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Looking ahead: IFAD in the context of the 2030 Agenda for Sustainable Development

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Contents

Abbreviations and acronyms	ii
Executive summary	iii
I. Ending extreme rural poverty and food insecurity	1
A. Achieving Agenda 2030 in rural areas	1
B. Key challenges in rural areas for achieving Agenda 2030	2
C. Implementing Agenda 2030 in rural areas	5
II. Inclusive and sustainable rural transformation at the heart of Agenda 2030	5
A. Inclusivity and the changing rural landscape	5
B. Advancing key objectives in a transforming rural economy	7
III. IFAD's role in Agenda 2030	8
A. Required rural policies and investments for Agenda 2030	8
B. IFAD's value proposition and comparative advantage	9
IV. Looking ahead to IFAD11 and beyond	11
A. Resource mobilization	12
B. Resource allocation	14
C. Resource utilization	15
D. Transforming resources into results	16
V. Conclusion	16

Abbreviations and acronyms

AAAA	Addis Ababa Action Agenda
CPM	country programme manager
DEF	Development Effectiveness Framework
FAO	Food and Agriculture Organization of the United Nations
LIC	low-income country
LMIC	lower-middle-income country
ODA	official development assistance
PBAS	performance-based allocation system
PoLG	programme of loans and grants
PoW	programme of work
RDR	Rural Development Report 2016: Fostering Inclusive Rural Transformation
SAFIN	Smallholder Agriculture Finance and Investment Network
SBF	Sovereign Borrowing Framework
SDG	Sustainable Development Goal
SSA	sub-Saharan Africa
UMIC	upper-middle-income countries
WFP	World Food Programme

Executive summary

1. The 2030 Agenda for Sustainable Development (Agenda 2030) requires bold and transformative steps to shift the world onto a sustainable and resilient path. Central to the Sustainable Development Goals (SDGs) is the call to eradicate extreme poverty (SDG1) and to end food insecurity (SDG2). Yet, the number of people living in extreme poverty, at 836 million, and experiencing food insecurity, at 793 million, is still unacceptably high, particularly in rural areas where three quarters of extremely poor and food-insecure people reside. If current trends in extreme poverty and food insecurity continue, SDG1 and SDG2 will not be achieved in rural areas, which will also result in negative effects on a host of other SDGs. Unless efforts are stepped up, achieving SDG1 and SDG2 will be challenging, particularly for low-income countries (LICs) and lower-middle-income countries (LMICs).
2. Achieving the SDGs will entail tackling key challenges in rural areas. Special attention to nutrition must accompany efforts to improve other measures of well-being in order to avoid the triple burden of malnutrition: undernourishment, micronutrient deficiency and obesity. Policymakers must address the “youth bulge” by taking steps to enable young people to find productive and sustainable employment. The dearth of opportunities, combined with fragility issues, conflict and climatic changes are creating unbalanced migration patterns. For women, difficulty in accessing inputs is creating a gender productivity gap that influences overall productivity and the ability to achieve SDG5. Climatic changes are altering the agricultural landscape, and may result in greater poverty – and in extreme cases famine – for those relying on agriculture for their livelihoods. These issues need to be systematically addressed: failure to do so will undermine Agenda 2030.
3. To achieve the SDGs in rural areas, policies and investments must not only address these challenges, but also factor in the evolution of the rural landscape towards 2030. As articulated in IFAD’s Rural Development Report 2016: *Fostering Inclusive Rural Transformation (RDR)*, rural transformation happens as part of a broader process of economic growth and structural transformation that alters the role of agriculture and broadens rural investment opportunities. With rural transformation, agriculture shifts from being primarily a direct employer to a driver of rural manufacturing and rural employment. However, the evidence in the RDR shows that inclusive rural transformation does not happen automatically; it must be made to happen.
4. Promoting inclusive rural transformation means making the right strategic decisions in different country contexts. A range of general and targeted policies and investments are needed to foster transformation and to support the ambitious objectives of Agenda 2030. There must be recognition that the role of agriculture in the rural economy is evolving, that food systems are changing – with consequences for nutrition, that demographics are shifting, leading to a youth bulge, and that climatic changes are altering the agricultural landscape.
5. Achieving inclusive and sustainable rural transformation requires a combination of general and sectoral policies and investments along with two types of targeted interventions: (i) targeted actions to promote inclusion through productive activities; and (ii) complementary social protection policies and investments that address income poverty, economic shocks and social vulnerability.
6. IFAD’s comparative advantage lies in proactively targeting the extreme poor and food-insecure in rural areas, and placing these women and men at the centre of IFAD’s activities and investments, not only as key beneficiaries but as full partners. IFAD’s sectoral focus is solely on productive aspects of the rural economy, particularly agriculture. While other institutions clearly play a role in inclusive and sustainable rural transformation, they tend to focus on broader issues or have

distinct mandates. At the core of IFAD's value proposition is (i) the conviction that poor rural people can be drivers of inclusive and sustainable rural transformation and (ii) its capacity to work with governments and other partners to invest in empowering them to play this role.

7. Agenda 2030 creates a sense of urgency for the development community to re-examine current approaches. IFAD's targeting of the extreme poor and food-insecure and its people-centred approach are highly relevant to the SDGs; however, it must change the model that it has used in the past in order to meet the significant demand. IFAD must make critical choices with respect to resource mobilization, resource allocation, resource utilization and transformation of resources into results.
8. Resource mobilization. Historically, IFAD has relied on core contributions to fund its programme of loans and grants (PoLG) and to cover administrative expenses. This financial strategy has proved sufficient to date. However, in light of IFAD's catalytic role and the demand for its services, Management proposes that IFAD progressively double the size of its programme of work (PoW) from US\$6 billion to US\$12 billion, based on a PoLG increase of between 25 and 40 per cent. While this is an ambitious goal in that it requires adjustments to IFAD's business model, it is realistic based on an in-house analysis of demand and proposed adjustments to the business model. Key to achieving this PoW is resource mobilization, including the possibility of borrowing, expanding cofinancing and partnering with the private sector. IFAD has initiated borrowing and this has been formalized through the Sovereign Borrowing Framework. The next step is to integrate borrowing into IFAD's financial framework and planning, consider options for borrowing and, if demand for its services cannot be met by core resources, identify the necessary resources to respond to the needs of developing countries.
9. Resource allocation. IFAD makes decisions on resource allocation at a macro level, ensuring that resources flow to countries where the need is greatest and countries show a commitment to use the funds effectively, and at a micro level, ensuring that resources target the most poor and vulnerable. Two steps are involved at the macro level: (i) selection of countries to be considered for funding and their inclusion in the performance-based allocation system (PBAS); and (ii) identification of the amount available to each country using the PBAS formula. These two decisions are currently undergoing a review with clear proposals for IFAD11. In all scenarios, the PBAS approach ensures that allocations across income groups remain stable over time meaning that the competition for funds is within income groups (LICs, LMICs and UMICs) not across groups. As part of IFAD11, a transition framework will be developed to clarify the lending terms for IFAD resources. The corporate-level macro decision to allocate resources to countries is then accompanied by a micro level decision within a country that targets the extreme poor and food-insecure in rural areas.
10. Resource utilization. It is not enough for IFAD's investments merely to reach its target group; IFAD must spend its resources to produce results. IFAD recently approved a Development Effectiveness Framework (DEF), which is being fully implemented. Reforms are being introduced to enhance quality, stimulate innovation and seek evidence-based design, all through a fast and flexible process. During IFAD11, there will be a drive to expand synergies between lending and non-lending activities which will entail reinforcing the decentralization process and altering the role of country programme managers (CPMs): their focus will shift away from day-to-day implementation support and project due diligence and towards prioritizing strong design and greater engagement with clients.
11. Transforming resources into results. To foster a culture of results and to move IFAD from results measurement to results-based management, a series of actions are being taken under the DEF and associated activities. These include

strengthening the self-evaluation system, improving data collection systems to provide fast and timely information, supporting monitoring and evaluation capacity in the rural sector within borrowing Member States, and embracing the principle of proactive transparency and openness. This focus on transforming resources into results is at the foundation of IFAD's value for money.

12. Ending extreme rural poverty and food insecurity through inclusive and sustainable rural transformation calls for a range of actions from a host of players. IFAD's role will be critical. While IFAD's overall approach remains highly relevant, it must change its model to meet the demand created by Agenda 2030. Only through such a change can IFAD maximize the impact of each dollar it invests to improve the lives of rural poor people.

Looking ahead: IFAD in the context of the 2030 Agenda for Sustainable Development

I. Ending extreme rural poverty and food insecurity

A. Achieving Agenda 2030 in rural areas

1. The ambitious 2030 Agenda for Sustainable Development (Agenda 2030) is a plan of action for “people, planet and prosperity” that demands bold and transformative steps to shift the world onto a sustainable and resilient path. The Sustainable Development Goals (SDGs) reflect the scale of this agenda and call for the eradication of extreme poverty (SDG1), and the ending of hunger and malnutrition, achievement of food security and promotion of sustainable agriculture (SDG2). These goals are closely linked to achieving gender equality (SDG5), promoting decent work and economic growth (SDG8) and reducing inequality (SDG10). They cannot be achieved without action to address climate change (SDG13), careful management of resources including land (SDG15) and strong partnerships and an enabling international environment (SDG17).
2. Despite significant achievements to date, the number of people living in extreme poverty, at 836 million, and of those experiencing food insecurity, at 793 million, is still unacceptably high.¹ In all regions, rates of extreme poverty and food insecurity are higher in rural areas, where an estimated three quarters of the world’s extremely poor and food-insecure people reside. Despite the focus on rapid urbanization trends in international debates about addressing poverty and food insecurity, the task between now and 2030 is very much about addressing rural poverty and food insecurity.
3. If current trends continue, SDG1 and SDG2 will not be achieved in rural areas, which will have repercussions for a host of other SDGs. Figure 1 shows overall trends until 2030 in extreme rural poverty and undernourishment (a proxy for food insecurity) in the world.² The dashed purple (SDG1) and blue (SDG2) lines show the business-as-usual projections, while the dashed orange (SDG1) and red lines (SDG2) identify the trends necessary to achieve these two SDGs. The trends indicate 9.4 per cent of the rural population, or 240 million rural people, will remain in extreme poverty and 6.6 per cent of the population or 385 million people will continue to be undernourished. Therefore, on the basis of the current trends, the progress made will be only about half of what is needed to achieve these SDGs. Moreover, even sustaining these trends may prove difficult because improving the lives of the most marginalized and chronically poor and food-insecure will be exceptionally difficult.
4. For low-income countries (LICs) and lower-middle-income countries (LMICs), achieving SDG1 and SDG2 will be particularly challenging. Figure 2 provides a breakdown of projections for LICs (2a), LMICs (2b) and upper-middle-income countries (UMICs)(2c). The projections for LICs and LMICs show dramatic shortfalls in progress towards achieving the SDGs in rural areas. Following current trends, these two country groupings will only make about two thirds of the necessary progress to achieve SDG1 in rural areas. At current trends, around one in six of the rural population in LICs will be left in extreme poverty and one in eight will continue to be undernourished. In LMICs, 6.5 per cent of the rural population is still extremely poor and 5.6 are undernourished.

¹ Extreme poverty is reported at <http://www.un.org/sustainabledevelopment/poverty/> under SDG1. Food insecurity is reported in: Food and Agriculture Organization of the United Nations (FAO), *The State of Food Insecurity in the World: Meeting the 2015 International Hunger Targets: Taking Stock of Uneven Progress* (Rome: FAO, 2015).

² Disaggregated undernourishment is not available.

5. Only in UMICs do the trends for extreme rural poverty elimination come close to the target. However, when data for China are excluded from these trends (not shown), progress is slightly less, with 1.8 per cent of rural people currently living in extreme poverty. Similarly, undernourishment targets have not quite been reached, with 2.4 per cent of the population still undernourished. Of course, these trends reflect current levels of growth and inclusive policies and investments in UMICs and fail to recognize that improving the lives of the most marginalized groups and of those experiencing chronic poverty and food insecurity may prove more difficult than has been the case in the past. This suggests that continued support is needed to reach the SDGs in UMICs, but not necessarily substantially greater efforts. On the other hand, significantly greater efforts than those currently under way are clearly required for LICs and LMICs.
6. Without a strong concerted effort to reduce extreme poverty and improve food security across countries at different levels of development, SDG1 and SDG2 cannot be achieved. Using data available for key countries, figure 3 compares the rate of extreme poverty (vertical axis) by country income classification (horizontal axis). The bubbles represent the number of poor people in each country. While there are significant numbers of extreme poor in rural areas in UMICs and LICs, the majority are in LMICs, implying the need for concerted action in those countries. Similarly, figure 4 compares the prevalence of undernourishment by country income classification with the bubbles showing the number of undernourished by country. The figure demonstrates that even though food insecurity must be broadly addressed in all country categories, particular efforts in LMICs are crucial in order to achieve SDG2.

B. Key challenges in rural areas for achieving Agenda 2030

7. Achieving SDG2 is particularly challenging in that it not only seeks to end hunger (proxied by undernourishment), but all forms of malnutrition. Undernourishment is often accompanied by widespread micronutrient deficiency (not enough vitamins and minerals), and overnourishment leading to obesity. These three issues are referred to collectively as the triple burden of malnutrition. Increasing the availability of macronutrients (calories and protein) to address undernourishment can come at the expense of micronutrients if staples are nutrient-poor, and lead to obesity for some segments of the population.³ Furthermore, a 10 per cent growth in GDP per capita has been shown to significantly reduce stunting (by 5.9 per cent) and prevalence of underweight in children (by 7 per cent) – which are common measures of nutrition – but also to increase the prevalence of obesity (by 7 per cent).⁴ Ensuring that nutritional objectives accompany improvements in other measures of well-being is a particular challenge in achieving SDG2 targets and thus requires special action.
8. While the numbers of extremely poor and food-insecure rural people indicate a global problem, the challenges in sub-Saharan Africa (SSA) require particular attention. The vertical axes of figures 3 and 4 show the proportion of extreme rural poverty and undernourishment, respectively, based on headcount measures. Not only are SSA countries more likely to be classified at lower income levels (LICs and bottom range of LMICs), the percentages of the population living in extreme rural poverty and experiencing undernourishment are much higher. Concerted and targeted efforts are required for this region to achieve the SDGs.
9. Demographic conditions in SSA make the situation exceptionally difficult. Figure 5 presents the population pyramid of 48 SSA countries for 2015 broken down by sex

³ See: M. I. Gómez, C. B. Barrett, T. Raney, P. Pinstrip-Andersen, J. Meerman, A. Croppenstedt, B. Carisma and B. Thompson, *Post-Green Revolution Food Systems and the Triple Burden of Malnutrition*, *Food Policy*, 2013, (42)129-138.

⁴ See: M. T. Ruel, H. Alderman and Maternal and Child Nutrition Study Group. *Nutrition-sensitive Interventions and Programmes: How Can They Help to Accelerate Progress in Improving Maternal and Child Nutrition?* *The Lancet*, 2013, 382(9891), 536-551.

and rural-urban classification. A striking feature is the large share of the SSA population composed of people under 25. South and East Asian countries also have high populations of young people, but projections indicate that these regions will eventually be surpassed by SSA.⁵

10. While the availability of young labour can eventually create a demographic dividend, it is challenging for policymakers to take steps to effectively absorb young people into productive and sustainable employment. The International Labour Organization (ILO) estimates that four in 10 young people in East Asia and the Pacific, about half the young people in South Asia, and 70 per cent of those in the Middle East do not participate in the labour force. While globally speaking, SSA does not stand out in standard measures of unemployment, a number of countries in southern Africa have very high rates. Across developing countries, young people are two or three times more likely than adults to be unemployed.⁶ Other than a lost resource to the growth potential of the economy, in some circumstances unemployed youth can cause other social ills including contributing to criminality and fragility within a country.⁷
11. Migration also presents a particular challenge for rural areas as well as potential opportunities. Figure 5 highlights demographic differences between rural and urban areas of SSA. Rural areas have more young and old men and women (see blue bars), and urban areas have more men and women of working age (pink bars) thereby creating a higher dependency ratio in rural areas. Young men are also leaving rural areas in greater numbers than women, leading to skewed sex ratios in rural and urban areas and a feminization of agriculture. Migration can provide remittances that are a valuable resource for maintaining the livelihoods of rural households and, in the right conditions, for investment. At the same time, however, migration often represents a loss of highly productive labour.
12. The feminization of agriculture is particularly problematic. Studies consistently find that women have significantly less access to agricultural inputs. This creates a gender productivity gap that has consequences for overall productivity as well as gender inequality.⁸ When working age men are present, access to resources is often skewed towards them leaving women with lower productivity in agriculture and relatively less income. This can diminish women's bargaining power in the household and divert spending away from investments in children's schooling, health and nutrition.
13. While outmigration is a normal part of the structural and rural transformation of developing countries, SSA has been experiencing urbanization without industrialization. This unusual phenomenon suggests that migration is not predominantly driven by increasing opportunities in urban areas, but rather by the lack of opportunities in rural areas: in many African countries, more than 50 per cent of rural households report having at least one internal migrant. The lack of opportunity also induces international migration, particularly among the young; one third of international migrants are 15-34 years old. The fact that 40 per cent of international remittances go to rural areas suggests that a large portion of the 244 million international migrants are from rural areas.⁹ The lack of opportunities in rural areas is creating an unbalanced migration pattern.

⁵ See: D. Filmer and L. Fox, *Youth Employment in Sub-Saharan Africa, Africa Development Series* (World Bank, 2014), retrieved from <http://elibrary.worldbank.org/doi/book/10.1596/978-1-4648-0107-5>.

⁶ Information gathered from the manuscript *Rural Youth Employment* prepared jointly by World Bank and IFAD at the request of Germany as an input to G20 discussions.

⁷ See: World Bank, *World Development Report 2011: Conflict, Security, and Development* (Washington, D.C.: World Bank, 2011).

⁸ See: A. Peterman, J. Behrman, and A. Quisumbing, *A Review of Empirical Evidence on Gender Differences in Non-land Agricultural Inputs, Technology, and Services in Developing Countries*, In: *Gender in Agriculture* (Dordrecht: Springer Netherlands), 145-186.

⁹ Information on migration gathered from: FAO, *Migration, Agriculture and Rural Development: Addressing the Root Causes of Migration and Harnessing its Potential for Development* (Rome: FAO, 2016).

14. Much of the outmigration from rural areas is distress migration, reflecting not just a lack of productive opportunity, but situations of fragility, conflict and climatic changes. In 2015, 65.3 million people around the world were forcibly displaced by conflict and persecution. In 2014, more than 19 million people were internally displaced because of natural disasters. These movements of people create development challenges both in the areas they have left, which requires rebuilding and re-establishing institutions, and in the areas where they arrive, which often must accommodate the migrants with more than just handouts to address short-term needs. While international efforts have improved the predictability of such disasters, including the ongoing famine in SSA and Yemen, reactions often focus on the short-term. Investments in long-term solutions to avoid such crises have been limited, thereby creating the conditions for famine and the resulting distress migration.
15. Climatic changes also alter the agricultural landscape bringing a host of challenges that complicate efforts to achieve the SDGs. A recent analysis by the World Bank¹⁰ examines the impact on extreme poverty of climate change by considering four scenarios: (i) prosperity (high growth) and low climatic effects; (ii) prosperity and high climatic effects; (iii) poverty (low growth) and low climatic effects; and (iv) poverty and high climatic effects. Figure 6 displays the results. The impact of climate change in the most optimistic scenario (prosperity and low climatic effects) is 5 million additional poor people (beyond business-as-usual) and in the least optimistic scenario (poverty and high climatic effects) 125 million additional poor people. While the reality is likely to fall somewhere between these two scenarios, a clear conclusion from the study is that the primary driver of increased extreme poverty in all climate change scenarios is the negative consequences of changing climate patterns on agriculture. In summary, climate change will increase poverty primarily through its effects on agriculture.
16. As the data presented in this section highlight, ending rural poverty (SDG1) and food insecurity (SDG2) by 2030 will not happen without a concerted effort to expand and target policies and interventions in LICs and LMICs. Nor will it happen without continued action in UMICs to avoid the "middle income trap"¹¹ and ensure an improvement in the lives of the most marginalized and chronically poor and food-insecure. The data also highlight several key issues that need to be consciously addressed. Failure to consider these could undermine Agenda 2030.
- First, strong efforts are needed to address nutrition, as income gains alone are insufficient to deliver positive nutritional impact and, in fact, can lead to obesity and associated health issues.
 - Second, the youth bulge presents a particular challenge that requires targeted actions to derive a dividend from the growing population of working age rather than a social cost. Such focused efforts would also help avoid the unbalanced migration currently under way in a number of countries which is a result of lacking opportunities and distress rather than a natural by-product of the development processes.
 - Third, gender inequities limit both productive potential and the ability to achieve the SDGs. Significantly, SDG5 is linked not only to gender equality but also to myriad other goals because leaving half the population behind makes achievement of the SDGs impossible.
 - Finally, climate change requires that policies and investments plan for continued changes in weather patterns and the building of resilience to adapt

¹⁰ S. Hallegatte, M. Bangalore, L. Bonzanigo, M. Fay, T. Kane, U. Narloch, J. Rozenberg, D. Treguer and A. Vogt-Schilb, *Shock Waves: Managing the Impacts of Climate Change on Poverty* (Washington, D.C.: World Bank, 2016).

¹¹The middle income trap refers to a situation where a country attains a certain income as a result of comparative advantage but gets stuck at that level when that comparative advantage is lost as wages rise and is unable to adapt to changing conditions.

to those changes. Given the role of agriculture in greenhouse gas emissions, ways to mitigate those emissions must be found, while simultaneously improving the livelihoods of the rural poor. Further, to address famines, short-term responses are needed along with long-term measures to build resilience and provide opportunities in rural areas to avoid outmigration.

C. Implementing Agenda 2030 in rural areas

17. Agenda 2030 lays out a number of "means of implementation" targets for SDG1 and SDG2, but implementing these (as well as the broader 2030 Agenda) requires a comprehensive and coherent set of actions. As is well recognized, realizing the SDGs is both a universal and a multistakeholder undertaking. It requires enabling policy frameworks and policy coherence, institutional capacity, effective and inclusive partnerships, and new and sound knowledge (including data) in a range of areas. In this context, mobilizing more financial resources, better targeting and leveraging of existing resources, and aligning public and private, international and domestic finance towards sustainable development are challenges of critical importance.
18. While the data suggest that business-as-usual is insufficient to achieve SDG1 and SDG2, determining the precise financing needs for agriculture and rural development is difficult. Estimates indicate substantial investments are required in agriculture if the sector is to meet the aspirations of Agenda 2030 related to food security and hunger, employment, climate change and environmental sustainability.¹² As highlighted in the Addis Ababa Action Agenda (AAAA), much of this investment should come from domestic public investment and the private sector, including farmers, with official development assistance (ODA) facilitating and complementing domestic public spending and private investment.
19. A report by the Brookings Institution notes that of the estimated US\$208 billion available globally for food and nutrition security each year, around 85 per cent comes from domestic resources and 8 per cent from ODA and other overseas flows. ODA allocated to food and nutrition security is concentrated in SSA, playing only a minor role in other regions. In fact in 17 countries – 12 of them in SSA – ODA makes up at least half of the resources available for food security and nutrition.¹³
20. The continued importance of ODA for agriculture and rural development and its unique role in development finance is well recognized owing to reasons of targeting, capacity to bear risks and losses, co-investment in key public goods, and so forth. However, better targeting and more catalytic use of ODA, and better harmonization between climate and development finance, are all critical to enable it to deliver more, and better, impact in the context of the financing mix required to achieve SDG1, SDG2 and Agenda 2030 overall.

II. Inclusive and sustainable rural transformation at the heart of Agenda 2030

A. Inclusivity and the changing rural landscape

21. Achieving the SDGs in rural areas requires policies and investments that factor in the evolution of the rural landscape towards 2030. IFAD's Rural Development

¹² For example: G. Schmidt-Traub and J. D. Sachs: *Financing Sustainable Development: Implementing the SDGs through Effective Investment Strategies and Partnerships* (Sustainable Development Solutions Network, 2015) estimates incremental investment needs of US\$210 billion per year for agriculture and US\$38 billion per year for food security to achieve the SDGs. Similarly, according to: FAO, IFAD and WFP, *Achieving Zero Hunger: the Critical Role of Investments in Social Protection and Agriculture* (Rome: FAO, 2015), to end hunger by 2030 "additional resources amounting to an annual average of US\$265 billion per year during 2016-30 – i.e. 0.3 per cent of the average projected world income for that period, are required to fund both additional investment in social protection and additional targeted pro-poor investments in productive activities, of which rural areas would receive US\$181 billion annually" (p. iv).

¹³ See: H. Kharas, J. McArthur, G. Gertz, S. Mowlds and L. Noe, *Ending Rural Hunger: Mapping Needs and Actions for Food and Nutrition Security* (Washington, D.C.: Brookings Institution, 2015).

- Report 2016: Fostering Inclusive Rural Transformation¹⁴ (RDR) uses data from 60 developing countries in five developing regions over 20 years (1995-2015) to understand the common pathways of structural and rural transformation, the consequences of rural transformation for poverty reduction and inclusion, and the action that can be taken to promote rural transformation as an inclusive process.
22. Rural transformation happens as part of a broader process of structural transformation that is altering the role of agriculture and broadening rural investment opportunities. This is illustrated in figure 7a. Using 20 years of data from 60 developing countries, the figure shows that with economic growth, services and industry become a relatively larger part of the economy compared to agriculture. Since food demand significantly expands and changes as countries urbanize, agricultural growth is absolutely critical. But growth is relatively greater in services and industry than in agriculture, thereby increasing the relative share of these sectors in the economy.
 23. In this process, agricultural processing industries, and industries and services linked to agriculture (e.g. inputs, transport, and financial services) gain importance, making agriculture a driver of rural economic growth. Figure 7b shows that, as agriculture's relative share in the economy declines (right axis and trend line in figure), agricultural industry expands (left axis and bars in figure). In fact, the RDR analyses nine African countries and finds that agroindustry accounts for one fifth to over one half of the manufacturing value added in those countries. Figure 7c shows another outcome of this transformation: that rural non-farm income becomes increasingly important. As seen in the figure, the most recent data indicate that rural non-farm incomes represent from over a third to a half of income in rural areas, much of it linked to agriculture.¹⁵ With rural transformation, agriculture shifts from being a direct employer to a driver of rural manufacturing and rural employment.
 24. While structural and rural transformation are anticipated outcomes of economic growth, inclusive rural transformation does not happen automatically; it must be made to happen. As noted above, the RDR analyses the consequences of structural and rural transformation for rural poverty reduction. Figure 8 summarizes the results. Of the 60 countries analysed, 39 have experienced rapid structural transformation and 19 have also experienced rapid rural transformation. But for 30 per cent of the countries, fast transformation processes have not guaranteed fast poverty reduction. Of those with a mixed experience of structural and rural transformation, poverty reduction varies and is least likely without rural transformation. Poverty reduction is more likely with transformation but is not guaranteed.
 25. Promoting inclusive rural transformation therefore means making the right strategic decisions in different country contexts. Depending on the state of the economy, different sets of actions should be taken. Countries that are transforming quickly and in an inclusive manner must continuously adapt to emerging challenges to ensure continued progress. Countries that are growing and transforming, but failing to include the poor and marginalized, must invest to amplify the benefits of growth and transformation in order to be inclusive. The few countries with limited transformation but fast rural poverty reduction must accelerate the pace of growth and transformation or run the risk of falling behind. Countries that are not moving forward in transforming their economies or including the poor must both amplify and accelerate. With a clear understanding of the state of the economy, context-specific policy reforms, institutional innovations and investments can be undertaken.

¹⁴ https://www.ifad.org/documents/30600024/30604583/RDR_WEB.pdf/c734d0c4-fbb1-4507-9b4b-6c432c6f38c3

¹⁵ See: S. Haggblade, P.B. Hazell and T. Reardon (Eds.), *Transforming the Rural Nonfarm Economy: Opportunities and Threats in the Developing World* (Washington, D.C.: International Food Policy Research Institute, 2007).

26. Rural transformation clearly requires vibrant investment from the private sector, including farmers, and technological advancement. Private sector investment is impeded by a rural business environment hobbled by, for example, a lack of basic infrastructure, inadequate credit and insurance markets and limited property rights. Along with traditional agricultural technologies, advancements must incorporate appropriate information and communications technologies (ICTs). The rapidly expanding array of ICTs opens up new opportunities to remedy the asymmetry of information between buyers and sellers of agricultural commodities, enhance yields, improve quality, reduce post-harvest losses, remove intermediaries and disseminate knowledge about best practices. Strategic decisions to promote inclusive and sustainable rural transformation must leverage private sector investment and create opportunities using appropriate ICTs.
- B. Advancing key objectives in a transforming rural economy**
27. The right strategic decisions are needed to ensure not only that transformation is inclusive but also that key objectives are met, including those linked to nutrition. Structural and rural transformation are generally accompanied by income gains and changing food systems as urbanization occurs. But, as noted in the discussion of the triple burden of malnutrition, income gains do not necessarily translate into nutritional gains because the choices that people make given the availability and pricing of food do not always result in desirable nutritional outcomes. To address this, in recent years there has been a shift in focus from nutrition-sensitive agriculture to nutrition-sensitive food systems. With urbanization and market globalization, diversifying production to meet nutritional goals is critical, but not enough in itself. All stages of the food chain must change. Choices must be made to ensure that production and the food system provide safe, affordable and nutritious food.¹⁶
28. In terms of Agenda 2030, policy and investment choices must recognize the changing demographic structure of countries, particularly in rural areas. A key feature of the early stages of demographic transition is the youth bulge (figure 5). Eventually birth and death rates decline and the population pyramid alters so that the majority of the population is of working age. This transition is critical. If youth can enter into productive and sustainable employment in both rural and urban areas, and migration is balanced because opportunities are available in both areas, the increasing working age population can provide a demographic dividend, i.e. accelerated economic growth resulting from a decline in birth and death rates and the subsequent change in the age structure. If, however, productive opportunities for young people do not materialize, overall transformation can stall and a host of social ills can emerge. Failing to engage youth, particularly in agriculture, can stifle the productivity increases needed to achieve the SDGs, including the doubling of agricultural productivity under SDG2. Recognizing this demographic transition and acknowledging that balanced urbanization is a by-product of transformation are critical to designing rural development programmes.
29. Along with specific attention to young people, gender issues must also be addressed, particularly in rural areas. Doubling agricultural productivity requires all resources to be used efficiently, including those managed by women. The constraints on women's access to resources limit agricultural potential and hamper the transformation of the rural economy. The inclusion of women in rural transformation facilitates that very transformation.
30. Of course, inclusive transformation can only occur if it is sustainable, which is not possible without recognizing the changes occurring in climatic conditions around the world and the need to better manage resources. Transforming rural areas and making agriculture a driver of rural development can only happen if agriculture is

¹⁶ See: Consultative Group on International Agricultural Research (CGIAR) Independent Science and Partnership Council (ISPC), *Joint A4NH/ISPC Workshop on Nutrition – Insights and Recommendations* (Rome: CGIAR, 2015).

climate-smart, i.e. that agriculture sustainably increases agricultural productivity, enhances resilience to climate change (adaptation) and reduces and/or removes greenhouse gas emissions (mitigation) where possible. Climate-smart agriculture requires actions that transform and reorient agricultural systems to effectively support development and ensure food security in a changing climate.¹⁷ Sustainability is also linked to the ability to manage resources and avoid risks, including those linked to rainfall. Yet, in SSA only 4 per cent of arable land is irrigated, compared to 10 per cent, 29 per cent and 41 per cent for Latin America, East and South-East Asia, and South Asia respectively.¹⁸ Agricultural potential cannot be reached without careful management of natural resources. Transformation must be both sustainable and inclusive.

31. While the current severe famines in SSA and Yemen stem from multiple factors, they are linked to the vulnerability of rural households. An improved resource base helps build resilience but a series of other actions to mitigate risk, particularly in agriculture, can also be taken. Short-term responses to famines are needed to restore farming systems, but so are long-term solutions that build resilience. Greater resilience prevents households from regressing back to worse conditions, allows them to remain in rural areas and permits rural economies to continue to move forward and transform.
32. While a range of policies and investments are needed to foster broad transformation, supporting the objectives of Agenda 2030 – SDG1 and SDG2 and also SDGs 5, 8, 10, 13 and 15 – is not simply about targeting policies and interventions at the right groups. It is about recognizing the changing role of agriculture in the rural economy, the shifting demographics, and the effects of changing climatic conditions. It is then a question of identifying interventions that are inclusive and allow extremely poor and food-insecure rural people to benefit from the transforming rural economy.

III. IFAD's role in Agenda 2030

- A. Required rural policies and investments for Agenda 2030
33. Achieving inclusive rural transformation requires a combination of general and sectoral policies and investments, and targeted interventions that reach the extreme poor and food-insecure. Broad-based economic growth helps end extreme poverty and food insecurity by providing opportunities to increase income and improve food access. Policies and investments that promote such growth allow the overall economy and rural economy to advance and transform.
34. In the agricultural sector and rural economy, specific policies and investment are required. To end hunger, the Brookings Institution¹⁹ notes the need for agricultural policies and investments that (i) integrate food and agriculture markets, nationally and globally, (ii) manage sustainable and resilient agricultural intensification and manage agroecological changes, (iii) deliver new advances in location- and crop-specific research, technology and extension services, and (iv) transform family farms from subsistence enterprises into competitive small businesses. The first three actions broadly help increase agricultural productivity and expand agricultural production thereby promoting the sustainable transformation of the rural economy and providing food for both rural and urban populations. The fourth action allows for the inclusion of extremely poor and food-insecure rural people in the transformation of the rural economy.
35. Along with broad-based and sectoral interventions, two types of targeted policies and investments are required for inclusion. The first of these promotes inclusion

¹⁷ See: <http://www.fao.org/climate-smart-agriculture/en/>.

¹⁸ See chapter 2.1 in: World Economic Forum, *Africa Competitiveness Report 2015* (Geneva: World Economic Forum, 2015).

¹⁹ See chapter IV in: Kharas, et al., *Ending Rural Hunger*.

through productive activities, such as those articulated in Brookings' fourth action of transforming family farms. These policies and investments seek a productive pathway towards improving the livelihoods of the rural poor and food-insecure. The second, complementary, set includes social protection policies and investments that seek to address income poverty, economic shocks and social vulnerability through income or in-kind support and programmes designed to increase access to services (such as health, education and nutrition).²⁰ Governments and their partners must decide on the right combination of rural development policies and investments at the general and sectoral level as well as the best combination of targeted productive and social protection actions.

36. The AAAA rightly highlights that much of the required investment for rural development must come from domestic public investment and the private sector, including farmers. ODA should facilitate and complement domestic public spending and private investment, reinforcing their link to the achievement of the SDGs. ODA and the international development community play different roles in this process depending on their relative comparative advantage and strategic priorities.

B. IFAD's value proposition and comparative advantage

37. As a United Nations specialized agency, with the business model and governance structure of an international financial institution, IFAD contributes to Agenda 2030 and the AAAA by mobilizing, packaging, and delivering public finance for development, bringing together ODA and domestic private finance to create productive, human, and social capital and facilitate access to financial capital – including private capital. It helps target domestic and international public development finance, align the two in the context of specific programmes, leverage other sources of finance and catalyse private investments towards sustainable development objectives. It also helps strengthen domestic resource mobilization by boosting rural economic activities and incomes.
38. Most importantly, and uniquely among development finance institutions, IFAD places poor rural women and men at the centre of its activities and investments, not only as key beneficiaries but as full partners. It seeks to reach those living in the most remote and fragile areas and support the most marginalized, migration-prone population strata. Its investment portfolio is focused on empowering these women and men to strengthen their productivity, increase their incomes, improve their food security and nutrition, engage with markets and with other actors within agrifood supply chains on effective and competitive terms, manage their natural resources more effectively and sustainably, and increase their resilience. At the core of IFAD's value proposition is the conviction that poor rural people can be drivers of inclusive and sustainable rural transformation, and its capacity to work with governments and other partners to invest in empowering them to play this role.
39. IFAD has accumulated 40 years of experience across five regions, contributing to shaping people-centred, pro-poor national policies, providing loans and grants, and developing partnerships to achieve its mandate. IFAD contributes to all four actions noted in the Brookings Institution paper. The first three actions are critical because agriculture is a potential driver of overall economic growth and is the primary contributor to rural development, therefore any investment in agriculture, including those targeting the rural poor, contributes to the broader economy. But IFAD's comparative advantage lies in the fourth action: proactively targeting the extreme rural poor and food-insecure and empowering them to transform their livelihood strategies into competitive small-scale activities in the agricultural and non-farm sectors.

²⁰ See UNICEF: https://www.unicef.org/socialpolicy/index_socialprotection.html.

40. IFAD's comparative advantage therefore lies in its strong targeting of smallholder farmers, pastoralists, artisanal fishers and other rural people and its focus on increasing rural poor people's productive capacities, enhancing their returns from market participation, and building their resilience to cope with climatic and other shocks. The focus on a productive pathway to achieving Agenda 2030 goals as part of the economic and social transformation of rural areas is distinct from and complements the social protection policies and investment described above. Both approaches are critical to achieving the goals, but IFAD's sectoral focus is solely on productive aspects of the rural economy with an emphasis on agriculture.
41. While other institutions clearly play a role in inclusive and sustainable rural transformation, they tend to focus on broader issues or have distinct mandates. The Brookings Institution provides an estimate (table 1) of the annual average financing going to food and nutrition security for the years 2009-2013.²¹ IFAD is second only to the World Bank in funding in the area of food security and nutrition, but it uses funding differently from others. For example, the African Development Bank (AfDB) Strategy 2013-2022 includes agriculture and food security as one of three areas of "special emphasis", but focuses its efforts primarily on infrastructure investment (such as rural roads, irrigation, electricity, storage facilities, access to markets, conservation systems and supply networks). The strategy explicitly notes the need for AfDB to partner with IFAD (and the Food and Agriculture Organization of the United Nations [FAO]) who are "better positioned to intervene in other parts of the value chain."²² As another example, while the World Bank's overall strategy says little about agriculture, its recently published paper on public sector priorities focuses on actions to enhance agricultural productivity, including bolstering technology transfer, investing in land governance, strengthening extension, and improving post-harvest practices and market access.²³ Of course, these sector-level investments by other multilateral institutions are critical components of an overall strategy of advancing the agricultural sector and reaching the SDGs, including the goal to double agricultural productivity. Yet, they differ from IFAD's targeted and people-centered approach.
42. While FAO and the World Food Programme (WFP) also share the goals of addressing extreme poverty and food insecurity in rural areas, their mandates differ from, but complement IFAD's. IFAD facilitates financing and investment, with a focus on investing with and for smallholder farmers, poor rural women and men. FAO achieves these goals through a different set of core functions concerned with policy support, data collection and technical assistance.²⁴ WFP focuses on humanitarian crises and linked development-enabling work.²⁵ These distinct, but complementary mandates, strengthen IFAD's individual value proposition, as evidenced by the many instances of collaboration on the ground and at the strategic level between these Rome-based agencies in recent years.
43. IFAD's particular role is formalized in its "Strategic Framework 2016-2025: Enabling inclusive and sustainable rural transformation". The overarching development goal articulated in the framework is to invest in rural people to enable them to overcome poverty and achieve food security through remunerative, sustainable and resilient livelihoods. The goal is closely linked to Agenda 2030. To help achieve the Agenda's goals, the Strategic Framework recognizes that IFAD needs to work in a way that is bigger, better and smarter: bigger by mobilizing more funds and resources for investment in rural areas to match the demand for its services; better by strengthening the quality of IFAD's country programmes

²¹ See table 6.1 in: Kharas, et al., *Ending Rural Hunger*.

²² See: AfDB, *At the Center of Africa's Transformation – At the Center of Africa's Transformation* (Abidjan: AfDB, 2013), p. 20.

²³ A. Goyal and J. Nash, *Reaping Richer Returns: Public Spending Priorities for African Agriculture Productivity Growth* (Washington, D.C.: World Bank, 2017).

²⁴ See core functions in: FAO, *Reviewed Strategic Framework* (Rome: FAO, 2013), p. 20.

²⁵ See: *WFP Strategic Plan (2017-2021)* (Rome: WFP, 2016).

through innovation, knowledge-sharing, partnerships and policy engagement; and smarter by delivering development results in a cost-effective way that best responds to partner countries' evolving needs.

44. The pathway through which IFAD's investments will achieve this overall goal is carefully articulated in the framework through three specific and closely interlinked strategic objectives (SOs): SO1: Increase poor rural people's productive capacities; SO2: Increase poor rural people's benefits from market participation; and SO3: Strengthen the environmental sustainability and climate resilience of poor rural people's economic activities.
45. To ensure that it is working to achieve these objectives in the best manner possible and that benefits reach the right people, IFAD will adhere to the five principles of engagement set forth in the Strategic Framework: (i) target investments towards poor rural people, notably people from marginalized groups such as women, indigenous peoples and young people; (ii) empower rural people by building the capacity of grass-roots organizations, or foster their establishment where they are non-existent, to enable its target group to attain secure access to services and build their skills and knowledge to take advantage of new economic opportunities; (iii) promote gender equality, in which IFAD seeks to move beyond just targeting women, but to foster economic empowerment that enables rural women and men to have an equal opportunity to participate in, and benefit from, the activities that IFAD finances; (iv) promote innovation, learning and scaling up through innovative projects, and systematically learning from those projects through results measurement including impact assessment, and supporting countries to broaden successful pro-poor rural development models by widening their geographical coverage and reaching larger numbers of people; and (v) promote partnerships, as these are critical for creating synergies between IFAD and other sources of finance, knowledge and expertise and for creating more enabling environments for poor people in rural areas to build their pathways out of poverty.
46. Ending extreme rural poverty and food insecurity in a rural context that is transforming, or needs the impetus to transform, requires a range of policies and investments, and thus multiple actors. Among those actors, and in partnership with them, IFAD plays a key role in facilitating inclusive rural transformation through careful targeting and a people-centred approach. In exercising its comparative advantage, IFAD is also cognizant of key issues such as the complexities of promoting better nutrition, the need to provide productive opportunities to youth, the importance of overcoming gender barriers, and the complications created by climate change. While IFAD's role is clear, the operationalization of that role is fraught with challenges and requires careful planning and looking ahead.

IV. Looking ahead to IFAD11 and beyond

47. Agenda 2030 creates a sense of urgency that requires governments and the development community to reflect carefully and systematically on current approaches. Accordingly, IFAD recognizes that it must reassess its business model. Its targeting of extremely poor and food-insecure rural people and its people-centered approach remain highly relevant to contributing to the SDGs; however, it must change the model that it has used in the past to meet the significant demands of Agenda 2030.
48. The previous sections of this paper show that ending extreme rural poverty and food insecurity by 2030 will not occur without a concerted effort, that inclusive and sustainable rural transformation must be made to happen through selective policies and investments, and that IFAD has an important role to play in these efforts given its comparative advantage. This section presents an overview of the critical choices IFAD must make with respect to mobilizing resources, allocating resources, utilizing resources and transforming resources into results.

49. The details of these choices are provided in the following papers: (i) "Enhancing IFAD11 business model to deliver impact at scale", which explains how IFAD proposes to enhance its business model; (ii) "Enhancing the relevance of IFAD operations to country context" which describes how IFAD will differentiate its products in countries at different levels of development (LICs, LMICs and UMICs), with fragile situations and in Small Island Developing States, complementing the "Tailoring operations to country context – a holistic approach" paper reviewed by the Executive Board in 2017; (iii) "Financial strategy for IFAD11 and beyond" which discusses IFAD's evolving financial strategy; (iv) "Mainstreaming nutrition, gender and climate", which reports on corporate commitments to mainstream these core priorities; and (v) "Leveraging partnerships: Private sector, South-South and Triangular Cooperation and development partners" which discusses corporate-level and country-driven partnerships. The first three papers are being presented at the second session of the IFAD11 Consultation, along with this paper. The latter two will be discussed at the third session in October, along with the document "Financial Framework and Financial Scenarios for IFAD11". Overall, these papers will form IFAD's theory of change for IFAD11 which will be embodied in the Results Measurement Framework for IFAD11.

A. Resource mobilization

50. Since its inception, IFAD has been funded by core contributions from Member States in the form of grant money and by internal resources (mainly loan reflows and investment income). These financial resources have funded its programme of loans and grants (PoLG) and its administrative expenses. The loans are provided to countries on concessional, blend and ordinary terms according to the capacity of governments to repay, as determined by their level of economic development. These resources are complemented by various forms of cofinancing to create a larger programme of work (PoW). IFAD systematically seeks to scale up projects that are determined successful in generating the expected results, through its own or other resources.
51. Historically this financial strategy has proved sufficient; however, as seen in figures 1 and 2, without stronger efforts SDG1 and SDG2 will not be achieved. IFAD's role must expand as it continues to grow as an assembler of development finance as well as a direct lender. Through IFAD's catalytic role, Management proposes that the size of the PoW be gradually doubled – from US\$6 billion to US\$12 billion – based on a PoLG increase of between 25 and 40 per cent. This significant acceleration will enable IFAD to meet the demand for its services and is required to ensure progress in meeting the SDGs. Key to achieving this PoW is resource mobilization, including the possibility of borrowing, expanding cofinancing and partnering with the private sector. While this is an ambitious goal in that it requires adjustments to IFAD's business model, it is a realistic one as in-house analysis shows that the demand for IFAD financing and non-lending services is growing.
52. As shown in figures 3 and 4, the extreme poor and food-insecure live in rural areas across a range of countries including LICs, LMICs and UMICs. The recent progress made by a number of countries has altered their capacity to fund their own contributions to the SDGs. This opens up the possibility of altering, in turn, IFAD's terms of lending, sources of funding and ability to cofinance.
53. Recognizing the significant and changing demand for IFAD support, the new capacity of recipient Member States to borrow on ordinary terms as they transition to higher levels of income, and the challenging global financial situation, IFAD has introduced borrowing as an additional funding source to make better use of Member States' contributions and to fund a part of its PoLG. This borrowing supplements core resources and can be provided on ordinary terms rather than on highly concessional, grant or blended terms.

54. The borrowing has included the Spanish Food Security Cofinancing Facility Trust Fund, which has been ring-fenced and kept separate from IFAD's core accounts and used for the purposes of the Spanish Trust Fund. It also includes borrowing from KfW Development Bank of EUR 400 million, of which three quarters was used in IFAD9 and the remainder is being used in IFAD10. Recently, a borrowing agreement with Agence Française de Développement has been entered into which allows IFAD to borrow up to EUR 200 million over a two-year period. IFAD's borrowing approach was formalized through the Sovereign Borrowing Framework (SBF) approved by the Executive Board in April 2015. The SBF establishes the main parameters, including the financial conditions, under which IFAD can borrow and defines borrowing limits in terms of balance sheet and liquidity ratios in order to preserve the long-term sustainability of the Fund.
55. In order to proceed with diversifying its resource base, IFAD could adopt a variety of options, including continuing to expand the SBF; obtaining concessional partner loans from development partners interested in providing loans on concessional terms; and borrowing from capital markets in a manner similar to the World Bank. While the SBF has been established, the latter two options need to be carefully explored and considered incrementally. As seen in the "Financial Strategy for IFAD11 and beyond" paper, IFAD's proposed approach to borrowing is very prudent and intended to be implemented at a conservative pace in the medium and long-term.
56. The next step is to integrate borrowing into IFAD's financial framework and plan ahead in order to avoid ad hoc borrowing deals that simply seek to fill funding gaps. This could take the form of an approach that is based on leveraging available resources while keeping Member contributions as the bedrock of IFAD's capital and financial management, but that uses the core funding prudently to expand IFAD's commitment capacity. The use of leveraging to borrow funds means that a larger share of IFAD's core replenishment resources – i.e. Member States' contributions – can be used to finance highly concessional loans. Borrowing expands the available resources and facilitates the use of an adequate pricing mechanism for support to countries at different levels of development.
57. Of course, whether IFAD borrows from sovereign sources, through concessional partner loans or from capital markets depends on the demand for its services and its capacity to deliver, that is, resource use should be driven by its PoLG and PoW. Replenishment contributions will remain the bedrock of IFAD's capital and financial commitment capacity. If the demand for its services can be covered by these core resources, it is unnecessary to tap into other resources. However, if the demand exceeds those resources, IFAD must seek the means to provide the support needed to facilitate progress towards achieving Agenda 2030. This is a direct response to the AAAA, which calls for using the resources necessary to respond to the needs of developing countries.
58. Cofinancing is critical to an expanding PoW and IFAD will build on its track record of mobilizing international cofinancing by establishing regional targets for cofinancing while improving the way it is recorded in IFAD's systems. Efforts are already under way to reinvigorate engagements with traditional partners, such as the Islamic Development Bank, the AfDB and the OPEC Fund for International Development. IFAD is also building its strength in cofinancing in the area of environmental sustainability and climate resilience, particularly through the Global Environment Facility and the Adaptation for Smallholder Agriculture Programme (ASAP) Trust Fund, and through its recent accreditation as an implementing agency for the Green Climate Fund.
59. A priority of IFAD11 is expanding partnerships with the private sector. Currently, the private sector accounts for 5 per cent of total cofinancing and the intention is to scale this up. A critical dimension of this effort is the creation of the Smallholder

and Small and Medium-Sized Enterprise Investment Finance Fund (SIF) to finance agrifood small and medium-sized enterprises (SMEs) and producers' organizations directly through debt and equity investments. These groups are currently underserved by existing banks and investment funds and, combined with a technical assistance facility, can provide a means of linking smallholders to agrifood SMEs and generate rural employment.

60. To mobilize, package and deliver financing and complementary products and services will require IFAD not only to deliver an enhanced PoW, but also to act as a convener, catalyst and lever for the efforts and investments of a range of actors. A key element in IFAD's evolving strategy is the establishment of the Smallholder Agriculture Finance and Investment Network (SAFIN) which was announced at the international conference on Investing in inclusive rural transformation: Innovative approaches to financing held by IFAD and the Government of Italy in Rome in January 2017. In line with IFAD's unique value proposition and comparative advantage, SAFIN aims to unlock the immense investment potential of smallholders and SMEs involved in agrifood activities by bringing them to the table along with international and country-based, public and private financial institutions, governments, businesses and other partners. SAFIN will work (i) as a network promoting a shared knowledge agenda and better alignment of the efforts of different stakeholder groups; and (ii) as a platform with the capacity to incubate and lay out scaling-up pathways for innovation in this sphere, to address challenges, successes and gaps in relevant policy debates and processes, and to spur concrete commitments for change and track their progress. IFAD is incubating an initial secretariat based in Rome and is garnering significant support among a core group of interested partners who have committed to help in developing detailed work streams in order to formally establish SAFIN by 2018.

B. Resource allocation

61. Ensuring resources are allocated to where most of the extreme poor and food-insecure live requires a systematic approach. This requires a macro-level decision to ensure that core replenishment resources flow to countries where the need is greatest and where countries show a commitment to use the funds effectively, and a micro-level decision to ensure that resources target the most poor and vulnerable rural people.
62. At the macro level, the corporate decision on allocating resources to countries is made in two steps: (i) selection of countries to be considered for funding and thus added to the performance-based allocation system (PBAS); and (ii) identification of the amount available to each country using the PBAS formula. Selecting the optimal number of countries to include in the PBAS is essential for the business model to use resources efficiently. Reducing the number of countries expands individual country allocation and evidence suggests that larger operations increase the numbers of beneficiaries reached and improves development outcomes. Transparent criteria are needed to select countries. Management proposes that criteria such as the following be used: (i) strategic direction, as seen by the existence of a valid country strategy at the start of the PBAS; (ii) absorptive capacity, as measured by recent disbursement; and (iii) ownership, as evidenced by no delay in signing approved loans.
63. The PBAS includes a needs element linked to extreme rural poverty and food insecurity and a performance element linked to the ability to adequately manage investment projects. The PBAS also ensures that approximately 45 per cent of funds go to SSA and approximately 50 per cent to Africa. Following an extensive analysis, the PBAS is currently undergoing a review to rebalance the formula so that both needs and performance have analogous influence on allocation.
64. The PBAS approach ensures that allocations across income groups remain stable over time; that is, the overall distribution across income groups (LICs, LMICs and

UMICs) is consistent. While verified through sensitivity analysis and maintained under all scenarios used including those proposed under current reforms, this is a by-product of the mathematical variation in the formula. In practice, this means that LICs compete for funding with other LICs, LMICs with other LMICs, and UMICs with other UMICs. The formula then responds to Members' priorities and sense of fairness. In the revised formula, Management will commit to allocating at least 90 per cent of core resources to LICs and LMICs. As IFAD fulfils its ambition to double the PoW, through greater leverage, including borrowing, this percentage will increase as the share of core resources going towards UMICs will inevitably decline, eventually reaching zero.

65. The allocation decision is then affected by efforts to mobilize resources. As noted, borrowing potentially allows for the leveraging of more core resources for LICs and LMICs. Yet, borrowed funds, particularly if taken at market rates, should be provided on ordinary terms rather than highly concessional or blend terms to ensure that they can be paid back. The exception is if there is an explicit understanding that the borrowed funds will be subsidized with core resources. An adequate pricing mechanism for support to countries at different levels of development is required and thus a "transition framework" will be developed in IFAD11 to clarify decision-making about lending terms for IFAD resources.
66. To achieve SDG1 and SDG2 in rural areas, the corporate-level macro decision to allocate resources to a given country must be accompanied by a micro decision within a country to target the extreme poor and food-insecure in rural areas. To ensure that IFAD plays the role of fostering inclusive transformation, such targeting must pay special attention to targeting smallholder and landless farmers, youth and women, indigenous peoples and ethnic minorities, and other disadvantaged communities. These must be both the direct and the indirect beneficiaries of IFAD investment within a country.
67. Given IFAD's focus, people-centred approaches that promote productive pathways towards achieving Agenda 2030, it is important that its projects reflect this focus and are closely linked to the strategic objectives. They must also address the key cross-cutting themes of nutrition, gender and climate, which will continue to be mainstreamed during IFAD11, as noted in the "Mainstreaming nutrition, gender and climate" paper.

C. Resource utilization

68. It is not enough for IFAD's investments to simply reach its target groups; IFAD must also spend its resources in a way that produces the desired results for those groups, as articulated in IFAD's Strategic Framework. To ensure delivery of those results, IFAD recently approved the DEF, which should be fully implemented by the end of 2017. The DEF and associated activities are intended to bring IFAD into closer alignment with current thinking on development effectiveness.
69. While achieving the SDGs requires projects that are transformative for the lives of beneficiaries, the analysis undertaken in the DEF suggests that project objectives are frequently too broad and that the theory of change is unclear. To reinforce quality of projects, particularly at entry, the operation review and clearance process will be reformed to enhance quality, stimulate innovation and seek evidence-based design. The process will also be fast and flexible, in recognition of the fact that only so much can be done at design. A degree of agility is needed during implementation in order to accelerate the pace of implementation, which is currently too slow. Projects must be designed and implemented swiftly to respond to the urgency and results orientation of Agenda 2030 and during IFAD11 Management will ramp up several measures already under way to improve design and accelerate implementation.
70. IFAD11 will also seek to expand synergies between lending and non-lending activities. Projects alone cannot generate inclusive and sustainable rural

transformation: country-level policy engagement and partnerships are also critical. IFAD's knowledge must be brought to bear in this engagement and feed into country strategies and project design. An increasingly integrated approach to knowledge management is needed, one that combines impact assessments, country and global policy engagement, South-South and Triangular Cooperation, and research with investments in flagship knowledge products such as the Rural Development Report and the Research Series. A more robust measurement framework will be needed to track the impact of these activities.

71. Given this emphasis, IFAD must continue to redistribute functions from headquarters to the field. As noted in the Corporate Decentralization Plan, by the end of IFAD11 major products and services must be planned, prepared and delivered at the country and subregional level. Towards this end, Management proposes to realize a critical mass of staff in the field, to build on current pilots to update the Delegation of Authority, and to enact revised supervision and implementation support procedures. In this process, the role of country programme managers (CPMs) will need to change, with a shift in focus away from day-to-day implementation support and project due diligence, and towards prioritization of strong design and greater engagement with clients. This can be facilitated by a cadre of task managers to assist CPMs in managing specific projects. While the details have yet to be determined, clearly there is a need for more sharing of tasks, effective delegation of authority and clear accountability among all those involved.

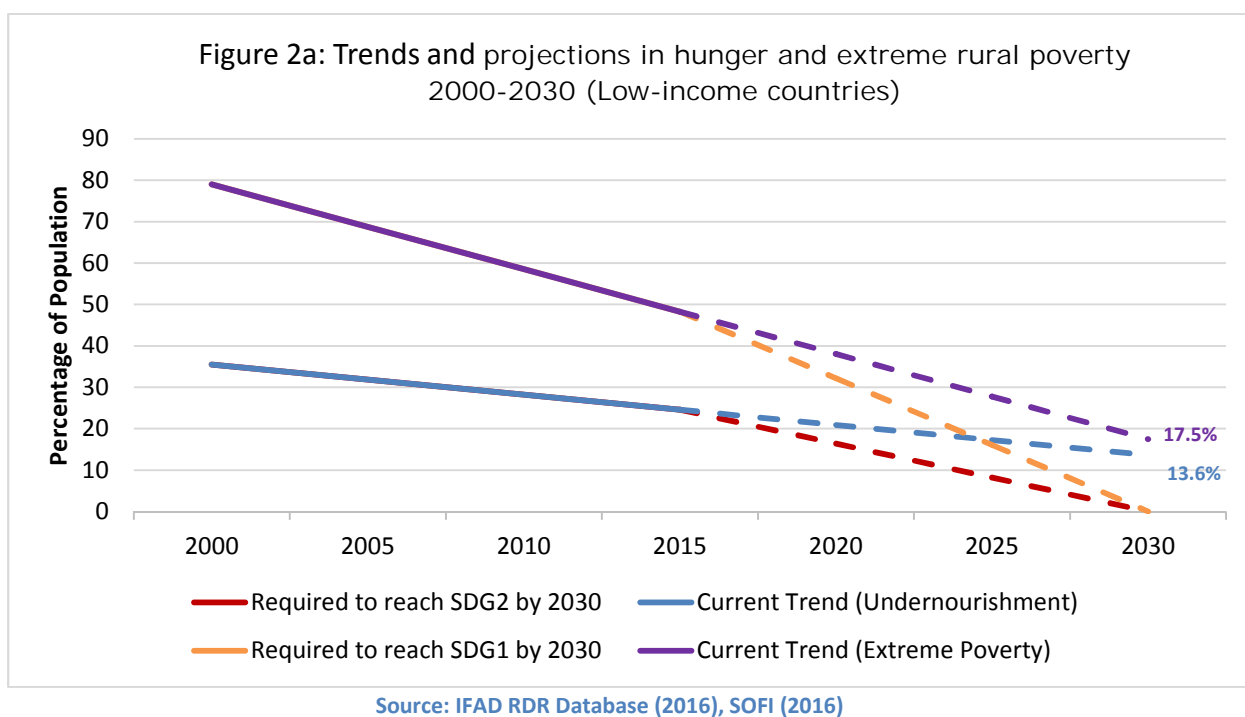
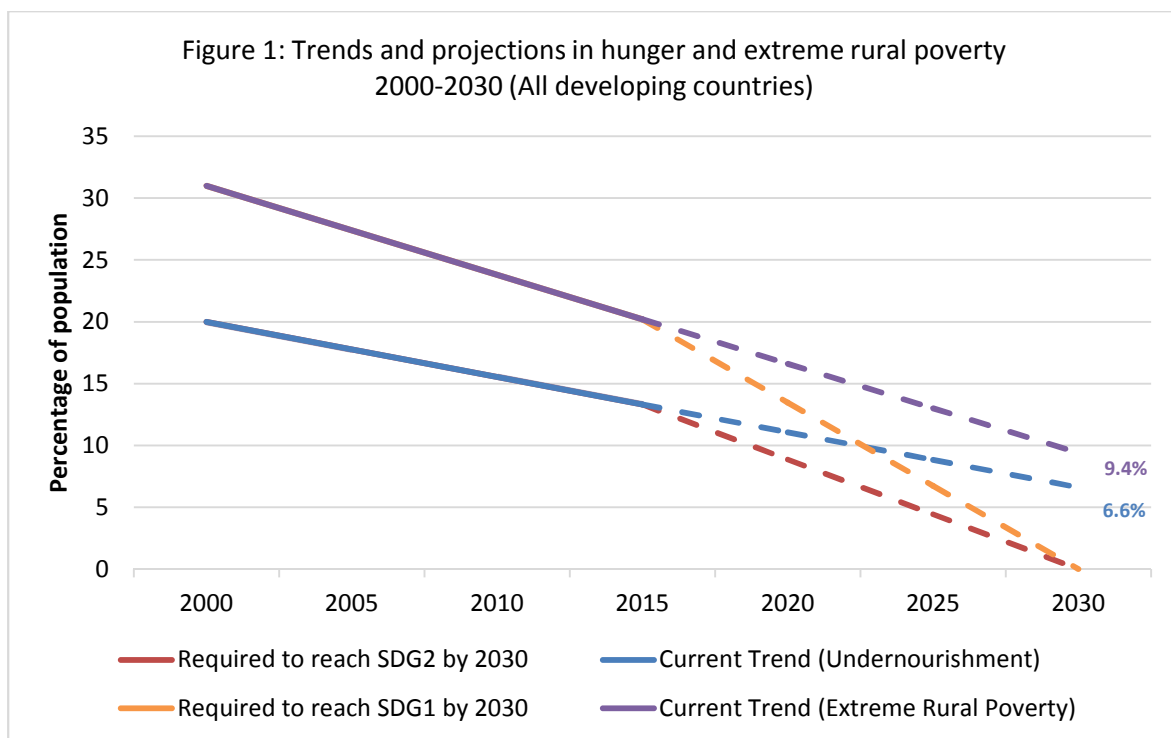
D. Transforming resources into results

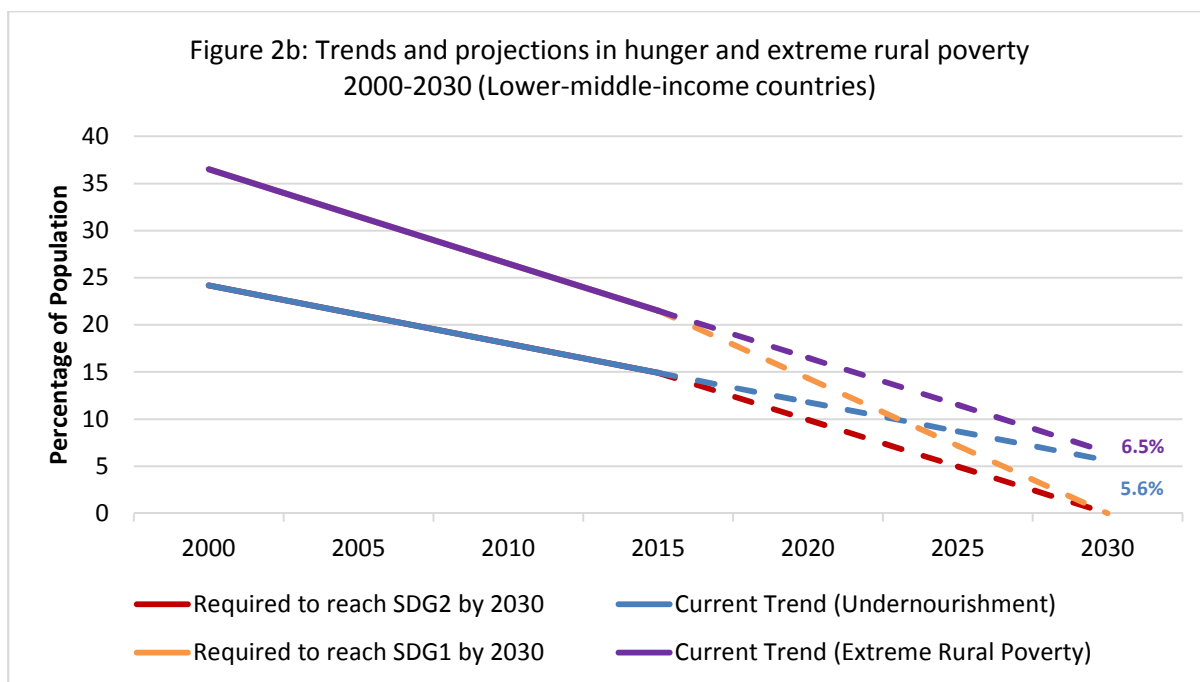
72. There are many components to fostering a culture of results and the DEF and its associated activities propose a series of actions to shift IFAD from results measurement to results-based management with a view to ensuring a results focus from design through to supervision and completion. A corporate self-evaluation system combined with an independent evaluation system provides the basis for accountability and learning that allows lessons to be fed into design and implementation. Ongoing efforts are being pursued to strengthen both systems. Data collection systems are being improved to provide fast and timely information to enhance evidence-based decision-making. To reinforce IFAD's own efforts to improve monitoring and evaluation, support is being provided to enhance capacity for results management in the rural sector within borrowing Member States. The principle of proactive transparency and openness of operational data and documents is being embraced and expanded in IFAD11 through a series of ongoing actions. This will allow for feedback from governments and civil society and create an incentive for better data quality, more efficient use of resources and better policy compliance.
73. IFAD's value for money is rooted in this focus on transforming resources into results. It seeks to maximize the impact of each dollar invested to improve the lives of rural poor people. This requires balancing the "4Es", namely economy, efficiency, effectiveness and equity. IFAD is continuing to work on enhancing its value for money through a series of actions including the impact assessment initiative, the reform of the Results and Impact Management System (RIMS), increased emphasis on economic and financial analysis, and the implementation of the DEF.

V. Conclusion

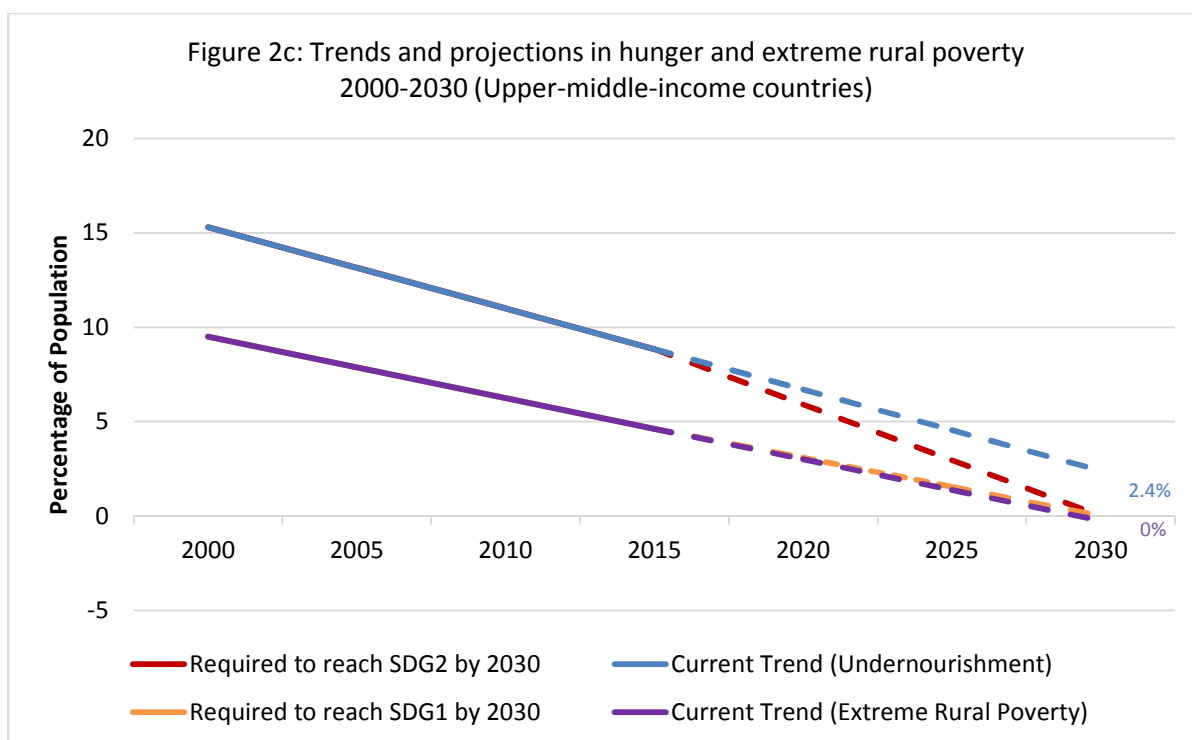
74. IFAD's comparative advantage lies in targeting the extreme poor and food-insecure in rural areas and using a people-centered approach to provide a productive pathway towards achieving Agenda 2030 goals. Ending extreme rural poverty and food insecurity through inclusive and sustainable rural transformation requires a range of action from a host of players. IFAD's role is critical. While its overall approach remains highly relevant, IFAD must change the model it has used in the

past to meet the demands of Agenda 2030. This includes making fundamental changes in how it mobilizes, allocates and utilizes resources and in how it transforms those resources into results. Only through such changes can IFAD maximize the impact of each dollar it invests to improve the lives of rural poor people.



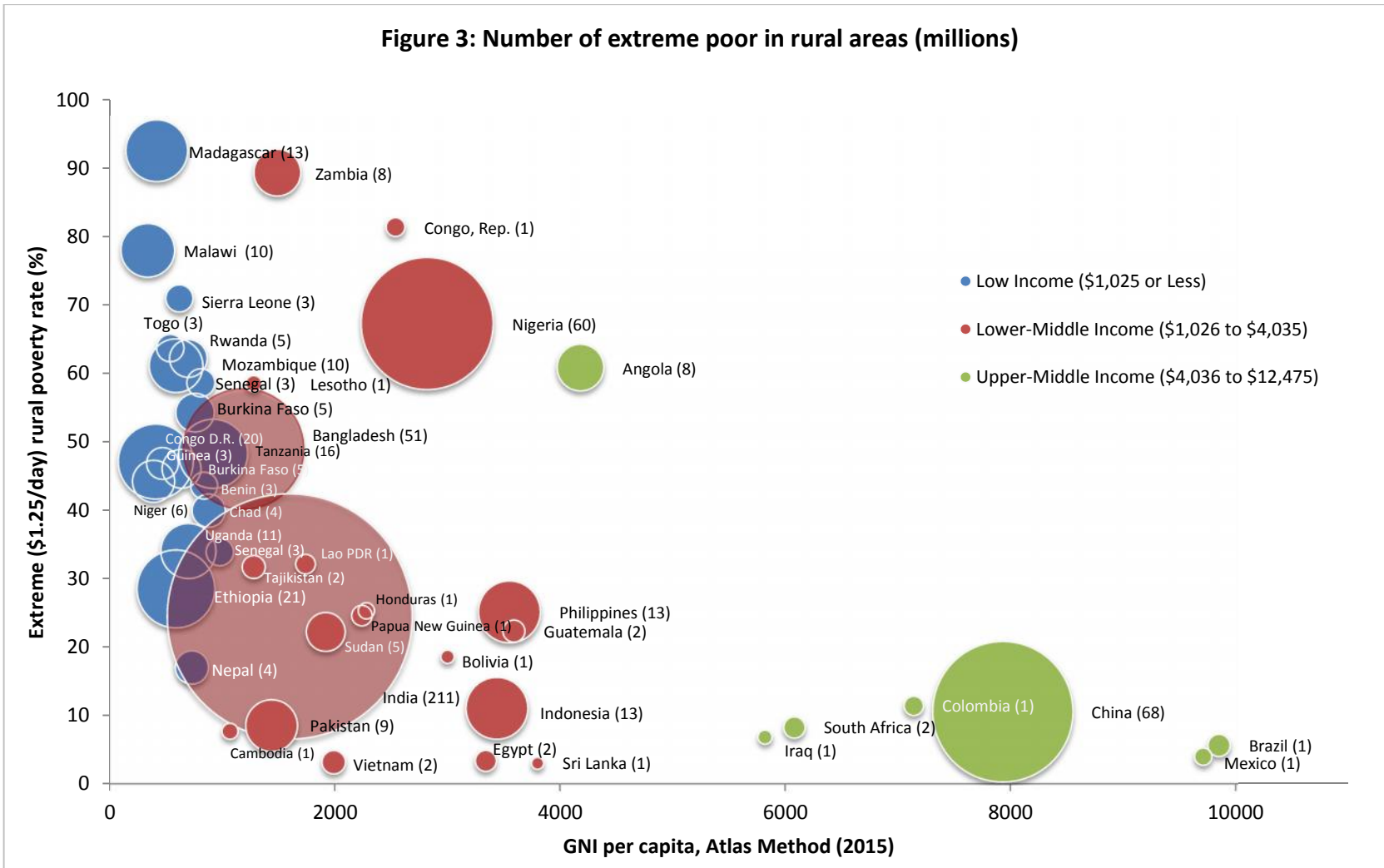


Source: IFAD RDR Database (2016), SOFI (2016)



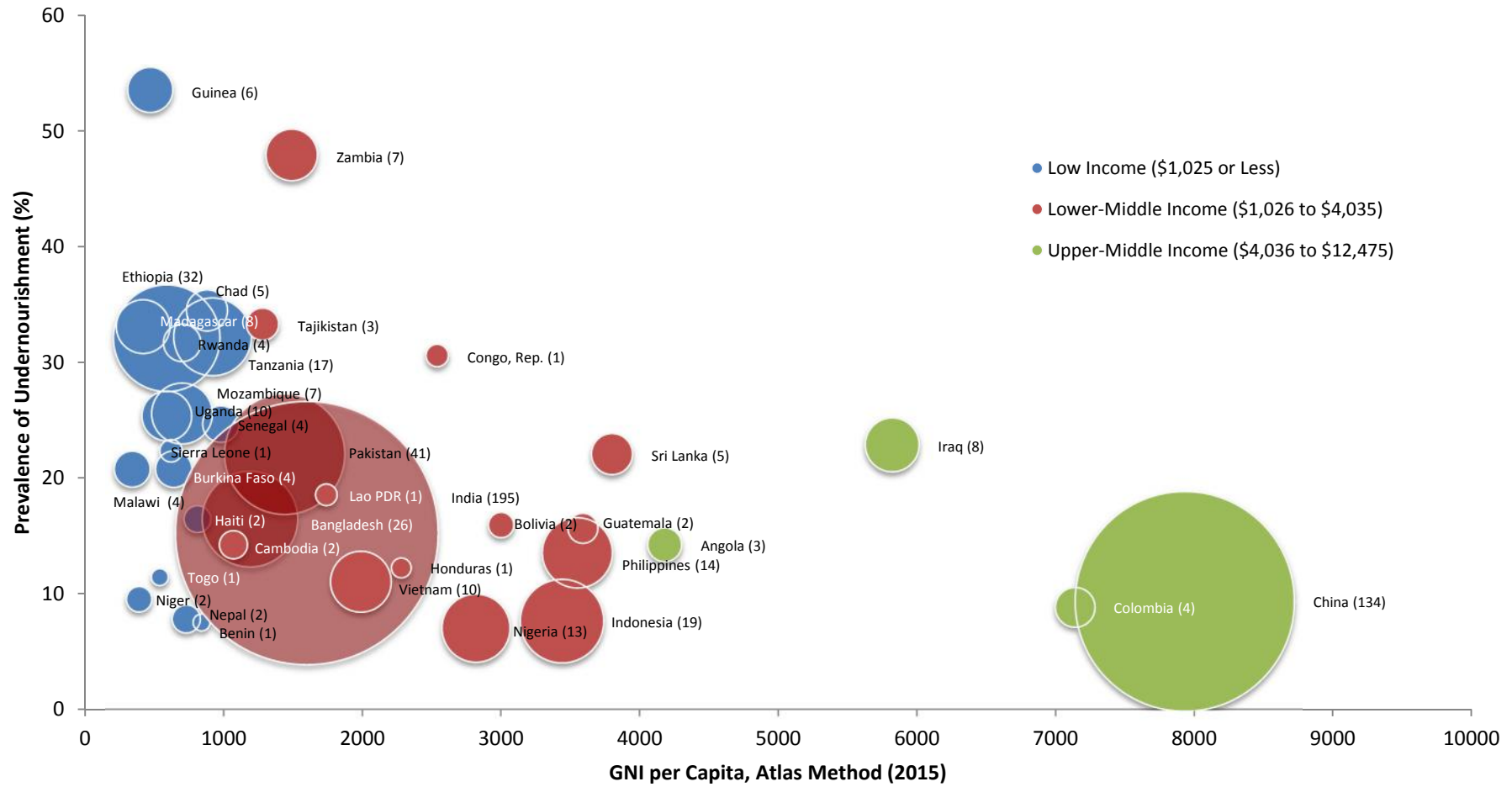
Source: IFAD RDR Database (2016), SOFI (2016)

Figure 3: Number of extreme poor in rural areas (millions)



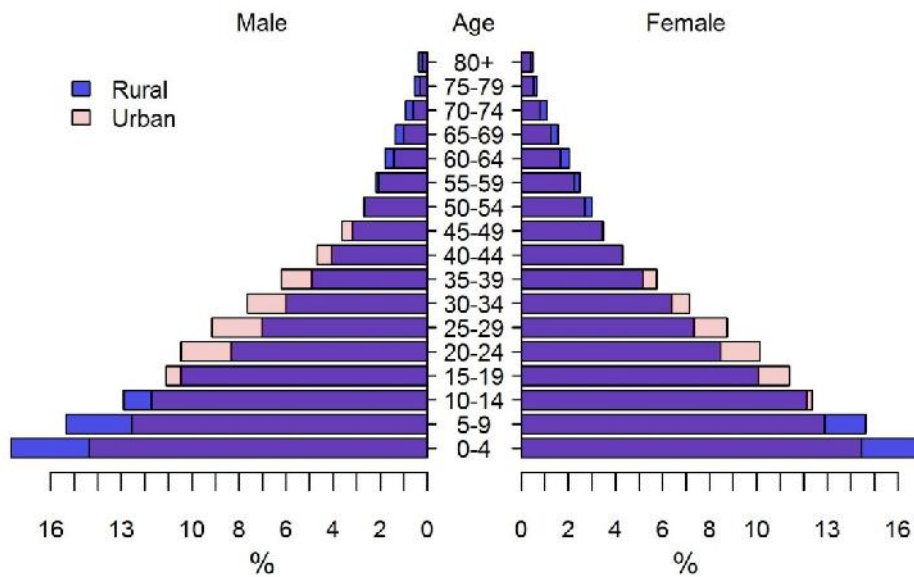
Source: Author's calculations based on IFAD RDR Database (2016), World Development Indicators (2017)

Figure 4: Number of undernourished people (millions)



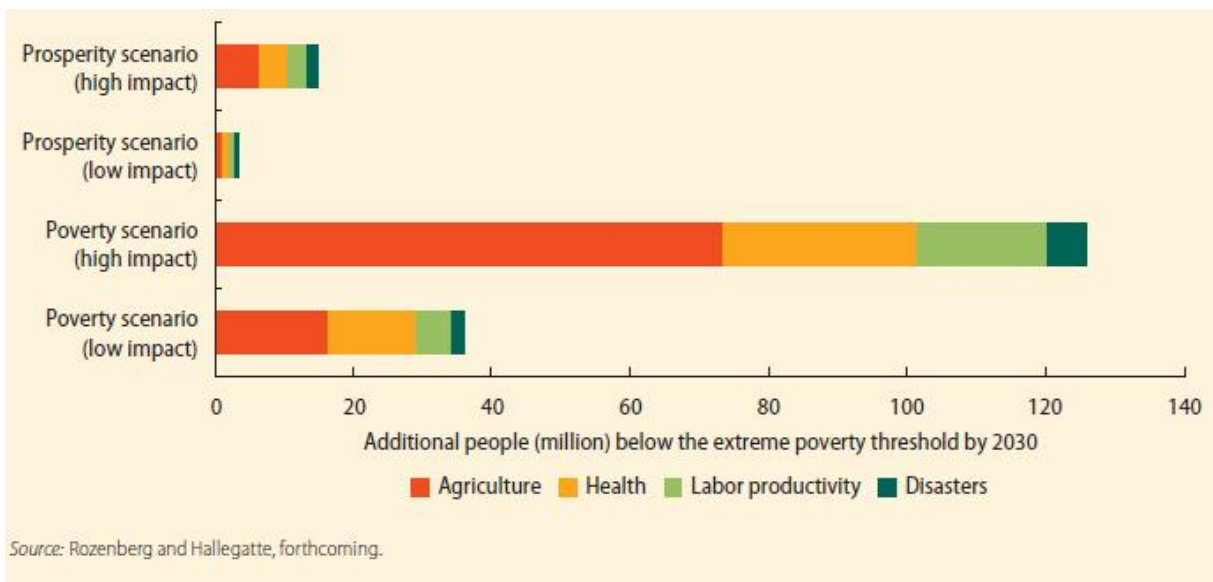
Source: Author's calculations based on IFAD RDR Database (2016), World Development Indicators, Status of Food Insecurity in the World (2016)

Figure 5: Population pyramid of 48 SSA countries



Source: Menashe-Oren and Stecklov (2017) based on Mean Rural and Urban Population in 2015s, DESA URPAS Data

Figure 6: Drivers of climate changes impact on extreme poverty



Source: Rozenberg and Hallegatte, forthcoming.

Figure 7a: Structural transformation, 1995-2015, 60 developing countries

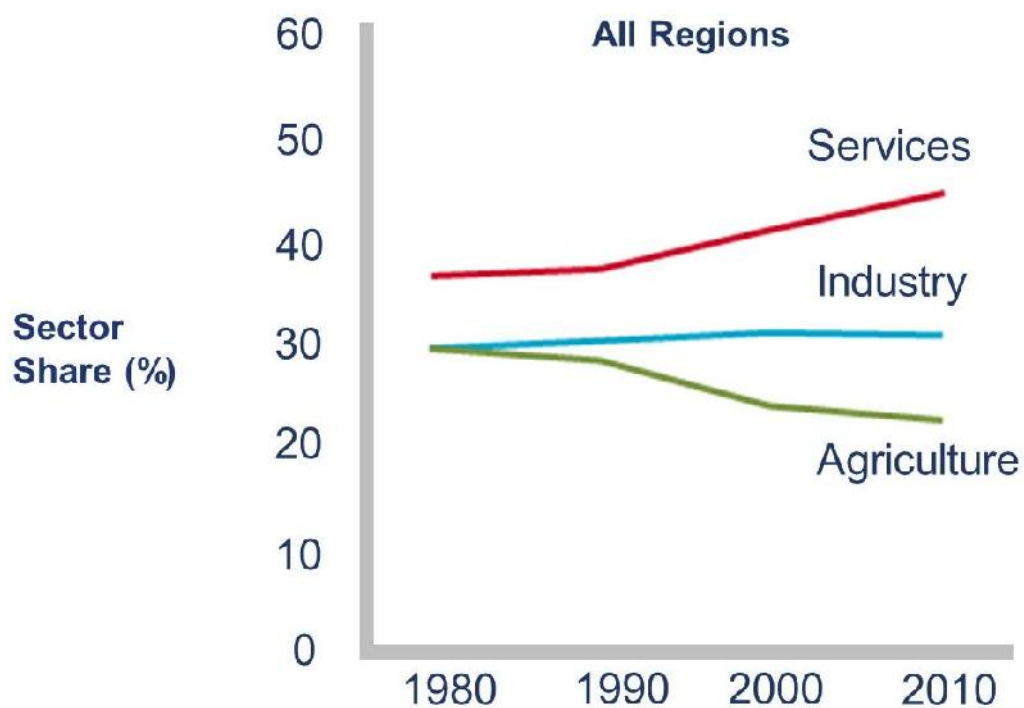


Figure 7b: Structural transformation and agrifood industry development

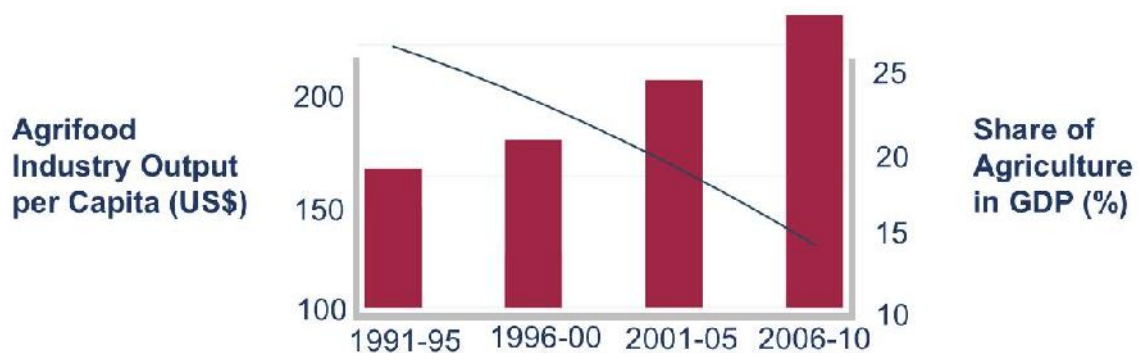


Figure 7c: Rural transformation and the non-farm income share

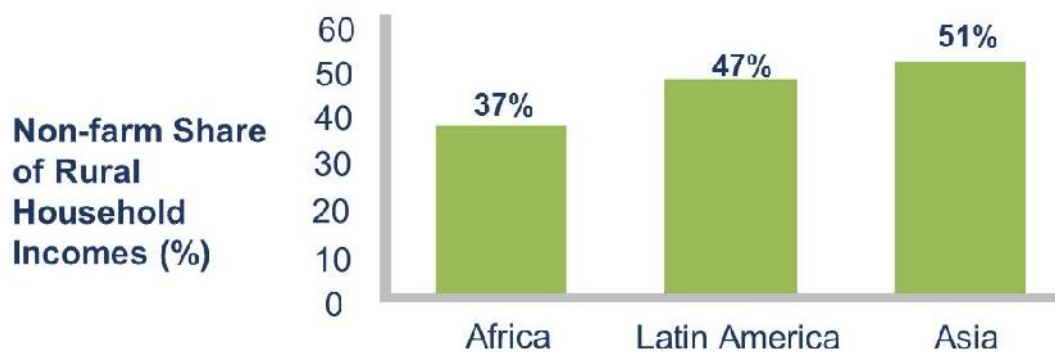


Figure 8: Transformation and poverty reduction

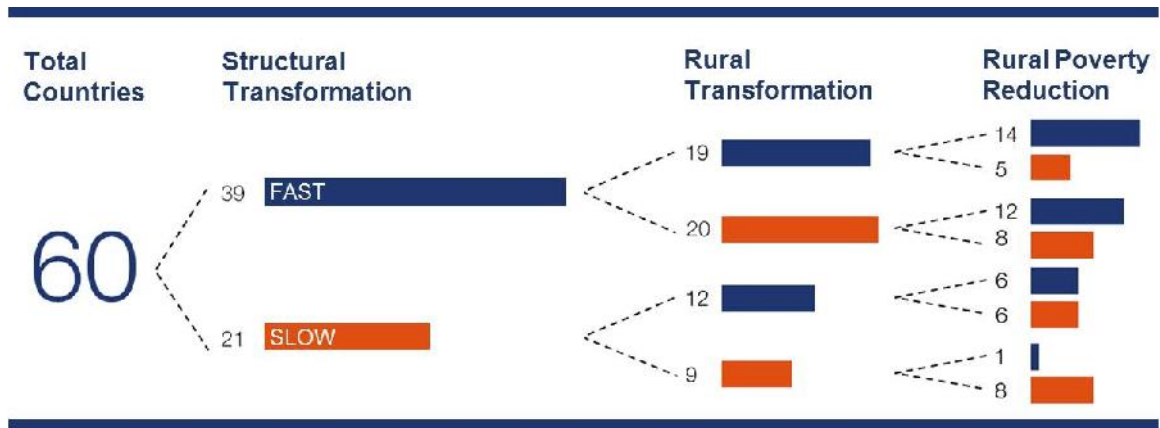


Table 1: Food and nutrition security disbursements by multilateral institutions, 2009-2013 average (constant 2013 – Millions of United States dollars)

Institution	Concessional Finance (ODA)	Non-Concessional Finance (OOF)	Total
World Bank	1,698.5	2,657.3	4,355.9
International Fund for Agricultural Development (IFAD)	722.0	340.3	1,062.3
Food and Agricultural Organization (FAO)	575.1	n/a	575.1
CGIAR Fund	614.0	n/a	614.0
African Development Bank (AfDB)	336.6	256.8	593.4
UN Agencies	83.7	n/a	83.7
Arab Fund (AFESD)	104.8	181.0	285.8
Asian Development Bank (AsDB)	172.8	0.02	172.8
OPEC Fund for International Development (OFID)	64.2	60.8	125
Andean Development Corporation (CAF)	n/a	114.5	114.5
Other Multilateral Institutions	204.4	39.3	243.7
Total	4576.1	3650.02	8,226.07

Source: OECD CRS, CGIAR budget documents, FAO Audited Accounts