Enhancing IFAD11 business model to deliver impact at scale

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Abbreviations and acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>CLE</td>
<td>corporate-level evaluation</td>
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<td>CLPE</td>
<td>country-level policy engagement</td>
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<td>CPM</td>
<td>country programme manager</td>
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<td>DEF</td>
<td>Development Effectiveness Framework</td>
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<td>ECD</td>
<td>Environment and Climate Division</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>ICO</td>
<td>IFAD Country Office</td>
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<td>IFI</td>
<td>international financial institution</td>
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<td>LIC</td>
<td>low-income country</td>
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<td>LMIC</td>
<td>lower-middle-income country</td>
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<td>M&amp;E</td>
<td>monitoring and evaluation</td>
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<td>MFS</td>
<td>most fragile situation</td>
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<td>MIC</td>
<td>middle-income country</td>
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<td>ODA</td>
<td>official development assistance</td>
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<td>ORMS</td>
<td>Operational Results Management System</td>
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<td>PARM</td>
<td>Platform for Agricultural Risk Management</td>
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<td>PBAS</td>
<td>performance-based allocation system</td>
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<td>PTA</td>
<td>Policy and Technical Advisory Division</td>
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<td>SDG</td>
<td>Sustainable Development Goal</td>
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<td>SIDS</td>
<td>small island developing states</td>
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<td>SIF</td>
<td>Smallholder and Small and Medium-Sized Enterprise Investment Finance Fund</td>
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<td>SSTC</td>
<td>South-South and Triangular Cooperation</td>
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<tr>
<td>UMIC</td>
<td>upper-middle-income country</td>
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<td>WFP</td>
<td>World Food Programme</td>
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<td>WII</td>
<td>weather-based index insurance</td>
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Executive summary

1. Most of IFAD's contribution to the 2030 Agenda for Sustainable Development and the Sustainable Development Goals will be shaped during the Eleventh Replenishment of IFAD's Resources (IFAD11). It is widely acknowledged that to make that contribution significant, IFAD must evolve and prove once again its ability to adapt to changes in the development arena during the IFAD11 period. Changes in the realities of beneficiaries, partners, Member States and donors, together with assessments and evaluations of IFAD's operating model have prompted Management to take stock of the lessons learned and lay out a value proposition that is realistic, bold and innovative.

2. IFAD has a track record of adapting its business model. Over the past two replenishment cycles it introduced several changes to its way of contributing to rural poverty reduction and promoting food security though direct supervision, greater decentralization, a sharper focus on non-lending products, stronger partnerships with the private sector, and differentiated approaches for specific country needs. To meet the challenges posed by scarce official development assistance (ODA), IFAD has diversified its funding sources. Internally, IFAD has continued to upgrade its service delivery platform to support the evolving business model and the decentralization strategy. IFAD is now proposing a range of improvements, with a focus on results and innovation, across the entirety of its business model, aimed at achieving larger impact.

3. **Resource mobilization.** The first of these improvements is enhancing the way the Fund mobilizes resources. To meet the ambitious target of increasing its programme of loans and grants by between 25 and 40 per cent, IFAD must broaden its range of funding sources and have a financial strategy that is coherent with the planned use of resources. A fully integrated leveraging strategy will ensure optimal use of funds by channelling progressively more ODA resources to the neediest countries while utilizing borrowed funds to finance countries borrowing on less concessional terms.

4. By seeking to progressively double its programme of work from US$6 billion to US$12 billion, IFAD will play a more prominent role as an assembler of development finance, over and above its role of lender. To achieve this, IFAD will reinvigorate its engagement with traditional partners and establish regional targets for international cofinancing; leverage cofinancing in the area of environmental sustainability and climate resilience; explore better ways to mobilize domestic cofinancing, which has proved to be beneficial for project success, and implement innovative vehicles to direct resources from the private sector to IFAD's target group.

5. **Resource allocation.** Second, IFAD will allocate resources in a way that maximizes ODA resource use for the poorest countries and the poorest regions, with special attention to both traditionally vulnerable populations and those newly so, especially youth. In this area, IFAD is proposing the necessary adjustments to optimize the use of resources at macro and micro levels. The number of countries that receive new funding during IFAD11 will be reduced, thereby increasing the average size of operations and creating economies of scale, and internal planning will be improved, all of which will lead to better development outcomes at completion, as confirmed by several sets of analyses. Criteria for country selection will take into account strategic focus, absorptive capacity and country ownership.

6. The Fund will ensure that 90 per cent of core resources under IFAD11 will be allocated to low-income countries (LICs) and lower-middle-income countries and – cutting across all income levels – approximately between 25-30 per cent of IFAD11's core resources are projected to be allocated to the most fragile situations (MFS). For borrowers changing their income status, a transition framework will replace the yearly practice of reviewing lending terms. Sector focus is fundamental...
for efficient use of resources. In line with the IFAD Strategic Framework 2016-2025, the Fund will focus on exploiting its comparative advantage in selected themes – with renewed emphasis on young people and women – while at the same time embedding the most important cross-cutting themes within all its operations.

7. Resource utilization. Third, IFAD will utilize resources in a more agile and context-responsive manner. In this regard, IFAD is proposing concrete changes to its way of "doing development" in line with current thinking on development effectiveness. IFAD will set its own bar higher, aiming at a stronger focus at the project design stage on the project objectives and the means to reach them. This project logic is a prerequisite for successful outcomes and will be ensured through streamlined internal processes that will reinforce the quality at entry of operations. Furthermore, policies and procedures will be changed to allow for more flexibility during implementation to adapt projects to new information that has been gathered along the way.

8. Agility of implementation will be pursued though a sharper focus on technical assistance to improve the borrowers' own project management and absorption capacities. Furthermore, further advancing IFAD's decentralization will be critical to solve bottlenecks in operations; the number of staff in the field will increase, and they will be delegated more authority so as to ensure faster execution of selected tasks, and undertake to the extent possible continuous supervision and implementation support.

9. Finally, IFAD will demonstrate how resources are translated into development results to assure Member States of IFAD's value for money and to be more accountable to tax payers across the world. IFAD will embrace a stronger culture of results and innovation across all its operations. The cultural shift in the organization is incipient, with increasing awareness of the need for evidence-based decision-making throughout the project cycle, so that a continuous loop of lessons learned feeds into new processes and strengthens accountability at all levels. During IFAD11, this culture will be fostered through the full implementation of the Development Effectiveness Framework which includes revised incentives, better processes, smarter systems and skill enhancements in IFAD–supported operations. Cutting-edge ICT systems will be rolled out to strengthen IFAD's own capacity and country capacity to better measure, monitor and manage for results.

10. Considerably more weight will be given, organization-wide, to transparency. Transparency is a commanding incentive for better data quality, more efficient use of resources, more careful monitoring, better policy compliance and benchmarking. IFAD's service delivery platform will be continuously enhanced to allow the Fund to become an incubator for innovation at all levels.

11. All the adjustments to IFAD's business model presented in this document are aimed at improving IFAD's value for money, i.e. to maximize the impact of each dollar invested on the lives of rural poor people.
Enhancing IFAD11 business model to deliver impact at scale

I. Introduction

A. Adapting the business model to reach the SDGs

1. There is one ambition that cuts across all the Sustainable Development Goals (SDGs): to leave no-one behind. This challenge is particularly salient in rural areas where 75 per cent of the world’s hungry poor people live. If current trends in extreme poverty and food insecurity continue, SDG1 and SDG2 will not be achieved in rural areas, which will have repercussions for a host of other SDGs. Overall, about half the necessary progress will have been made by 2030.

2. Although rural poverty is still a chronic problem, the geoeconomic landscape has changed dramatically in the last decade, and with it the needs of the developing world. Almost all countries now rely primarily on domestic resources to manage public investment, and even some of the poorest countries can borrow abroad on their own. With increased aid management capability, countries are seeking more sophisticated and swifter development solutions for their persistent challenges.

3. While real progress towards the SDGs is being made, leaving no one behind requires urgent action. At this very moment, a famine is spreading across Africa. More than 100,000 people in South Sudan alone are affected, and there is a credible risk of other famines in Yemen, north-east Nigeria, and other countries. Ongoing conflicts are further intensifying the food insecurity of millions of people across the region, and there is already widespread displacement and other cross-border spillovers. This aggravates the pre-existing refugee crisis. Sixty million people were displaced in 2015 alone—the highest figure ever recorded. It is a catastrophe that may affect the well-being of a whole generation and its resolution is only possible with humanitarian and development actors working together.

4. Adapting to pressing external factors comes naturally to IFAD: in the past decade, the Fund has made adjustments to its business model to increase its responsiveness, most notably by embracing direct supervision, pursuing decentralization, professionalizing its knowledge functions, creating the Adaptation for Smallholder Agriculture Programme (ASAP) and accessing sovereign borrowing. These changes have left IFAD fit for purpose, and increasingly recognized for its contributions to rural poverty reduction, as identified in the Addis Ababa Action Agenda (AAAA).

5. IFAD’s business model has four key dimensions, each forming a step of IFAD’s approach to manage for development results:

   • Resource mobilization. IFAD relies primarily on Member States’ replenishment contributions, which constitute its core resources. To complement this external financing, it has progressively optimized the use of its internal resources, mainly loan reflows and investment income. This has allowed Management to commit, in any replenishment period, the largest amount of current and future resources without endangering the Fund’s long-term financial sustainability. During the Ninth Replenishment of IFAD’s Resources (IFAD9), in recognition of the precarious global financial situation,

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1 www.ifad.org/documents/30600024/30604583/RDR_WEB.pdf/c734d0c4-fbb1-4507-9b4b-6c432c6f38c3.
3 World Food Programme (WFP), Famine Hits Parts of South Sudan (Rome: WFP, 20 February 2017):
4 Office of the United Nations High Commissioner for Refugees (UNHCR), Global Trends: Forced Displacement in 2015:
IFAD introduced borrowing for the first time to fund a part of its programme of loans and grants (PoLG), \(^5\) and later approved the Sovereign Borrowing Framework (SBF) in order to have a strategic approach to borrowing.

- **Resource allocation.** IFAD resources are provided mostly to sovereign governments and allocated primarily through a performance-based allocation system (PBAS). Through this system, funds are not just allocated in simple proportion to recipient need; they are also adjusted to account for how effectively the recipient is expected to make use of the allocated funds. The basic idea behind optimal resource allocation is to equalize the marginal impact on IFAD goals across countries. That impact depends on the constraints on each country’s ability to use aid resources effectively. \(^6\)

- **Resource utilization.** IFAD resources are utilized by borrowing Member States based on the congruence of their priorities with IFAD’s own corporate goals. This dialogue takes the SDGs and how to adapt them to country specific contexts as the starting point. The results are articulated in a country strategy (the results-based country strategic opportunities programme [RB-COSOP]). This plan is then operationalized through loans, grants, policy engagement and non-lending activities. The work follows a broad cycle: design, supervision and implementation support, and project completion and evaluation. In-built fiduciary, risk management, internal oversight and anticorruption safeguards help ensure that funds are used for their intended purpose throughout the cycle.

- **Transforming resources into development results.** This is transversal to the previous three dimensions. It is an emerging way of working that emphasizes the need to systematically and simultaneously consider, through evidence-based evaluative reasoning, the use of resources at the project, country and corporate levels to be sure the best option is used and in a way that has the highest impact possible. \(^7\) Many changes are being introduced in IFAD to instill a culture of results throughout the organization.

6. In addition to these core dimensions, the following adjustments are proposed to transform the sobering context of rural poverty and food insecurity into an opportunity for IFAD11 to maximize its contributions to the 2030 Agenda for Sustainable Development (Agenda 2030):

- First, enhancing the Fund’s role as an assembler of development finance and not only as direct lender to meet the increasing demand for larger-scale financing and greater impact;

- Second, maximizing the use of official development assistance (ODA) to support the poorest countries and the poorest people, while leveraging borrowed resources for continued engagement with middle-income countries (MICs), targeted at addressing their vast remaining rural poverty challenges;

- Third, embracing new paradigms “to do development differently” by delivering in a more agile manner that can respond to increasingly sophisticated borrowers, who now have a wider choice of ways to finance rural development; \(^8\) and

\(^5\) The loan from the KfW Development Bank represents the first real financial liability on IFAD’s own balance sheet.


\(^8\) For a discussion of these issues, see: Romilly Greenhill, Annalisa Prizzon and Andrew Rogerson, *The Age of Choice: Developing Countries in the New Aid Landscape* (London: Overseas Development Institute, 2013); and Chris Humphrey and Katharina Michaelowa, *Shopping for Development: Multilateral Lending, Shareholder Composition and Borrower Preferences* (World Development, 2013), 44(C) 142-155.
Finally, more forcefully instilling a culture of results that stimulates innovation and demonstrates IFAD’s value for money to Member States and makes it more accountable to tax payers across the world.

II. Resource mobilization

A. Assembling development finance to maximize impact

7. To meet the investment needs of the SDGs, the global community is moving the discussion from “billions” of ODA to “trillions” in investments of all kinds: public and private, national and global, in both capital and capacity. Globally, achieving the SDGs will require the best possible use of each grant dollar. Yet flows for development include philanthropy, remittances, South-South flows and other official assistance, and foreign direct investment (FDI). Together these sources amount to nearly US$1 trillion that needs to be used just as effectively. And these external financial flows need to catalyse the mobilization and effective use of domestic resources.

8. **Ambition.** In this context, IFAD’s role as an assembler of development finance and not just as a direct lender is paramount. Its mandate to reduce rural poverty and food insecurity requires a scale of investment that can only be partially delivered through the Fund’s own resources. Through this catalytic role, Management's ambition is to gradually double the size of the IFAD11 programme of work (PoW) – that is, the total amount of resources brought to bear for developmental purposes including both IFAD's PoLG and funds brought in through partnerships – from the current level of US$6 billion to US$12 billion. This responds to the need for a significant acceleration – roughly a doubling – of today’s rate of progress to achieve the SDGs, particularly SDG1 and SDG2, as demonstrated in “Looking ahead: IFAD in the context of the 2030 Agenda for Sustainable Development” which will also be presented at the second session of the IFAD11 Consultation.

9. Such ambition presupposes a PoLG enlarged by 25 to 40 per cent in nominal terms. Financing a PoLG of US$4.5 billion, the highest scenario within this range, would require a 20 per cent nominal increase in core replenishment contributions, half the nominal increase of the PoLG (see annex I). Most importantly, Management estimates that this high scenario, coupled with the changes proposed in this paper, would allow the Fund to increase the number of beneficiaries reached by approximately 20 per cent.

10. This range has been derived by simultaneously assessing demand from Member States and the Fund’s capacity to deliver, and is thus considered by Management as both ambitious and realistic. It is ambitious in that it will require swift implementation of the proposed adjustments to the business model. However, these are adjustments that Management deems realistic. Most importantly, in-house analysis shows that the demand for IFAD financing and non-lending services is growing. An increasing number of countries, particularly lower-middle-income countries (LMICs), are willing to access increased resources from IFAD, even on ordinary terms. Given the Fund's current size, it cannot satisfy this demand. As a result, many countries continue accumulating more expensive private debt to address rural poverty. These countries may be paying higher interest rates for

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10 In developing these scenarios an analysis of demand over the IFAD11 period was conducted based on a country-by-country assessment of COSOPs that have been recently written or are under discussion with partner countries. Demand for IFAD resources is shaped by several factors, including: how partner countries view IFAD’s value added as a source both of development finance and of technical and policy expertise; the alternative resources available to them; their fiscal space; and the extent to which support to smallholder farmers and the rural poor represents a policy priority for them.
shorter-maturity loans than those offered by IFAD's ordinary loans. Not only does this limit IFAD's ability to support the development of these countries and to impact the lives of more rural people, it also means these countries are once again accumulating high-priced, short-term external debt: the very trend that necessitated the debt relief initiatives of recent years such as the Debt Sustainability Framework (DSF), and one that future budgets must pay for instead of being used for rural investment.

11. **Financial strategy.** It is the PoLG, rather than the level of replenishment contributions, that drives the resource mobilization strategy in IFAD11. As explained in the “Financial Strategy for IFAD11 and beyond” paper also being presented at the second session of the IFAD11 Consultation, under this approach replenishment contributions will remain the bedrock of IFAD’s capital and financial commitment capacity. They would then be used as a basis to maintain and/or expand IFAD’s commitment capacity with other sources of funding. This will strengthen the link between contributions and the PoLG leaving no doubt as to whether there are enough resources available to fund the desired level of delivery.

12. Mindful, however, of the competing demands for ODA, Management will explore alternative ways to complement core resources, making use of the SBF. A controlled level of borrowing – up to 50 per cent of Members’ contributions is being proposed – will be introduced to structurally complement the replenishment target. Borrowing would be accomplished through various means, ranging from concessional partner loans (CPLs)\(^\text{13}\) to greater leverage and, when the necessary conditions are met, raising funds through capital markets. CPLs and access to capital markets would require adjustments to the Agreement Establishing IFAD and IFAD’s financial policies.

13. Such a strategy would allow the Fund to better meet the demands of all borrowing Members, simultaneously increasing both concessional and ordinary lending. The increase in leveraging to fund ordinary loans means that a larger share of IFAD’s core resources is used to finance highly concessional loans. Ordinary loans would increasingly be financed by borrowed funds. The reflows from ordinary loans would be partially used to fulfil borrowing obligations. Moreover, a larger volume of lending on ordinary terms would also generate an excess of reflows that could further reinforce IFAD core resources and hence be directed towards countries eligible for highly concessional financing. Eventually, all IFAD core resources would be channeled to highly concessional usage.

14. To execute this strategy, the current risk management system will be upgraded, including by adopting more mature technologies and stringent digital compliance. Specifically, IFAD should finalize its steps toward the full integration of capabilities to enter into derivatives’ transactions; this is a prerequisite to manage the interest rate and currency risk arising from borrowing. Capacity will be strengthened in some key financial areas to establish the necessary monitoring and risk management framework.

15. **Cofinancing.** To strengthen its presence as an assembler of development finance, IFAD must be able to combine resources with other lenders through international cofinancing. Management will establish regional targets for international cofinancing and improve the way cofinancing is recorded in the Fund's systems for better monitoring. In line with global ODA trends, three quarters of operations in low-income countries (LICs) already receive some degree of cofinancing and those in the most fragile situations receive almost twice as much as operations in a

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\(^{13}\) A CPL is a loan provided by a Member State under terms and conditions that includes a grant element for the benefit of the Fund.
non-fragile context. Similarly, 80 per cent of projects in sub-Saharan Africa are financed in partnership with other international agencies. Efforts are also under way to reinvigorate engagements with traditional partners, such as the Islamic Development Bank, AfDB, and the OPEC Fund for International Development. Done well, international cofinancing leverages the resources – i.e. funding, knowledge and expertise – of all partners, to the greater benefit of poor rural people.

16. IFAD has a track record of mobilizing international cofinancing in the area of environmental sustainability and climate resilience, particularly from the Global Environment Facility and through the ASAP Trust Fund. In 2016, IFAD was accredited as an implementing agency for the Green Climate Fund (GCF). In alignment with the 10-point climate mainstreaming plan, IFAD11 will make systematic use of sizeable GCF resources to advance climate change adaptation and mitigation in borrowing countries, leveraging its own lending resources. In parallel, IFAD will strive to mobilize additional climate finance through the Least Developed Countries Fund, Special Climate Change Fund and Adaptation Fund.

17. As agreed in Addis Ababa at the Third International Conference on Financing for Development in 2015, effective domestic resource mobilization (DRM) to finance national development plans is a necessary ingredient for sustainable poverty eradication. Reflecting positive global growth trends, developing country treasuries now receive over US$6 trillion more each year than in 2000,14 which is lowering aid dependency and raising creditworthiness in many countries. However, increasing revenue mobilization remains a challenge for many governments, particularly in LICs and in several LMICs.

18. In line with these trends, almost all ongoing IFAD-supported projects receive domestic cofinancing, although their levels vary widely. Evidence shows that domestic cofinancing increases in relative terms, inter alia, as an agency’s own financial contribution to a given country increases, and as a country’s own performance with regard to poverty alleviation improves.15 Similarly, domestic cofinancing in upper-middle-income countries (UMICs) has increased considerably in recent years (figure 1). The challenge for IFAD11 is to explore new ways to work with the Membership to secure levels of cofinancing that are congruent with each Member State’s income status. In addition to the financial leverage effect, portfolio reviews have shown that cofinancing has a positive effect in terms of boosting the government’s ownership of projects.

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15 Mathew Winters and Jaclyn Streitfeld, Splitting the Check: Bargaining Over Counterpart Commitments in World Bank Projects (University of Illinois at Urbana-Champaign, 2013).
19. **Private sector.** Clearly, ODA and DRM will remain essential to accelerating economic growth and lifting people out of extreme poverty during IFAD11, particularly in many LICs where private investment is still limited. However, they will not be enough to finance the global ambitions of the SDGs. Increasing amounts of private resources such as FDI, bond issuance, and financing from institutional investors will have to be mobilized.\(^{16}\) Fortunately, more and more examples of business solutions to development challenges are surfacing to demonstrate how private business can deliver profit and development impact simultaneously.\(^{17}\)

20. Purposeful partnerships with the private sector will thus be an IFAD11 priority. Today, cofinancing of IFAD-supported projects by the private sector accounts for only 5 per cent of total cofinancing. Scaling-up this emerging practice requires better knowledge and faster procedures, new skills and the creation of a corporate measurement framework to assess the results. A landmark in this direction will be the creation of the Smallholder and Small and Medium-Sized Enterprise Investment Finance Fund (SIF) to finance small and medium-sized enterprises and producers’ organizations involved in agrifood activities directly, through debt and equity investments. SIF would target the segment of rural small and medium-sized enterprises (SMEs) that are currently under-served by existing banks and investment funds. A technical assistance facility is also envisaged to provide business advisory services, capacity-building, intermediation support and partnership brokerage to farmers’ organizations and rural SMEs, so as to facilitate access to the SIF.

21. **Other resources.** Complementing these efforts for greater leverage, the grants programme will continue emphasizing the need for linkages with lending. With the recent requirement that the selection of grant recipients be undertaken through competitive selection, IFAD is broadening its portfolio of partnerships with centres of excellence around the world.

22. Under IFAD11 supplementary funds that Members and other institutions may provide to support specific projects and initiatives will continue to be administered. These are another proven instrument to leverage the results of IFAD’s lending programme and to improve the effectiveness of its policy engagement. Among the


\(^{17}\) See footnote 9.
mechanisms launched by IFAD in collaboration with partners are: the Financing Facility for Remittances; the Weather Risk Management Facility; and the Platform for Agricultural Risk Management (PARM).

23. Supplementary funds provide IFAD with the flexibility to tackle unforeseen specific contextual challenges. The recently approved Facility for Refugees, Migrants, Forced Displacement and Rural Stability (FARMS) provides a good example: it allows IFAD to help tackle some of the regional spillovers of fragility – including refugee flows, transboundary epidemic diseases and economic effects – such as those now being experienced as a result of famine.

III. Resource allocation

A. Focusing on the poorest people in the poorest countries

24. The Looking Ahead paper highlights that ending rural poverty (SDG1) and food insecurity (SDG2) by 2030 will not happen without a concerted effort to prioritize interventions in LICs and LMICs, nor without maintaining action in UMICs that prioritizes the most marginalized and chronically poor and food-insecure rural people.

25. Building on this diagnostic, IFAD11 resources will be carefully targeted to reach the poorest at two levels. At the macro level, core resources will flow to countries that have the greatest need and show a commitment to use those resources effectively. Within countries, at the micro level, IFAD’s interventions will target the poorest and most vulnerable people. This targeting will continue to be accompanied by a strong sector focus on agriculture.

Macro selectivity

26. Country selectivity. At the start of each replenishment period, Management identifies prospective borrowers for inclusion in the PoLG on the basis of country strategies already approved by IFAD Management or to be approved during the period. Determining the optimal number of countries is essential for the business model to utilize resources productively. A reduction in the number of countries in the PoLG results in increased allocations to countries in proportion to their performance-based allocation system (PBAS) scores, as confirmed by Management actions over the past 10 years. Between IFAD7 and IFAD10 the Fund doubled the average size of operations from approximately US$17 million to approximately US$31 million.

27. Most importantly, larger operations in fewer countries have greater impact due to economies of scale. For example, focusing on 70 to 80 countries would allow, under IFAD11, an increase in the number of beneficiaries reached by 10 to 20 per cent for the proposed range of PoLG. Several sets of analyses confirm the

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18 The Financing Facility for Remittances is a multi-donor initiative which has co-funded nearly 50 projects in 45 countries for a total of US$38 million, maximizes the impact of remittances for the rural poor by expanding access to financial services and offering financial products to remittance recipients through innovative, cost-effective and accessible services. Remittances are a huge potential future source estimated to grow from US$430 billion today to US$2.5 trillion.

19 The Weather Risk Management Facility initiative launched jointly by IFAD and WFP, promotes the access of vulnerable smallholders to risk management tools such as weather-based index insurance (WII). It conducts global research in best practices for WII programmes to inform international agencies and donors’ country programme staff in effectively implementing a WII programme.

20 PARM was launched in 2013 as an initiative developed under the G20. PARM is a multi-donor initiative worth US$7.7 million. PARM helps identify, assess and quantify agricultural risks in partner countries, and develop related strategies for informing public policies, agricultural investment programmes and private sector practices.

21 Proposal for a Facility for Refugees, Migration and Stability (EB 2016/118/INF.6).


23 IFAD Management has proactively managed the number of countries included in the PoLG in any given replenishment period. For example, following introduction of the PBAS in 2005 and the allocations given to 118 countries, Management reduced the number of countries to 89 in the subsequent IFAD7 period (2007-2009), given the effect on both project financing levels and the budget. In IFAD9, 2013-2015, 99 countries were included in the PoLG for allocations through the PBAS process; and this number has been maintained for IFAD10.
benefits of larger projects: they tend to achieve better development outcomes through stronger monitoring and evaluation (M&E) systems, better knowledge management, and enhanced performance of governments as a project partner. An IFAD disbursement study revealed that larger operations also provide the right incentives for disbursements: the bigger the project, the higher the motivation for governments to disburse funds quickly.

28. This notwithstanding, the average size of IFAD's operations would still remain commensurate with IFAD's operational approach. Many IFAD-supported projects test new ways of working which can later be scaled up; their core purpose is to build trust and institutional capacity. The aim of the higher budgets, more expedient implementation and stronger systems for learning and results monitoring proposed in this paper is to reinforce the operational approach that IFAD has built up and refined over decades, while allowing more flexibility to achieve impact at a larger scale.

29. When absorption capacity is guaranteed, larger operations offer new possibilities. They facilitate cofinancing of projects primarily financed by other agencies, incorporating smallholders' perspectives into larger investments. Currently, this represents less than 1 per cent of the Fund's portfolio. In some countries, larger projects could augment the scale of productive investments that are already part of IFAD's portfolio, such as rural infrastructure which now represents close to 15 per cent of financing. More sizeable financing enables agencies to engage in in pool-funding – for example, sector-wide approaches. For IFAD, this would mean a more substantial seat at the policy table to advance the cause of rural smallholders. Such an approach is in line with the AAAA plea for greater aid coordination, and the multilateral development banks’ common agenda for action.

30. Deciding which countries receive fresh financing requires transparent criteria. Management proposes that these criteria focus on solving a persistent shortcoming of IFAD's PBAS: the fact that in a given cycle close to 20 per cent of countries that express their willingness to avail themselves of resources at the beginning of each cycle do not transform these pledges into projects due to later changes in country conditions and priorities. This practice cuts across the whole country income spectrum. Ensuring country readiness to prepare new projects is essential to linking PBAS allocations to pipeline planning and delivery. Management proposes the following criteria:

- **Strategic focus**: valid country strategy is available early in the PBAS cycle. This would ensure that qualifying countries have a mature strategic vision of how to use IFAD resources and are therefore ready to engage in concrete operational discussions. This is particularly important for countries that have not borrowed from IFAD before;

- **Absorptive capacity**: all operations that have been effective for more than one year have disbursed funds at least once in the previous 18 months. This would provide a practical check on absorptive capacity, and sequence new designs more closely with implementation support or non-lending activities; and

- **Ownership**: no approved loans are pending signature for more than 12 months. This proxy ensures that adequate ownership and commitment are in place to facilitate the use of IFAD’s resources.

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25 See footnote 7.

26 See: Corporate-level evaluation of IFAD’s performance-based allocation system (EB 2016/117/R.5).
31. IFAD has learned through experience that reducing the number of countries receiving new financing does not in any way mean disengaging from countries or penalizing them. On the contrary, it provides better services to all Member States through more adequate planning. Countries that do not access new funds in one cycle can do so in the next, while benefitting in the current cycle from better implementation support for its ongoing operations.

32. **Performance-based allocation.** The PBAS starts from the premise that IFAD resources should only be used to assist countries that present sizeable need in terms of rural poverty and food insecurity (and that comply with the criteria identified in para. 30). Once countries are selected by Management, the formula allocates initial resources following an estimation of the actual needs of these countries. Building on this base, it then provides additional resources to the countries that demonstrate through performance that they can utilize them effectively. As documented in the corporate-level evaluation on PBAS, the former step is disproportionally influential in IFAD10. Efforts are under way to rebalance the formula for IFAD11 to ensure that both needs and performance have analogous influence on allocations.

33. In this system (including the adjustments proposed for IFAD11), relative allocations across different income groups remain stable over time. Sensitivity analyses show that even if some variables, for all or most countries, change sharply (for example, some countries experience a growth in rural population or a reduction in gross national income), the overall distribution across income groups remains relatively constant. This is explained by the high heterogeneity of IFAD’s borrowing Member States with regard to key variables in the formula (e.g. LICs and UMICs are at opposite ends of the income spectrum). All scenarios prepared by Management in the context of the PBAS reform share this positive feature. This means that once a mathematical variation of the formula is adopted to respond to Members’ priorities and sense of fairness, the resulting distribution will be maintained over time.

34. This stability provides Management with the assurance that the policy statements made with regard to allocations to LICs and LMICs on the one hand, and UMICs on the other, will be honoured. In practice, it is equivalent to running the PBAS twice, on two separate groups of countries (divided either by lending terms or by income group). However, if Management were to adopt such a practice, current proposals presented through the Working Group on the PBAS would need to be redone. The main reason for this is the fact that, as explained above, the formula is stable because of the heterogeneity of the countries involved. Running the PBAS twice would separate countries into two, more homogenous, groups, each needing a revised formula.

35. Obviously, while allocations across income groups are stable, fluctuations occur at individual country levels based on the elasticity of the different variables. This reflects the essence of the system: that borrowing countries will see their allocations changing over time as their relative needs or performance change. The corollary of this is that once percentages by grouping are approximately determined, borrowing Member States compete for resources mostly with countries that are similar to themselves, also in terms of income. In many regards, this is a fair competition (see annex II for details and examples).

36. **LICs and LMICs.** Through the revised PBAS formula, Management will allocate 90 per cent of core resources to the LICs and LMICs that are selected to receive fresh resources in IFAD11 through the above criteria. As explained in the Looking Ahead paper, not only are sub-Saharan African countries more likely to be classified at these lower income levels, the percentages of the population experiencing extreme rural poverty and undernourishment are much higher. This region requires concerted and targeted efforts to achieve the SDGs. The Fund will therefore
continue providing approximately 45 per cent of its replenishment resources to
sub-Saharan Africa and 50 per cent to Africa as a whole. This prioritization of the
poorest countries for ODA allocation is coherent with the stand that development
assistance should focus on the poorest countries in the world – those that are
falling behind the rest – which are home to about a billion people.27

37. **UMICs.** The remaining 10 per cent of IFAD’s core resources will go to UMICs. This
number has progressively decreased from 15 per cent in IFAD8 to 11 per cent in
IFAD10. Management proposes to introduce a clear policy statement that
10 per cent of core resources will be provided to UMIs to help them leverage their
resources for rural transformation. Over time, as Management fulfils its ambition to
double the PoW through greater leverage, including market borrowing, this
percentage will decrease. Subsequent needs will then be financed through
borrowing (see para. 12). This responds to the fact that due to the changes in the
distribution of rural poverty, a significant number of poor rural people live in these
countries. This phenomenon has been referred to as the “new bottom billion”,
i.e. the significant number of poor people who live in countries that have taken off
economically, and it requires a new type of engagement from donors.28

38. The approach to UMICs under IFAD11 will be tailored to each country’s specific
circumstances. In UMIs with substantial pockets of poverty, or in those
experiencing the middle-income trap, IFAD will pursue interventions that
meticulously target the rural poor in the poorest regions. In other UMIs, there
may have been sufficient growth – albeit uneven – for them no longer to require
money from IFAD to meet the needs of their rural poor. However, rural poverty
reduction takes more than money. Many governments simply lack the knowledge
of how best to achieve their policy objectives in the rural sector. They therefore
look to IFAD to share innovative approaches or experiences from other countries
that they can draw on in developing their own national policies and strategies. The
challenge then is to move beyond thinking of IFAD support as merely funding or
project driven.29

39. Notwithstanding the levels of financial investment in UMIs, the needs of their
rural communities are complex and go beyond financing. For example, IFAD will
continue empowering poor smallholders to demand that their country respect,
protect and fulfil their rights, particularly their right to food.30 This aspect has
always been implicit in IFAD’s people-centered approach in all countries through
the promotion of the principles of inclusion, equality, participation and
accountability. In fact, most IFAD projects seek to strengthen the ability of the
poorest and most marginalized groups to build sustainable livelihoods, thereby
facilitating their right to food. As the Fund expands its country presence, the
human-rights-based approach will be at the centre of policy engagement, in
partnership with other United Nations agencies, in particular the Rome-based
agencies, even in countries where funding for projects is limited.

40. While IFAD continues to help UMIs to address the challenges faced in reducing rural
poverty under IFAD11, it will be vehemently committed to ensuring that its

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27 Paul Collier, *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It* (Oxford: Oxford
University Press, 2007).
29 This type of advice could for instance be provided by IFAD through reimbursable technical assistance.
30 As explained in General Comment 12 on Article 11 of the International Covenant on Economic Social and Cultural Rights, the
Right to Adequate Food “… imposes three types or levels of obligations on States parties: the obligations to respect, protect
and fulfil [facilitate and provide the right]... The obligation to respect existing access to adequate food requires States parties
not to take any measures that result in preventing such access. The obligation to protect requires measures by the State to
ensure that enterprises or individuals do not deprive individuals of their access to adequate food. The obligation to fulfil
(facilitate) means the State must pro-actively engage in activities intended to strengthen people’s access to and utilization of
resources and means to ensure their livelihood, including food security. Finally, whenever an individual or group is unable, for
reasons beyond their control, to enjoy the right to adequate food by the means at their disposal, States have the obligation to
fulfil (provide) that right directly. This obligation also applies for persons who are victims of natural or other disasters.”
work in UMICs benefits LICs and LMICs. A revised financial strategy will ensure that resources lent by IFAD on ordinary terms are used to leverage greater resources to lend on highly concessional terms. From an operational perspective, South-South and Triangular Cooperation (SSTC) will have a prominent role in facilitating more dynamic knowledge flows from UMICs to LICs and LMICs. More effective decentralization will allow IFAD to help UMICs become emerging donors and facilitate their broader engagement in the international development dialogue.

41. **Most fragile situations.** Cutting across all income levels, approximately between 25-30 per cent of IFAD11’s core resources are projected to be allocated to the most fragile situations (MFS). The Fund’s new strategy for MFS highlights the need to increase resource allocation to countries with the most fragile situations. At the same time, Management recognizes the importance of systematically assessing absorption capacity. Widespread evidence suggests that the provision of resources to countries with fragile situations follows a U-curve, in which the marginal effectiveness of aid starts to decrease when reaching a ceiling (absorptive capacity ceiling).\(^{30}\) The current practice of capping a country’s PBAS allocation when needed is instrumental in this regard. Management proposes to continue reinforcing the combination of lending and non-lending activities in MFS, carefully sequencing technical assistance with targeted investments.

42. **The additional resources will primarily be used to address the root causes of fragility that relate to IFAD’s mandate: from strengthening governance of natural resources, to fostering inclusive community-based organizations and effective local government service delivery. Noteworthy in the current context is Management’s commitment to ensuring adequate sequencing of short-term humanitarian aid and long-term development support in agriculture. The marginal effectiveness of aid is highest in periods that follow major conflicts and crises. Those periods constitute windows of opportunity to leverage aid resources to lock in peace dividends and address fragility.**\(^{31}\) The memorandum of understanding (MoU) recently signed between IFAD and WFP in Sudan is an example of this approach. Finally, Management proposes to mobilize supplementary financing to help MFS strengthen their institutions in the rural space and thus increase their capacity to absorb IFAD resources more effectively.

43. **Small island developing states (SIDS).** Management recognizes the distinct challenges that SIDS face in ensuring food security and employment for smallholder farmers and fishers, amid acute vulnerability to climate change and persistent exposure to disasters and weather-related hazards, further exacerbated by geographic remoteness and dispersion. The addition of the IFAD Vulnerability Index to the PBAS formula and the increase in minimum allocations are steps to ensure that the allocation of IFAD11 resources helps SIDS address these challenges more effectively.

44. **Lending terms.** In accordance with the Policies and Criteria for IFAD Financing, about two thirds of IFAD financing must be provided on highly concessional lending

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31 According to the 1999 World Bank paper *Aid Allocation and Poverty Reduction*, some of the largest positive deviations in terms of effectiveness of aid were in post-conflict countries. Similarly, in *The Role of Foreign Aid in Post-Conflict Countries* (Amherst, Massachusetts: University of Massachusetts at Amherst, 2015), Léonce Ndikumana found that a capable state is critical to aid effectiveness in fragile situations and that aid that is sensitive to the conditions of fragility is particularly effective. The 2015 IDA17 Mid-Term Review, *Strengthening Support to Fragile and Conflict-Affected States*, found that effectiveness increased with enhanced support. The focus on enhancing support to FCS in IDA17 was followed up by further enhancements in IDA18.
terms. A country’s eligibility for highly concessional (including DSF), blend or ordinary financing is determined mostly on the basis of per capita income but also taking account of other criteria such as debt sustainability or special arrangements for SIDS. For this reason, income groupings are not matched with financing terms (table 1).

Table 1
Distribution of countries by income grouping and financing terms in IFAD10 (total resources)

<table>
<thead>
<tr>
<th>Income category</th>
<th>Highly concessional</th>
<th>Blend</th>
<th>Ordinary</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income</td>
<td>29</td>
<td>-</td>
<td>-</td>
<td>29</td>
</tr>
<tr>
<td>Lower-middle income</td>
<td>15</td>
<td>10</td>
<td>7</td>
<td>32</td>
</tr>
<tr>
<td>Upper-middle income and high income</td>
<td>1</td>
<td>1</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>11</td>
<td>24</td>
<td>80</td>
</tr>
</tbody>
</table>

45. In the last few years, changes in per capita income levels across IFAD’s borrowing Member States have not been uncommon, both in progressive and in regressive directions, which has affected lending terms. In fact, 30 LICs borrowing from IFAD became LMICs only in the last decade. Lending terms are revised on a yearly basis without any steps to accompany a changeover, creating uncertainty in borrowers. Management proposes to develop a clear transition framework, to be presented for the approval of the Governing Council in 2018. The proposed framework will move away from yearly adjustments to fixed lending terms per cycle and introduce phasing out/phasing in periods on the basis of objective criteria that take into account a country’s need for concessional funds.

Micro-selectivity

46. Targeting. The macro-level decision to allocate resources to countries, and the amount and price of those resources must be accompanied by an in-country mechanism to target rural poor and food-insecure people. IFAD’s target group (as identified in the IFAD Policy on Targeting) is composed of extremely poor people who have the potential to take advantage of improved access to assets and opportunities for agricultural production and rural income-generating activities. Such targeting pays special attention to smallholder and landless farmers, indigenous peoples and ethnic minorities, and other disadvantaged communities.

47. Among the poorest populations, IFAD11 will continue placing strong emphasis on women. Studies cited in the Looking Ahead paper consistently find that women have significantly less access to agricultural inputs, creating a gender productivity gap that has consequences for overall productivity as well as gender equality. The midterm review of IFAD’s Policy on Gender Equality and Women’s Empowerment confirmed IFAD’s performance in gender targeting.

48. Going one step further, Management will revise its operational guidelines on targeting to incorporate a sharper focus on young people, pursuing in particular the creation of employment for them in agriculture. The Looking Ahead paper shows that across developing countries, young people are two to three times more likely than adults to be unemployed. Programmes and projects therefore need to pay particular attention to their needs and their potential to contribute to the country’s

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35 Information gathered from the manuscript Rural Youth Employment prepared jointly by World Bank and IFAD at the request of Germany as an input into G20 discussions.
development. Neglecting to do so not only represents a lost resource to the growth potential of the economy, but also poses the risk that in some circumstances unemployment can fuel social ills including contributing to fragility within a country.\textsuperscript{36} Promoting employment for young people is thus the bedrock of sustainable development and a vibrant society.

49. **Sector focus.** To ensure effective use of its scarce resources, IFAD must maintain its careful sector focus, in order to stimulate larger rural transformation.\textsuperscript{37} Thus, the IFAD Strategic Framework 2016-2025 sets forth the Fund's overarching development goal: to invest in poor rural people to enable them to overcome poverty and achieve food security through sustainable and resilient livelihoods. This is pursued primarily through projects focused on agriculture, rural business development, rural infrastructure and rural financial services. As shown in figure 2 these four themes covered about 70 per cent of IFAD expenditures between 2010 and 2015. Throughout these areas the Fund facilitates the growth of stronger rural institutions.

Figure 2
**IFAD funding by activity category 2010-2015**

50. In addition, there are cross-cutting themes that apply in a ubiquitous way to most country programmes, irrespective of their thematic priorities. These are the topics of gender equality and women's empowerment, nutrition-sensitive agriculture and climate resilience. Management believes that the best way to achieve results in these three areas is by influencing the “behaviour” of the whole portfolio through the application of specific gender, nutrition and climate lenses rather than pursuing free-standing approaches. A dedicated paper on mainstreaming these themes will be presented for discussion at the third session of the Consultation in October 2017.


IV. Resource utilization

A. Doing development differently

51. The previous two sections have looked at adjustments to resource mobilization and allocation from a high level; the details of how IFAD resources are spent or utilized were not discussed. This section deals with ongoing efforts to bring IFAD closer in line with current thinking on development effectiveness, including new paradigms to emphasize the importance of tackling locally defined problems in an agile manner, adopting an experimental approach by gathering information on performance and adapting projects accordingly going forward.\(^{38}\) Through reforms enacted during IFAD10, the Fund is already applying many of the attributes of this approach. Other adjustments need to be introduced to embrace it wholeheartedly.

52. **Focus and flexibility.** Flexible design and implementation start with identification of a problem and a sound diagnosis of its causes, and the clarification of the expected results of the proposed intervention to address the problem. However, the IFAD Development Effectiveness Framework (DEF)\(^{39}\) highlighted that while overall IFAD projects have many of the elements for achieving development effectiveness, within the projects themselves there is frequently a lack of focus, as a result of vague project objectives or an overly general theory of change/project logic. Historically, these limitations have consistently featured in Independent Office of Evaluation of IFAD (IOE) recommendations to Management.\(^{40}\) The relevance of solid evaluability for ex post evaluation is self-evident, but its virtues in project design are often not fully appreciated. Other international financial institutions (IFIs) have found that efforts to be clear and precise provide significant benefits simply by ensuring that all parties concerned understand and agree on the project’s basic rationale.\(^{41}\)

53. To reinforce quality at entry of IFAD11 operations, the operations review and clearance process will be revisited. While maintaining the principles of quality enhancement and arm’s length quality assurance, a more agile process will be put in place with the flexibility to fast-track evidence-based designs and low-risk projects. This streamlined process will have to balance the need for greater clarity at design, while allowing the flexibility to adapt that design during project implementation. The introduction of the development effectiveness checklists, as approved by the Board through the DEF, will be embedded in this process to ensure project evaluability.\(^{42}\)

54. **Agility.** Another important element of this approach is the quest for agility in implementation, to respond to the increasingly sophisticated needs of developing countries. Evidence shows that long project implementation periods diminish impact as they tend to wear down staff quality, raise unit costs and erode ownership.\(^{43}\) To address this for IFAD11, concrete steps need to be developed to accelerate the current implementation pace: operations take on average 18 months from concept note to loan signing and more than eight years to be completed. This time frame is particularly at odds with the increasing focus on the private sector and more


[^43]: Gaston Gohou and Issouf Soumaré, *The Impact of Project Cost.*
sophisticated borrowing Member States that have a greater choice of financing options than before.

55. There are both justifiable and unjustifiable reasons for prolonged implementation periods. Among the former is the fact that IFAD invests in solving problems that are defined, implemented and evaluated by the poor farmers themselves. This participation is essential for sustainability: it facilitates planning processes that respond to genuine local needs; it reinforces the accountability of service providers; and it is the basis for building farmers’ organizations that are capable of accessing markets. Among the unjustifiable causes is the fact that over time – perhaps to a lesser degree than other IFIs – IFAD has created an array of requirements that operations must grapple with. While each individual requirement has been put in place for a valid reason, operations have struggled to assimilate such an array of them, particularly in a context of budget limitations. Most importantly, implementation capacity in most borrowing Member States remains low, in particular in MFS.

56. Agility is also important at the aggregate level to maximize IFAD’s contributions to the SDGs. Given the current processing and implementation times, the programmes and projects to be approved in IFAD11 are likely to be completed by 2030. The design and implementation of these projects will thus determine IFAD’s contribution to the SDGs. Figure 3 shows that if IFAD continues with business as usual, no project approved in IFAD13 will reach completion before 2030, and only 45 per cent of the IFAD12 cohort will do so.

Figure 3
Number of projects by expected completion year and replenishment approval cycle

57. Several measures initiated in IFAD10 will be ramped up during IFAD11 to accelerate implementation of operations, and strengthen their contribution to development results. Greater decentralization is essential to provide good quality technical assistance to build local capacity. Stronger field-based partnerships with other technical agencies, most notably the Food and Agriculture Organization of the United Nations (FAO), also help deploying high-quality technical skills to support implementation. Management is developing a comprehensive action plan to

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accelerate disbursements (see annex III). While steady and timely disbursements are no guarantee of effective implementation or development results, project results can hardly be achieved without timely disbursements. Among the most salient actions of the plan are enhancing procurement capacity, revisiting existing procedures, and updating project disbursement profiles to facilitate benchmarking.

58. A second set of measures seeks to increase the incentives for country teams to either alter low-performing projects, terminate chronically non-performing projects or scale up successful ones through nimbler procedures.\textsuperscript{45} Evidence shows that when proactivity is not encouraged or rewarded development professionals favour a course of action that reinforces existing practices as a result of \textit{sunk cost bias}, which makes them conclude that leaving projects as they are is less costly than restructuring them.\textsuperscript{46}

59. Management is also exploring the creation of a project preparation advances facility (PPAF) to expedite borrower readiness for implementation. Unlike previous attempts in IFAD, the PPAF would be established as a revolving fund to finance advance payments. Recipients would be required either to refinance the advance from the proceeds of the associated grant/loan or from the proceeds of an existing grant/loan, or, if no grant/loan materializes, to repay the advance from their own resources. Project preparation and design in general, and implementation readiness in particular, remain government responsibilities. A key early test of ownership is the borrower’s leadership role in project preparation, including the staffing of the project preparation team and timely action to resolve questions of project policy and design, even before project approval.\textsuperscript{47} To encourage such a role, more substantial project preparation and start-up support must be provided to Member States, particularly in LICs and MFS.

60. More tailored products. As IFAD further tailors operational approaches to country circumstances according to their evolving needs and lending terms under IFAD11, it will also pilot more diversified products. A recently completed benchmarking exercise revealed that other IFIs offer a much wider choice of products, providing more flexibility to borrowers. During IFAD11, Management will consider piloting the following new products:

- **Results-based lending**: the disbursement for this product is linked directly to the delivery of predefined results. Such an approach is coherent with increasing the size of operations and with efforts to strengthen the focus on results rather than concentrating on the traditional approach of expenditure-linked disbursements; and

- **Risk management products**: risk management solutions help mitigate the financial effects of environment changes. These products allow borrowers to transform the financial risk characteristics associated with a loan without renegotiating or amending its original terms. This mechanism enables borrowers to hedge their exposure to market risks, including interest rate, currency exchange and commodity price risks.

61. **Synergies between lending and non-lending.** Non-lending activities complement successful project implementation and help IFAD adopt a more flexible approach to implementation – one that pursues changes based on evidence. The Strategic Framework positions non-lending activities such as knowledge management, country-level policy engagement (CLPE) and SSTC at the heart of IFAD’s work as a way of maximizing impact. Global engagement efforts are also

\textsuperscript{45} This includes the adoption of a Project Restructuring Policy and corresponding procedures to ensure that project designs can be modified during implementation as more information becomes available; clarification of existing project cancellation procedures to facilitate total or partial cancellation of projects and the reutilization of cancelled funding for the same country, as a top up to existing PBAS allocations when applicable; and simplification of Additional Financing procedures.


instrumental in this regard to influence overall debates, policies and resource allocations at global level in support of a more enabling environment for investments in inclusive rural transformation. Communication functions are critical to raising the profile of IFAD’s work, including its contribution to the achievement of the SDGs and to its gravitas. Management will develop ways to better track time and resources spent on these activities, as well as self-assessment frameworks to better measure their contribution to development results. Ultimately, these activities will amplify the impact of the Fund’s operations and increase the sustainability of their results.

62. During IFAD11, Management will update its knowledge management strategy to strengthen IFAD’s capacity to generate, manage, use and share knowledge. This will require a more integrated approach to knowledge management across the organization in order to strengthen the synergies between knowledge management, M&E, SSTC, research and policy engagement.

63. Based on the Fund’s comparative advantages, a new corporate approach to SSTC, which was endorsed by the Board in 2016, is being rolled out and will serve as the basis for this work during IFAD11. The approach focuses on promoting both technical cooperation activities and investment promotion activities among developing countries. With respect to the latter, IFAD is exploring partnerships with a number of financial institutions in these countries in order to leverage agricultural investment. For example, IFAD maintains a memorandum of understanding with the China-African Development Fund to support such financing opportunities throughout Africa.

64. CLPE will continue to be a key instrument in IFAD11, as a way of expanding development impact, as projects alone cannot realize rural transformation. CLPE addresses policy bottlenecks and contributes to knowledge management. While policy engagement is often thought of as a non-lending tool, policy objectives and activities are also increasingly being mainstreamed into lending, enabling a significant portion of IFAD loans to directly address policy conditions during the course of project implementation. The corporate-level evaluation (CLE) on IFAD’s decentralization experience concluded that the Fund needs to significantly step up its work on CLPE to take full advantage of increased field presence. A CLE on CLPE is being finalized by IOE and will be used to strengthen work in this area during IFAD11.

65. **Increased outward-facing capacity.** Doing development differently means redistributing functions from IFAD headquarters to the field, spending more time in outward-looking activities, focusing on understanding country conditions and building meaningful locally-based partnerships.

66. Essential to this business model is the fact that IFAD has an increasing global footprint. As explained in the IFAD Corporate Decentralization Plan, Management estimates that by the end of IFAD11 most of its major products and services will be planned, prepared and delivered at the country and subregional levels. Thus programmatic and financial decision-making will increasingly be devolved to IFAD Country Offices (ICOs). This will alter the way in which IFAD interacts with its Members and partners and will require adjustments to internal business processes, including at headquarters. Indeed, effective decentralization requires a strong headquarters that sets clear strategic directions, policies and safeguards, while recognizing that service delivery to Members is more effective when it closer to them. Moving forward, Management proposes to:

- **Realize a critical mass of field staff,** with the primary purpose of enhancing technical assistance to borrowing Member States and building stronger partnerships to facilitate project implementation. It will necessitate

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46 IFAD Corporate Decentralization Plan (EB 2016/119/R.11).
the recruitment of a limited number of locally based experts in key technical areas such as procurement and financial management, M&E and climate change, and the redeployment of some headquarters-based positions.

- **Revise the delegation of authority** (DoA) to ensure faster administrative and operational processing, building on some ongoing pilots. In line with other IFIs, a revised DoA could also transfer some basic operational decisions to ICOs, such as short project extensions and minimal reallocation of funds, subject to the appropriate safeguards; and

- **Enact revised supervision and implementation support procedures**, moving away from supervision and implementation support by mission to continuous supervision by ICOs. This synchronizes IFAD's role during project implementation with the current development paradigm, and focuses its attention on results, accountability, partnership and capacity-building. Such a shift will promote more efficient use of supervision budgets given that the cost of long-haul missions from headquarters is dozens of times higher than that of ICO-originated field visits and follow-up.

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67. This new paradigm requires programme management arrangements that prioritize time and resources to strengthen relationships with developing Member States, beyond the project management dimension. At present, however, country programme managers (CPMs) spend a considerable amount of their time on project administration and due diligence, with insufficient resources to engage in representational and policy engagement activities, and even in implementation support. When IFAD’s value added was conceived as residing solely in the projects it delivered, depositing accountability for project delivery with a single CPM was coherent. CPMs have retained sole responsibility for project design and supervision even though project requirements have become more complex and country-level demand for representation functions such as non-lending and partnership-building has increased. Clearly there is a need for more sharing of tasks and effective delegation of authority in design, implementation and supervision, without diluting individual responsibilities.

68. Solving this bottleneck at the frontline of operations is essential for the delivery of the Fund’s new ambitions. Management is carefully assessing possible ways to overcome this shortcoming. The workload analysis of CPMs currently under way will inform this task. One solution would be to create a sizeable number of new CPM positions, making corresponding savings in other functions. A second, more elaborate possibility would be the redeployment of staff to create a cadre of task managers to assist CPMs in managing specific projects. An important step towards better use of a CPM’s time is the more stringent country selectivity proposed for IFAD11. Designing fewer projects – or none at all during some cycles – would give CPMs more time to interact with project counterparts, including through policy engagement and non-lending activities.

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V. **Transforming Resources into Development Results**

A. **Embracing a culture of results and innovation**

69. Responding to the demands of Agenda 2030 requires more than effective leveraging of resources, and their targeted allocation and flexible utilization; it calls for a change in mindset to embrace the SDGs with determination, regularly reassessing old assumptions. The DEF was approved by the Board in 2016 to facilitate evidence-based decision-making at the project, country and corporate levels, and to help instill within IFAD and among its Member States, a culture of results as opposed to one of approval.\(^49\) The DEF introduces fresh incentives, better processes, smarter systems and skill enhancement into IFAD-supported operations.

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Most of the proposed actions are under way and Management will provide an update at the third Consultation session in October 2017.

70. **Evaluation.** In operations, self- and independent evaluations are the cornerstones of a results-based culture. They provide the foundations for accountability and learning within the organization in a mutually reinforcing manner. Both of these evaluation systems are being strengthened and will be further harmonized during IFAD11. Each step of the self-evaluation process is being strengthened, along with the corresponding guidelines and systems to ensure that real-time, good quality data feeds into project design and implementation.

71. Evidence shows that better impact assessments contribute to better development outcomes.\(^{50}\) Initiated in IFAD9 and refined in IFAD10, IFAD’s efforts to systematically measure the impact of its operations will be consolidated in IFAD11, mainstreamed into operations, used for accountability and assessment of value for money. They will also serve to strengthen the communication of IFAD’s results and heighten the organization’s visibility. Through this initiative, IFAD continues to be the only IFI to systematically assess the development results to be attributed to the operations it finances.

72. **Capacity and systems.** As part of the DEF, IFAD is initiating several mutually reinforcing activities to strengthen both IFAD’s own capacity and that of its Member States to manage for results, facilitated by cutting-edge ICT systems. Key milestones include:

- Rolling-out the Operational Results Management System (ORMS) to all operations. ORMS provides a single interface for project management from design, through supervision to completion, and incorporates the delegation of authority framework. ORMS will bring sizeable efficiencies by eliminating lengthy procedures, automating workflows and streamlining results reporting;

- Rolling-out the IFAD Client Portal (ICP) to provide a client gateway for performing transactions via a scalable, adaptable and secure platform. The ICP will allow faster processing of non-objections and withdrawal applications, positioning the organization among the select few IFIs that offer a truly integrated online financial portal;

- Launching the first-ever global certification framework for M&E in the rural sector through the Centers for Learning on Evaluation and Results (CLEAR).\(^{51}\) This initiative will provide field-delivered training to M&E officers in all IFAD projects to ensure that they have adequate skills for results measurement throughout the project cycle. Strengthened M&E correlates with better development outcomes at project completion;\(^{52}\) and

- Introducing mandatory accreditation frameworks for financial management and procurement consultants to strengthen fiduciary skills and the quality of support to country teams.

73. **Transparency.** Of all the elements of a results culture, transparency is perhaps the most transformational. It has the potential to change the accountability relations between stakeholders by, for instance, providing rural smallholders with the information they need to hold decision makers to account for the use of IFAD resources. Transparency is also a commanding incentive for better data quality, more efficient use of resources, more careful monitoring, better policy compliance

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\(^{51}\) EB 2016/LOT/G.1 grant under the global/regional grants window to the Centro de Investigación y Docencia Económicas A.C. for the Training and Global Certification Framework for Monitoring and Evaluation and Impact Assessment in Rural Development.

and benchmarking. A transparency and openness action plan is currently being developed for review by the Executive Board in 2017. During IFAD11, the Fund will:

- Finalize the development of a corporate dashboard containing real-time data on performance and results of IFAD-supported operations. This dashboard will be fully accessible externally through the website, setting a new standard of transparency and accountability for IFIs;
- Step up actions to comply with the International Aid Transparency Initiative by disclosing commitments and disbursements on a quarterly basis;
- Disclose all project completion reports and project audit reports;
- Publicize the geographic location of all IFAD operations in the external website through easily accessible maps, in line with other IFIs;
- Provide members with more systematic information on fraud and corruption together with more regular updates on plans to strengthen policies and mechanisms; and
- Revamp its client survey approach to ensure regular feedback loops from governments and beneficiaries through more actionable questionnaires and transparent disclosure of responses.

74. **Service delivery platform.** IFAD’s service delivery platform will undergo continued enhancement. For the Fund to become an incubator for innovation at all levels, it will have to audit its business processes to identify ways to reduce superfluous steps and eliminate duplication and redundancy. This platform should also provide the safeguards and control framework to ensure that resources are irrevocably used for the intended purposes. Specific highlights under IFAD11 include:

- **ICT architecture.** ICT services will be fully oriented towards enabling IFAD’s core business (see para. 72) and will be continuously adapted in pace with decentralization. Integration is the cornerstone to IFAD’s future ICT architecture, accompanied by the capacity to aggregate information from numerous sources and deliver it through multiple devices, providing staff and Management with the relevant information to make business decisions regardless of location and time. In light of a globalized workforce and of the externally-facing tools and applications, greater emphasis will be placed on right-sizing the response to cyber threats and risks to ensure a fully secure IT environment;
- **Financial management.** IFAD will continue building capacity in programme and project financial management and providing timely support for project design and implementation. As it moves into innovative financing arrangements, IFAD will build its capacity for risk analysis and the management of such resources. Internal control frameworks over financial reporting will be further strengthened to ensure a robust and efficient internal control system aligned with industry standards and evolving accounting and reporting requirements;
- **Human resource (HR) management.** During IFAD11, the focus of human resource management will be on decentralization and support to ICOs. In line with the Corporate Decentralization Plan, the implementation of a structured rebalancing of staffing between headquarters and ICOs will be prioritized. As discussed above, an increase in country programme and administrative functions in existing ICOs is expected, accompanied by hiring and deployment of more staff in the field. This rebalancing of staffing will be achieved through a parallel shift and cost efficiencies at headquarters. The career development framework will be further tailored to meet the needs of ICO staff in planning,
managing and developing their careers, while at the same time maintaining IFAD’s flexibility to meet future challenges. As part of career management, mobility will be mainstreamed in HR processes in support of a flexible workforce. The Fund will also continue to refine the integration of human resources modules in PeopleSoft with a view to supporting the decentralization of certain HR functions and processes to ICOs. Of utmost importance will be Management efforts to increase the number of women at the highest grades of the Professional category; and

- **Tailored business and administrative processes.** To ensure value for money in IFAD’s internal processes, Management will develop a tailored system to quantify the full costs of key business processes by measuring the time allocated by staff to underlying activities. Recent efforts to move from cluster-based planning and budgeting to using strategic results pillars has paved the way for this to happen. Under the revised approach, planning and budgeting will be allocated across 39 institutional output groups which map to the four planning pillars set out in the Strategic Framework.

75. **Value for Money (VfM).** The business model adjustments presented above contribute to improve IFAD11’s value for money, i.e. to maximize the impact of each dollar invested to improve the lives of rural poor people.\(^{53}\) The proposed changes respond to the four "Es" that define the concept of value for money:

- **Economy:** the changes aim to make IFAD more agile, for example by reducing processing and implementation times. This brings down costs while maintaining the quality of outputs.

- **Efficiency:** the changes aim to increase IFAD’s scale of operation through a more stringent framework for country selectivity thereby significantly raising average allocations per income group and increasing the number of beneficiaries by up to 20 per cent. This will increase IFAD’s output (while retaining quality) at a lower cost through a reallocation of resources, contributing to greater efficiency.

- **Effectiveness:** taken together, the proposed changes will make IFAD more effective. Specifically, they adopt tactics to maximize leveraging through partnerships thereby promoting domestic resource mobilization, cofinancing and private sector financing to amplify impact; they postulate the constant adaptiveness of projects to ensure that results guide implementation and not rigid blueprints; and they propose to systematically collect data and evidence of what works to ensure better quality at entry and during implementation.

- **Equity:** the proposed changes reaffirm the Fund’s focus on the poorest people in the poorest countries: the business model prioritizes core resources for LICs and LMICs and reinforces the operational targeting policy.

76. For IFAD, VfM is then about ensuring the best use of resources to deliver the greatest impact in improving the lives of rural poor people. At the corporate level, the IFAD11 Results Measurement Framework will include indicators linked to operational and institutional efficiency to monitor and improve corporate-level resource use. Since it is IFAD’s business model that largely determines the approach to mobilizing, allocating, utilizing and transforming resources into results, improving IFAD’s VfM will be achieved through the implementation of the business model presented in this paper.

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Scenarios and country selectivity for the IFAD11 programme of loans and grants

I. Introduction
1. This analysis presents three scenarios for the programme of loans and grants (PoLG) highlighting their adequacy in connection with IFAD's agenda for the Eleventh Replenishment of IFAD's Resources (IFAD11) period (2019-2021). It elaborates on the country selectivity criteria proposed in section III of the main document and shows the impact of applying these criteria to the current list of countries with ongoing operations during IFAD10. The allocations for each PoLG scenario are broken down by income group, region and financing terms. The allocations are derived by applying the performance-based allocation system (PBAS) formula used in scenario 3, which was the scenario indicated by Management as the preferred option of the four scenarios presented to the 120th session of the Executive Board. It should be noted that this scenario has not yet been approved by the Board.

II. IFAD11 PoLG scenarios
2. As emphasized in the main text, most of IFAD's contribution to the 2030 Agenda for Sustainable Development (Agenda 2030) and the Sustainable Development Goals (SGDs) will be shaped during IFAD11. For the IFAD11 period, IFAD's ambition is to increase the size of its PoLG by an amount within the range of 25 and 40 per cent with respect to IFAD10, in order to achieve greater impact and outreach. Within this range, Management presents two possible scenarios of US$4.0 billion and US$4.5 billion. A low scenario is also presented, i.e. of US$3.3 billion, which would entail a minimal increase with respect to the status quo.

- **Business-as-usual scenario: PoLG US$3.3 billion**
  This scenario would represent nominal growth of 3 per cent over the planned IFAD10 PoLG of US$3.2 billion. Such a level would fall short of demand for IFAD financing and country investment needs to eradicate rural hunger and end extreme poverty – as described in the Looking Ahead paper – and would also be inconsistent with the aspirations of Agenda 2030.

- **Middle scenario: PoLG US$4.0 billion**
  This scenario would represent nominal growth of 25 per cent over the planned IFAD10 PoLG of US$3.2 billion and is therefore within the desired range. It would respond to country demands for IFAD financing and be largely consistent with the aspirations of Agenda 2030. It would also be comfortably within IFAD’s delivery capacity assuming a minimal increase in budgetary resources.

- **High scenario: PoLG US$4.5 billion**
  This scenario is the most ambitious, based on a nominal increase of approximately 40 per cent over the planned IFAD10 PoLG of US$3.2 billion. It fully responds to the high demand for IFAD financing and remains within IFAD’s delivery capacity assuming that the proposed changes to the business model described in the main document are implemented. It would be wholly consistent with the aspirations of Agenda 2030.

3. These projections are subject to change as: (a) the PBAS formula undergoes further adjustments; and (b) the country selectivity criteria are applied to the updated status of each country, before the beginning of the IFAD11 cycle.

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54 For this exercise, the PBAS formula applied was the one presented in scenario 3 of the document EB 2017/120/R.2, p.11.
III. Country selectivity criteria and country list

4. The criteria proposed in the business model for country selectivity aim at ensuring transparent and efficient use of resources in every cycle. These criteria are meant to ensure better alignment between the PBAS, pipeline development and forward planning, as recommended by the corporate-level evaluation on the PBAS. The rationale for selectivity criteria is that it should avoid ex ante skewness towards any income category, region or type of financing terms. The criteria should also provide an indication of the likelihood of proper and timely use of IFAD's resources by the government.

- **Strategic focus**: a valid country strategy is available early in the PBAS cycle. This would ensure that qualifying countries have a mature strategic vision of how to use IFAD resources and are therefore ready to engage in concrete operational discussions. This is particularly important for countries that have not borrowed from IFAD before or in the previous cycle; this criteria ensures that the country is ready to work with IFAD during the cycle, in that the entry points of IFAD’s operations are already assessed and mutually agreed upon.

- **Absorptive capacity**: all operations that have been effective for more than one year have disbursed funds at least once in the previous 18 months. This would provide a practical check on absorptive capacity, helping to better sequence new designs with implementation support or non-lending activities; this criterion helps identify countries in which IFAD should focus on ensuring that allocated resources are used effectively rather than on approving further operations that might be a burden for the country; and

- **Ownership**: no approved loans are pending signature for more than 12 months. This proxy ensures that adequate ownership and commitment are in place to facilitate the use of IFAD's resources. This criterion is the first indicator of a country’s level of engagement and its interest in the success of IFAD's operations.

5. These criteria respect the principle of universality, as embedded in IFAD's mission. As such, they build on the tenet that no criterion that penalizes upfront a specific subset of countries – whether it be because of income or fragility or region – would, nor should, be applied. These criteria are also actionable: each country can choose to change its behaviour to become eligible for fresh support.

6. In order to have an indication of the resulting sample of countries, the criteria as proposed above were applied to the current list of countries to which funds were allocated funds under IFAD10. The list of eligible countries would be compiled and updated ahead of the IFAD11 cycle to account for changes in eligibility status with respect to one or more of the criteria listed above.

7. Applying the above criteria to the current list of countries with ongoing operations and receiving funds under IFAD10 would make 22 of them ineligible under one or more criteria. Ten of these would become ineligible because they lack a country strategic opportunities programme (COSOP) or country strategy note (CSN), four because of limited absorptive capacity, and eight because of insufficient ownership, as defined above. It is paramount that these criteria are applied with a certain degree of flexibility to ensure that all LICs remain eligible.

8. The revised list of potential countries after applying these criteria would comprise 80 countries. Table 1 shows the breakdown of this list by income category and financing terms. The list provides a balanced presence of countries in terms of both income category and financing type.

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55 Countries with COSOP or CSN pending 2017/2018 approval were included.
### Table 1
*Countries included by income category and lending term*

<table>
<thead>
<tr>
<th>Income category</th>
<th>Highly concessional</th>
<th>Blend</th>
<th>Ordinary</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-income</td>
<td>29</td>
<td>-</td>
<td>-</td>
<td>29</td>
</tr>
<tr>
<td>Lower-middle income</td>
<td>15</td>
<td>10</td>
<td>7</td>
<td>32</td>
</tr>
<tr>
<td>Upper-middle income</td>
<td>1</td>
<td>1</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>45</strong></td>
<td><strong>11</strong></td>
<td><strong>24</strong></td>
<td><strong>80</strong></td>
</tr>
</tbody>
</table>

### IV. Country allocations

9. The PBAS formula is then applied to the list of selected countries. For these simulations, the formula was reflective of the third scenario presented to the Executive Board at its 120th session\(^{56}\) and indicated by Management to be the most balanced option. As the formula undergoes further adjustments, these projections are subject to change. Table 3 shows the resulting allocations by income category for the three scenarios of PoLG.\(^{57}\)

10. As shown in table 2, under each scenario 87 per cent of the PoLG (total resources) would be directed to LICs and LMICs. When focusing on core resources only – that is excluding the borrowed funds – all scenarios would allow Management to provide 90 per cent of resources to LICs and LMICs, in line with section III of this paper. Furthermore, all scenarios contemplate the provision whereby approximately 45 per cent of core resources would be made available to sub-Saharan Africa.

### Table 2
*Allocations by income category (total resources)*
*(Thousands of United States dollars)*

<table>
<thead>
<tr>
<th>Income category</th>
<th>PoLG US$3.3 billion US$</th>
<th>% share</th>
<th>PoLG US$4.0 billion US$</th>
<th>% share</th>
<th>PoLG US$4.5 billion US$</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-income</td>
<td>1 302</td>
<td>42</td>
<td>1 581</td>
<td>42</td>
<td>1 780</td>
<td>42</td>
</tr>
<tr>
<td>Lower-middle-income</td>
<td>1 401</td>
<td>45</td>
<td>1 700</td>
<td>45</td>
<td>1 914</td>
<td>45</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>2 703</strong></td>
<td><strong>87</strong></td>
<td><strong>3 281</strong></td>
<td><strong>87</strong></td>
<td><strong>3 694</strong></td>
<td><strong>87</strong></td>
</tr>
<tr>
<td>Upper-middle-income</td>
<td>432</td>
<td>13</td>
<td>519</td>
<td>13</td>
<td>581</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3 135</strong></td>
<td><strong>100</strong></td>
<td><strong>3 800</strong></td>
<td><strong>100</strong></td>
<td><strong>4 275</strong></td>
<td><strong>100</strong></td>
</tr>
<tr>
<td>Global/regional grants</td>
<td>165</td>
<td>200</td>
<td>225</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3 300</strong></td>
<td><strong>4 000</strong></td>
<td><strong>4 500</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11. Table 3 shows the potential allocations by region for each scenario (total resources) and, within each regional allocation, the allocation to country-specific grants. The allocations are balanced across regions. As per IFAD’s procedures, country grants are allocated at the beginning of the cycle, for a three-year period.

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56 See footnote 56.
57 The PoLG amounts are reduced by 5 per cent, equalling the amount of global/regional grants, which are not allocated with the PBAS formula.
<table>
<thead>
<tr>
<th>Region</th>
<th>% share</th>
<th>PoLG US$3.3 billion</th>
<th>PoLG US$4.0 billion</th>
<th>PoLG US$4.5 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>Country</td>
<td>Total</td>
</tr>
<tr>
<td>Asia and the Pacific</td>
<td>35</td>
<td>1 090</td>
<td>1 324</td>
<td>1 491</td>
</tr>
<tr>
<td>East and Southern Africa</td>
<td>21</td>
<td>666</td>
<td>808</td>
<td>908</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>4</td>
<td>123</td>
<td>143</td>
<td>158</td>
</tr>
<tr>
<td>Near East, North Africa and Europe</td>
<td>15</td>
<td>462</td>
<td>561</td>
<td>632</td>
</tr>
<tr>
<td>West and Central Africa</td>
<td>25</td>
<td>795</td>
<td>964</td>
<td>1 085</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>3 135</strong></td>
<td><strong>3 800</strong></td>
<td><strong>4 275</strong></td>
</tr>
<tr>
<td>Global/regional grants</td>
<td></td>
<td>165</td>
<td>200</td>
<td>225</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>3 300</strong></td>
<td><strong>4 000</strong></td>
<td><strong>4 500</strong></td>
</tr>
</tbody>
</table>
Features of the PBAS formula

I. Background

1. In February 2003, the Governing Council of IFAD approved the adoption of a performance-based allocation system (PBAS) with a twofold purpose: to increase the effectiveness of the use of IFAD’s scarce resources, and to establish a more transparent basis and predictable level of future resource flows.\(^{58}\) Since then, the PBAS has allowed IFAD to allocate its loan and grant resources to country programmes annually on the basis of a country score, which is determined by two components: (a) the country needs component; and (b) the country performance component.

2. The “Corporate-level evaluation [CLE] of IFAD’s performance-based allocation system” (EB 2016/117/R.5), conducted by the Independent Office of Evaluation of IFAD (IOE) in 2015 and 2016, found that the PBAS has enhanced the Fund’s credibility as an international finance institution (IFI) by providing a more transparent, flexible and predictable approach to resource allocation.\(^{59}\) It also pointed out areas for further improvement.\(^{60}\)

3. Management started the PBAS review in April 2016. Under the guidance of the Executive Board and the Board’s Working Group on the PBAS,\(^{61}\) Management has made adjustments to the individual variables within each of the PBAS formula components (needs and performance), as well as to the weight each component has within the overall formula. As part of this process, Management developed viable scenarios, which were presented to the Executive Board at its 120\(^{th}\) session in April 2017. In addition, Management undertook a sensitivity analysis to ensure the sustainability over time of the changes proposed.

II. Macro stability

4. As explained in section III of the main report, the sensitivity analysis demonstrated that even when changes to the individual formula variables are applied, the formula is robust and remains stable. In practical terms, this means that regardless of variations in the inputs to the formula (for example changes to some or all of the values of the variables), or the presence of outliers (a sharp increase or decrease in the value of an individual variable), the formula changes remain within a reduced range. This is demonstrated by the fact that the distribution of allocations across income groups remains relatively constant.\(^{62}\)

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\(^{58}\) See GC 26/L.4, p.9.

\(^{59}\) The CLE ratings for each evaluation parameter were as follows: relevance: 4.6, effectiveness: 4.2, efficiency: 4.1.

\(^{60}\) See pp.70-75 of the CLE, and the associated response of IFAD Management, pp.3-5 of EB 2016/117/R.5/Add.1.

\(^{61}\) Since April 2016, four meetings of the PBAS Working Group have taken place (in June and September 2016, and in January and March 2017). Management has also presented the findings of the analysis undertaken under the Working Group’s guidance at the Executive Board sessions in April 2017 (EB 2017/120/R.2) and December 2016 (EB 2016/119/R.5), and at the Evaluation Committee session in March 2017 (EC 2016/85/W.P.2). In addition, Management has organised two Executive Board informal seminars (November 2015 and April 2017), and the first ever learning event on PBAS for IFAD staff (December 2016). Management has also engaged in dialogue on the PBAS with the Executive Board at Convenors and Friends meetings, and has held bilateral meetings with Executive Board members who manifested specific interest or concerns. Management is currently working towards a fifth meeting of the PBAS Working Group, planned for 11 July 2017. This will be the last such meeting before the final PBAS formula and procedures are presented to the September Executive Board session for final approval.

\(^{62}\) See EB 2017/120/R.2, section IV, for details of the changes to the value of variables applied for the sensitivity analysis, and their respective results.
5. Chart 1 displays this conclusion graphically. It shows how the distribution of allocations by country groups behaves if an estimate is made of the expected future values of the gross national income per capita (GNIpc) and rural population variables, and such values are used in the allocations calculation. This relationship also holds in the longer run and beyond the parameters shown in this chart.

Chart 1
**Sensitivity analysis: results when applying changes to income (GNIpc) and rural population variables**

6. One key factor that determines this result is the fact that IFAD Member States, which were considered in the analysis, are very heterogeneous. The countries included in the running of the PBAS for IFAD10, which were used in the development of scenarios for IFAD11 with the revised formula, comprise LICs, LMICs, UMICs, MFS and small island developing states. The values of all individual variables in the PBAS formula for these countries vary significantly. This heterogeneity therefore is key to the stability of allocation distribution across income groups.

Table 1
**IFAD10 share of allocations by country grouping across the four PBAS formula scenarios developed (total resources)**
(Millions of United States dollars and percentage of total allocation envelope)

<table>
<thead>
<tr>
<th>Income category</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$</td>
<td>%</td>
<td>US$</td>
<td>%</td>
</tr>
<tr>
<td>LICs</td>
<td>1 120.2</td>
<td>37</td>
<td>1 135.4</td>
<td>37</td>
</tr>
<tr>
<td>LMICs</td>
<td>1 365.6</td>
<td>45</td>
<td>1 373.7</td>
<td>45</td>
</tr>
<tr>
<td>UMICs</td>
<td>554.2</td>
<td>18</td>
<td>530.9</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3 040</td>
<td>100</td>
<td>3 040</td>
<td>100</td>
</tr>
</tbody>
</table>

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63 The estimation was done through a trend analysis. In order to understand how the distribution of allocations would change over time as different countries change the size of their rural population or their income levels, it was assumed that their populations and income over the next few years would continue to increase or decrease at the same pace that they have done so over the past few years.
III. Micro sensitivity

7. The sensitivity analysis also showed that while allocations across income groups are stable, the allocations to individual countries change in the different scenarios associated with the four formulas that Management has developed for Board consideration. Therefore the macro level (income groups) remains stable, while the micro level (the allocations to individual countries in each income group) changes. This is because countries’ allocations are the result of: (i) the value of the individual variables of the formula for each country; and (ii) how the value of the formula variables for each country relates to the value of the variables for each other country included in the PBAS calculations.\(^{64}\)

8. Another way of saying this is that there is evidence of a netting-off effect of allocation changes at income-group level. As shown in chart 2, a comparison of the allocations to LICs produced using two specific PBAS scenarios\(^{65}\) reveals that the relative changes by country almost net each other off, with the net change within the group being only +1 per cent. This not only reiterates that allocations by country income group are stable; it also means, for individual countries, that increasing allocations are counterbalanced by decreasing allocations within the same income group.

Chart 2

Proportional change in allocations to LICs, by country, from scenario 1 to scenario 3

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\(^{64}\) Although counterintuitive, the combination of (i) and (ii) means that an increase in the value for one variable (or component) does not necessarily imply that countries with better scores in that variable receive more resources, even if that variable is lower in all other countries under consideration. This is an intrinsic characteristic of multiplicative formulas such as the PBAS formula.

\(^{65}\) See EB 2017/120/R.2 for details of the four scenarios developed by Management, and their associated PBAS formulas.
9. Charts 3 and 4 show that this behaviour is consistent also for other income groupings. Looking at the proportional changes of allocations within the LMICs and UMICs income groups respectively, it can be seen that such changes almost net each other off. This means that a country’s increase in allocation is balanced by the decrease in allocation for a country within the same income group.

Chart 3
Proportional change in allocations to LMICs, by country, from scenario 1 to scenario 3

Chart 4
Proportional change in allocations to UMICs, by country, from scenario 1 to scenario 3
IV. Performance and income

10. The analysis also shows that, as more weight is progressively applied to the country performance component of the formula, allocations vary for countries in all country income groupings. In fact, countries’ allocations increase and decrease based on their performance. Chart 5 shows this in practice: the weight of the country performance component of the PBAS formula increases, from 44 per cent in scenario 1, to 55 per cent in scenario 4 on the right.

11. Chart 5 also shows that there is no correlation between income level and performance. This can be observed for each income grouping. Taking LICs as an example, as the weight of performance increases, Rwanda’s allocation increases, since its performance is good. The same happens to LMICs such as Cambodia and Mongolia, and UMICs, such as Mexico. All good performers, across all income categories, therefore benefit from an increase in the weight of the PBAS country performance component. Similarly, countries that perform less well see their resources decrease across all income levels, as is the case of Nepal (LIC), Indonesia (LMIC) and Colombia (UMIC).

12. Lastly, in relative terms, when performance increases, some LICS and LMICs benefit more than some UMICs. This is the case for Rwanda in relation to Mexico, as shown in chart 5. It is also the case for other countries such as Madagascar and Chad (LICs) and the Philippines and Viet Nam (LMICs), for which allocations increase more in relative terms, as performance increases, than allocations to, for example, Angola and Georgia (UMICs).

13. Notwithstanding these changes, the distribution across income groupings remains stable, as explained in section II “macro stability”.

Chart 5
Allocation changes as the weight of the country performance component increases
(Millions of United States dollars)

* Minimum allocation US$4.5 million in all scenarios.
IFAD’s disbursement performance and action plan

I. IFAD’s disbursement performance

1. IFAD’s disbursement performance – defined as average time from project approval to first disbursement and its disbursement ratio – is a critical measure of IFAD’s development effectiveness and is recorded in IFAD’s Results Measurement Framework. The results of the disbursement performance against set targets were sub-optimal during IFAD9.66

2. As shown in figure 1, if the current disbursement pace were to continue, by 2030 the Fund would have disbursed less than 60 per cent of the resources approved over the next three replenishments, ranging from 93 per cent of resources approved in IFAD11 to only 34 per cent in IFAD13. Taking into account that the historical disbursement rate levels of IFAD’s projects do not reach 100 per cent of the approved amounts – the average level is 84.4 per cent (as further detailed below) – then the disbursed resources would be even less, as indicated by the light blue line in figure 1. At the country level, the unpredictability of aid affects developing countries’ ability to attain the sustainable development goals (SDGs) – especially low-income countries and lower-middle-income countries.

II. Key findings of the in-depth analysis

3. In order to address this shortcoming, Management undertook an in-depth analysis of IFAD’s disbursement performance to identify the main drivers of the observed trends and recommend actions for stimulating improvement during IFAD10. While other IFIs have undertaken similar studies in the past, this in-depth study on disbursement performance represented the first of its kind for IFAD.

66 On the first indicator, IFAD’s performance has been stagnant over the last few years and stands at approximately 17 months, against the IFAD10 Results Measurement Framework target of less than 14 months. IFAD’s disbursement ratio has decreased over the past two years and stands at 12.3 per cent, against a target of 22 per cent, which was recently corrected downwards to 15 per cent.
4. The study sample included all IFAD-managed funds for all investment projects approved between 1995 and 2014, covering 577 projects in 111 countries.

5. The disbursement performance was analysed within two dimensions: “disbursement readiness” (average time from approval to effectiveness and first/second disbursement) and “disbursement effectiveness” (cumulative disbursement rates during project lifetime and at financial closure).

6. The explanatory factors for the observed performance were selected assessed both qualitatively and quantitatively to rank their relative importance. Four groups of variables were identified at the country, project, IFAD institutional, and country programme manager (CPM) levels.

7. The results of the study confirm that IFAD’s disbursement performance is indeed sub-optimal. While the “average time from approval to first disbursement” improved slightly from 21 months in 1999 to 17.6 months in 2015, no region reached the IFAD9 target of 14 months. In terms of disbursement effectiveness, IFAD’s overall disbursement rate at financial closure was 84.4 per cent.

8. The benchmark disbursement profile developed for this study (figure 2) shows that IFAD projects reach a 33 per cent disbursement rate at the mid-point of their originally planned implementation period, and 71 per cent at the original project end point.

Figure 2
Benchmark curve for overall disbursement rate

9. The main findings of the study related to the four groups of variables include the following:
   - Country-level factors matter for both disbursement readiness and effectiveness. For example, in a middle-income country with a fragile situation, constrained fiscal space and concurrent elections, there is a high likelihood that the first and second disbursements will be delayed. Income and financing terms influence both disbursement readiness and effectiveness, which are significantly better in lower-income countries than in higher-income countries.
• Project-related variables are also significant. The study showed that larger projects disburse funds more quickly. A relatively high first disbursement serves as a good predictor for a quicker second disbursement, suggesting that efforts to support the submission of larger and better-quality withdrawal applications are bearing fruit.

• Third, IFAD’s own performance matters. Operational IFAD Country Offices are benefiting IFAD’s disbursement performance during implementation. Moreover, the push for face-to-face signature of financing agreements has sped up the process and almost offset the delays resulting from ratification requirements. The requirement to set up programme management units has positively affected the speed of first disbursements.

• Finally, the study shows that turnover, experience and workload of CPMs are more important for IFAD’s disbursement readiness than is often recognized.

III. IFAD’s corporate action plan to improve disbursement performance

10. In order to swiftly address the critical issues highlighted by the study, in March 2017, Management approved a corporate action plan aimed at better measuring, monitoring and managing IFAD’s disbursements. The plan includes 14 actions with a specific timeline, responsible divisions and measures of success. All actions are planned to be implemented within 2018 and an inter-departmental steering committee will monitor the plan’s implementation.

11. A workshop held in early 2017 raised staff awareness about the importance of disbursement performance to demonstrate the efficient use of Member States’ contributions and to ensure that IFAD’s beneficiaries receive adequate support.

12. The need to better measure disbursements is a prerequisite for identifying the right drivers, excluding outliers and avoiding data bias. IFAD’s existing IT systems will be leveraged to create renewed disbursement profiles, by region and project type. The methodology for calculating IFAD’s disbursement ratio will be revised to ensure fair comparison with other IFIs.

13. Measures to better monitor disbursements will include quicker and broader availability of major trends in corporate dashboards, and comparison against appropriate benchmarks. Increased transparency will support a quicker identification of disbursement trends and problems, allowing faster corrective measures.

14. Most importantly, IFAD will engage in measures to better manage disbursement performance. This will include: revisiting policies like the cancellation policy to ensure fast reallocation of funds to better performing projects; introducing a restructuring policy to provide incentives for country teams to make adjustments to projects with disbursement problems; and proposing new business lines that can demonstrate better disbursement trends like policy-related, results-based financing loans, and budget support. IFAD’s processes and procedures will be re-evaluated with a critical eye to identify those causing delays in projects.

15. All parties involved in project design will increase attention to ex ante disbursement forecasts and the disbursement dimension of projects, aiming for a balance of project types within each country portfolio.

16. Furthermore, IFAD will increase its support to borrowers for implementation readiness through: the more targeted use of start-up advances; technical assistance and tools; and incentives during project start up. Most importantly, recognizing the importance of procurement for successful disbursement performance, IFAD will have an increased focus on procurement issues in project design and strengthen its procurement capacity.