Grant Financing with the objective of improving the efficiency and effectiveness of grants. Management will also take on board the recommendations of the evaluation currently being undertaken by IOE. Based on the findings of these two assessments, Management will set out a clear strategic direction for grants to be implemented in the course of 2015 and through IFAD10. This action plan will improve the focus of the grant programme to achieve better alignment with IFAD's strategic vision, knowledge framework and country-level investments for greater impact. It will be shared with the Executive Board.
66. **Knowledge management.** Gathering and sharing knowledge about sustainable smallholder development is a key dimension of IFAD's value proposition. It is essential for the design and implementation of cost-effective projects and for targeted dialogue on the institutional and policy conditions for success. It is a vital dimension of scaling up. And it is a fundamental requirement for adding value in global and regional dialogues about development and the role of smallholders in realizing equitable and sustainable economic growth.
67. By virtue of its mandate and comparative advantage in smallholder development, IFAD has a great deal to offer its development partners and is now compiling and sharing its experience-based knowledge more systematically. In addition to working with other institutions to analyse the drivers of current rural transformation processes and their potential implications for long-term rural development strategies, the recently established Strategy and Knowledge Department is leading an IFAD-wide effort to bring rigour to the documentation and analysis of what has been achieved in the past – and why. Under IFAD10, this will become a regular part of IFAD's work, linked to improvements in project-level M&E systems. This knowledge will be systematically shared to develop a much broader and deeper understanding of the role of smallholder farming in the broad systems of agricultural production, transformation and distribution.
68. **Monitoring and evaluation and impact analysis.** During IFAD10, systematic support to M&E systems at country and project level will be provided to ensure the generation of high-quality data to governments, partners and IFAD. Currently these systems are often weak. IFAD will therefore expand its capacity-building efforts in this regard. As a result of such efforts, IFAD plans to gather more reliable data to determine the impact of its programmes and projects. In addition, the rigorous impact evaluations that began during IFAD9 of 30 completed projects will be expanded in IFAD10 to at least one completed project in each country in which IFAD works, up to a maximum of 50 impact evaluations. Impact evaluations will be systematically used to guide IFAD's scaling-up work and policy advice and to underpin the assessment of poverty impact. These evaluations will also provide content for knowledge sharing.
69. **Project efficiency.** During IFAD10 there will be a sharper focus on project efficiency, which IOE has identified as the weakest area of performance by IFAD-financed projects. Every project will be required to undergo an economic evaluation during design, and those found to be economically inefficient will be rejected before

submission to the Executive Board. A project's economic analysis will be updated periodically during project implementation. Project redesign, or in extreme circumstances project cancellation, will be required if the viability of the project is no longer apparent.

70. **Gender architecture.** IFAD has achieved good results on the ground from its gender work and intends to intensify this work to promote gender equality in all aspects of IFAD's country operations (see IFAD10/2/R.4, IFAD10 programme of work). IFAD will continue to strengthen its gender architecture at headquarters and throughout its country offices and project management units. It will build on the momentum gained during IFAD9 by supporting initiatives to put in place a more systematic methodology for tracking project performance on gender from design through to project completion. IFAD will incorporate gender concerns in its knowledge-sharing and capacity-building work. It will strengthen the gender perspective of M&E data and impact evaluation; and continue to document and share knowledge and stories about gender impact from the field. The annual report on the IFAD Policy on Gender Equality and Women's Empowerment will continue to be included each year in the RIDE.
71. In addition, IFAD will build on the activities initiated during IFAD9 to conduct an ex ante analysis of the gender sensitivity of IFAD's loan portfolio and administrative budget. IFAD will roll out the gender and diversity e-learning module to enhance the workplace environment and IFAD's organizational performance. Gender will continue to be mainstreamed into project cycle management training.
72. **Climate adaptation mainstreaming.** In recent years, IFAD has made considerable progress in strengthening the analysis of climate change and environmental issues in IFAD's operations. Innovative approaches have been introduced to climate resilience and sustainable use of natural resources through the Adaptation for Smallholder Agriculture Programme (ASAP). This will work continue under IFAD10.
73. Building on the progress to date, IFAD will also aim at mainstreaming climate change into all its operations to render it an integral element of the business model. Environmental and climate-related dimensions have already been added to the definition of sustainability in a revision to the portfolio review guidelines in 2013. And following recent improvements in COSOP and project designs, the number of new projects failing to assess climate risks sufficiently and include mitigating actions has fallen to one third, largely due to the ASAP.¹⁹ Under IFAD10, the plan is to reduce this number to zero. The programme of work paper sets out a 10-point plan to achieve 100 per cent mainstreaming by 2018, the end of IFAD10.
74. **Private sector engagement.** As IFAD expands its work with the private sector at the local, national, and global levels, adjustments will need to be made to its business model to ensure full engagement. Under IFAD10, it is envisaged that IFAD will develop new financial instruments to enable it to work with the private sector more effectively, particularly in promoting public-private-producer partnerships. Towards this end, IFAD will develop the requisite staff skills and change some of its business processes to maximize its effectiveness.
75. **South-South and triangular cooperation.** Under IFAD9, IFAD has stepped up its support to South-South and triangular cooperation in line with the paper presented

¹⁹ IFAD has made significant progress on its work on climate change: one half of all new COSOP and one third of all new projects have fully integrated climate change into their design; portfolio review guidelines have been updated to include the issue of climate change; a quality assurance climate marker has been introduced; climate adaptation indicators have been added to the Results and Impact Management System (RIMS); one third of all IFAD Professional staff have been trained in climate adaptation; and an on-line training module has been launched.

to the third session of the Consultation on the Ninth Replenishment of IFAD's Resources in 2011 (see South-South cooperation in IFAD's business model [REPL. IX/3/R.3]). Under IFAD10, IFAD plans to expand the work in this area, seeing it as an integral part of its business model. Discussions have been launched with interested Member States to establish a trust fund in support of these efforts. IFAD envisages that South-South and triangular cooperation will become a major component of its business model.

B. Enhancing IFAD's service delivery platform

76. Following the IFAD9 Consultation and the completion of the Corporate-level evaluation of IFAD's institutional efficiency and the efficiency of IFAD-funded operations (CLEE) undertaken by IOE in 2013, IFAD developed a Consolidated Action Plan to Enhance Operational and Institutional Efficiency. The action plan covers both the programme and project delivery cycle and the service delivery platform. The actions that IFAD will undertake during IFAD10 to enhance the programme and project cycle have been discussed above. Actions to be undertaken to enhance further the effectiveness and efficiency of its service delivery platform are discussed below and encompass financial management, HR management, IFAD's ICT architecture and other business processes.
77. **Financial management.** IFAD's financial management systems will undergo further strengthening during IFAD10. IFAD will continue building capacity in programme and project financial management and provide timely support for project design and implementation.²⁰ As it moves into innovative financing arrangements, IFAD will develop its capacity for risk analysis and the management of such resources.
78. IFAD's results-based budgeting system will be further refined to ensure optimal and economical use of internal resources. A key tool in assisting Management to control costs will be a fit-for-purpose staff time recording system to measure more accurately the deployment of staff time and the costs of key business processes. This tool should be fully tested and ready for use at the beginning of 2016. Use of the staff time recording system will permit Management to continuously monitor use of HR and make adjustments in line with strategic needs and business requirements.
79. **HR management.** During IFAD10, the HR reform begun in IFAD9 will be consolidated. The Strategic Workforce Planning exercise will be refined and will determine, annually, the size, skills set, and competencies of IFAD's workforce, as well as its deployment. As IFAD expands the number of its country offices from the current level of 40 to 50, an increase in nationally recruited staff is expected. Further substitution of Professional technical staff for consultants, as recommended by the CLEE, is also expected to take place to strengthen IFAD's technical capacity in critical areas such as policy work, climate change, nutrition and public-private partnerships.
80. Other reforms begun during IFAD9 that will be important components in further enhancing HR management include: refining the new staff rules and implementing procedures introduced in 2012; actively addressing concerns raised by staff in the 2012 global staff survey; improving the performance evaluation system (PES); implementing the new reward and recognition framework to encourage superior performance; revising the learning and development strategy; and continued HR

²⁰ An example is the introduction of the Oracle-based Flexcube under IFAD9 which replaced the obsolete Loans and Grants System (LGS) previously used by IFAD. Flexcube modernized IFAD's loan and grant transactions management. Loans and grant transactions now flow automatically into the payment system, reducing manual data entry while better satisfying audit requirements.

process streamlining. IFAD will also maintain its cooperation with the International Civil Service Commission, particularly in the system-wide review of the common compensation system. It is expected that the recommendations of the review will be implemented during IFAD10, and may introduce further savings in staff costs.

81. An important HR management action under IFAD10 will be follow-up on the targets set in IFAD9 regarding gender competence and gender equality in IFAD's HR policy, and gender balance and equitable geographic distribution in staffing. More ambitious targets regarding gender balance and other human resources targets will be established for IFAD10. These will be reflected in the RMF to be presented to the Consultation in October 2014.
82. **ICT architecture.** A major recommendation of the CLEE was for IFAD to upgrade its ICT architecture to support business process reforms. Building on the upgrades already introduced, IFAD will introduce other improvements in IFAD10. IFAD has learned that ICT upgrades are a continuous challenge and process. While not anticipating large ICT capital expenditures in IFAD10, striving for ever-greater business process efficiency, in part through better use of ICT and in part through upgrading the ICT architecture, will be part of the ICT medium-term plan for IFAD10.
83. **Other support services.** IFAD9 saw the beginning of internal process streamlining and reduction in the costs of internal transactions, facilitated by improvements in IFAD's ICT. IFAD10 will be a period in which these newly introduced systems add new functionality and efficiency, further cutting costs. Particular focus will be on staff travel and procurement.
84. During IFAD9, rules and processes related to staff travel were updated and new systems introduced. This led to reduced travel costs and considerable savings in the time spent by users to process bookings and travel authorizations. Joint tendering was also undertaken with FAO for travel services in order to benefit from economies of scale. These efforts will continue during IFAD10. More efficiency gains in travel services will be sought, including greater use of video conferencing as such services improve.
85. During IFAD9, Management approved the sub-delegation of procurement authority to directors. This reduced the heavy costs of a centralized procurement approval system. Revised corporate procurement guidelines are being prepared to further cut administrative delays and should be fully operational during IFAD10. The initiative to collaborate with the other RBAs in jointly procuring goods and services through the common procurement team and joint tenders will continue. Quarterly reviews of all major service contracts will also be pursued further to continue reducing costs and achieve savings for facility and security services, ICT and office supplies.

C. Strengthening the results measurement and management system

86. Both the IFAD9 Consultation and the CLEE underlined the importance of setting targets for results, of carefully measuring and monitoring results and of taking Management action when shortfalls appear. There is little question that the use of the IFAD9 RMF has helped IFAD to better manage for results. The indicators included in the framework are monitored on a quarterly basis and discussed with the entire IFAD Management Team; shortfalls are then dealt with by the Management Team as required. For example, at present the most significant shortfall is in project cofinancing. Accordingly, measures are being taken by the Partnership and Resource Mobilization Division and the PMD regional divisions to search for alternative cofinancing arrangements and partners.
87. IFAD10 will have a new RMF. New targets will be set – including in some of the areas discussed above – and also for operational outcomes. As in IFAD9, results will be monitored for every division across IFAD. Quarterly management meetings will

serve to stimulate management action to address shortfalls. The proposed new results measurement system will be presented at the Consultation session in October 2014. Results against targets will be presented to the Executive Board at its December session each year.

V. Expected Outcomes

88. In October 2014, the IFAD10 Consultation will agree on a RMF and on the target outcomes. The targets will reflect improved incomes and nutrition of rural people in countries served by IFAD. Targets will be set with respect to overall rural poverty reduction. They will be disaggregated by gender, and subsets of targets will be set for fragile states, other low-income countries and MICs. Targets with respect to the quality of IFAD programmes and projects and internal efficiency indicators will also be established.
89. Broadly, the outcomes will be as follows:
- (a) Increased incomes and enhanced food security and nutrition for rural people served by IFAD-supported projects and programmes, equitably divided between men and women;
 - (b) Improved policy and regulatory frameworks for agriculture and rural development at local, national and international levels;
 - (c) Strengthened and inclusive rural producers' organizations, benefiting men and women equally;
 - (d) Strengthened institutional capacity for pro-poor agriculture and rural development, particularly in fragile states;
 - (e) Smallholder agriculture better adapted to climate change and more effectively confronting environmental degradation;
 - (f) More sustainable natural resource use (soils, water, forests, plant and animal life);
 - (g) Increased IFAD internal efficiency, and continued reform of processes and HR management.
90. As for IFAD9, therefore, the impact targets for IFAD10 are set relative to the overall figures of people reached – at 90 million, 80 million or 70 million, depending on the level of the replenishment. However, the impact evaluation work for IFAD9 is still ongoing and the extent to which IFAD's current target of 80 million people taken out of poverty is being achieved is not yet known. This means that the IFAD10 impact target may eventually need to be reviewed as IFAD learns more about its current performance in terms of impact.²¹

VI. Conclusions

91. The IFAD business model consists of: systems for resource mobilization, policies and strategies that guide IFAD resource allocation and operations; the programme and project delivery system; and IFAD's service delivery platform. The business model was developed in the mid-2000s and has served IFAD well. It has helped IFAD expand the size of its programme and improve its quality, while keeping its administrative costs in check. The IFAD business model will continue to be used in IFAD10. It will however be enhanced to consolidate the achievements made to date, to address recognized shortfalls, and to enable IFAD to face new challenges and take advantage of emerging opportunities.
92. The enhancements include measures to: more effectively scale up sustainable programmes and projects financed by IFAD; expand and deepen IFAD's country dialogue and its engagement in global policy debates; build broader and more

²¹ See IFAD10 programme of work, to be tabled at the second meeting of the Consultation in June 2014. As for IFAD9, the actual number of people who will be enabled to lift themselves out of poverty under IFAD10 will need to be determined by impact evaluation studies. The numbers at this stage are necessarily projections.

effective partnerships; better differentiate IFAD's work in middle-income and fragile states; make more strategic use of IFAD's grant window; strengthen knowledge generation and sharing; undertake more effective M&E and use the results in impact analysis; improve project efficiency; strengthen IFAD's gender architecture; mainstream climate change adaptation in all IFAD operations; develop new instruments to expand IFAD's engagement with the private sector; and expand and deepen South-South and triangular cooperation.

93. In addition, IFAD will continue to enhance its service delivery model. Financial management, including risk management, will be strengthened, human resource reforms will be consolidated and the ICT architecture will continue to be upgraded. Other business support services, such as travel and procurement, will continue to be streamlined to provide more efficient services and to contain costs.
94. Following the adoption of a results measurement framework for IFAD10, IFAD will continue to use this management tool to ensure that it remains focused on results and impact. The practice of using the RMF to periodically assess progress and to take corrective action when necessary will continue to be a hallmark of IFAD Management under IFAD10.

IFAD's approach to countries in fragile situations

I. Introduction

1. **IFAD has adopted an inclusive definition of countries in fragile situations (CFSs).** The 2006 IFAD Policy on Crisis Prevention and Recovery defines countries in fragile situations as countries characterized by weak policies, weak institutions and weak governance, resulting in meagre economic growth, widespread inequality and poor human development. Operationally, IFAD identifies countries in fragile situations as those categorized as fragile or weakly performing by any international financial institution (IFI). Added to these are 15 countries²² identified as fragile in a recent study by the Organisation for Economic Co-operation and Development (OECD).²³ A total of 54 countries and territories are categorized as fragile, of which 48 are IFAD Members.
2. **IFAD has been responsive to the specific needs of countries in fragile situations in terms of policies and strategies.** It adopted a framework for bridging post-crisis recovery and long-term development as early as 1998. This was followed by the Policy on Crisis Prevention and Recovery in 2006; a paper on IFAD's role in countries in fragile situations in 2008 as part of the IFAD8 Consultation; and Guidelines for Disaster Early Recovery in 2011.
3. **CFSs are very well represented in IFAD's portfolio.** Of the 95 countries in which IFAD has ongoing operations, a total of 38, or 40 per cent, are classified as fragile. Out of the 254 ongoing projects, a total of 105, or 41 per cent, are being implemented in CFSs.²⁴ About **45 per cent** of the total allocations for the current performance-based allocation cycle are for countries in fragile situations.
4. **In recent years, IFAD has reinforced its commitment to serve CFSs.** In 2011, under the IFAD9 Consultation IFAD agreed to:²⁵
 - Adopt a flexible approach to programme design and implementation support in CFSs, with a focus on building the capacity of community and government institutions;
 - Enhance the quality of programme design and implementation support in CFSs by performing deeper analysis of the causes of fragility;
 - Ensure simplicity of objectives and activities for projects in CFSs; and
 - Strengthen application of risk management in programmes in countries in fragile situations, including for security of the workforce.
5. IFAD also added two indicators to monitor project and programme performance in CFS. These were included in its results measurement framework for 2013-2015 and were reported on through the 2013 RIDE.

II. Performance of IFAD-funded projects in countries in fragile situations

6. IFAD-funded projects in CFS showed lower performance across all major performance criteria when compared to non-CFS. Similarly concerning is the finding

²² This is in light of their weak capacity to carry out basic governance functions, either at the national or at the subnational level. The 15 countries are: Bangladesh, Cameroon, Ethiopia, Georgia, Islamic Republic of Iran, Kenya, Democratic People's Republic of Korea, Kyrgyzstan, Malawi, Niger, Nigeria, Pakistan, Rwanda, Sri Lanka and Uganda.

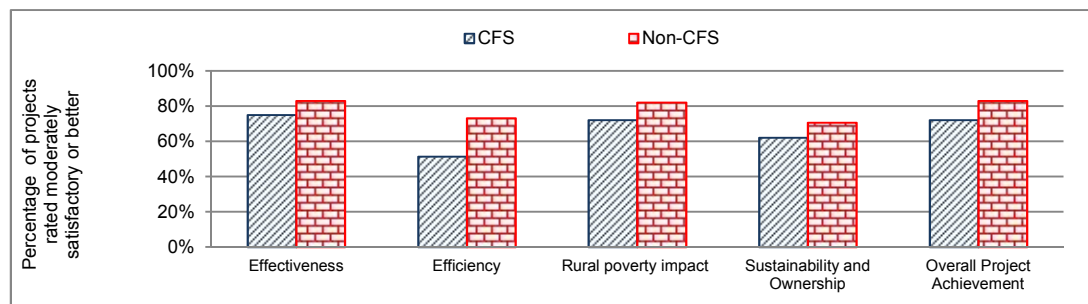
²³ OECD, *Fragile States 2013: Resource flows and trends in a shifting world*. The report considers fragile countries in the World Bank-African Development Bank harmonized list of fragile and post-conflict countries for 2012, the Asian Development Bank's list of fragile and conflict-affected situations (FCAS) as well as countries in the 2011 Failed State Index (FSI).

²⁴ Programme Management Department (PMD), *Annual Review of Portfolio Performance 2012-2013*.

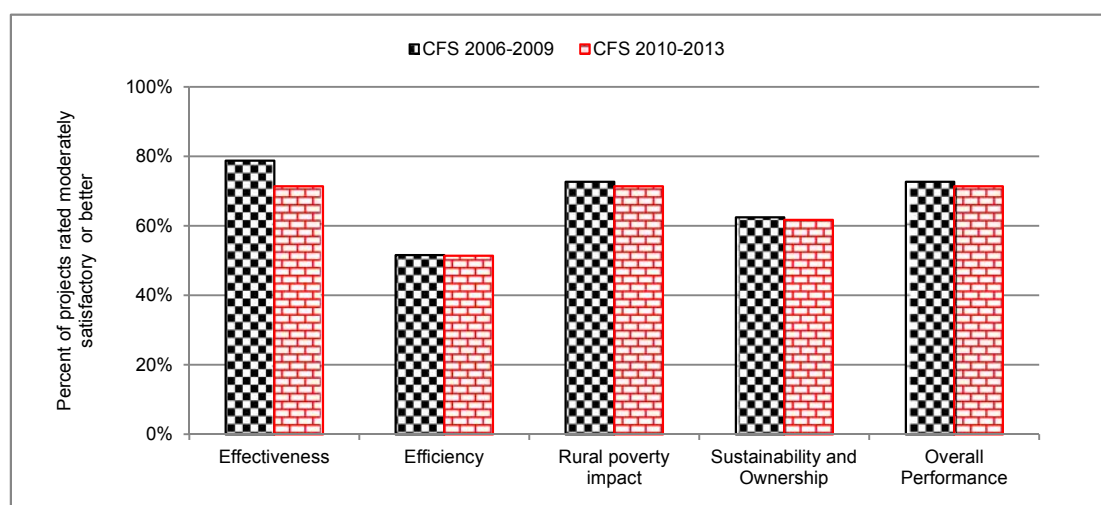
²⁵ Report of the Consultation on the Ninth Replenishment of IFAD's Resources, GC 35/L.4.

that while overall portfolio performance showed steady improvement over time, projects in CFS did not show any improvement.²⁶

Performance differential between CFSs and non-CFSs (2010-2013)



Performance trend in CFSs (2006-2009 and 2010-2013)



III. Determinants of portfolio performance in countries in fragile situations

7. Government performance in CFSs is considerably lower than in non-CFSs. Government performance has a very strong impact on overall project performance, since IFAD finances the projects implemented by the governments. Weak government performance is one of the most important factors that account for poor portfolio performance in these countries.
8. IFAD's performance is lower in CFSs when compared to non-CFSs. Most of the projects in CFSs that performed unsatisfactorily were characterized by weak project design, and this is the main reason why IFAD's performance was also considered unsatisfactory. Overly complex and overambitious designs represent the first step towards project failure. In several cases, IFAD's support during implementation was also observed to be uneven.
9. In most of the projects in CFSs that were rated satisfactory, IFAD was appreciated for its technical inputs at design and its engagement during implementation. IFAD's flexible approach and willingness to adapt to changing circumstances were also valued.

²⁶ PMD, Annual Review of Portfolio Performance 2012-2013. Altogether, 198 project completion reports (PCRs) of the projects reviewed over eight years since 2006 were used. Of these, 68 PCRs or 35 per cent pertained to CFSs.

10. For IFAD, the crucial factors for project success are: (i) a positive and major role in design; (ii) frequent and direct provision of regular and ad hoc support to the project; (iii) flexible and timely response to project implementation constraints; (iv) good communication and smooth administrative processes; (v) timely and efficient loan administration; (vi) good country presence; and (vii) strong partnership established with other project stakeholders.
11. Partners' engagement and commitment. A constructive working relationship among project partners is essential to project success. Such a relationship is built over time, before and during project design, and cultivated throughout implementation. Initiatives that help build good relations include joint design and supervision missions, which help develop and maintain trust among partners, and clarify roles and responsibilities.

IFAD and partner countries need to be agile and work collaboratively. In Burundi, the partnership between IFAD and the Government was very positive. While the Government encountered financial problems during and following the civil war, the cooperation with IFAD continued and was only slightly affected (one suspension of four months in 2002). Overall, partners (IFAD/UNOPS/Government of Burundi/cofinanciers) worked together well, as shown by the positive results achieved by the programme despite the enormous implementation difficulties faced (instability, insecurity, arrears, droughts, floods, etc.)

IV. Strategic lessons learned by IFAD and other multilateral development banks

12. In developing its policies and strategies for countries in fragile situations, IFAD has drawn lessons from its operations. Systematic incorporation of these lessons into IFAD operations can address to a considerable extent the weaknesses identified in the analysis of unsatisfactorily performing projects in CFSs. At the strategic level, these lessons pertain to the following:
 - (i) Need for deeper knowledge of the country and/or the local conditions in the area of intervention;
 - (ii) Identifying the causes of emergencies/crises/fragility and ensuring that they are adequately taken into account in COSOP and project design;
 - (iii) Clearer, simpler and more flexible project design, with realistic project objectives that take into account the actual capacity of implementing partners;
 - (iv) Greater IFAD involvement in supervision, to enable a flexible approach to implementation when needed; and
 - (v) Improved coordination and collaboration with partners, both development cooperation providers and government partners.
13. In addition to these lessons, IFAD can also learn from the experience of other multilateral development banks, which have identified further areas of action to improve their effectiveness in CFSs. Areas of action relevant to IFAD include:
 - (i) Increase efforts in partnership-building to increase complementarity;
 - (ii) Better address the drivers of fragility at the country strategy and project design stage through solid context analysis;
 - (iii) Develop more agile operational policies that allow for flexibility and adaptability to sudden context changes and low implementation capacity;
 - (iv) Strengthen direct engagement of staff in CFSs and ensure that all staff working in these countries are appropriately trained and provided with the right incentives; and

- (v) Additional administrative budget may be needed for project supervision in CFSs, in addition to specific security budget in countries where the security situation warrants this.

V. Going forward into IFAD10

A. IFAD's comparative advantage in CFSs

14. IFAD's business model has factored in the lessons learned over time in the countries or regions in fragile situations and has been adapted to respond to their specific needs. The following elements of its current business model are of particular relevance to CFSs:
 - (a) IFAD's inclusive approach to development as demonstrated by its commitment to operate in remote and difficult-to-reach geographical areas and serve marginalized and socially excluded segments of the population.
 - (b) The experience IFAD has gained over time in building grass-roots institutions and farmers' organizations and working closely with private-sector partners, non-governmental and civil-society organizations.
 - (c) Its approach of empowering individuals, women in particular, and organizations at the grass-roots level to identify their priorities, and decide how best to utilize and maintain the social capital and productive assets funded by IFAD loans.
 - (d) Its experience in responding appropriately to managing natural resources and disasters.
 - (e) IFAD's willingness to work in conflict-affected countries, as per its Policy on Crisis Prevention and Recovery.
15. The rapid internalization of supervision of IFAD-funded projects and gradual but steady increase in IFAD's country presence in borrowing Member States are perhaps the two changes to IFAD's business model that are of most relevance to CFSs. Currently, IFAD directly supervises about 94 per cent of its projects. Similarly, the number of IFAD Country Offices (ICOs) has increased from 17 to 40, and will reach 50 by 2016.

B. Proposed approach for countries in fragile situations during the IFAD10 period (2016-2018)

16. With its exclusive focus on agricultural and rural development, IFAD has a particularly relevant part to play in CFSs, where agriculture has a far more dominant role and the proportion of the population living in rural areas is much larger than is the case in non-CFSs.²⁷ Accordingly, IFAD will enhance its engagement with CFSs and adapt its procedures and instruments to better serve these countries. The main highlights of the proposed adaptations and changes are presented below.
17. Country strategies identify the basic drivers of fragility, how these affect IFAD's operations in the country and how IFAD can best address these challenges. RB-COSOPs will provide a solid context analysis, including an institutional analysis and an initial security assessment. Both will refer to the partner country overall and to potential target areas identified by the COSOP. These will provide a basis for better project design, and better budgeting for security provisions should they be necessary.
18. Projects are designed more flexibly, keeping in view the need to:

²⁷ With considerable variations across countries, depending on geographic location and economic differences, on average in CFSs 52 per cent of the population lives in rural areas. World Development Indicators, 2010 data.

- (a) Simplify project designs, by reducing the number of components/activities to a minimum critical level and by simplifying project implementation arrangements;
 - (b) Address the issue of the vulnerability of rural populations and the chronic food insecurity they face and the need to build their resilience over the medium to long term;
 - (c) Build grass-roots institutions and farmers' organizations to make projects more relevant to their needs and expand the implementation capacity for development operations;
 - (d) Work more closely and intensively to build the capacity of civil society and the private sector in order to enhance project implementation capacity and make overall development impact more sustainable;
 - (e) Assist countries in pursuing a more inclusive development approach with the longer-term goal of empowering the rural poor, especially women and indigenous peoples;
 - (f) Effectively implement IFAD's policy for natural resource management as formulated in order to ensure that resources are used sustainably and in a way that helps prevent conflict;
 - (g) Give specific attention to ensuring: (i) security of land tenure for the poor; and (ii) incorporation of adequate adaptation measures to respond to the adverse effects of climate change; and
 - (h) Reduce the management burden of CFSs by ensuring that IFAD procedures are closely aligned to national procedures.
19. While changes in focus and emphasis during project design are crucial for successful operations, these will need to be supplemented with strong support from IFAD during the implementation phase. In this light IFAD will:
- (a) Orient project supervision towards providing technical assistance and catering to the long-term capacity-building needs of CFSs, while also attending to fiduciary aspects of project supervision more comprehensively;
 - (b) Provide more frequent supervision input to projects in CFSs, ensuring at least two full supervision missions by IFAD per year;
 - (c) Gear up supervision also as a design adaptation mission and make missions more responsive to the changing local and national context; and
 - (d) Implement and learn from the joint programme with FAO to build partner country capacity in five CFSs and, if the result is positive, explore developing a multi-donor trust fund to build partner capacity in an expanded number of CFSs.
20. In responding to the situations in CFSs, it is important to recognize that the political stability, security, economic and social spheres are interdependent and that failure in one leads to failure in others. This means that IFAD must identify areas in which to work with partners within the United Nations and with other IFIs and bilateral agencies. Given their different but highly complementary mandates, close collaboration among the three Rome-based agencies is essential. Indeed, such collaboration is key to addressing the so-called "grey zone" between humanitarian assistance, rehabilitation and development.
21. Achieving results in CFSs requires more time and more resources than in non-CFSs. In line with the experiences of other IFIs, IFAD will need to devote additional resources to its CFS programmes. Such additional resources should primarily focus on increasing the development impact of IFAD's investments. This means IFAD has to allocate more administrative resources to improve the formulation of COSOPs,

project design, project supervision, technical assistance, capacity building, and sharing of relevant knowledge, etc. A part of these additional resources need to be devoted to strengthening ICOs and improving security arrangements.

22. Finally, based on experience with the pilot programme with FAO and IOE's evaluation of IFAD's work in CFSs, a revised strategy and/or operational guidelines on CFS will be submitted for the approval/review of the Executive Board.

IFAD'S approach to middle-income countries

I. Introduction

1. IFAD Members have called for a discussion of IFAD's approach to middle-income countries (MICs), as the needs of these countries have changed considerably and will continue to do so. Some MICs have experienced rapid economic growth and may no longer need IFAD's financial support; others still require funding for their agriculture and food security projects; some prefer only technical assistance; and some seek policy advice. A number of MICs are interested in South-South cooperation and would like IFAD to help intermediate such cooperation. Given the constraints on funding for IFAD projects, the justification for using IFAD resources to continue funding projects in MICs has been raised by some IFAD Members.

II. Characteristics of middle-income countries

2. Middle-income countries are an extremely varied group, ranging from lower-income countries like Swaziland, to higher-income countries such as Turkey and the Bolivarian Republic of Venezuela. Some MICs are also fragile states (Libya and the Syrian Arab Republic). There is no commonly agreed definition of MICs and to some degree, the cut-off income points applied are arbitrary. The World Bank's classification is most commonly used, and is based on a country's gross national income (GNI) per capita. The World Bank subdivides MICs into two categories:
 - (a) Lower middle-income countries: with GNI per capita of US\$1,036 to US\$4,085 at 2012 prices;
 - (b) Upper middle-income countries: with GNI per capita of US\$4,086 to US\$12,615.
3. Because of rapid economic growth in many low-income countries (LICs), several have graduated to middle-income status. The total number of MICs increased from 85 countries in 1990 to 103 in 2013. However, 25 countries considered MICs fell to LIC status in the same period.
4. A total of 74 per cent of the world's very poor people (living on less than US\$1.25 per day) now live in MICs, mainly because growth in per capita income in large countries such as China, India, Indonesia, Nigeria and Pakistan has raised them to MIC status. However, a substantial number of people in these countries have not benefited from this growth and continue to live in poverty.
5. About 70 per cent of poor people in MICs live in rural areas and are directly or indirectly dependent on agriculture or agriculture-based industry and services for their livelihoods. Often these people live in relatively isolated regions cut off from infrastructure and belong to ethnic minorities. The livelihoods of the rural poor in MICs resemble closely those of rural poor people living in LICs.

III. IFAD's engagement with MICs

6. IFAD presented a middle-income country strategy to the Executive Board in 2011, which was supported by the Board.²⁸ This strategy has guided IFAD's work in MICs since then. The strategy was based on the finding that within the category of MICs, the poverty and agricultural situation and financing capacity of individual countries were highly diverse, requiring IFAD to adapt its inputs to each country's specific situation and needs, rather than follow a standardized MIC model. IFAD's Strategic Framework and policies are applied to all countries in which IFAD has operations, whether a MIC or LIC. The only variation is in lending terms, where for most MICs, IFAD's ordinary (near market) lending terms apply.
7. IFAD uses the World Bank definition of MICs, putting them in the category of IFAD borrowers that can only borrow on intermediate and ordinary (non-concessional)

²⁸ EB 2011/102/R.3/Rev.1.

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terms. In the 2004-2013 period, IFAD financed 129 new programmes in 38 MICs for a total commitment of US\$1.4 billion.

Table
IFAD financing to MICs (2004-2013): Intermediate/blend/hardened and ordinary terms
 (Thousands of United States dollars)

<i>Country</i>	<i>2012 GNI/capita (US\$)</i>	<i>Lending on intermediate/ blend/ hardened terms</i>	<i>Lending on ordinary terms</i>	<i>Total</i>	<i>Percentage of population below poverty line (US\$2.00/day)</i>	<i>Number of people in poverty (thousands)</i>
Albania	4 090	9 600	-	9 600	4.3	136
Argentina	9 851	-	47 155	47 155	1.9	781
Armenia	3 720	13 989	-	13 989	19.9	591
Azerbaijan	6 030	19 350	-	19 350	2.8	260
Belize	4 180	-	3 000	3 000	Not available	
Bolivia (Plurinational State of)	2 220	28 000	-	28 000	24.9	2 614
Bosnia and Herzegovina	4 650	24 622	-	24 622	0.2	8
Botswana	7 430	-	5 651	5 651	Not available	
Brazil	11 630	-	171 650	171 650	10.8	21455
China	5 680	62 345	184 503	246 848	27.2	367 389
Colombia	6 990	20 000	30 536	50 536	15.8	7 537
Costa Rica	8 740	-	-	-	6	288
Cuba	5 471	-	10 700	10 700	Not available	
Dominican Republic	5 470	-	27 800	27 800	9.9	1017
Ecuador	5 200	-	30 083	30 083	10.6	1642
Egypt	3 000	149 133	-	149 133	15.4	12 431
El Salvador	3 580	-	47 559	47 559	17	1071
Gabon	10 070	-	6 000	6 000	19.6	320
Georgia	3 280	13 700	-	13 700	35.6	1 599
Grenada	7 110	-	3 000	3 000	Not available	
Guatemala	3 140	17 000	18 423	35 423	26.3	3 967
Honduras	2 070	14 293	-	14 293	29.8	2 365
Indonesia	3 420	50 190	26 200	76 390	43.3	106 892
Jordan	4 720	11 777	-	11 777	1.6	101
Lebanon	9 190	-	9 406	9 406	Not available	
Mauritius	8 570	-	6 001	6 001	Not available	
Mexico	9 600	-	50 673	50 673	4.5	5438
Morocco	2 950	34 963	29 515	64 478	14	4 553
Panama	9 850	-	4 200	4 200	13.8	525
Paraguay	3 290	-	10 000	10 000	13.2	883
Peru	5 880	-	42 999	42 999	12.7	3808
Philippines	2 470	39 565	-	39 565	41.5	40 133
Seychelles	11 640	-	3 000	3 000	1.8	2
Swaziland	2 860	5 998	-	5 998	60.4	744
Syrian Arab Republic	2 734	27 997	-	27 997	16.9	3 785
Tunisia	4 150	-	36 343	36 343	4.3	463
Turkey	10 830	-	71 391	71 391	4.7	3478
Venezuela (Bolivarian Republic of)	12 500	-	20 000	20 000	12.9	3864
Total (38)		542 522	895 788	1 438 310		600 140

Sources: Project and Portfolio Management System
 Poverty figures based on latest data available from the World Bank, World Development Indicators (WDI) database, last updated 9 April 2014 (<http://datacatalog.worldbank.org/>).

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8. IFAD's MIC Member States have consistently reaffirmed the need for continued IFAD involvement in order to transform their rural sectors and overcome rural poverty. This need was reiterated recently in the IOE evaluation synthesis on IFAD's engagement in MICs. The evaluation found that IFAD's products are highly relevant to MICs and in demand by them.
9. IFAD's business model has demonstrated its effectiveness in MICs, with moderately satisfactory or better development impact achieved in about 80 per cent of IFAD-supported projects and programmes. However, project and programme performance in MICs is not superior to that of LICs, reflecting the similar conditions found in the poor regions of both MICs and LICs. The difference between LICs and MICs as a group is the ability of the latter to increasingly finance agricultural and rural development from domestic sources.
10. As reflected in recent client surveys, the MICs see value added in IFAD's efforts to help them address rural poverty, particularly given IFAD's experience in assisting rural poor communities in establishing viable farm and rural enterprises. IFAD is also recognized as willing to support programmes in difficult regions or areas, or in post-conflict situations.
11. An important aspect of the partnership that MICs have with IFAD is structured around financing and consists of the following relations:
 - (a) Reflows to IFAD from loans (on ordinary and blend terms) provided to MICs are projected to amount to US\$220 million in 2016-2018;
 - (b) MICs increasingly provide replenishment contributions (US\$73.7 million in 2013-2015);
 - (c) MICs use national public resources to fund their own rural development programmes, designed with support from IFAD. IFAD thus helps "steer" public resources towards the rural sector; and
 - (d) MICs receive financing from IFAD. Actual lending to MICs in 2013 amounted to US\$130 million and is projected at US\$507 million for 2014-2015. For 2016-2018, it is projected at US\$877 million²⁹ based on a programme of loans and grants (PoLG) of US\$3 billion.

IV. An updated approach to IFAD's engagement with MICs for IFAD10

12. During IFAD10, IFAD expects to continue with its demand-driven, country-based, approach, providing a menu of lending and knowledge products to borrowing and non-borrowing MICs. These include financial products, knowledge products and services, policy and advocacy services and products, support to national agricultural and rural development strategies, and South-South cooperation. Many MICs look to IFAD for innovative design and implementation modalities.
13. IFAD will introduce new products, including support to private-sector initiatives, to both MICs and LICs. The Fund will continue to expand knowledge services such as reimbursable technical assistance, policy advice, analysis, partnership development, and the facilitation of South-South cooperation. These services are available to all Member States, although they are more likely to initially appeal to MICs.

V. Differentiated services: Enhancing IFAD's financial products and services

14. IFAD will provide its Members with an appropriate range of financial products that combine knowledge and technical services. As IFAD explores financial products appropriate to MIC clients, it will seek complementarity with the financing offered by other multilateral entities. Where involvement with the private sector is

²⁹ Figure based on projections by the Financial Operations Department for the PoLG.

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essential, IFAD will work more closely with institutions such as the International Finance Corporation and the private-sector windows of the regional development banks.

15. IFAD will propose to expand its borrowing from sovereign sources to finance agriculture projects and programmes in MICs. This could permit IFAD to allocate more of its replenishment and reflow resources to LICs. Such an approach may require a change in the performance-based allocation system (PBAS). This topic will be discussed in a financial framework paper to be presented to the Executive Board in September 2014.
16. Other new financial products will be explored for use in IFAD10. These will be available to all IFAD borrowers, but of most relevance to MICs. They will include:
 - (a) **Currency options** including lending in a national currency with a variable spread or with a fixed rate over LIBOR;
 - (b) **New lending terms** that are in line with the World Bank's International Bank for Reconstruction and Development (IBRD) terms. This will make borrowing funds by IFAD for on-lending to MICs more viable;
 - (c) **Refinancing facilities** through governments but directed at medium-sized private-sector operations; and
 - (d) **Non-replenishment financing** from external resources such as that provided by the Spanish Food Security Cofinancing Facility Trust Fund, the European Commission and the World Bank-administered Global Agriculture and Food Security Program.

VI. Differentiated services: Enhancing IFAD's knowledge products and services

17. IFAD already has some knowledge products of importance and interest to MICs, which will be developed further during IFAD10. Products that will be offered to MICs include:
 - (a) **Policy and advocacy platforms.** IFAD supports its Members by sponsoring dialogue and brokering partnerships between diverse rural stakeholders and constituencies, both within and between countries.
 - (b) **Support to developing national agricultural/rural development strategies.** MICs are increasingly requesting sustained analytical support in subsectoral or thematic areas (targeting, gender, rural financing, etc.).
 - (c) **South-South cooperation.** IFAD will help transfer knowledge to local and regional institutions for greater learning, by facilitating learning routes, organizing study tours and employing experts from other southern countries. IFAD will also develop peer-to-peer collaboration and build local capacity.

VII. Graduation and financing

18. As MICs grow and develop their capacity to finance their own development, they eventually stop borrowing from international financial institutions voluntarily, and indeed this has happened in IFAD. Feedback from some Members indicates that the decision to stop borrowing from IFAD – or “graduation” – should be a voluntary choice of the government.
19. It is becoming clear that IFAD will need to revisit the threshold definition above at which point it launches a process and discussion with MICs about graduation. This does not mean that countries would graduate automatically, but once a country reaches the threshold, IFAD starts a discussion on the nature of the future relationship and engagement that IFAD will have with the country.

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20. IFAD's current MICs strategy provides that the threshold at which IFAD begins to discuss graduation is defined in a manner that is linked to IFAD's objectives and includes other factors, in addition to per capita GNI.³⁰ These include: the extent of rural poverty; rural income per capita; malnutrition; rural-urban income inequality and rural institutional capacity. These indicators would be weighted to form a composite picture of the country's continued need for IFAD assistance.
21. Following such an assessment, the nature of continued IFAD support, as agreed with the government, would be included in a COSOP presented to the Executive Board. If the government and IFAD find, after reviewing the country's situation, that IFAD lending is no longer needed, the COSOP would identify other services that IFAD might provide including services and differentiated products on a reimbursable basis and identification of non-replenishment financing sources.

VIII. Next steps

22. Management will take up the following issues and proposals with the Executive Board in 2015 for the Board's consideration and approval:
 - (a) IFAD to develop for each interested MIC a customized and differentiated menu of policy, project and financial support in response to the country's needs and within IFAD's mandate;
 - (b) IFAD to identify new financial sources (including borrowing) to help finance interventions in MICs;
 - (c) IFAD to deepen its knowledge-sharing and capacity-development support together with reimbursable technical assistance;
 - (d) IFAD to elaborate by the end of 2015 an approach to "graduation", along with an identification of possible sources of financing for MICs other than replenishment resources;
 - (e) IFAD to prepare a COSOP (or another strategic document) when a country and IFAD agree on graduation. This will define the services that IFAD could provide, including services for a fee, policy advice, resource mobilization from other sources and South-South cooperation; and
 - (f) IFAD to provide to the Executive Board an annual report on MICs, covering such issues as: use of financial instruments and services, the effectiveness of IFAD interventions in reducing rural poverty in MICs and progress of MICs towards graduation.

³⁰ The per capita income part of the threshold would be in line with the International Bank for Reconstruction and Development (IBRD) level, above which its graduation process is launched. Currently it stands at US\$7,115 (2013).