Document:	IFAD12/1/R.6
Agenda:	5(a)
Date:	16 January 2020
Distribution:	Public
Original:	English

E

Investing in rural people

IFAD12: Strategic Directions

Note to Consultation members

Focal points:

Technical questions:

Paul Winters
Associate Vice-President
Strategic and Knowledge Department
Tel.: +39 06 5459 2189
e-mail: p.winters@ifad.org

Ronald Hartman
Director
Global Engagement, Partnerships and Resource Mobilization Division
Tel.: +39 06 5459 2610
e-mail: r.hartman@ifad.org

Leon Williams
Senior Partnership Officer (Replenishment)
Tel.: +39 06 5459 2809
e-mail: l.williams@ifad.org

Dispatch of documentation:

Deirdre Mc Grenra
Chief
Institutional Governance and Member Relations
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

Consultation on the Twelfth Replenishment of IFAD’s Resources — First Session

Rome, 13-14 February 2020

For: **Approval**

Contents

Abbreviations and acronyms

4Ps	public-private-producer partnerships
ABC	Agribusiness Capital
AF	Adaptation Fund
ASAP	Adaptation for Smallholder Agriculture Programme
CACHET	Climate and Commodity Hedging to Enable Transformation
COSOP	country strategic opportunities programme
DSF	Debt Sustainability Framework
EU/ACP	European Union/African, Caribbean and Pacific Group of States
FAO	Food and Agriculture Organization of the United Nations
FARMS	Facility for Refugees, Migrants, Forced Displacement and Rural Stability
FI	financial intermediary
GAFSP	Global Agriculture and Food Security Programme
GCF	Green Climate Fund
GEF	Global Environment Facility
FIPS	Faster Implementation of Project Start-up
IFAD12	Twelfth Replenishment of IFAD’s Resources
IFI	international financial institution
IFPRI	International Food Policy Research Institute
IPCC	Intergovernmental Panel on Climate Change
LICs	low-income countries
LMICs	lower-middle-income countries
MICs	middle-income countries
MSME	micro, small and medium-sized enterprise
MTR	Midterm Review
PBAS	performance-based allocation system
PoLG	programme of loans and grants
PoW	programme of work
PSFP	Private Sector Financing Programme
PwD	persons with disabilities
RBA	Rome-based agencies
RTA	reimbursable technical assistance
SDG	Sustainable Development Goal
SH/SEA	sexual harassment, sexual exploitation and abuse
SME	small and medium-sized enterprise
SSTC	South-South and Triangular Cooperation
UMICs	upper-middle-income countries
UNICEF	United Nations Children's Fund
WFP	World Food Programme
WHO	World Health Organization

Executive summary

1. **With only 10 years left to achieve the Sustainable Development Goals (SDGs) and progress to end extreme poverty and achieve food security now stalled, IFAD needs to step up its impact.** Because extreme poverty and food insecurity are increasingly concentrated in the rural areas of low-income countries (LICs), and pockets of poverty persist in middle-income countries, IFAD has a special role to play in leading a push to achieve the SDGs, particularly SDGs 1 and 2. Three quarters of the world's extreme poor and food-insecure people live in rural areas, and the most marginalized – women, youth, indigenous peoples, persons with disabilities and other vulnerable groups – are the worst affected. Investing in these rural people is at the core of IFAD's mandate, and it has 40 years of experience in this area.

2. **Urgent action and concerted efforts are needed to build rural prosperity, food security and resilience in order to ensure that rural people are not left behind.** While agriculture remains key to the prosperity of rural people, it is threatened by climate change and disrupted by conflict, undermining efforts to create a sustainable path forward. Many of the countries facing the greatest challenges in achieving the SDGs are in debt distress at a time when development assistance is scarce and official development assistance for food security has hovered at 6 per cent of total assistance for 20 years.

3. **IFAD's vision is to create vibrant, inclusive and sustainable rural economies, where people live free from extreme poverty and hunger.** As the only specialized global development organization exclusively dedicated to transforming agriculture, rural economies and food systems to make them more inclusive, productive, resilient and sustainable, IFAD must step up its efforts. Its decades of experience and significant knowledge base give it a comparative advantage in galvanizing action in this area. IFAD's targeted investments, which support the millions of rural people who are most at risk of being left behind, complement the work of other international financial institutions and United Nations agencies. IFAD's annual investments are estimated to increase the production of 15 million small-scale producers, raise the value of sales of 16 million beneficiaries, improve the resilience of 9 million beneficiaries, and increase the incomes of 20 million rural women and men.

4. **IFAD is committed to doubling its impact by 2030 so as to annually raise the incomes of 40 million rural women and men, while increasing efficiency and sustainability to enhance value for money.** During the Twelfth Replenishment of IFAD's Resources (IFAD12) period, IFAD will step up its support to achieving the SDGs by consolidating its country-level programmatic approach and strengthening its ability to assemble finance through different instruments. The changes in IFAD's business model in recent years, accelerated during IFAD11, have increased its ability to deliver on its mandate at the country level. Fewer and larger operations are being deployed, combined with more cofinancing, greater recognition of the need to tailor approaches to countries in transition, stronger efforts to target extreme poverty and food insecurity and address mainstreaming themes (environment and climate change, gender, youth and nutrition), and a greater field presence due to decentralization, which has also allowed for greater policy engagement and more effective partnership-building at the country level. Along with efforts to enhance portfolio quality, performance and outcomes, new instruments such as results-based lending, regional lending operations, the Faster Implementation for Project Start-up facilities and Reimbursable Technical Assistance are being piloted, with potential expansion in IFAD12.

5. **This country-level programmatic approach will be augmented by a new Private Sector Financing Programme (PSFP) and the Adaptation for Smallholder Agriculture Programme + (ASAP+)**, which will build on the

experience of IFAD's original ASAP. The PSFP allows IFAD to provide resources directly to the private sector. It will crowd in private sector investments and make available private sector know-how and innovation for the benefit of small-scale producers and rural communities, with a focus on job creation for youth and women. Through ASAP+, IFAD will also provide primarily grant-based climate finance, particularly to LICs where climate change is a key underlying cause of food insecurity. These two new programmes will complement the programme of loans and grants (PoLG) and other IFAD activities, creating synergies that will allow IFAD to scale up its impact. The strengthened country-level programmatic approach will be embedded in the new United Nations Sustainable Development Cooperation Framework and will enhance IFAD's contribution to the SDGs.

6. **To achieve its vision and reach a higher level of impact, IFAD will need to keep focused on those areas that are critical to transforming food systems.** Bringing about transformation requires working directly with extremely poor and marginalized groups to ensure that they are included in efforts to build a sustainable and resilient future. Therefore, IFAD will maintain its focus on the four mainstreaming themes and expand their integration. In addition, it will step up its efforts in fragile and conflict-affected situations where protracted crises represent root causes of extreme poverty and food insecurity. Also important for strengthening sustainable results within an enhanced country-level programmatic approach are expanded partnerships with a broader set of actors and access to new technologies and innovations, which can be realized through South-South and Triangular Cooperation.

7. **A new financial architecture underpins IFAD's efforts to double its impact by 2030 and put it on a sustainable and sound financial footing.** The new financial architecture is based on several key elements aimed at strengthening risk management, capital planning and the efficient use of different types of resources, all of which will contribute to resource sustainability. The newly approved Capital Adequacy Policy and the revised Liquidity Policy will be the pillars of this financial reform. To ensure that IFAD can deliver on its mandate without eroding its capital base, the concept of a Sustainable Replenishment Baseline is being introduced. This requires that the level of replenishment resources covers at least: (i) the reimbursement of approved Debt Sustainability Framework (DSF) commitments; (ii) the pre-financing of new DSF commitments; (iii) IFAD's regular grant programme; and (iv) operational expenses. The recently approved reform of the DSF mechanism is also a key part of the enhanced financial architecture, linking replenishment to DSF levels in a sustainable manner. IFAD's ambition is to increase financing to all countries by further leveraging its balance sheet through borrowing, with the intention of increasing allocations for all eligible country groups.

8. **For IFAD to achieve its ambition to double its impact by 2030 and remain focused on LICs, Member States must choose higher financial scenarios for the IFAD12 replenishment.** Five IFAD12 scenarios with contribution levels ranging from US$900 million to US$1.7 billion are presented in this paper for initial discussion. Under the first two scenarios (US$900 million and US$1.1 billion), IFAD's PoLG would shrink compared to IFAD11, hence its impact and contribution to achieving the SDGs would likewise decline. The reduction in impact will be most pronounced in LICs with the highest debt distress because their resource allocations will see the steepest decline. This is because the maximum sustainable DSF level does not reach the level of IFAD11 (US$596 million) until the replenishment reaches US$1.5 billion (scenario 4) or US$1.7 billion (scenario 5) in new donor contributions – Management's preferred scenarios. This means funding to LICs overall, particularly those in debt distress, will be lower than IFAD11 levels unless there is an increase in replenishment contributions. In the scenarios in which replenishment contributions increase and are leveraged (scenario 4 at US$1.5 billion and scenario 5 at US$1.7 billion), impact grows significantly.

However, for IFAD to increase its impact in LICs, where extreme poverty and food insecurity remain stubbornly high and are becoming increasingly concentrated, an increase of resources at the highest scenario level (US$1.7 billion) is needed.

9. **Doubling IFAD's impact by 2030 requires not only increased resources but the continuation of ongoing reforms and further actions in IFAD12.** The vision is one in which IFAD's centre of gravity moves increasingly to the field and closer to the development issues that need to be addressed so as to realize a fully programmatic approach. Enhancing IFAD's capacity to deliver and make a greater contribution to the 2030 Agenda for Sustainable Development also depends, in great part, on having supportive human resources and strengthened risk management strategies. Overall, IFAD is well under way in making these changes and positioning itself to substantially increase its impact among extremely poor and marginalized groups, provided it receives critical investments through the replenishment and funding for capacity development.

I. Introduction

1. **Meeting the Sustainable Development Goals (SDGs) by 2030 depends on action in rural areas, where extreme poverty and hunger are concentrated.** Recent decades have seen significant progress in reducing extreme poverty and food insecurity, including in rural areas. Yet, while the overall trends have been positive, food insecurity is again on the rise and extreme poverty is increasingly concentrated in a number of low-income countries (LICs) (just over 30 countries) and in pockets of extreme poverty in middle-income countries (MICs). Key drivers of these trends are climate change and conflict. Rural people bear the brunt of these challenges and they account for approximately three quarters of the world's poorest and most food-insecure people. Across all countries, food insecurity and extreme poverty are most prevalent among highly vulnerable groups (including women, youth, indigenous peoples, and persons with disabilities) in rural areas.

2. **Agriculture remains key to the prosperity of these extremely poor and marginalized groups as both a direct employer and a driver of job creation.** Recent evidence confirms that growth in agriculture is two to three times more effective at reducing extreme poverty and food insecurity than an equivalent amount of growth generated outside agriculture.[1] While the impact of agricultural over non-agricultural growth on extreme poverty reduction diminishes as countries reach higher income levels, the evidence shows that even non-farm activities linked to agriculture – including trading, transport and agroprocessing – reduce extreme poverty more than other non-agricultural activities. Promoting private sector investment in these areas can further support the reduction of extreme poverty and food insecurity.

3. **IFAD plays a central role in the fight against rural extreme poverty and food insecurity because it is the only global development organization exclusively dedicated to transforming agriculture, rural economies and food systems by making them more inclusive, productive, resilient and sustainable.** IFAD targets the hundreds of millions of rural people who are most at risk of being left behind, particularly poor, small-scale producers, women, young people and other vulnerable groups. IFAD's investments are designed to generate a productive pathway towards prosperity for rural people while building their resilience to climate change and fragility. IFAD tailors its approach to country needs, maintaining a strong focus on LICs and lower-middle-income countries (LMICs), particularly in sub-Saharan Africa. IFAD is a critical player with 40 years' experience and strong technical know-how, which complements the actions of other development organizations to address the SDGs.

4. **Recognizing that IFAD must step up its contribution to achieving the SDGs and improve its effectiveness in achieving its mission, IFAD has undertaken a dialogue with Member States to identify mechanisms to double its impact by 2030.** The paper IFAD 2.0: The Way Forward*,* which has been discussed extensively with Member States, presents a vision of doubling IFAD's development impact by identifying and using resources to maximum effect through multiple instruments. IFAD 2.0 emphasizes the importance of financial sustainability, which requires that financial inflows at least match outflows to avoid erosion of IFAD's capital base. One key element is to address financial issues related to the Debt Sustainability Framework (DSF), which is the subject of a recently approved reform.

5. **IFAD 2.0 highlights that the programme of loans and grants (PoLG) will remain the bedrock of IFAD's support to countries, but sets forth**

---

[1] Based on a series of articles by the World Bank and the International Food Policy Research Institute (IFPRI) published in *World Development*. For a synthesis see: Christiansen, Luc and Martin, Will. (2018) "Agriculture, structural transformation and extreme poverty reduction: Eight new insights." *World Development 109*: 413-416. https://doi.org/10.1016/j.worlddev.2018.05.027.

additional complementary actions to be taken to expand IFAD's overall programme of work (PoW) and its development impact. Actions include greater leveraging of core resources to increase the availability of financing to all borrowers, a Private Sector Financing Programme (PSFP) to accelerate rural growth and create jobs for youth and women, and a grant mechanism (in the form of the Adaptation for Smallholder Agriculture Programme + [ASAP+]), primarily targeting LICs, to use climate finance to enhance resilience, building on IFAD's experience with the original ASAP programme. These actions are designed to expand IFAD's resource base, provide new channels of support and build synergies between different modalities.

6. **Successful implementation of the IFAD 2.0 vision will require IFAD to consolidate its recent reform efforts and strengthen its country-level programmatic approach during the Twelfth Replenishment of IFAD's Resources (IFAD12).** As highlighted in the paper "IFAD at the Midterm of the Eleventh Replenishment", IFAD11 introduced a new business model and reforms, including significant decentralization, which have enhanced IFAD's effectiveness and its responsiveness to its clients, thereby sharpening its value proposition. In IFAD12, a concerted effort is needed to finalize these changes and to strengthen country engagement.

7. **This paper provides a broad overview of the current challenges with respect to rural extreme poverty and food insecurity and describes how IFAD can take action during the IFAD12 period to accelerate progress towards achievement of the SDGs in rural areas.** The paper draws on the IFAD 2.0 vision, but focuses on the IFAD12 period (2022-2024) and the specific set of actions that IFAD will take during this period to improve its effectiveness and increase development impact. The IFAD12 period is critical, since many of the activities initiated in these years will be completed right before or during 2030.

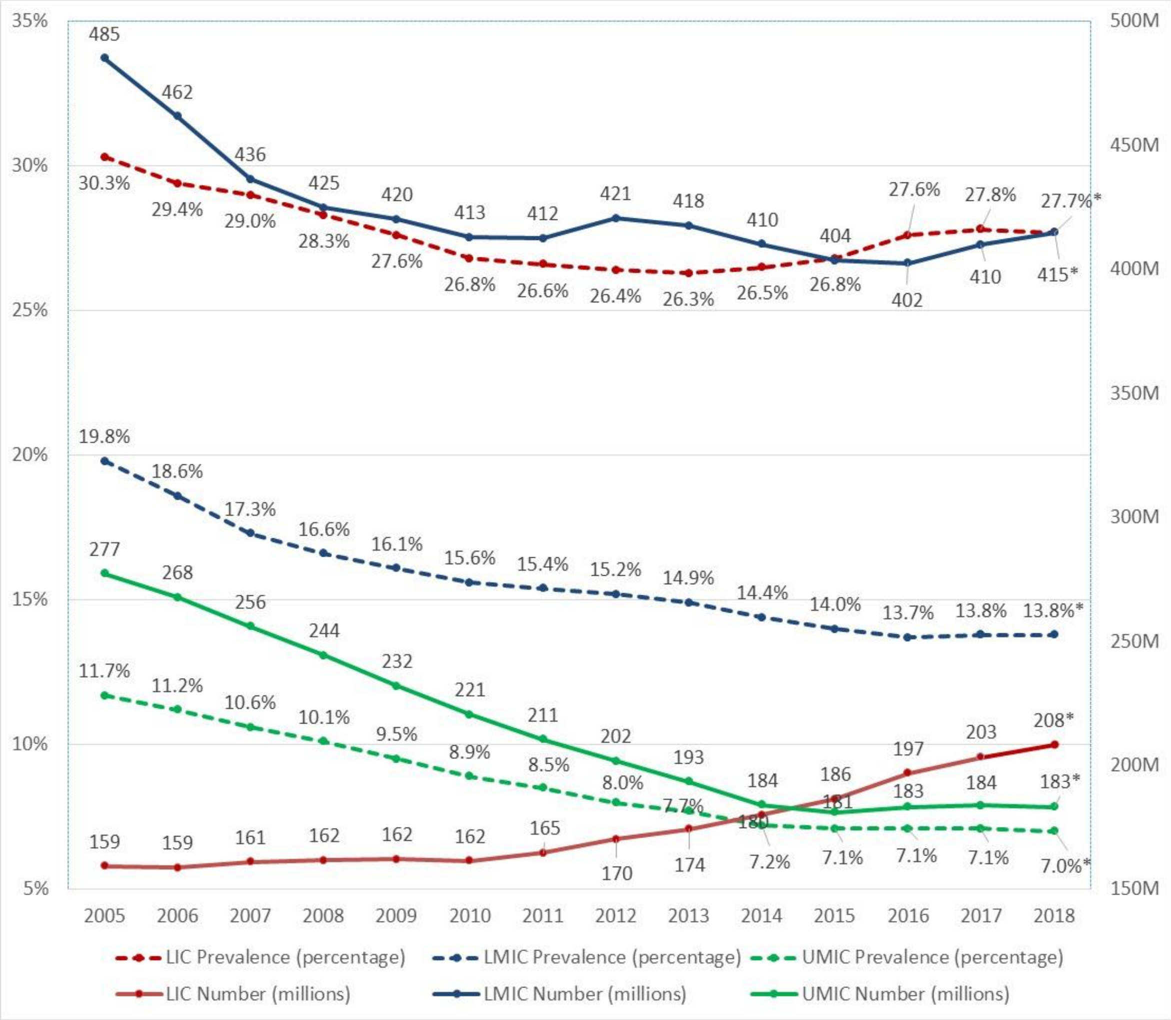
8. **The structure of the paper is as follows.** Section II assesses the challenges to achieving SDG 1 (no poverty) and SDG 2 (zero hunger) in rural areas. Section III provides an overview of IFAD's strategic direction for IFAD12, including key issues to consider during IFAD12 that have been raised by Member States in ongoing discussions. Section IV highlights key elements of the IFAD12 business model. Section V addresses financial issues providing a road map toward IFAD's financial sustainability and proposes initial financing scenarios for IFAD12. Section VI presents conclusions.

II. Food insecurity and extreme poverty in rural areas

9. **Since 1990, the decrease in rural extreme poverty and food insecurity has been substantial.** From 1990 to 2015, the world saw a reduction from 50 to 14 per cent of people living on less than US$1.25 per day, with the total number of extremely poor people dropping from 1.9 billion to 836 million. Over the same period, the proportion of undernourished people in developing regions dropped by almost half, from 23.3 to 12.9 per cent.[2] However, extreme poverty rates in rural areas (17.2 per cent) remain three times those of urban settings (5.3 per cent), with 79 per cent of the extremely poor still living in rural areas.[3]

[2] United Nations. *Millennium Development Goals Report 2015*. (New York: United Nations, 2015).
[3] World Bank. *Extreme Poverty and Shared Prosperity 2018: Piecing Together the Extreme Poverty Puzzle*. (Washington, D.C.: World Bank, 2018).

Figure 1
Estimated number and prevalence of undernourished people by country category 2005 – 2018[a]



* 2018 data are projected values.

[a] Food and Agriculture Organization (FAO), IFAD, United Nations Children's Fund (UNICEF), World Food Programme (WFP) and World Health Organization (WHO). The State of Food Security and Nutrition in the World 2019. Safeguarding against economic slowdowns and downturns. (Rome, FAO: 2019).

10. **Food insecurity is again on the rise and extreme poverty is becoming concentrated in certain countries and regions within countries.** The number of people suffering from food insecurity has increased in the last three years, from 785 million in 2015 to over 820 million in 2018.[4] Most of this increase is concentrated in LICs and LMICs and is linked to fragility, climate variability and extremes, and economic slowdowns. In upper-middle-income countries (UMICs) progress has plateaued (figure 1). Extreme poverty, which is still predominantly rural, is also becoming concentrated and by 2030 some 31 countries – most of them in situations of fragility and located in sub-Saharan Africa – are expected to account for 80 per cent of the world's extreme poor.[5] Even in MICs, extreme poverty is often regionally concentrated. In fact, 39 of 46 LMICs have at least one extreme poverty hotspot, as do 18 of 52 UMICs. These countries tend to have a

[4] FAO, IFAD, UNICEF, WFP and WHO. *The State of Food Security and Nutrition in the World 2018: Building Climate* Resilience *for Food Security and Nutrition* (Rome: FAO, 2019).
[5] Gertz, Geoffrey and Kharas, Homi. "The road to ending extreme poverty runs through 31 severely off-track countries," Future Development blog, February 13, 2018, Brookings Institution.

combination of conflict, high risk of natural disasters, fragile ecosystems and pockets of poverty distant from high-density urban areas.[6]

11. **Across all countries, food insecurity and extreme poverty remain most severe among rural marginalized groups, particularly women and youth.** Extreme poverty rates among children are double those of adults, and young adults (age 15-19) are 1.5 times more likely to be poor than older adults. Globally, women are 2 percentage points more likely to be poor than men and extreme poverty is 7 percentage points higher for women in key reproductive years (age 20-34) in sub-Saharan Africa.[7] Indigenous peoples make up 5 per cent of the global population (370 million people in about 90 countries) but account for some 15 per cent of the extreme poor.[8] There has also been growing recognition of the link between extreme poverty and persons with disabilities, including in rural areas. Achieving the SDGs requires directly investing in these marginalized rural groups.

12. **Making matters worse, climate change threatens to erode the gains made on SDG 1 and SDG 2, particularly in rural areas.** The World Bank estimates that climate change will push more than 100 million people into extreme poverty by 2030, with half of this increase due to the damage caused to agriculture.[9] More intense and frequent weather events may affect yields as well as raise the possibility of significant global food price fluctuations, with potentially dramatic consequences for the vulnerability of rural populations. Additionally, the recent Special Report on Climate Change and Land produced by the Intergovernmental Panel on Climate Change (IPCC) makes an explicit link between land management, food security and climate change, and highlights the urgency for greater action on adaptation and mitigation across the globe.[10] This has raised broad questions about the sustainability of current food systems and farmers' roles, including small-scale producers, in climate action.

13. **Many countries that face rural extreme poverty and food insecurity as well as severe climate variability and extremes are also in debt distress.** The number of IFAD-supported countries in debt distress or at high risk of debt distress has increased significantly since 2014. LICs eligible for financing under the DSF have extreme poverty rates of 47 per cent and moderate to severe food insecurity rates of 70 per cent, compared to other LICs where the rates are 38 per cent and 48 per cent respectively.[11] Scaling up development efforts under strict resource constraints can only be accomplished through grant resources (for those in debt and at high risk of debt distress) or highly concessional resources with a grant element above 50 per cent for those at moderate risk of debt distress as per the International Monetary Fund definition.

---

[6] Extreme poverty hotspots are defined as subnational regions (districts or provinces within a country) that are on track to have a per capita GDP of US$4,900 or less in 2011 purchasing power parity terms in 2030. See Cohen, Jennifer L., Raj M. Desai, and Homi Kharas, "Spatial Targeting of Extreme poverty Hotspots," in Kharas, Homi, John W. McArthur and Izumi Ohno (eds.) *Leave No One Behind* (Washington, D.C.: Brookings Institution, 2019).

[7] World Bank. *Extreme poverty and Shared Prosperity 2018: Piecing Together the Extreme Poverty Puzzle*. (Washington, D.C.: World Bank, 2018).

[8] World Bank. Indigenous Peoples. https://www.worldbank.org/en/topic/indigenouspeoples. Accessed 8 December 2019.

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

[10]IPCC, Special *Report on Climate Change and Land* (New York: IPCC). The report notes that food systems contribute up to 29 per cent of all greenhouse gas emissions, including 44 per cent of methane.

[11] Eligibility for DSF based on the most recent data available for 2020. Data on extreme poverty comes from the World Development Indicators of the World Bank and data on food insecurity from the SOFI report.

14. **Despite the magnitude of the challenge, gross disbursements of development assistance for food security came to only about US$13 billion in 2017 compared to a need of US$181 billion,[12] and these resources have been hovering at 6 per cent of total development assistance for 20 years.** In addition to volume, the proportion of resources targeted at the poorest and most marginalized is an issue. In fact, the bulk of the resources deployed through development institutions tend to target broad, sector-wide projects rather than small-scale poor and marginalized producers. Efforts to increase climate finance announced at the United Nations Climate Action Summit in September 2019 hold some promise for raising funding levels to strengthen resilience and mitigation among small-scale producers. But resources to address rural extreme poverty and food insecurity are still scarce; this makes it essential to use existing resources more efficiently and effectively, leverage these resources, and assemble further funding from other sources.

15. **Urgent action is needed to build rural prosperity, food security and resilience in order to ensure that rural people are not left behind by 2030**. The following steps are critical:

    (i) Take a country-specific approach focused on rural regions, especially pockets of extreme poverty and food insecurity and situations of fragility and vulnerability, where meeting the SDGs will be most challenging.

    (ii) Use existing resources more effectively, including through greater focus on efficiency and sustainability of results, and mobilize additional grant and concessional resources (e.g. through the DSF) to target the 30 plus countries in which rural extreme poverty and food insecurity remain significant or are actually worsening.

    (iii) Place empowerment of rural women, youth and marginalized groups at the core of a broad social inclusion strategy to ensure that no one is left behind.

    (iv) Make climate change central to all rural development efforts to build resilience, support sustainable use of ecosystems, and create inclusive, productive, resilient and sustainable food systems.

    (v) Expand the kinds of resources available, increase their flow – including from the private sector and foundations – and coordinate their use to ensure efficiency.

III. IFAD12 strategic priorities

16. **IFAD's vision is to create vibrant, inclusive and sustainable rural economies, allowing people to live free from extreme poverty and hunger.** For the IFAD12 period, IFAD will build on its 40 years of experience and technical expertise, and expand on the considerable changes undertaken during the IFAD11 period to enable IFAD to scale up its impact. A reminder of IFAD's mission and a review of its ongoing efforts to improve on its delivery follow. The paper then gives an overview of IFAD12, situating it within IFAD's longer-term objectives and key areas of action. Special areas of focus identified through consultations with Member States are described.

[12] FAO, IFAD and WFP. *Achieving Zero Hunger: the Critical Role of Investments in Social Protection and Agriculture* (Rome: FAO, 2015). Along similar lines, Schmidt-Traub and Sachs estimate incremental investment needs of US$210 billion per year for agriculture and US$38 billion per year directly for food security in *Financing Sustainable Development: Implementing the SDGs through Effective Investment Strategies and Partnerships* (Sustainable Development Solutions Network, 2015).

A. IFAD's strength in fostering the achievement of SDGs in rural areas

17. **IFAD's mission is to transform rural economies and food systems by making them more inclusive, productive, resilient and sustainable.** To do this, IFAD invests in the millions of people who are most at risk of being left behind: poor, small-scale producers, women, young people and other vulnerable groups. IFAD targets "the last mile" and the remotest areas, to help millions of rural people increase their productivity, incomes and access markets, create jobs, build their resilience to a changing climate, improve their coping mechanisms in fragile and conflict environments, and strengthen their voice, capacities and organizations.

18. **IFAD is the only specialized global development organization exclusively dedicated to transforming agriculture, rural economies and food systems to make them more inclusive, productive, resilient and sustainable.** Decades of experience have given IFAD a deep knowledge base on how to facilitate the inclusive, productive, resilient and sustainable development of rural areas. This includes knowing how to design and support investment projects that empower rural people to increase their productivity and profitability while supporting climate adaptation, social inclusion, gender transformation, youth capacity development and better nutrition. No other institution has this degree of expertise in this area. Considering that three quarters of the world's poorest and most food-insecure people live in rural areas, IFAD's experience is both an advantage and a resource for others in their efforts to achieve the SDGs. It makes IFAD a partner of choice for donors, borrowers and other development organizations seeking to invest in rural areas.

19. **IFAD's targeted investments complement the work of other international financial institutions (IFIs) and United Nations agencies.** Large development institutions such as the World Bank and regional development banks also channel resources into agricultural and rural development. But agriculture accounts for only a small fraction of their global portfolios (5 to 10 per cent for the World Bank),[13] with significant variation from country to country. IFAD's focused mandate means that, among IFIs, it is second only to the World Bank in terms of investments in food security. Indeed, in some countries, IFAD is the largest multilateral funder in this respect. Furthermore, larger development organizations generally focus their investments on bigger projects featuring large-scale infrastructure and sector-wide approaches. But such investments frequently exclude poor, small-scale producers and marginalized groups. While they can fuel economic growth, they need to be complemented with activities to reach extremely poor and marginalized populations and extend benefits to the last mile. Similarly, the policy support, data collection, technical assistance, and normative and standard-setting work undertaken by FAO and the humanitarian interventions and related work of the WFP complement IFAD's investments mandate and strengthen IFAD's own unique value proposition.

20. **IFAD is able to address issues in extremely poor and marginalized communities that others do not, including climate change, gender equality, youth and nutrition.** IFAD's deep reach into remote areas – the last mile – combined with its expertise and global portfolio allows IFAD to make a particular contribution to the achievement of the SDGs among populations who might otherwise be left behind. For example, through the ASAP, IFAD has directly supported small-scale producers to adapt to climate change. It has also leveraged this experience to increase climate financing throughout its operations by obtaining further funds from the Global Environment Facility (GEF), Green Climate Fund (GCF) and Adaptation Fund (AF). These global funds rely on organizations like IFAD

[13] Kharas, H. et al., *Ending Rural Hunger: Mapping Needs and Actions for Food and Nutrition Security* (Washington, D.C.: Brookings Institution, 2015).

to design and supervise their interventions, and to provide the core financing with which they can blend their resources in order to achieve maximum impact. IFAD has similar experience with social inclusion, particularly in terms of gender equality, youth employment and nutrition. IFAD can ensure that action on these global development issues reaches into remote rural areas and benefits the most marginalized.

21. **The changes in IFAD's business model over recent years have increased its ability to deliver on its mandate and improve impact at the country level.** As highlighted in the IFAD11 Midterm Review (MTR), key changes occurring in IFAD11 as part of broader reform efforts include the following:

- Fewer and larger operations are being deployed, combined with a cofinancing ratio projected to reach 1.75 during the IFAD11 period (above the 1.40 target). Half of this is domestic cofinancing.
- Revised targeting guidelines are making for greater precision; updated action plans on environment and climate, gender, nutrition and youth, and a focus on integrating these themes, are enhancing sustainability and inclusion.
- A transition framework, combined with the piloting of new products (results-based lending, regional lending operations and reimbursable technical assistance [RTA]) is providing a holistic and tailored package of support to partner countries.
- Significant efforts are under way to sustain recent efforts to improve portfolio quality, at design stage and for projects under implementation.
- Decentralization to 12 subregional hubs and three South-South and Triangular Cooperation (SSTC)/knowledge centres doubled IFAD's field presence (from 16 to 33 per cent of staff) in a short period. This was accompanied by new ways of working including shared, cross-departmental responsibilities, and a revised delegation of authority framework plus a realigned headquarters to service the decentralized structures.
- Emphasis on policy engagement and partnership-building at the country level has been increased, strengthening IFAD's role as an assembler and coordinator of development finance, bringing greater resources to bear on IFAD's core mandate on behalf of poor rural communities.

22. **"Doing development differently" requires changes to behaviour, culture and practice.** During IFAD11, significant progress is being made to lay the foundations to a change in institutional culture through revised procedures, processes, policies and systems. However, changing behaviour is an ongoing process and will continue into IFAD12.

23. **Overall, IFAD is increasingly catalysing public and private investments, helping to strengthen policies, promoting innovation to achieve sustainable benefits at scale, and supporting all countries in achieving lasting rural and food system transformation**. IFAD is increasingly using a range of instruments and knowledge to respond to the challenges facing the neediest countries and to engage a wide variety of partners, including governments, the private sector, civil society and other development actors. It tailors its approach to countries according to context and maintains a strong focus on LICs and LMICs, particularly those in sub-Saharan Africa, which are the countries most affected by extreme rural poverty, food insecurity and climate change.

24. **The success of this approach is evident in IFAD's significant impact, as shown by the IFAD10 Impact Assessment Report.** As seen in box 1, IFAD is having a substantial impact on its core measures of success – increasing production, increasing the value of sales, improving resilience and raising income –

thereby providing a clear contribution to the SDGs, particularly SDG targets 2.3 and 2.4. While the IFAD11 MTR notes that there is room for IFAD to improve its efficiency and sustainability, including in mainstreaming themes, IFAD is reaching its overall objectives. IFAD12 actions will push to double IFAD's impact by 2030 while increasing efficiency, sustainability and value for money.

Box 1
Doubling IFAD's impact

IFAD's aim is to double its impact by 2030. IFAD is measuring its impact and its contribution to the SDGs, focusing primarily on SDG targets 2.3 and 2.4, which respectively seek to "double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers", and to "ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters, and that progressively improve land and soil quality".

Under IFAD10 and IFAD11, IFAD has been systematically measuring IFAD's impact on the production of small-scale producers, the increase in the value of their sales, the improvements in their resilience, and the growth of their incomes. These indicators were selected because they link to the SDGs as well as to IFAD's Strategic Objectives and Strategic Goal as noted in IFAD's Strategic Framework 2016-2025.

Impact is measured through rigorous impact assessments of 15 per cent of IFAD projects in a manner that allows for attribution to IFAD investments. Impact is defined as an increase of at least 20 per cent in the impact indicator specifically resulting from the project. The impact assessments are used to estimate IFAD's total corporate impact during a replenishment period and to check whether it has reached its replenishment targets. IFAD is unique in using this approach to rigorously measure corporate impact.

The IFAD11 impact assessments are ongoing and will be completed at the end of IFAD11 (2021). Based on data from the IFAD10 Impact Assessment Report, each year, on average, IFAD's investments increase the production of 15 million small-scale producers, augment the value of the sales of 16 million beneficiaries, improve the resilience of 9 million beneficiaries, and raise the income of 20 million rural women and men by at least 20 per cent. For all four indicators, IFAD exceeded its IFAD10 targets. These results are associated with a PoLG of US$ 3.2 billion and a PoW of US$7 billion during the IFAD10 period.

IFAD doubling its impact by 2030 means doubling these numbers. For example, IFAD's ambition is to raise the income of 40 million rural women and men during 2030. Further actions during IFAD12 will therefore push towards doubling development impact.

Source: IFAD. IFAD10 Impact Assessment Report. (Rome: IFAD, 2019).

B. IFAD12 overview

25. **IFAD seeks to step up its role in the global effort to end extreme poverty and achieve zero hunger in rural areas by doubling its impact by 2030.** Doing so depends on how IFAD works at the country level and on the manner in which it interacts with governments and development partners within countries. Essential, also, is the set of instruments IFAD has available to achieve impact. Recent reforms and innovations in its operating model have fundamentally altered IFAD's country-level approach, put results and impact at the centre of IFAD's way of working, and made an array of changes – to policies, systems, capability and culture – to sharpen IFAD's value proposition and ability to respond to the global situation. The IFAD 2.0 vision proposes to further expand IFAD's offerings, building on changes introduced in IFAD11.

26. **Under IFAD12, IFAD will focus on enhancing systemic impact by consolidating its country-level programmatic approach and strengthening its ability to coordinate and assemble finance through different instruments and with more actors.** A programmatic approach focuses on longer-term engagement, embedding IFAD operations in broader government strategies, focusing on policy engagement and partnership-building, with greater awareness of changes in countries. The approach involves seeking more cofinancing from domestic and international sources, and greater focus on the possibility of mid-course corrections. The ultimate goal of these efforts is to increase impact in operations through creating greater synergies, with broader efforts by governments and partners.

27. **IFAD will further focus on assembling additional resources from various sources, including governments, development partners and the private sector, and on generating synergies between actors working towards a common vision.** IFAD's expertise in transforming agriculture, rural economies and food systems can be used to leverage action by others who support the same goals of productivity, resilience and sustainability. This means expanding efforts to generate cofinancing from domestic and international sources. It also means seeking more funding from the private sector, including foundations, and providing funds to rural micro, small and medium-sized enterprises (MSMEs) and civil society to promote their involvement in achieving a shared vision.

28. **IFAD will further strengthen its field presence.** With one third of staff based in the field, IFAD has already enhanced direct engagement with governments, development partners, the private sector and civil society. During IFAD12, IFAD will seek to reach 40-50 per cent of its staff in the field. Staff on the ground will grow to include those outside operational and technical areas. The vision is one in which IFAD's centre of gravity moves increasingly to the field and closer to the development issues that need to be addressed.

29. **IFAD will continue to tailor its country-level approach to better accompany countries as they transition to fully transform their rural economies and food systems.** With structural and rural transformation, new needs emerge and a country's capacity to finance change evolves. IFAD is tailoring its approach to recognize that, in such transitions, agriculture shifts from being a direct employer to acting as a driver of economic growth and job creation, on and off the farm. Value chains that link farms to urban markets and secondary cities and towns become more important, expanding demand for investments in infrastructure.

30. **While IFAD will focus its efforts above all on LICs and LMICs, where rural poverty and food insecurity remain widespread, it will continue to engage actively in UMICs**. In UMICs, IFAD will work in pockets of rural poverty, with marginalized groups – frequently indigenous peoples – as the main target group. Country programmes will draw on a range of products, including results-based lending and RTA, and operations will have a strong policy agenda. IFAD will bring to bear its experience and know-how, as well as financial resources, to pilot innovative approaches to rural poverty eradication that governments can subsequently scale up through national policies and programmes. A particular focus will be on promoting the active economic inclusion of the rural poor. In addition, IFAD's engagement in UMICs will give it significant opportunity to identify technologies, approaches and potential partners who can contribute to their SSTC agenda with LMICs and LICs.

31. **While large-scale infrastructure investment is beyond IFAD's mandate, community-level infrastructure in irrigation systems, access roads and local storage and market structures will be pursued to facilitate connectivity and the inclusion of rural people in high-value agricultural markets.** As countries develop, such investments are becoming increasingly important in order to involve the extreme poor and most marginalized people in rural economic opportunity and to create jobs. Hence this is a key part of IFAD's mandate on facilitating inclusion.

32. **IFAD will expand its engagement with the private sector.** For the last few years, IFAD has promoted a public-private-producer partnerships (4Ps) approach as a systematic way of doing business with the private sector through the projects it supports, ensuring that the rural poor benefit. Some 70 per cent of IFAD projects support value chains. Building on this experience and consistent with the Addis Ababa Action Agenda, during IFAD11 a new Private Sector Engagement Strategy was approved by the Executive Board, which now allows IFAD to provide financing directly to, and through, the private sector. While continuing to emphasize

inclusive value chains in its public sector operations, during IFAD11 some initial private sector pilot investments in rural MSMEs will be simultaneously launched through the PSFP, with the expectation of standardizing and expanding these activities during IFAD12.

33. **In all countries, IFAD efforts to address environment and climate change issues and to facilitate social inclusion will be expanded during IFAD12.** There will be an enhanced focus on climate finance in IFAD's investment projects. The creation of ASAP+ will make it possible to direct targeted resources to build climate resilience among small-scale producers in the lowest-income countries. Climate finance vehicles including the GEF, GCF and AF will also be employed increasingly to complement other IFAD investments. Efforts will also be made to enhance the policy, initiated in IFAD11, of linking the mainstreaming themes of environment and climate change, gender, youth and nutrition.

34. **IFAD will further diversify its tools to support country-level efforts to transform rural economies and food systems and make them more inclusive, productive, resilient and sustainable.** The financial and operational instruments available for delivering IFAD's PoLG will continue to expand, including through results-based lending, regional lending operations, RTA and the Faster Implementation of Project Start-up (FIPs) facilities. In addition to the PoLG, the overall PoW will now include the PSFP and ASAP+. These will be additional instruments to fund small and medium enterprises and climate action, including through civil society, creating a mix of options to allow IFAD to better accompany countries along their transition pathway and further strengthen the country-level programmatic approach.

Box 2
Bangladesh: the country-level programmatic approach

The Bangladesh country programme has historically been one of IFAD's largest, with the current portfolio valued at US$1 billion (US$415 million financed by IFAD) as of January 2020. Over the years, IFAD-financed projects have reached some 60 million poor rural women and men. While initially focused on reducing extreme poverty and food insecurity through improved natural resource management, agricultural productivity, and access to services, the scope of the portfolio has expanded to encompass greater policy dialogue, strengthened partnerships, rural economic growth, agricultural commercialization, and the mainstreaming agenda. Future investments will maximize policy impact, deliver results at scale, and promote diversified financial instruments.

IFAD10 (2016-18). During this cycle, there were eight active projects, of which two were approved under IFAD10. Conceived not as large-scale national programmes but rather as discrete, area-based projects, neither of the two new projects had international cofinancing, nor a strong focus on issues concerning sustainability and efficiency.

IFAD11 (2019-21). During this cycle, there has been a conscious effort to emphasize investments that stimulate rural economic growth and create jobs for poor women and men, to invest in value chains for high-value commodities, and to integrate all four mainstreaming themes. Funding has focused on scaling up successful elements and innovations in existing programmes to address key strategic issues at country level. These have gained national recognition and increased attention from policymakers. International cofinancing has been obtained from the Asian Development Bank and the Danish International Development Agency. IFAD11 has also seen the establishment of a Country Office under a Country Director for greater IFAD representation and visibility; enhanced policy engagement, particularly in supporting the formulation of the Government's eighth Five-Year Plan; increased Rome-based agencies (RBA) collaboration, e.g. for the new national nutrition policy framework; strengthened partnerships with the United Nations Country Team as well as multilateral and bilateral partners; and deepened portfolio results and impact through more intensive implementation support and project follow-up.

IFAD12 (2022-24). A new country strategic opportunities programme (COSOP) will cover 2022-26. The trend towards fewer and larger programmes will continue, with increased partnerships and cofinancing, and further emphasis on priority themes. Policy engagement will be maximized to ensure that best practices and innovations are integrated into national policy and public investment planning. Stronger stakeholder engagement during design and implementation will be a feature, in line with IFAD's new policy on stakeholder engagement. Greater attention will be given to issues such as efficiency and government ownership, with clear scaling-up pathways articulated in design.

As Bangladesh has substantial absorptive capacity for additional financing, the country is a prime candidate for extra loan resources from outside of the performance-based allocation system (PBAS). Bangladesh is one of the countries most at risk from climate change, with substantial adaptation requirements, and would be a perfect location to roll out the new ASAP+ grant window for climate resilience in the northern *haors* (wetlands) and the coastal *chars* (river islands).

Finally, with the country programme already focused on inclusive value chains and micro-enterprise development, and with some interesting private sector partnerships already in place, it would make an ideal candidate for the PSFP, where IFAD could directly finance agribusinesses sourcing directly from small-scale producers, and/or financial institutions that serve rural communities. Under IFAD12, IFAD will be positioned to take the leading role in the policy and strategic aspects of the rural sector; to initiate new partnerships, particularly with bilateral agencies; and to develop knowledge products on the value chain experiences of the IFAD11 generation of projects. Finally, the option of rolling out a new results-based lending product (possibly in the financial services sector) will be considered, in consultation with the Government.

C. Special areas of focus

35. **The mainstreaming areas – environmental sustainability and climate change, gender, youth and nutrition – have historically been a key focus of IFAD and Member States.** Given IFAD efforts to increase the integration of these themes, they are discussed jointly. A discussion of additional special areas of focus, frequently raised by Member States, is ongoing, and further guidance is welcome.

36. **The focus areas in this section remain critical to IFAD achieving its vision and mission as well as the transformation of food systems to make them inclusive, productive, resilient and sustainable.** Bringing about transformation requires working directly with extremely poor and marginalized groups (women, youth, persons with disabilities, indigenous peoples, among others) to ensure that they are included in efforts to build a sustainable and resilient future and that they can enjoy diversified diets for improved nutrition. Doing this in a context of fragility and conflict is critical since those conditions are an underlying cause of extreme poverty and food insecurity. Key components of rural and food system transformation are innovation and technology, particularly digital technologies, and there needs to be a focus on transferring appropriate know-how, especially through SSTC.

Mainstreaming themes – fostering a transformational approach

37. **IFAD will boost efforts in the four mainstreaming areas and continue to integrate them to ensure that its operations are transformative.** IFAD11 included a framework for implementing transformational approaches to the four mainstreaming themes,[14] highlighting the links between them and underlining the fact that capturing their interactions requires a flexible and dynamic approach throughout the programme cycle. While further facilitating integration, there is also work to be done to operationalize a transformational approach and expand these areas of work. This will include a focus on ensuring that meaningful and comprehensive stakeholder feedback is incorporated in IFAD projects so that beneficiaries can have a say in designing and implementing good projects, in line with the recently approved framework for stakeholder feedback. This will continue through IFAD11 as well as IFAD12 because these issues lie at the heart of inclusive, productive, resilient and sustainable rural and food system transformation.

Environment and climate change

38. **Agriculture has reached centre stage in environmental and climate change discussions**. In 2017, the United Nations Framework Convention on Climate Change Conference of the Parties solidified the inclusion of agriculture in negotiations.[15] The connection between agriculture and climate was also recognized in the 2019 IPCC Special Report on Climate Change and Land, which highlighted the link between land management, food security and climate change.[16] The report of the EAT-Lancet Commission argued that "food is the single strongest lever to optimize human health and environmental sustainability on earth."[17] Two of the nine tracks in the United Nations Climate Action Summit – "nature-based solutions" and "resilience and adaptation" – laid strong emphasis on agriculture. In addition, the 2019 report from the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services highlighted that the health of ecosystems on which we and all other species depend is deteriorating more rapidly than ever, eroding the foundations of our economies, livelihoods, food security, health and quality of life worldwide. All these findings led to the realization that the way food systems operate needs to be changed, leading the Secretary-General of the United Nations to call for a United Nations Food Systems Summit in 2021.

39. **Central to these discussions on the environment and climate change are rural people, especially small-scale producers, whose livelihoods depend on agriculture directly or indirectly.** Fostering environmental sustainability and climate adaptation, and building resilience among small-scale producers, is critical to achieving the SDGs. Opportunities also exist for win-win scenarios in which adaptation can be accompanied by mitigation. Given the challenges posed by climate change, small-scale producers need to be set on the path of sustainability, both for their own benefit and for that of the planet.

40. **Since 2012, IFAD has been directly supporting small-scale producers in adapting to climate change through ASAP. It has leveraged this experience to increase climate financing in its operations** (see box 3). Under IFAD11, IFAD committed to invest at least 25 per cent of its PoLG in climate-focused activities. In 2019, 34 per cent of the PoLG was indeed assessed as being focused that way, suggesting that IFAD is on track to achieve the target for IFAD11 as a whole. This is complemented by the continued disbursement of ASAP investments

---

[14] The Framework for Implementing Transformational Approaches to Mainstreaming Themes: Environment and Climate, Gender, Nutrition and Youth was presented at the 128th session of the Executive Board in December 2019.
[15] At its twenty-third session, held in Bonn in 2017, the Conference of the Parties adopted decision 4/CP.23 on the "Koronivia joint work on agriculture" which solidified the inclusion of agriculture in negotiations.
[16] IPCC, Special *Report on Climate Change and Land* (New York: IPCC). The report notes that food systems contribute up to 29 per cent of all GHG emissions, including 44 per cent of methane.
[17] EAT-Lancet Commission. Summary report of: Willett, W., et al. "Food in the Anthropocene: the EAT–Lancet Commission on healthy diets from sustainable food systems." *The Lancet* 393.10170 (2019): 447-492.

and technical support. Further, IFAD has been expanding its efforts to mobilize cofinancing from the GEF, GCF and AF to boost IFAD's impact on small-scale producers.

41. **In IFAD12, building resilience among small-scale producers will be expanded, as will mainstreaming environmental sustainability and regeneration, biodiversity conservation and climate adaptation. Climate will continue to be prioritized in IFAD's portfolio and through ASAP+.** Climate funding will be a critical part of IFAD finance in IFAD12, and associated operations and targets will increase. ASAP+ will build on the ASAP experience, but will expand upon it as described below**.** IFAD will also continue to benefit from cofinancing from external environment and climate funds (e.g. GEF, GCF and AF), increasingly seeking a more programmatic approach which looks to group projects that face similar challenges.

Box 3
Lessons from the Adaptation for Smallholder Agriculture Programme

Initiated in 2012, ASAP was the first programme to specifically target increasing the resilience of small-scale producers. ASAP was divided into two stages. ASAP1 (US$300 million) provided investment grants to support adaptation by small-scale producers and rural people to increase food security, enhance resilience and boost gender equity. ASAP2 (US$15 million) focused on building tools and capacity to facilitate investment.

ASAP assessed climatic conditions to identify possible risks to agricultural activities that were important in terms of food security and examined possible responses in selected IFAD projects. It expanded local capacity to identify climate challenges and prioritized locally suitable adaptation measures, providing climate finance to support adoption.

Overall, ASAP was successful in identifying poor small-scale farming communities where climate change posed challenges/risks. As of September 2019, ASAP has been able to introduce climate-resilient techniques to over 900,000 hectares of poor small-scale farms and pastoral areas, increased human capacity to adapt to climate change and climate risk management in 11,000 community groups, supported US$22 million of infrastructure being made climate-resilient, reached 3.1 million individuals, and conducted 17 policy dialogues on mainstreaming climate change into rural development activities.

While ASAP impacts are still unfolding, much can be learned from the experience. Key lessons include:

(i) The ASAP model proved to be a successful. It included grant financing and expert technical assistance for adaptation measures that improved development activities with relatively low transaction costs (compared to similar climate funds).

(ii) While the model reduced costs by piggybacking on in-house processes (i.e. project design), it also picked up the problems inherent in those processes, including delays in approvals and disbursements.

(iii) Effective coordination of partner institutions at local and national level, flexibility in implementing interventions, investing in coping capacities at the household and community levels, effective use and mainstreaming of data and tools throughout the project cycle, and effective project management were common elements of successful ASAP projects.

(iv) ASAP demonstrated the possibility of achieving multiple wins and ensuring harmonization between different thematic priorities by, for example, bringing together climate and gender, or climate and nutrition interventions.

(v) ASAP allowed the development of other innovative financial and programmatic instruments for sustainable farming practices, including the Global Innovation Lab for Climate Finance, the Climate Policy Initiative, the Climate Adaptation in Rural Development Assessment Tool, and the Climate and Commodity Hedging to Enable Transformation (CACHET) initiative.

(vi) ASAP demonstrated that it is possible to mobilize resources from donors for specific purposes – i.e. adaptation – without compromising financing for core resources. ASAP actually led to an increase and diversification of resources.

(vii) ASAP showed that grant financing is a key incentive when undertaking new adaptation activities with uncertain returns and/or in fragile situations. The need for grants was related to the unknown and untested effectiveness of the adaptation measures, rather than the lack of financial returns. Linking grants with the loans also generated greater demand for IFAD loans.

(viii) A robust and reliable way of tracking donors' contributions to climate finance is important. It is also essential to put in place social, environmental and fiduciary safeguards for the distribution of such funds in developing countries. Having a trusted and reliable partner like IFAD playing this role in the financing of adaptation is attractive to donors.

Gender equality and women's empowerment

42. **Rural women face significant barriers in accessing resources and often do not sufficiently share in the prosperity of households.** Women have significantly less access to agricultural inputs, which contributes to a gender productivity gap estimated at 20-30 per cent.[18] This can diminish women's bargaining power in the household and divert spending away from investments in children's schooling, health and nutrition. To overcome these constraints, interventions should be framed to strengthen household welfare for collective gains. This shared prosperity approach can gain greater support from men as well as women and lead to greater cooperation and collective action among household members.[19]

43. **Gender equality and women's empowerment remain central concerns for IFAD, which has consistently increased its commitments over recent replenishments** (see IFAD11 MTR). IFAD recently revised its Gender Action Plan 2019-2025 to identify the pathways towards improving gender performance and achieving IFAD11 gender commitments, including 25 per cent of projects being gender-transformative at design. The target has so far been exceeded, with 29 per cent of projects approved in 2019 being assessed as transformative. The Action Plan goes beyond the traditional approach to gender-mainstreaming by

[18] O'Sullivan, M., et al. *Levelling the Field: Improving Opportunities for Women Farmers in Africa*. (Washington, DC: World Bank Group: 2014).
[19] Doss, C., and Quisumbing, A.R. *Gender, household behavior, and rural development*. Vol. 1772. (Washington DC: International Food Policy Research Institute, 2018).

addressing the underlying power relations within households through the perspective of shared prosperity.

44. **Moving forward, the focus will shift to implementation and scale in order to steadily increase the share of projects that are fully gender-mainstreamed and transformative.** Emphasis is now on fully implementing IFAD's recently updated gender-mainstreaming approaches and procedures, and expanding their use in projects. IFAD will continue to strengthen its internal capacity on gender-mainstreaming and gender-transformative approaches through the Operations Academy, and developing additional e-learning courses. Additionally, the PSFP and ASAP+ will have a special focus on gender.

Youth employment, job creation and migration

45. **Of the one billion youth in developing countries, 778 million live in rural, semi-rural and peri-urban areas where agriculture is a key employer and a leading driver of growth.** Today, 65 per cent of the world's rural youth live in Asia and the Pacific, and 20 per cent in Africa. But Africa's share is projected to rise to 37 per cent by 2050, while Asia and the Pacific's will fall to 50 per cent.[20] These young people are coming of age in a period of significant change – e.g. the ongoing digital revolution, which is profoundly altering the nature of work[21] – as well as dramatic shifts in environmental and climatic conditions.

46. **The growing youth population has enormous potential, but also presents significant challenges.** Rural youth are the farmers, workers and entrepreneurs of tomorrow, and investing in young people can yield a demographic dividend in terms of extreme poverty reduction, employment generation and food security. Obstacles and challenges remain, however. Youth face barriers in access to land, natural resources, finance, technology, knowledge, information and education. They are approximately three times more likely than adults to be unemployed. With limited opportunities, rural youth are more likely to migrate than adults. To create jobs in rural areas, and to ensure rural youth are productive, connected and engaged, policies and investments must at the same time expand rural opportunities and innovation, and focus specifically on overcoming the constraints faced by rural youth.

47. **In IFAD11, considerable progress has been made in mainstreaming rural youth concerns in IFAD operations, and IFAD's first Rural Youth Action Plan 2019-2021 has been approved** (see IFAD11 MTR). A target of 50 per cent of projects to be classified as youth-sensitive was set for IFAD11, but in 2019 this target was substantially exceeded, with 82 per cent of projects being assessed as such. An innovative, integrated agribusiness hub model with a focus on creating jobs for rural youth was designed and will be tested during IFAD11, with the aim to create 21,000 jobs for young people will be created in Africa. Capacity-building on youth mainstreaming is ongoing through the Operations Academy and an e-learning module was developed on social inclusion themes, with IFAD partnering with International Labour Organization and FAO. IFAD's Private Sector Engagement Strategy 2019-2024 (approved during IFAD11) and the Agribusiness Capital (ABC) Fund, whose creation IFAD facilitated, both explicitly focus on creating jobs for rural youth and women.

[20] See IFAD's *2019 Rural Development Report: Creating Opportunities for Rural Youth* (Rome: IFAD, 2019) for a detailed analysis of rural youth. Youth are defined by the United Nations definition of 15-24 years old. About half a billion youth live in strictly defined rural areas of developing countries, but many also live in semi-rural and peri-urban areas.

[21] See the World Bank's *World Development Report 2019: The changing nature of work* (Washington, D.C.: World Bank, 2019).

48. **IFAD has also been expanding economic opportunities by mobilizing and channelling diaspora investments into youth and women-led rural businesses in their home countries and leveraging remittances for youth financial inclusion.** This innovative intervention, led by the Financing Facility for Remittances hosted by IFAD, has helped create mechanisms for diaspora migrants to invest part of their savings into economic opportunities, including in fragile and conflict situations such as Mali and Somalia.

49. **Moving forward, IFAD will, as part of its youth focus, increasingly look for ways to create jobs in rural areas in agriculture-related sectors.** IFAD will continue mainstreaming youth in its country programmes, including through specific efforts to increase the empowerment and employability of adolescent girls and young women, indigenous youth and youth with disabilities. A mechanism for regular inclusion of young people in IFAD governance processes and field-level operations will be formalized, for example through the RBA Youth Council. Regional hubs will receive support on policy engagement based on evidence of what works to generate jobs for youth in agribusiness, which will feed into identifying opportunities for private sector investment. In turn, lessons from implementation of this integrated agribusiness hub model will be scaled up in IFAD country programmes to create more jobs during IFAD12 and beyond. Ensuring young people have access to jobs created through IFAD projects helps to ensure that such projects have sustainable results.

Furthering social inclusion – persons with disabilities and indigenous peoples

50. **Of the one billion persons with disabilities (PwD) in the world, four out of five of them live in developing countries.** There is a strong relationship between extreme poverty and disability, both at the individual and household level. Nevertheless, a recent IFAD study shows that rural PwD are economically active and have the potential to generate income and thus take a productive pathway out of extreme poverty.[22] Further, the link between disability and low income is not direct and there are ways to break this connection and help PwD escape extreme poverty. These conclusions, along with the experiences of other international organizations, suggest there is potential to include PwD in IFAD interventions.[23] IFAD is therefore committed to expanding efforts to include PwD in IFAD operations in IFAD12, while a start is already being made in IFAD11. A recently approved project in Ghana will establish a blended finance facility to allow women, youth and PwD to invest in farm improvement by increasing their access to agricultural finance at affordable rates of interest.

51. **There are an estimated 370 million indigenous peoples in some 70 countries worldwide, who make up 5 per cent of the world's population but represent 15 per cent of those living in extreme poverty.** Indigenous peoples have been dispossessed of their lands, territories and resources over centuries and, as a result, have often been robbed of their way of life. In many countries, particularly in Latin America and Asia, extreme rural poverty is increasingly concentrated in indigenous and tribal communities. While suffering from economic, social, political and cultural marginalization, indigenous peoples are still custodians of an estimated 80 per cent of the world's biodiversity and are responsible for the sustainable management of a significant share of global natural resources. In addition, they have unique food systems anchored in sustainable livelihood practices, and their in-depth, varied and locally rooted knowledge can help the world learn how to adapt to, and mitigate, the consequences of climate change.

[22] See IFAD, *The economic activities of persons with disabilities in rural areas: New evidence and opportunities for IFAD engagement* (Rome: IFAD, 2019) for a review of the evidence on PwD and the results of the report commissioned.
[23] Ibid.

52. **IFAD started focusing on indigenous peoples more than 30 years ago, identifying them as a priority vulnerable group in a number of country strategies.** Currently, IFAD's portfolio supports more than 6 million indigenous beneficiaries in 37 countries, with a total direct investment of about US$930 million. In 2009, IFAD approved the Policy on Engagement with Indigenous Peoples which, in addition to the principles of engagement, created two instruments: (i) the Indigenous Peoples Assistance Facility; and (ii) the Indigenous Peoples Forum. So far, 162 projects have been funded by the Indigenous Peoples Assistance Facility in 48 countries for a total of US$5 million. Although small in scale, these projects are determined by indigenous peoples themselves and cover a broad range of activities, from food security and adaptation to climate change, to biodiversity conservation, management of natural resources, and institutional strengthening. The Indigenous Peoples Forum enables representatives of indigenous organizations to engage in conversation with IFAD, discuss rural development policies and investments, share good practices and promote the participation of indigenous peoples' organizations in IFAD activities at national, regional and global levels.

53. **Aligned with the recommendations of the Indigenous Peoples Forum, during IFAD12 IFAD is committed to maintaining and further strengthening its partnership with indigenous peoples and their organizations.** Among other initiatives, efforts will continue to be made to strengthen the institutional capacities of indigenous' organizations, facilitate the presence of indigenous peoples (in particular women and youth) in international policy forums, ensure that investments take into account the needs and challenges of indigenous peoples, and strengthen knowledge management activities.

Nutrition

54. **SDG 2 targets for nutritional indicators are unlikely to be met under current trends.** Progress on low birthweights, wasting and stunting is slow. Africa and Asia bear the greatest burden of malnutrition, accounting for more than 9 out of 10 of all stunted children, over 8 out of 10 of all wasted children, and nearly three quarters of all overweight children worldwide.[24] Global obesity is also on the rise, particularly in rural areas of LICs, LMICs and UMICs, alongside other prevalent forms of malnutrition.[25] In addressing extreme rural poverty and food insecurity, malnutrition must be considered a key objective in rural development efforts.

55. **Improving the nutritional level of rural populations has been a crucial component of the IFAD11 agenda** (see IFAD11 MTR). Nutrition is firmly embedded in IFAD's corporate strategies and commitments, and a Nutrition Action Plan 2019-2025 was approved in 2019. A target of 50 per cent of projects to be nutrition-sensitive was set for IFAD11, and in 2019 61 per cent were assessed as being nutrition-sensitive. Concerted capacity-building efforts among IFAD staff, consultants and project management unit staff on nutrition-sensitive agriculture have resulted in increased level of awareness and knowledge. IFAD's leadership of the United Nations System Standing Committee on Nutrition has been instrumental in building partnerships, advocating for nutrition and obtaining United Nations coherence around this theme. Partnerships have provided IFAD with an opportunity to learn from other organizations and to share lessons generated from IFAD's projects and technical assistance activities. Despite this progress, much remains to be done, however, to enhance IFAD's contribution to the global nutrition agenda.

56. **During IFAD12, nutrition will continue to be a priority, with new project designs building on the gains made in IFAD11 to increase impact.** IFAD will ensure that agriculture development is approached within a broader food system framework, from inputs and production to processing, marketing and consumption.

---

[24] FAO, IFAD, UNICEF, WFP and WHO, *The State of Food Security and Nutrition in the World 2019.* Safeguarding against economic slowdowns and downturns (Rome: FAO, 2019).

[25] Bixby, H. et al., "Rising rural body-mass index is the main driver of the global obesity epidemic." *Nature,* 569 (2019), pp. 260-264.

IFAD will also promote women's leadership in food systems decision-making in order to promote diversity in farming and diets. In addition, it will emphasize local and indigenous plants and animal species; promote food cultures and local seeds; and disseminate local knowledge and innovations that foster social, economic and environmental sustainability. This approach will help to capture co-benefits from other mainstreaming themes through nutrition-sensitive programming.

Fragile and conflict-affected situations (FCSs)

57. **FCSs are significant contributors to extreme poverty and food insecurity.** The Organisation for Economic Co-operation and Development estimates that 80 per cent of the world's extremely poor people will live in fragile states by 2030.[26] Fragile situations disproportionately affect the most vulnerable people and communities, including women and girls, and are a primary driver of migration and humanitarian crises.[27] FCSs have also been shown to be a key factor in the recent rise in food insecurity.[28] They are also linked to weak institutions, which can diminish the impact of policies and programmes aimed at reducing extreme poverty and food insecurity.

58. **IFAD is channelling resources to FCSs and seeking new approaches.** At least 25 per cent of IFAD's investments in IFAD11 will be in fragile situations. To tailor its development responses, IFAD is undertaking fragility assessments and designing new tools. These will allow IFAD to continue to address the root causes of fragility, particularly institutional weaknesses and governance issues. One such tool that can be used is the Facility for Refugees, Migrants, Forced Displacement and Rural Stability (FARMS) (see box 4). IFAD is also partnering with actors with the capacity to engage in humanitarian assistance in order to begin mounting development interventions as crises abate.

59. **Addressing the underlying causes of extreme poverty and food insecurity requires expanding resources and approaches to FCSs under IFAD12.** In FCSs, IFAD will expand the use of fragility assessments, existing mechanisms and new financing instruments that are being developed. For example, where conflict and climate change are linked, ASAP+ could provide an approach to overcoming weak institutions since it allows for partnering more easily with civil society in situations where government institutions are weak.

---

[26] OECD. *States of Fragility 2018*. (Paris: OECD, 2018).
[27] World Bank. *IDA19 Special Theme: Fragility, Conflict & Violence*. (Washington, DC: World Bank, 2019)
[28] FAO, IFAD, UNICEF, WFP and WHO. *The State of Food Security and Nutrition in the World 2018: Building Climate* Resilience *for Food Security and Nutrition* (Rome: FAO, 2019).

Box 4
Creating synergies with IFAD PBAS investments in fragile situations – the example of FARMS

IFAD established FARMS to mobilize resources aimed at enhancing its value proposition in fragile situations. The creation of this instrument was motivated by the series of 2011 Arab Spring revolutions and their lingering social effects. Chief among them were large-scale, forced population movements. The influx of millions of Syrian refugees into neighbouring countries such as Jordan and Lebanon created a new situation on the ground – one to which IFAD's traditional, country-based, PBAS was ill-equipped to respond.

Countries affected by the ripple effects of the conflict in the Syrian Arab Republic were reluctant to borrow from IFAD to tackle the pressing needs of refugees and their strained rural host communities. They argued that uncontrolled large-scale migration is a global "public bad" which requires incremental rapid responses without increasing public debt. A grant-based funding mechanism complementary to and synergetic with the PBAS had to be put in place. It was devised to allow relatively flexible and fast-track engagement compared to the often lengthy processing time frames of traditional IFAD investment projects funded through sovereign borrowing.

The Facility's aim is to help host communities cope with the destabilizing effects of crises and provide refugees and internally displaced peoples with remunerative livelihoods. FARMS was purposefully positioned to reach beyond the flurry of relief interventions delivered by multiple humanitarian actors and focus on under-funded, early recovery development-spectrum interventions. The latter are stepping stones to enhanced resilience and thus significant in bridging the humanitarian-to-development funding gap.

The Facility mobilized approximatively US$36.4 million, earmarked for 500 small-scale rural community infrastructure projects in Jordan, Lebanon, Niger, Sudan, and Somalia. It was expected to generate an estimated 1 million days of temporary work, as well as 20,000 full-time jobs, primarily for youth.

Funding allowed IFAD to enhance the fragility focus of a loan-funded project in Jordan (the Small Ruminants Investment and Graduating Households in Transition Project) and to expand its outreach to include Syrian refugees. Another example is the Family Farming Development Programme in the Diffa Region in Niger, which is tailored to the particular situation in the area, home to 250,000 forcibly displaced people. The programme is putting emphasis on water and land management as well as building human capital among displaced people. Both dimensions are critical to fostering resilience to fragility, conflict and violence in Niger. Resources have funded the stabilization of 700 ha of dunes both through mechanical and biological means, as well as the establishment of six rural pumping stations powered by solar energy, for a total of 48 water points to be used by local shepherds.

Source: Special Programme for Countries with Fragile Situations: Operationalizing IFAD's Fragility Strategy (EB 2019/126/R.20/Rev.2.)

Partnerships, including with the private sector

60. **Strategic partnerships are central for IFAD to deliver on its mission and enhance its contribution to supporting countries in achieving the SDGs.** Building on the Partnership Framework approved in IFAD11, IFAD will seek to raise its leadership in global, regional and country-level platforms for policy dialogue during IFAD12. The aim is to play a more active role in bringing together partners around a common agenda and improve investment planning and implementation in the rural and agricultural sectors.

61. **This agenda will respond to national priorities, as well as contribute to the strategic objectives of the United Nations Sustainable Development Cooperation Framework of each country.** Partnerships with civil society organizations will also be promoted, particularly in fragile situations where more flexible and agile implementation is necessary.

62. **Expanding partnerships with the private sector and foundations will be central during IFAD12.** In line with IFAD's Private Sector Engagement Strategy 2019-2024, these partnerships will seek to mobilize knowledge, private funding and investments in rural MSMEs, and to expand markets and increase incomes and job opportunities for IFAD's target groups. The PSFP and ASAP+ will be two of the main innovative mechanisms through which IFAD will pursue these objectives. Special efforts will be made to leverage partnerships with foundations around the mainstreaming topics, particularly climate change. Equally important will be the mobilization of private sector investments to support the PoLG, particularly in projects with value chain components. The 4Ps approach, as well as partnerships with private companies, will be expanded to cover more projects and countries in order to test and scale up new technologies and cost-effective solutions for small-scale producers and poor rural women and men.

SSTC, innovation and technology

63. **The growing number of SSTC activities at the regional and country levels demonstrate the strong engagement of IFAD in non-lending activities that complement the PoLG**. Following the approval of an SSTC Strategy in 2016,[29] IFAD has strengthened its engagement in this sector through initiatives such as the China-IFAD SSTC Facility; the Rural Solutions Portal; embedding SSTC in new country strategies; dedicated partnerships with southern countries; participation in global and regional SSTC events; mainstreaming SSTC into operations; and undertaking joint RBA collaboration under the joint road map for SSTC. In 2018-2019 three SSTC and Knowledge Centres were established in Addis Ababa, Brasilia and Beijing to promote regional and country-level engagement. IFAD achieved the IFAD10 target of having an SSTC approach in at least 50 per cent of new country strategies and is on track to surpass the IFAD11 commitment of 66 per cent. Launched in 2018, the China-IFAD SSTC Facility has approved 15 projects with a total value of nearly US$7 million. For IFAD12, IFAD will develop a new SSTC Strategy building on lessons learned and responding to increasing demand from Member States.

64. **During IFAD12, additional efforts will be made focus more closely on transformative practices within IFAD's approach to technical innovation.** Greater efforts will be made to identify and analyse potential innovations for rural transformation during the design of COSOPs and investment projects. In addition, efforts will be made to introduce innovation and the use of technologies within IFAD's processes and programmes, particularly to increase efficiency and development effectiveness. A flexible approach will support collaboration with different types of partners and initiatives at international and national level, including government-led and public-private partnerships and community-supported initiatives. IFAD's recently approved Information and Communication Technology for Development strategy will help enhance the delivery of technological solutions to governments and beneficiaries, as well as to build IFAD's own capacity. Special attention will be given to fostering partnerships that include youth and women.

IV. IFAD 12: Business model and operational modalities

65. **In order to strengthen its country-level programmatic approach during IFAD12, IFAD will consolidate and broaden its business model and diversify its tools and instruments to promote inclusive and sustainable rural and food systems transformation.** The four pillars of the business model – resource mobilization, resource allocation, resource utilization and transforming resources into development results – will be built upon in IFAD12. In doing so, IFAD's PoLG, and the core replenishment resources that fund it, will remain at the heart of IFAD's business model. The overall PoW will include the PoLG as well as additional actions to expand IFAD's work, particularly the PSFP and ASAP+, which are also described in this section (see box 5 for a view of how this would work in practice).

A. Programme of loans and grants

Resource mobilization

66. **Directly leveraging the PoLG to enhance development impact is central to IFAD's vision of its role in the development architecture.** It will achieve this in three main ways. First, through project cofinancing, so as to increase the overall size and the focus on extreme poverty and food insecurity of the investment projects it supports. Second, by using investment projects to leverage additional responsible private investment in the rural space. Third, by using the experience of

[29] https://webapps.ifad.org/members/eb/119/docs/EB-2016-119-R-6.pdf.

investment projects to inform national policies and priorities and scale up successful operations.

67. **Consistent with IFAD11, continued high levels of cofinancing will be a key dimension of the PoLG in IFAD12.** Cofinancing strategies will continue to be tailored to the different regions in which IFAD works. In broad terms, IFAD will look to leverage substantial domestic cofinancing from governments, the private sector and beneficiaries, which will be predicated on a stronger alignment with, and support for, national strategic and programmatic priorities, as well as high levels of ownership, by domestic partners. It will also demand very substantial international cofinancing, based on IFAD building stronger and more substantive partnerships, particularly – though not exclusively – with other IFIs. IFAD’s engagement ensures the combined investment has a stronger focus on rural poverty and food insecurity.

68. **A key purpose of IFAD investment through the PoLG will be to leverage responsible private investment in the rural space that leads to expanded and improved services to, and markets for, poor small-scale producers through the 4Ps approach.** This is typically achieved in IFAD-funded projects by: (i) financing public goods and services, such as research and extension, or economic infrastructure such as rural roads and wholesale markets, which reduce the risks and transaction costs of dealing with small-scale producers in agricultural value chains; or (ii) building the capacity of farmers’ organizations to act as aggregators from individual producers. The new PSFP will allow IFAD to invest directly in private sector operations, thus providing a key tool, complementary to the PoLG, for crowding in private sector investment as an engine of growth and rural transformation.

Resource allocation

69. **Greater country selectivity and the trend towards fewer, and wherever possible larger, loans in support of fewer, substantially larger investments will continue in IFAD12.** With a focus on 80 countries under IFAD11 compared to around 100 under IFAD10, IFAD’s average loan size increased from US$31 million in IFAD10 to US$40 million in IFAD11, while average project size increased from US$60 million to US$114 million (See IFAD11 MTR). Larger loans tend to achieve better development outcomes and typically have stronger national ownership. They are better able to leverage influence on, and more effectively contribute to, national policies and strategies.[30] In those countries where limited allocations do not allow for larger loans, IFAD will explicitly seek to use its resources to leverage influence and impact, including through cofinancing or through results-based investment. An analysis of the effectiveness of the country selectivity criteria used in IFAD11 could lead to changes in these criteria for IFAD12, ensuring they respond to emerging needs in the business model.

70. **A PBAS will remain the mechanism to allocate PoLG resources, relying on a mix of country needs and performance in determining allocations among countries**. In IFAD12, these resources will mainly continue to fund highly concessional activities in LICs and LMICs. This will be done according to the principles agreed with IFAD’s governing bodies, while also recognizing the limits of individual countries’ absorptive capacity.

71. **Finally, all investment projects will target extremely poor and marginalized rural populations, based on a clear understanding of the causes of rural extreme poverty and food insecurity at country and local levels, and of the vulnerabilities or structural constraints faced by rural people.** All projects will aim at enabling poor rural populations to increase their incomes, improve their food security and strengthen their resilience to shocks; and all will be characterized by an approach that, on the one hand, creates economic

[30] Denizer, C., Kaufmann, D. and Kraay, A., 2013. *Good countries or good projects? Macro and micro correlates of World* Bank *project performance*. Journal of Development Economics, Elsevier, vol. 105(C), pages 288-302.

opportunities for these groups, and on the other, strengthens their capacity – as individuals and collectively – to take advantage of these opportunities. To ensure a focus on extremely poor and marginalized populations across all activities, a new Targeting Policy building on the recently approved targeting guidelines will be put in place in IFAD12.

Resource utilization

72. **The COSOPs, and the corresponding strategic policy engagement with governments as well as the private sector and civil society, and with other development partners, will provide the framework for IFAD's country-level programmatic approach.** COSOPs will serve as the main vehicle for providing a diagnostic of the country's rural development challenges and opportunities, laying out the components of IFAD's comprehensive agenda for the country, identifying where interventions should be targeted, and determining the combinations of financing and non-financing instruments to be used (including PSFP and ASAP+). They will also help IFAD determine how best to use its instruments to address issues related to climate change, fragility, gender equality, nutrition and the inclusion of youth and other marginalized groups.

73. **COSOPs will be aligned with the new United Nation's Sustainable Development Cooperation Framework and feed into efforts to analyse the national development landscape and SDG priorities.** While always built in partnership with governments and through broader consultation with development partners, the private sector and civil society, this will be strengthened through even greater engagement and an emphasis will now be placed on alignment with the United Nations Sustainable Development Cooperation Framework.

74. **The key to the successful implementation of IFAD12 is to ensure that the instruments employed and the non-lending engagement activities are used in a synergistic manner that enhances scaled-up results in terms of rural extreme poverty and food insecurity reduction.** Under IFAD12, new instruments (PSFP and ASAP+) will be used to finance activities that complement and add value to the PoLG and enhance its impact, with the COSOP providing the framework for all planned activities.

75. **IFAD's country-level policy engagement is a lever to bring localized, yet concrete, project experience and evidence to the national level, to assist governments in creating an enabling rural policy environment that incentivizes private investment at all levels and contributes to inclusive and sustainable rural transformation.** A growing number of operations are being designed with explicit policy purposes and objectives in mind and with dedicated resources. This approach brings influence to higher-level national policies, strategies and programmes and allows for the possibility of scaling up successful projects as part of national rural development strategies. As part of its country-level programmatic approach, in IFAD12, projects will increasingly have broader policy-related objectives.

76. **As its financial architecture evolves, IFAD will offer the governments of its Member States a growing range of financial and technical products in areas that correspond to its strategic priorities and mandate and respond to the evolving challenges in reducing rural extreme poverty.** These will strengthen the PoLG, complement it, and enhance its impact. Some examples already being piloted in IFAD11 include:

- **Results-based lending** is attractive to national policymakers to ensure the quality of public expenditure. The first of two such IFAD investments, reflecting both project-specific and programmatic approaches to results-based lending, will shortly start implementation in China and Cuba. Taking on board the lessons from these experiences, it is expected that an increasing number of projects will be financed using the approach.

- IFAD will be looking to finance **regional lending operations**, where there is demand and the conditions for implementation are in place, drawing on the lessons gained through initial experiences. Such operations allow governments to address cross-border challenges (e.g. natural resource usage, climate vulnerabilities) and other priorities (e.g. infrastructure investment) which require collaborative regional responses. The first **regional lending operation**, involving Benin and Togo, is currently under design, and another is envisaged among the G5 Sahel countries.
- The **FIPS facilities** were approved in 2018 and are now being used to provide start-up support to borrowing countries where implementation capacities are weak and where greater up-front support is required during project start-up. The FIPS will enable investments financed through the PoLG to start more quickly and on a sounder footing, and it is expected that it will be used increasingly during IFAD12.
- IFAD will look to use **RTA** more frequently as a way of both sharing its knowledge and experience in rural extreme poverty and food insecurity reduction, and of playing what in some countries may be an important role in implementing rural extreme poverty reduction policies. Focusing particularly in countries where lending programmes are small or absent, and where governments demand it, IFAD has five RTA packages currently under design or implementation, and under IFAD12 more will be developed, based on this growing body of experience.

Transforming resources into development results

77. **Efforts to enhance portfolio quality, performance and outcomes will continue under IFAD12 with a specific focus on efficiency.** There is an inherent trade-off between IFAD's mandate to undertake "last mile" development efforts in remote areas with extremely poor and marginalized groups and the overall efficiency of IFAD investment. Increasing allocations to poorer countries and those with fragile situations also poses the biggest challenges in terms of efficiency, primarily because of weaknesses in their country systems and institutions. However, this is a challenge that must be faced and IFAD has already taken a series of measures to address the increased risk of inefficiency, including training staff and project/programme management units. This will be further improved in IFAD12 by ensuring that project management is not only focused on delivering results, but that it is responsive to emerging challenges and changing conditions. The agenda is one of adaptive management, which is principally about making decisions and adjustments in response to new or changing contexts.

78. **A stronger focus on sustainability of project impact will be built into all projects and will be closely monitored and evaluated across the portfolio.** Planning for a project's sustainability of impact at the outset is critical (through an explicit focus on scaling up pathways and exit strategies), as it is to monitor their sustainability ex post. During IFAD12, project teams will place renewed emphasis on ensuring that projects are designed with strategies to ensure sustainability of impact. They will work with the Independent Office of Evaluation of IFAD and the Research and Impact Assessment Division to ensure that sustainability of impact is evaluated and monitored. Country-level programmatic approaches are helpful in ensuring that IFAD is working with governments to design long-term and sustainable approaches to transform lives and increase country ownership of interventions.

79. **The sustainability of project impact improves when government partners and beneficiaries alike are given the opportunity to take greater ownership of projects and work, from the outset, to articulate and generate pathways through which projects can either be scaled up, or to utilize other exit strategies.** In IFAD12, IFAD will expand instruments that are

known to generate strong government ownership, such as results-based lending and programmatic approaches. To facilitate greater ownership from beneficiaries in the service of impact sustainability, they will be more closely included in the governance of IFAD-supported projects through the framework for beneficiary feedback.

80. **Lack of government capacity also reduces the ability to sustain project impact**. When IFAD invests in governments, it helps to build the capacity needed to ensure that the loans taken by governments lead to sustainable change. IFAD12 will seek to specifically utilize tools and mechanisms designed to enhance the capacity of governments to implement result-based management, better monitoring and evaluation, and other areas key to designing and implementing sustainable approaches.

81. **IFAD will work to ensure that innovative ways of doing business are expanded across the entire PoW.** The focus on institutional efficiency will be sharpened to ensure that the metrics for institutional efficiency are reviewed and revised. Systems too will need renovation to ensure that they cover all areas of IFAD's work. The Operational Results Management System, as well as efforts to boost transparency, will be revised and adjusted to suit the needs of the IFAD12 business model.

B. Private Sector Financing Programme

82. **The purpose of the PSFP is to crowd in additional private investment for rural small-scale producers and small and medium-sized enterprises (SMEs).** It will be initiated during IFAD11, but with plans to ramp up its offering in IFAD12. Investments by private actors in rural agriculture projects involving small-scale producers have historically been low, in a large part the result of the perceived high risk of the agriculture sector,[31] low investment size and relatively high transaction costs. For example, the evidence suggests that, globally, small-scale producers face a financing gap of approximately US$170 billion. Rural SMEs in sub-Saharan Africa alone have an estimated financing gap of US$100 billion.[32] As the world's second largest multilateral development investor in food security, IFAD is uniquely positioned to commit patient resources and technical expertise to bridge this financing gap. To that end, IFAD is setting up the PSFP as a holistic solution to tackle the financial and capacity constraints that limit private sector appetite for investment in rural small-scale producers and SMEs. The PSFP projects are expected to have development impact, be financially sound, adhere to strict environmental and climate standards, facilitate social inclusion and promote good governance and coordination of public and private sector efforts.

83. **This holistic solution builds on the IFAD12 country-level programme approach and early consultations with governments to align PSFP projects with countries' strategic goals.** PSFP projects can be designed as part of ongoing or future IFAD projects, taking into account the sequencing of capacity-building and development that may be needed prior to the structuring and design of a viable private sector investment. Having PSFP capability and activities in-house will greatly enhance the potential for impactful synergies between IFAD's public and private sector investments.

84. **The PSFP business model entails raising resources from Member States, external private impact-oriented investors, including foundations, and global financing facilities and deploying them in the form of catalytic interventions to support projects targeting rural small-scale producers and**

[31] The perceived risks can be categorized as follows: (i) operational (including drought, pests and climate); (ii) credit (including lack of assets, capital and the inability to diversify, either commodity-wise or geographically); (iii) capacity (limited infrastructure, lack of training, social exclusion); and (iv) regulatory/political risk (weak business environment, weak protection for commercial interests, misalignment with government priorities).

[32] https://pathways.raflearning.org/.

SMEs. To do so, the PSFP will leverage IFAD's existing value proposition, which entails: (i) an exclusive focus on agriculture development and deep understanding of the agriculture business and sector needs; (ii) long-term vision and patient investment horizon; (iii) a reputation as trusted partner with persuasive convening power, underpinned by strong long-term relationships with governments; (iv) field presence with privileged access to data on farmers and agriculture ecosystems; (v) opportunities for linkages with public sector projects, grants and global financing facilities; (vi) expertise as a proven assembler of innovative development financing (see ABC Fund in box 5); and (vii) strong targeting and impact measurement frameworks.

85. **The PSFP will complement IFAD's existing toolkit by equipping it with new financial instruments that allow it to crowd in private sector investment. These include:**

(i) **Financing instruments** that will be channelled to beneficiaries both directly and through a variety of intermediaries – expected to be primarily financial intermediaries (FIs), in contrast to IFAD's public financing through governments. Deploying financing through FIs helps to optimize outreach to small-scale producers. Cooperatives, SMEs and aggregators may also be eligible for financing. The instruments offered to FIs could include loans, lines of credit or blended finance solutions subject to project needs and in line with industry principles.[33] Other forms of debt, equity and hybrid funding may also be extended through the PSFP to companies and FIs working with small-scale producers to catalyse investments – notably to promote climate-smart agriculture, as well as women empowerment and youth employment. IFAD will leverage its technical expertise in agriculture and rural development when offering such instruments (for example, by advising FIs on how to design repayment schedules for small-scale producers that are more closely adapted to crop cycles).

(ii) **Risk management instruments will be designed with a focus on addressing:**

(a) **Credit risk, by deploying risk-sharing agreements or guarantees.** For example, providing a guarantee to an FI for loans extended to women small-scale producers can significantly increase the amounts that FIs are willing to lend. This is particularly relevant as women often do not have title over assets that they could pledge as collateral for finance. Guaranteeing their loan obligations could unleash significant amounts of funding for this acutely underserved market.

(b) **Price and climate risk, by offering risk mitigation and insurance solutions.** The expansion of the CACHET programme – currently being piloted in West Africa – will be explored. CACHET offers protection to farmers when prices fall below the break-even mark or where production is affected by climate-related disasters. Such instruments aim to boost farmers' confidence to invest in productivity improvements.

86. **To complete its holistic approach, the PSFP could deploy customized technical assistance solutions to further de-risk or boost the development impact of projects.** Technical assistance could be offered in parallel to the financing and risk management instruments outlined above, to help mitigate perceived risks and address capacity gaps among financing recipients under the PSFP. Such technical assistance could support innovative and impactful solutions

[33] IFAD is exploring adherence to the Enhanced Blended Concessional Finance Principles for Development Finance Institutions (DFI) Private Sector Operations adopted by sister development finance institutions. DFI Working Group on Blended Concessional Finance for Private Sector Projects Joint Report, October 2018 update. https://www.adb.org/sites/default/files/institutional-document/457741/dfi-blended-concessional-fiance-report.pdf.

targeting small-scale producers and their organizations including delivering assistance to design business plans, implement appropriate accounting and management techniques, improve commodity diversification or strengthen their benefits from market participation and their resilience to climate change.

87. **The PSFP will complement rather than compete with other IFIs' private sector agriculture activities.** First, the PSFP will expand the range of investment opportunities by leveraging IFAD's large portfolio, sector expertise and strong network. IFAD's large footprint and experience in agriculture and rural areas will help originate projects that other IFIs could help cofinance and structure, leading to a win-win collaboration. Second, IFAD can target smaller investments rather than large agribusiness projects (as is the focus for other IFIs and development partners)[34] in order to catalyse funding in severely underserved agribusiness segments. IFAD's PSFP funding will be tailored to the absorptive capacity and financing needs of small-scale producers, their organizations and rural communities.

88. **The PSFP will operate as a distinct programme separately from the ABC Fund.** In sponsoring the ABC Fund, IFAD reached a significant milestone in its engagement with the private sector. Using a limited amount of its own resources (US$3.5 million), IFAD successfully incubated a complex structure and crowded in pledges of EUR 50 million in patient first-loss capital from its partners (see box 5). With expertise gained from structuring the ABC Fund, the PSFP will have higher ticket sizes and a broader geographical reach and sources of funding. It will have the potential to operate in all IFAD Member States (100+) while the ABC Fund currently focuses on 10 countries; it will offer more instruments that complement IFAD's public sector operations; it will utilize IFAD's status as both a United Nations agency and an international financial institution to mobilize funding to address the evolving needs of small-scale producers; and it will give IFAD full control over project design and investment decisions.

89. **PSFP projects may also benefit from de-risking activities delivered through the ASAP+.** Targeted and carefully timed interventions under ASAP+ could address very specific challenges and will be designed to respond rapidly to food insecurity and its underlying causes of climate change, which have an acute effect on small-scale producers. ASAP+ interventions could help to mitigate risks and improve conditions for related PSFP private sector investments.

Box 5
IFAD as assembler of development finance for agriculture: the ABC Fund

IFAD's design and sponsorship of the ABC Fund demonstrate IFAD's catalytic role as an assembler of development finance. The ABC Fund aims to crowd in financing for the rural agribusiness "missing middle", by de-risking that sector through a first-loss equity structure, targeted technical assistance and strong pipeline development. The missing middle are agri-entrepreneurs too small to access reasonable commercial financing and too large to be eligible for microfinancing.

The ABC Fund is an externally managed, independent, impact investment fund. It invests in rural SMEs as well as producers' organizations, with a focus on youth and women agri-entrepreneurs. As well as sponsoring its establishment, IFAD mobilized a first-loss commitment of approximately EUR 50 million from its partners – the European Union/African, Caribbean and Pacific Group of States (EU/ACP), Luxembourg and the Alliance for a Green Revolution in Africa. In addition, IFAD provided grant financing of US$3.5 million, together with the EU/ACP, for a technical assistance facility.

IFAD has successfully assembled further donor funding of EUR 9 million from the Swiss Development Corporation. IFAD is now in the process of seeking Executive Board approval to invest this funding into the first-loss equity tranche of the ABC Fund as one of IFAD's first private sector projects. To date, over 15 investment proposals were reviewed by the ABC Fund investment committee for projects in Côte d'Ivoire, Kenya, Uganda and Mali, Ghana; the first investment was disbursed in December 2019, supporting a cocoa cooperative in Côte d'Ivoire to help up to 2,700 small-scale producers gain better access to markets.

[34] For example, the International Finance Corporation 2019 Annual Report highlights three agribusiness projects in the amount of US$35 million in India, EUR 35 million in South Africa, and US$100 million in Latin America. Similarly, Global Agriculture and Food Security Programme (GAFSP) projects have an average size of approximately US$15.5 million (GAFSP Private Sector Window portfolio of approved projects as of May 2016).

C. ASAP+

90. **To tackle climate change as one of the key underlying causes of food insecurity, IFAD will establish ASAP+, which will provide primarily grant-based climate finance.** Building on the experience of ASAP (see box 3), ASAP+ responds to growing concerns that increasing climate finance is not aligned with extreme poverty reduction and food security targets.[35] It also responds to the need to adopt more integrated approaches when designing adaptation and mitigation measures and resilience strategies for rural communities faced with fragility, environmental degradation and climate change, changing diets, migration and demographic shifts.

91. **ASAP+ financing will be 100 per cent climate finance but will move beyond ASAP.** First, it will increase its focus on mitigation, recognizing that mitigation is a major "co-benefit" of adaptation approaches and an effective way to reduce emissions from small-scale producers. Second, it will place greater emphasis on linking climate with nutrition, gender, youth and social inclusion. Third, knowing that climate finance needs to reach those most in need, it will have a strong focus on LICs, particularly those in debt distress and affected by fragility and conflict. Fourth, recognizing the issues with disbursement experienced under ASAP, ASAP+ will include the possibility of delivery through civil society such as NGOs and other United Nations entities in addition to governments.

92. **Following IFAD standard practice and in accordance with its mandate, ASAP+ will target rural communities, small-scale producers and households that are the most food-insecure, marginalized and affected by climate change.** The mainstreaming themes of gender, nutrition and youth will play a central role in this programme. The interconnectedness of the themes is evident. Women tend to have the role of primary caregivers and providers of food and fuel, and are most vulnerable when flooding or other natural disasters occur. Gender equality and women's empowerment actions are central elements of resilience. Children and young people are among the most likely to be sent away to seek work elsewhere when climate-related events such as intensifying droughts place untenable pressure on households. Lastly, healthy diets and nutrition knowledge for all household members, especially for women dealing with food choices for children, are a prerequisite to achieving food security for all. ASAP+ will establish approaches and processes that enable projects to harness and maximize the co-benefits for these themes that result from climate-resilient agriculture.

93. **Another key distinctive feature of ASAP+ is its primary focus on LICs, particularly those in debt distress, and on fragile settings to provide climate finance where it is most needed.** ASAP+ will support the poorest countries with the greatest dependency on agriculture, which also face the greatest challenges in terms of exposure to climate change, food insecurity, rural extreme poverty, and fragility and institutional capacity weaknesses. In addition, provisions will be made for small island developing states, which are particularly exposed to climate change and where sustainable livelihoods of small-scale producers are at high risk.

94. **To overcome the implementation challenges of the original ASAP model, ASAP+ will put in place a more agile and flexible approach to delivering impact.** While ASAP has delivered significant results, the pace of progress has sometimes been slowed by strong links to government processes. To overcome this challenge, in addition to working through governments, ASAP+ will work through NGOs and other non-state entities, particularly in countries with higher levels of climate vulnerability and food insecurity where programme implementation may

[35] See Oxfam Climate Finance Shadow Report 2018. Assessing progress towards the US$100 billion commitment.

suffer from weak policy and institutional capacity and debt distress.[36] The selection of the implementing partners will be based on their level of local engagement, operational capacity, experience with agricultural development and food security programmes, along with empirical evidence and robust reports on past initiatives and their respective impact. The novelty of this implementation arrangement lies in building on existing experiences from IFAD, and on making use of partnerships to expand and systematize the model.

95. **ASAP+ interventions will be considered as a core part of IFAD's country level programmatic approach, and the starting point for accessing ASAP+ is the COSOP and related country policy engagement.** The objective of ASAP+ interventions is to "turbocharge" results for IFAD's target groups through tailored, catalytic and timely interventions, in turn creating synergies between long-term development interventions and evidence-based and impactful climate finance packages to build resilience. The additionality and uniqueness of ASAP+ rest on its ability to create synergies across different intervention modalities (i.e. PoLG and PSFP). COSOPs analyse national climate action plans, including nationally determined contributions, and assess the main factors undermining food security among extremely poor and marginalized groups. The policy engagement agenda for a given country, among other things, identifies potential interventions that could complement IFAD-supported operations in that country or, if appropriate, private sector investments. Proposals will need to be supported by government counterparts and the funds will then be embedded in the broader country programme.

96. **To remain consistent with the programmatic approach, the selection of ASAP+ interventions will be driven by their additionality and complementarity to ongoing efforts and their potential to achieve and scale up development impacts.** Building on the experience of ASAP, a range of quantitative and qualitative criteria will be used to guide merit-based project selection with the main selection objective to ensure that ASAP+ grants add clear and demonstrable value to IFAD's operations and the target population. To guide the assessment of the proposals, an ASAP+ results framework will be developed with key indicators that will set the main criteria for project selection, including the number of poor small-scale producers' household members whose climate resilience will be increased and food security enhanced as a result of the intervention. In that sense, ASAP+ financing will not be automatic but assessed on a case-by-case basis.

97. **The first interventions under ASAP+ will commence during IFAD11, to streamline the processes, strengthen the theory of change and the results framework, engage with current and potential partners, and have a fully-fledged programme integrated into IFAD12.** To facilitate an agile start, priority will be given to potential interventions that could complement projects in the design phase or climate-specific interventions in existing operations.

D. Regular grants programme

98. **In recent years, IFAD's regular grants programme has operated at a level of 6.5 per cent of the projected PoLG under each replenishment cycle and has demonstrated its relevance as an instrument funding policy dialogue, analytical work, knowledge generation, capacity-building and innovation.** Activities funded through the programme include grants that are country-specific, regional or global in scope. Grants have piloted innovations and financed non-lending activities such as knowledge management, policy dialogue and partnership-

[36] Available data indicate that 16 of the 40 countries presenting the highest prevalence of undernourishment are also receiving DSF or highly concessional funds under IFAD11. The actual number is higher but data on food security indicators from the State of Food Security and Nutrition in the World report of the Food and Agriculture Organization of the United Nations (FAO) are not available for six (21 per cent) of the DSF or DSF+highly concessional countries.

building, which are not funded through loans, administrative budgets or other supplementary resources available to IFAD. More recently, grants have funded global capacity-building programmes to boost in-country capacities and ultimately achieve better performance and increase the impact of the portfolio of operations.

99. **Nevertheless, reform is required to make the regular grants programme a more relevant and agile instrument under IFAD's evolving business model.** The grant programme is being reconsidered from the point of view of its overall financial envelope, which is considered financially unsustainable given the current DSF repayment issues. This has led to a broader strategic discussion on how to make better use of available regular grant resources. Possible conceptual directions for the future include: (i) enhancing linkages between grants and country-level policy engagement and investments; (ii) giving preference to smaller grant projects with an increased focus on strategic partnerships and leveraging cofinancing; (iii) clear differentiation between the regular grants instrument and PSFP and ASAP+; and (iv) paying more attention to grant implementation, results and knowledge management. Some weaknesses were identified by previous evaluations,[37] especially in terms of results uptake through IFAD lending operations and dissemination of the knowledge generated for learning and scaling-up purposes. A review of the effectiveness and efficiency of the grants instrument is currently under way, and will provide empirical evidence of the results achieved by the programme and inform a revision of the Policy for Grant Financing in 2020.

[37] The main evaluation document is the corporate-level evaluation of the grants policy carried out in 2014, which set the basis for the preparation of a new grants policy in 2015. Other evaluations include: (i) 2018 Quality Assurance Group analysis of recurrent grant recipients: World Agroforestry Centre, International Centre for Tropical Agriculture, International Centre for Agricultural Research in the Dry Areas, IFPRI, Regional Programme for Rural Development Training (PROCASUR) Corporation; (ii) 2018 regulatory impact assessment of the impact of improved crop varieties on poverty and welfare; (iii) Multilateral Organization Performance Assessment Network 2017-2018 assessment of IFAD; and (iv) 2017 Independent Office of Evaluation of IFAD country-level policy dialogue evaluation synthesis.

Box 6
West and Central Africa: Tailoring country programmes to country needs

The West and Central Africa region is often characterized by poverty and fragility. While in recent years improved economic performance has set many countries on a path to poverty reduction, some struggle to sustain progress, and others lag significantly behind: different stages of development transition necessitate diversified responses. In IFAD11, IFAD's support has been tailored to countries' own development strategies by using new instruments – an approach that will be consolidated and enhanced in IFAD12.

Ghana and Senegal are among the world's fastest growing economies, and are predominantly rural. In Senegal, IFAD is collaborating with the World Bank to support the Government to diversify agricultural production in the Groundnut Basin of Central Senegal. This is a results-based lending operation that will disburse based on the achievement of verifiable outputs. In Ghana, IFAD is co-designing a project with MARS Inc. to strengthen the cocoa sector, including through digitalization.

Togo is among the world's poorest countries, with a young population. In IFAD11 financing for agro start-ups is being complemented with an incentive-based mechanism to de-risk value chains, support private sector development and create jobs for young people – a successful model tested in Nigeria.

In the Central African Republic and the Democratic Republic of Congo, IFAD is collaborating with partners to improve rural infrastructure, a key constraint to rural transformation. Third-party monitoring mechanisms are also being established to boost beneficiary satisfaction with service provision, enhancing state legitimacy – a source of conflict and fragility. Ensuring smooth start-up is paramount in situations of fragility, facilitated in these cases by the FIPS facilities.

Cabo Verde and Equatorial Guinea are MICs with no PBAS allocations for IFAD11. Both countries have made strides to reduce poverty but still face challenges in the rural areas that can be tackled with IFAD's knowledge and expertise. Through RTA, IFAD is helping the Government of Equatorial Guinea design its first comprehensive agricultural programme in more than two decades. RTA is also the instrument chosen to help Cabo Verde mobilize resources from the diaspora to finance advanced irrigation techniques for small-scale producers.

The regional dimension of rural transformation is also emerging, reflecting stronger political will among most countries. In partnership with the International Finance Corporation and the ABC Fund, IFAD is cofinancing a cashew corridor in Benin, Ghana, and Togo. Also in Benin and Togo, IFAD's first regional lending operation is rehabilitating frontier markets and linking new satellite markets to boost cross-border trade. Stimulating trade is also the goal of a regional grant across the Sahel implemented in partnership with IFPRI. Stronger policy engagement underpins these efforts, with IFAD co-chairing seven agricultural coordination groups in the region together with governments, up from none in IFAD10.

In IFAD12, these instruments will be strengthened and complemented by the ASAP+ and the PSFP, facilitating further tailoring of IFAD's interventions to country circumstances. In LICs such as Benin and Togo where climate policies and programmes suffer from slow implementation, ASAP+ can provide resources to both governmental and non-governmental actors to accelerate results and strengthening national capacities. In areas affected by conflict and instability, such as the Sahel, ASAP+ will build on experienced non-governmental actors to foster climate adaptation in areas of scarce state presence. The PSFP can finance the missing link in many transitioning countries, such as Côte D'Ivoire, Ghana or Senegal, by sponsoring investments in agribusinesses incubated in IFAD's ongoing programmes for rural youth.

E. Organizational efficiency

100. **The capacity of IFAD to deliver on its mandate and make a significant contribution to the 2030 Agenda depends, to a large degree, on having the adequate human resources and risk management strategy.** A key element of human resources strengthening and risk management is to have stronger procedures in place on sexual harassment, sexual exploitation and abuse (SH/SEA). This section covers each of these key areas.

Human resources and organizational strengthening

101. **To deliver on an ambitious agenda and effectively navigate the challenges ahead, IFAD has commissioned a review of human resources to provide insights for two distinct time horizons (2019 and 2024) as a directional point for IFAD's 2030 goals.** The human resources review focused on three distinct areas:

(i) A comprehensive review of the capabilities and capacities of IFAD human resources today and the implications for delivering the organization's current (2019) and future (2024, 2030) PoW, considering a potential fundamental shift in the organization's strategy and operating model stemming from the IFAD 2.0 vision.

(ii) Employee value proposition (with a focus on the competitiveness of the compensation package) – to compare IFAD's ability to attract and retain key talents, with relevant benchmarks to similar institutions, especially other IFIs.

(iii) To assess two key strategic human resource enablers deemed fundamental for the realization of the aspirations resulting from areas (i) and (ii) – performance management, and business processes and technology.

102. **Based on the results of this study and discussions with the Executive Board, IFAD is pursuing an ambitious transformation agenda across three key work streams: people, processes and technology.** The changes envisioned under these areas will support the vision under IFAD 2.0 and IFAD12 and include strategic workforce planning, performance management, business process reengineering and enterprise risk management, among other things. As part of this, **the human resources agenda for IFAD12 will be focused around the following three lines of actions:**

(i) Consideration of an expansion of the workforce to respond to a larger and more complex agenda. The number and profile of the additional staff will depend on the level of ambition under IFAD 2.0 and outcomes of the IFAD12 Consultation.

(ii) Assess and seek opportunities to foster automation, which could lead to a reduced need for certain skills. This will be complemented by the recruitment of specialized expertise in operational and financial instruments where it is not easy to build or "up-skill" with existing staff. The actions seek to ensure that IFAD is efficient and fit for purpose.

(iii) Implementation of an effective performance and consequence management system will be coupled with a comprehensive business process reengineering and the optimization of system technology.

The Targeted Capacity Investment of up to US$12 million approved by the Executive Board in December 2019 – conditional on a two-year implementation plan and focusing on non-recurrent costs – is a key element of achieving this agenda.

103. **These actions will focus on the challenge of attracting specialized talent and creating the right circumstances to facilitate high performance of existing talent.** There is a gap between the compensation packages offered by IFAD and other IFIs for professional and director-level staff members (33 per cent lower for professional staff and 65 per cent for director-level and above positions), which creates recruitment challenges. There are also opportunities to streamline functions and enhance incentive to facilitate improvement of performance. The human resources system must be set up to ensure the right mix of staff and provide the opportunity for them to do their best.

104. **IFAD's newly designed talent management approach, with performance management at the forefront, will focus on ensuring that it is effectively linked to all the other human resources components (mobility, promotion, development, succession planning etc.).** IFAD has already begun to align human resources policies and procedures with the need for effective consequence management. In order to ensure a merit-based high-performing workforce and enhanced career progression opportunities for staff, a new promotion policy and mobility framework have been introduced. Similarly, adjustments are being made to the existing performance management policy and processes to allow for a rigorous assessment of annual performance objectives and goals and to ensure correct alignment with corporate objectives.

105. **Going forward, IFAD continues to unpack findings from the human resources review and fine-tune analysis for implementation in a sequenced approach.** The two important reviews conducted in 2019 will have implications on IFAD's service delivery platform going forward. Any enhancements will need to be reconciled with IFAD's ambition and vision over IFAD12 and

IFAD 2.0. Groundwork for the areas identified in the reviews will begin in 2020, continuing through 2021.

Risk management

106. **One of IFAD's corporate priorities is to enhance the Enterprise Risk Management Framework to ensure consistency with IFAD's evolving business model, new financial architecture and strategic initiatives.** Over the last 18 months, Management focused on key policies and measures to improve risk management on critical areas across the organization. The enhanced financial risk framework has strengthened IFAD's financial structure, supporting a more rigorous approach to capital management and improved management of liquidity, credit and currency risks. In addition, measures were adopted to ensure the financial sustainability of the DSF, and to introduce a strengthened Internal Control Framework. In relation to IFAD's core business, an Integrated Risk Framework was rolled out to improve programme delivery risk management, together with a more rigorous portfolio review and application of the Social, Environmental and Climate Assessment Procedures.

107. **During IFAD12, the focus will be on the review and enhancement of risk metrics, the development of preliminary thresholds and appetite levels, risk reporting tools and aligning frameworks while strengthening risk reporting and the overall risk culture.** In particular, IFAD expects to have in place an integrated enterprise risk management system embedded in processes with strong risk oversight that will evolve over time. As the organization's risk maturity evolves, the Enterprise Risk Management Framework will enable IFAD to better link strategy and risk management, identify and prioritize key opportunities and effectively manage the associated risks with more and better information to support rural transformation and help people facing extreme poverty and food insecurity in hard-to-reach areas of the world.

Sexual harassment and sexual exploitation and abuse

108. **IFAD has taken important measures towards the full implementation of its Policy on Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse.** The policy was adopted in April 2019 in response to the United Nations Secretary-General's strategy to improve the United Nations response to SEA. Actions to date include strengthening of reporting procedures, background checks, and the introduction of SH/SEA obligations in appointment letters and other contracts. Management informs the Executive Board at each of its sessions on SH/SEA allegations received and has joined the United Nations Secretary-General SEA quarterly reports and ClearCheck Screening Database. Other prevention efforts include mandatory training and refresher training on the Code of Conduct, anti-harassment programme and SEA online training, amending the General Conditions for Agricultural Development Financing and Project Procurement Guidelines to introduce compliance with SH/SEA obligations and strengthening the Social, Environmental and Climate Assessment Procedures to address gender-based violence and SH/SEA.

109. **During IFAD12, IFAD will continue its prevention efforts, and in particular its outreach, to raise awareness in the field – internally and externally.** This will include prevention and awareness-raising efforts in operations with partners, counterparts, implementing agencies and at project implementation level in all regions where IFAD has operations.

V. IFAD12: Financing for impact

110. **Implementation of the IFAD12 strategic priorities and business model depends on IFAD's underlying financial architecture and the level of financing from the replenishment.** IFAD has been undergoing a number of financial reforms to enhance its financial sustainability and development impact.

This section provides the financial road map for IFAD12, which builds on actions already taken and considers the longer-run path going forward. It then provides possible financial scenarios.

A. Financial road map to sustainability and maximum impact

111. **The IFAD12 financial road map reflects IFAD's evolving maturity as a development finance institution.** The goal of the financial road map is to increase IFAD's ability to offer more customized development support to its diverse range of borrowers to enhance development impact while preserving its own financial sustainability. The financial architecture reform is based on several new key elements aimed at strengthening risk management, capital planning and the efficient use of different types of resources. These elements include (i) the sustainable replenishment baseline concept; (ii) DSF reform; and (iii) increased leverage within an integrated borrowing framework. The newly approved Capital Adequacy Policy and the revised Liquidity Policy are two key pillars of this reform.

112. **In laying out this road map, Member State replenishment contributions must remain the bedrock of IFAD's capital and financial commitment capacity.** They represent the main strength of IFAD's balance sheet, underpinning financial sustainability and serving as the most important source of financing to attain IFAD's mission. These resources target countries most in need and are deployed at maximum levels of concessionality, including through DSF grants, which represent IFAD's tailored financial support for the poorest and most vulnerable indebted countries. IFAD can only increase its assistance to the poorest LICs in debt distress through a strong replenishment. A strong replenishment, translating into a solid capital base, is also critical to enhancing IFAD's capacity to access more favourably priced borrowed funds.

113. **The concept of a sustainable replenishment baseline is being introduced to ensure that IFAD can sustainably deliver on its Members' level of ambition without eroding its capital base.** The sustainable replenishment baseline is a building block of IFAD's new financial model and should cover at least: (i) the timely reimbursement of forgone principal reflows from approved DSF commitments falling due in the replenishment cycle: (ii) the pre-financing of new DSF commitments (i.e. the nominal amount of expected new DSF approvals, so that reimbursement will not burden Members in the future); (iii) the regular grant programme; and (iv) operational expenses. Only if the replenishment exceeds the sum of these amounts will IFAD have new funds to expand its lending operations and maintain its size. If the IFAD12 contributions are not sufficient to cover the aforementioned costs, IFAD will have to continue eroding its capital base and liquidity buffer as is currently the case, thereby continuing on an unsustainable financial trajectory or significantly reduce the PoLG and thereby IFAD's contribution to achieving the SDGs.

114. **The recently approved reform of the DSF mechanism is a key building block of the enhanced financial architecture to reverse the current unsustainable trend.** The reform acknowledged that in the medium term, IFAD faced an unsustainably large allocation to DSF grants compared to replenishment contributions as well as a lack of full reimbursement of past approved DSF grants. Growing debt distress among borrowers exacerbated this trend. A dynamic pre-funded DSF mechanism will ensure that new DSF approvals are directly linked to Member States' contributions on a replenishment-by-replenishment basis. The reform also refocused the use of DSF grants on countries in high debt distress and introduced granularity among DSF-eligible countries to ensure that scarce DSF grant resources are used specifically to support countries in the greatest debt distress. To further tailor concessionality, the reform introduces new lending terms with a higher concessionality level, known as the super highly concessional loan.

115. **In line with the Addis Ababa Action Agenda, IFAD’s ambition is to increase financing to all eligible country groups by further leveraging its balance sheet.** The Member States have recognized that the current financial situation, including the PoLG level, cannot be sustained solely by contributions. Without a significant increase in IFAD’s equity and access to other sources of financing, particularly in the form of additional borrowing, the PoLG is bound to decline when compared to IFAD11 levels. IFAD’s universal client base represents a key operational and financial strength, and borrowed resources can be used to finance not only projects in UMICs, but also a significant share of LMICs and selected LICs borrowing at semi-concessional terms. IFAD’s borrowing will increase in a gradual and prudent way through a structured resource mobilization strategy and outreach to a broader lender base, based on the evolution of its equity and availability of deployable capital. Any borrowing would be financially sustainable so that in principle reflows from the loans funded by such debt can repay the debt without drawing on IFAD's core resources.

116. **IFAD's loans at semi-concessional terms that are funded by borrowed resources will not contribute to an unsustainable increase in the debt burden on its borrowing countries.** Conscious of the increased risk of debt distress faced by many of its Member States, IFAD will put active measures in place to ensure that borrowed resources are allocated only to countries that can sustain them financially. Although loan pricing must at least cover IFAD’s average cost of borrowing, on a cost pass-through principle, it is expected that terms will still be very beneficial for borrowers, including selected LICs.

117. **Increased borrowing will allow IFAD to remain focused on its core mission.** While all scenarios for resource allocation, jointly with the Capital Adequacy Policy, will uphold the principle of financial sustainability, resources will continue to be provided predominantly on concessional terms to lower-income countries. In allocating additional borrowed resources, eligible LICs, LMICs and UMICs will benefit from higher volumes of resources on sustainable financing conditions with differentiated pricing set according to the income category of the borrower and loan maturity. Adequate measures will be put in place to maintain the 90:10 split (or move towards 99:1 if so decided by Members) between LICs/LMICs and UMICs for core resources, with any additional borrowed resources maintaining a split of 60:40 (or 50:50), respectively. These measures will continue to reflect the stronger focus on needs and performance, through PBAS, and may warrant the introduction of a new mechanism of allocation for borrowed resources.

118. **A strong replenishment is key not only to allow for more grants support to most indebted countries but also as a prerequisite for a successful leveraging strategy.** Ultimately, IFAD’s leverage is constrained by the capacity of its capital to support the increase of development-related assets (i.e. loans). A strong replenishment is also an important factor in securing a positive credit rating, as it shows significant Member support. Armed with a very strong credit rating, IFAD will be better positioned to access increased borrowing on more favourable financial terms. The increased borrowing will take place in accordance with a structured funding plan and a diversified set of debt instruments: concessional partner loans, bilateral sovereign loans and bilateral borrowing from other multilateral institutions and private investors.

119. **A robust risk management framework applied to capital and liquidity underpins IFAD’s financial reforms.** The introduction of the Capital Adequacy Policy is a key pillar to ensure protection of IFAD’s capital. Together with the revised Liquidity Policy, the Capital Adequacy Policy will govern IFAD’s commitment capacity and capital allocation to ensure long-term sustainability. Each new operation will be subject to prudent capital and liquidity planning to ensure that IFAD maintains adequate liquidity and capital. Going forward, Member States will

decide the timing and speed of capital consumption in each of the future replenishment cycles.

120. **The level of concessionality to be offered in IFAD12 will depend on the level of replenishment resources and allocation of the overall PoLG.** With a forecast level of concessionality of 57 per cent for IFAD11, IFAD's overall level of concessionality historically has been higher than that of other IFI concessionality facilities. In line with its regulations, IFAD provides only highly concessional, concessional and semi-concessional financing to members. IFAD12's level of concessionality will depend on the mix of resources that IFAD is able to raise, and on IFAD12 allocation decisions. The higher the replenishment amount, the higher the sustainable allocations to LICs. Higher levels of borrowings, if not matched by higher replenishment contributions, could lead to lower concessionality, given the need to onlend borrowed resources on semi-concessional terms.

B. Proposed financing for greater impact

121. **To facilitate initial discussions, Management is presenting five different financially sustainable scenarios based on different levels of Member contributions.** The scenarios are based on Member State contributions resulting in replenishment levels that range from very low (US$900 million) to high (US$1.7 billion). Following the sustainable replenishment baseline concept, the replenishment level will be directly linked to the amount of DSF grants, regular grants, the PoLG, funds going to LICs, LMICs and UMICs and thus the overall level of concessionality.

122. **The scenarios highlight the trade-offs between replenishment size, borrowing needs, support to LICs and concessionality.** In line with the 2030 Agenda, the model assumes that IFAD plans to consume most deployable capital by 2030, although the degree of consumption will depend on Member decisions. In developing the scenarios, it is assumed that core resources will continue to be provided predominantly on concessional terms to LICs.[38]

123. **IFAD's financial sustainability relies on three main interrelated drivers: (i) concessionality (grant element of financing provided); (ii) leverage capacity (supported by capital); and (iii) the related replenishment volumes and lending categories.** A significant change in any one of these drivers will affect the others. The Members will need to consider a prudent balancing of the related drivers to ensure financial sustainability.

124. **To date, the amount of grant financing allocated by IFAD has exceeded a sustainable size, thus reducing its capacity to finance new loans by eroding its capital base.** This reduces IFAD's ability even to continue providing loans at the same level going forward. The financing scenarios have been developed in such a way as to ensure that IFAD's future cash flows are projected on a conservative basis to avoid endangering future sustainability or overestimating available resources. The assumptions will need to be revised regularly to incorporate the dynamics of the portfolio composition and quality. These factors could affect capital structure and the key variables affecting financing capacity, such as effective encashments of contributions, availability of funding and evolution of disbursement ratios.

125. **Each scenario presents the maximum sustainable level of new DSF grants based on assumed replenishment amounts and a range of PoLG levels supported by replenishment and borrowed funds.** As a general approach, Management uses other sources of funds, such as borrowing, in order to – at a minimum – maintain the development impact and PoLG size of recent replenishments in case contributions are not sufficient. It is important to note that

[38] In line with its regulations, IFAD provides only highly concessional, concessional and semi-concessional financing to members.

projected debt is higher in the scenarios with fewer contributions; this underlines the expected dependence on external sources of financing to maintain at least a similar level of PoLG as in the past two replenishment cycles.

126. **Also, the scenarios assume an efficient use of the available capital base with some degree of capital usage frontloading in order to maximize IFAD's contribution to achieving the SDGs by 2030.** Reducing PoLG levels and thereby development impact is not a preferred option – although it could potentially be discussed depending on actual pledges, portfolio dynamics (i.e. disbursement profile) and, more importantly, IFAD's capacity to borrow and leverage further.

127. **Table 1 presents the operational and financial outcomes in relation to PoLG for five different scenarios based on Member State contribution levels ranging from US$900 million to US$1.7 billion.** The other two elements of the IFAD 2.0 vision, namely the PSFP and ASAP+, are assumed to be independent of the PoLG financial model outcome for these scenarios. After receiving further feedback from Member States, an overall financing framework that takes into consideration all these elements will be provided during the second session of IFAD12 replenishment consultations.[39]

Table 1
Scenarios for IFAD12
(Millions of United States dollars)

		IFAD12				
	End IFAD11	**Scenario 1 very low**	**Scenario 2 low**	**Scenario 3 mid-low**	**Scenario 4 mid-high**	**Scenario 5 high**
Replenishment contributions	1 100	900	1 100	1 300	1 500	1 700
New DSF	595	145	340	450	600	690
Regular grants	175	50	50	150	150	150
Total PoLG	3 500	3 000-3 300	3 150-3 500	3 500-3 800	4 000-4 300	4 300-4 500
Level of concessionality (end IFAD12)(percentage)	57	46	52	52	54	56
Leverage ratio IFAD12 debt/equity (percentage)	17	32-33	31-32	28-29	27-28	25-27
New IFAD12 debt	-	1 300-1 400	1 350-1 500	1 250-1 300	1 200-1 250	1 000-1 200
Deployable capital (end IFAD12) (percentage)	32-27	24-19	24-19	24-19	23-18	23-18
Impact relative to IFAD11 (percentage)	100	87	94	107	114	127

128. **As shown in table 1, the maximum sustainable new DSF level does not quite reach the level of IFAD11 (US$596 million) until replenishment size reaches US$1.5 billion in scenario 4.** For any of the lower scenarios (scenarios 1, 2 and 3) the maximum level of DSF that IFAD can safely finance is less than the IFAD11 volume, to avoid a decline in the capital base and an analogous decline in the PoLG over the medium term. This means financing to LICs and LMICs overall is lower than IFAD11 for the lower scenarios (see annex I for further analysis).

129. **Because the first two scenarios lead to a lower PoLG than IFAD11, IFAD's contribution to achieving the SDGs inevitably declines as does IFAD's development impact.** The reduction in impact will be most pronounced in LICs in the highest debt distress, as their resource allocations will see the steepest decline. Since these are countries in which progress is most needed to achieve the SDGs,

[39] For completeness, further allocation analysis by income categories is provided in annex I and the financial assumptions of the scenarios are included in annex II.

these scenarios significantly reduce IFAD's development impact. Using existing estimates, the number of people increasing their incomes would drop from 62 million to 54 million in scenario 1 and 58 million in scenario 2 during IFAD14. A similar drop would be seen in the other impact indicators, including production, value of sales and resilience.

130. **In scenarios in which replenishment is increased and leveraged (scenarios 4 and 5), impact grows significantly.** The number of beneficiaries with increased income would be 71 million for scenario 4 and 78 million for scenario 5. If these replenishment levels can be sustained, when combined with PSFP and ASAP+, IFAD would more than double its impact by 2030. For scenario 4, the impact is similar to IFAD11 for red LICs (since resources to red LICs remains the same as under IFAD11), but increases substantially for other countries. In scenario 5, impact increases across all countries including red LICs. This scenario would therefore allow IFAD to significantly increase its development impact in the countries where it is most needed.

131. **For completeness, table 1 also presents the leverage and capital ratios for all five scenarios.** The deployable capital at the end of IFAD12 would still be largely positive in each scenario, not representing a constraint. As may be intuitive, the larger the replenishment contributions, the less the need for borrowing, while ensuring appropriate risk ratios are maintained. A larger replenishment is also the basis for a more prudent leverage strategy. Each scenario includes a certain level of leverage that is required to at least maintain the level of PoLG from previous replenishment cycles. The leverage is expressed both through the debt-to-equity ratio that will be reached by the end of IFAD12 and by the total amount of new debt that IFAD is expected to borrow under each scenario.

Scenario 1: very low

132. **With a very low-level IFAD12 replenishment of US$900 million, the sustainable PoLG for IFAD12 would shrink when compared to IFAD11, to an amount of between US$3.0 billion and US$3.3 billion.** In this scenario, to ensure IFAD's financial sustainability, the maximum new sustainable amount of DSF grants could only be US$145 million and regular grants would be a maximum of US$50 million, a significant decrease when compared to historical levels. In this scenario, IFAD would need to rely on borrowing to sustain the PoLG, hence raising the funding risk significantly. This increase in leverage results in the highest leverage ratio of all scenarios, reaching 32 per cent to 33 per cent by the end of IFAD12. LICs and LMICs would see a drastic reduction in core resources, in particular for LICs in debt or high risk of debt distress. On the other hand, resources would proportionally increase to UMICs reflecting the relative higher allocation from borrowed funds.

Scenario 2: low

133. **Under an IFAD12 replenishment of US$1.1 billion, sustainable PoLG would range from US$3.15 billion to US$3.5 billion, similar to IFAD11 at the higher end of the range.** New sustainable DSF grants would amount to US$340 million and regular grants US$50 million. This scenario would require new debt in the range of US$1.35 billion to US$1.5 billion, which translates into a debt/equity ratio of 31 per cent to 32 per cent, exposing IFAD to a funding risk to achieve the projected PoLG. There would be a decrease in resources to LICs and LMICs compared to IFAD11 and, in particular, LICs allocation would decrease by approximately US$143 million. The reduction in resources would be concentrated in LICs in debt or at high risk of debt distress, while UMICs would benefit from additional resources under most split options, as shown in annex I.

Scenario 3: mid-low

134. **In the IFAD12 replenishment scenario of US$1.3 billion, sustainable PoLG ranges from US$3.5 billion to US$3.8 billion, a small increase when**

compared to IFAD11. The sustainable maximum level of new DSF grants would be US$450 million, and regular grants could be up to US$150 million, for a total sustainable grant allocation of US$600 million. The borrowing needed to sustain these PoLG levels would be between US$1.25 billion and US$1.3 billion. As evidenced, this amount is lower than in scenarios 1 and 2: the higher the replenishment, the lower the need for borrowing. As shown in annex I, the leverage ratio would accordingly decrease to between 28 per cent and 29 per cent. Financing to LICs and LMICs would increase US$46 million and reach the IFAD11 level in percentage terms under the 99:1 option, although it would still be less under the 90:10 option (see annex I). The increased replenishment would result in more resources concentrated in non-DSF-eligible countries while resources for LICs in debt or at high risk of debt distress would decline by US$140 million compared to IFAD11.

Scenario 4: mid-high

135. **This scenario assumes an IFAD12 replenishment at US$1.5 billion, a substantial increase compared to IFAD11.** The sustainable PoLG under this scenario would be in the range of US$4.0 billion to US$4.3 billion. This is the lowest replenishment scenario that would allow IFAD to provide DSF countries in highest debt distress the same overall level of grant financing as in IFAD11 (US$600 million). This scenario would allow for an increase of US$230 million in additional resources for LICs. In fact, IFAD's total financing to LICs rises significantly to US$1.6 billion per replenishment in this scenario (versus US$1.4 billion in IFAD11). Resources to LMICs also rise by US$355 million. The borrowing needed to sustain these PoLG levels would be between US$1.2 billion and US$1.25 billion, declining steadily with higher funding through replenishment. Not only would IFAD be able to substantially increase DSF funding to support the most indebted countries, but it could also support a higher level of resources to benefit all countries. This would mean a higher PoLG with stronger impact and a higher financing capacity sustained by a stronger capital base, while containing the leverage ratio.

Scenario 5: high

136. **Scenario 5 assumes an IFAD12 replenishment at US$1.7 billion, a 42 per cent increase compared to the US$1.2 billion IFAD11 replenishment target and 55 per cent higher than expected final pledges.** Under this scenario, IFAD could provide unprecedented levels of financing to all countries, reaching a PoLG level of between US$4.3 billion and US$4.5 billion. Under this scenario, IFAD could increase its support to the most indebted LICs through a maximum sustainable level of DSF grant financing of up to US$690 million in IFAD12. IFAD could also continue with a regular grant programme of up to US$150 million, which would take total grant capacity to US$840 million. The amount of borrowing required in this case would decline further, in the range of US$1.0 billion to US$1.2 billion. IFAD’s equity would increase through higher replenishments leading to the most contained debt/equity ratio of 25 per cent to 27 per cent. This scenario presents a clear case where a higher replenishment would enable IFAD to focus more on LICs and LMICs. IFAD's total financing to LICs would increase significantly to US$1.9 billion per replenishment in this scenario (US$1.4 billion in IFAD11), of which the amount provided to indebted LICs eligible for DSF grants would increase by US$55 million. This is the only scenario that also provides IFAD with the opportunity to set aside substantial additional capital, in the amount of US$208 million, for new highly concessional loans – reaching a total envelope of US$1.4 billion in highly concessional loans on top of the loans supported by reflows from past loans. In all other scenarios, the expected additional capital for new loans, not funded through past reflows but through new replenishment contributions, is not meaningful.

VI. Conclusions

137. **Stalled progress and growing food insecurity, linked to climate change and fragility, must be urgently addressed to achieve the SDGs by 2030.** Business as usual will not lead to IFAD being able to contribute effectively to the fulfilment of the SDGs or scale up meaningfully its global interventions.

138. **Going forward, IFAD is committed to doubling its development impact by 2030 while strengthening its financial sustainability.** IFAD12 represents the first of three replenishment cycles to contribute to this goal, and the only one where projects are expected to be fully implemented by 2030. Increased replenishment contributions and the introduction of additional debt resources as per the high scenario would allow a further increase in IFAD's value for money through a higher PoLG to support international efforts to eliminate poverty and hunger, particularly in LICs.

139. **While the PoLG will remain the bedrock of IFAD's support to countries with the strengthening of the country-level programmatic approach, additional complementary actions will be taken to expand IFAD's overall PoW and its development impact.** The PSFP will accelerate rural growth and create jobs for youth and women, while ASAP+ will use climate finance to enhance resilience, particularly in LICs. These actions are designed to expand IFAD's resource base, provide new channels of support and increase development impact.

140. **A new financial architecture will underpin IFAD's efforts to double its impact by 2030 and put IFAD on a sustainable and sound financial footing.** Increased replenishment contributions and the introduction of additional debt resources would allow IFAD to increase its impact in LICs, where poverty and food insecurity are becoming increasingly concentrated and remain stubbornly high, requiring an increase of resources at the high scenario level. This is because important concessional resources should be mainly provided to LICs through either DSF grants or highly concessional terms to achieve development objectives. Only in scenario 5 are resources increased to LICs, particularly red LICs, and does IFAD truly remain focused on its mission to reduce rural poverty and food insecurity in the neediest countries. As an example of the increased focus on these countries, scenario 5 would allow IFAD to provide 66 per cent of core resources to African countries (62 per cent to the sub-Saharan region); 32 per cent of core resources to fragile situation countries (an increase of 4 points comparing to IFAD 11) and 68 per cent in highly concessional terms.

141. **Accordingly, IFAD Management calls on Members to support the high scenario level of IFAD12 to achieve this overarching goal, recognizing that development impact in countries in debt distress can only be achieved through grant financing, which can only be financed by core replenishment resources.** A strong replenishment will also be the key for a successful leveraging strategy, aimed at increasing sustainable financing to tackle extreme poverty in rural areas for all Members with a prime focus on selected LICs and LMICs. A strong credit rating will allow IFAD to access a larger base of funding sources including sovereign borrowing at more favourable terms so that more funds can be concentrated on LICs and LMICs, while also providing additional resources to UMICs, which in turn increases the strength of IFAD's credit base – a powerful upward spiral.

142. **To double IFAD's impact by 2030 also requires continuing the ongoing reforms to enable IFAD to operate at a higher level.** The capacity of IFAD to make a greater contribution to the 2030 Agenda depends, in great part, on having the adequate human resources and risk management strategy. The vision is one in which IFAD's centre of gravity moves increasingly to the field and closer to the development issues that need to be addressed so that a programmatic approach can be realized. Overall, IFAD is well under way in making necessary changes and

can substantially increase its impact among the extreme poor and marginalized populations with critical investments through the replenishment and for capacity development.

143. **During 2020, through the IFAD12 Consultation, Management will build on these initial scenarios and support a level of ambition that it believes is necessary to make significant progress in achieving the SDGs.** In so doing, Management will be guided by IFAD's Member States' desired level of DSF grant financing and agreed PoLG going forward, with the total replenishment package expected to be finalized in time for the Governing Council session in February 2021.

Total programme of loans and grants allocation, disaggregated by income category

1. The scenarios below reflect various options as requested by Member States showing for each financial scenario an estimate of associated resources for each income category of borrower. In each case, the scenarios are financially sustainable for IFAD and based on the financial assumptions in annex II. They show the split between core resources and borrowed resources both on the basis of a 90:10 split of LICs/ LMICs: UMICs and a 99:1 split of LICs/ LMICs: UMICs using options for the borrowed resources of 60:40 and 50:50 to LICs/ LMICs: UMICs (the 1 per cent for UMICs reflects small states eligible for DSF). These estimates are intended only as a guide for the possible outcomes and will be updated based on new data for the second session of the replenishment consultations, at which stage the actual data for 2019 will be available.

Scenario 1: very low

	IFAD12 60/40				*IFAD12 50/50*			
Scenario 1: 90-10 core resources	*Core*	*Borrowed*	*Total amount*	*%*	*Core*	*Borrowed*	*Total amount*	*%*
LIC-eligible to DSF grants	106	-	106	4	106	-	106	4
LIC-others	773	230	1 003	34	773	192	964	33
Total LIC	**879**	**230**	**1 109**	**38**	**879**	**192**	**1 070**	**36**
LMIC	741	460	1 201	41	741	383	1 125	38
Total LIC+LMIC	**1 620**	**690**	**2 310**	**78**	**1 620**	**575**	**2 195**	**74**
UMIC	180	460	640	22	180	575	755	26
Total	**1 800**	**1 150**	**2 950**	**100**	**1 800**	**1 150**	**2 950**	**100**

	IFAD12 60/40				*IFAD12 50/50*			
Scenario 1: 99-1 core resources	*Core*	*Borrowed*	*Total amount*	*%*	*Core*	*Borrowed*	*Total amount*	*%*
LIC-eligible to DSF grants	106	-	106	4	106	-	106	4
LIC-others	773	230	1 003	34	773	192	964	33
Total LIC	**879**	**230**	**1 109**	**38**	**879**	**192**	**1 070**	**36**
LMIC	903	460	1 363	46	903	383	1 286	44
Total LIC+LMIC	**1 782**	**690**	**2 472**	**84**	**1 782**	**575**	**2 357**	**80**
UMIC	18	460	478	16	18	575	593	20
Total	**1 800**	**1 150**	**2 950**	**100**	**1 800**	**1 150**	**2 950**	**100**

Scenario 2: low

	IFAD12 60/40				*IFAD12 50/50*			
Scenario 2: 90-10 core resources	*Core*	*Borrowed*	*Total amount*	*%*	*Core*	*Borrowed*	*Total amount*	*%*
LIC-eligible to DSF grants	268	-	268	9	268	-	268	9
LIC-others	830	200	1 030	33	830	167	997	32
Total LIC	**1098**	**200**	**1 298**	**42**	**1 098**	**167**	**1 265**	**41**
LMIC	792	400	1 192	38	792	333	1 125	36
Total LIC+LMIC	**1 890**	**600**	**2 490**	**80**	**1 890**	**500**	**2 390**	**77**
UMIC	210	400	610	20	210	500	710	23
Total	**2 100**	**1 000**	**3 100**	**100**	**2 100**	**1 000**	**3 100**	**100**

Scenario 2: 99-1 core resources	*IFAD12 60/40*				*IFAD12 50/50*			
	Core	*Borrowed*	*Total amount*	*%*	*Core*	*Borrowed*	*Total amount*	*%*
LIC-eligible to DSF grants	268	-	268	9	268	-	268	9
LIC-others	830	200	1 030	33	830	167	997	32
Total LIC	**1 098**	**200**	**1 298**	**42**	**1 098**	**167**	**1 265**	**41**
LMIC	983	400	1 383	45	983	333	1 317	42
Total LIC+LMIC	**2 081**	**600**	**2 681**	**86**	**2 081**	**500**	**2 581**	**83**
UMIC	19	400	419	14	19	500	519	17
Total	**2 100**	**1 000**	**3 100**	**100**	**2 100**	**1 000**	**3 100**	**100**

Scenario 3: mid-low

Scenario 3: 90-10 core resources	*IFAD12 60/40*				*IFAD12 50/50*			
	Core	*Borrowed*	*Total amount*	*%*	*Core*	*Borrowed*	*Total amount*	*%*
LIC-eligible to DSF grants	360	-	360	11	360	-	360	11
LIC-others	825	200	1 025	31	825	167	991	30
Total LIC	**1 184**	**200**	**1 384**	**41**	**1 184**	**167**	**1 351**	**40**
LMIC	931	400	1 331	40	931	333	1 264	38
Total LIC+LMIC	**2 115**	**600**	**2 715**	**81**	**2 115**	**500**	**2 615**	**78**
UMIC	235	400	635	19	235	500	735	22
Total	**2 350**	**1 000**	**3 350**	**100**	**2 350**	**1 000**	**3 350**	**100**

Scenario 3: 99-1 core resources	*IFAD12 60/40*				*IFAD12 50/50*			
	Core	*Borrowed*	*Total amount*	*%*	*Core*	*Borrowed*	*Total amount*	*%*
LIC-eligible to DSF grants	360	-	360	11	360	-	360	11
LIC-others	825	200	1 025	31	825	167	991	30
Total LIC	**1 184**	**200**	**1 384**	**41**	**1 184**	**167**	**1 351**	**40**
LMIC	1 147	400	1 547	46	1 147	333	1 480	44
Total LIC+LMIC	**2 331**	**600**	**2 931**	**87**	**2 331**	**500**	**2 831**	**85**
UMIC	19	400	419	13	19	500	519	15
Total	**2 350**	**1 000**	**3 350**	**100**	**2 350**	**1 000**	**3 350**	**100**

Scenario 4: mid-high

Scenario 4: 90-10 core resources	*IFAD12 60/40*				*IFAD12 50/50*			
	Core	*Borrowed*	*Total amount*	*%*	*Core*	*Borrowed*	*Total amount*	*%*
LIC-eligible to DSF grants	482	-	482	13	482	-	482	13
LIC-others	1 008	180	1 188	31	1 008	150	1 158	30
Total LIC	**1 491**	**180**	**1 671**	**43**	**1 491**	**150**	**1 641**	**43**
LMIC	1 164	360	1 524	40	1 164	300	1 464	38
Total LIC+LMIC	**2 655**	**540**	**3 195**	**83**	**2 655**	**450**	**3 105**	**81**
UMIC	295	360	655	17	295	450	745	19
Total	**2 950**	**900**	**3 850**	**100**	**2 950**	**900**	**3 850**	**100**

Scenario 4: 99-1 core resources	*IFAD12 60/40*				*IFAD12 50/50*			
	Core	*Borrowed*	*Total amount*	*%*	*Core*	*Borrowed*	*Total amount*	*%*
LIC-eligible to DSF grants	482	-	482	13	482	-	482	13
LIC-others	1 008	180	1 188	31	1 008	150	1 158	30
Total LIC	**1 491**	**180**	**1 671**	**43**	**1 491**	**150**	**1 641**	**43**
LMIC	1 439	360	1 799	47	1 439	300	1 739	45
Total LIC+LMIC	**2 929**	**540**	**3 469**	**90**	**2 929**	**450**	**3 379**	**88**
UMIC	21	360	381	10	21	450	471	12
Total	**2 950**	**900**	**3 850**	**100**	**2 950**	**900**	**3 850**	**100**

Scenario 5: high

Scenario 5: 90-10 core resources	*IFAD12 60/40*				*IFAD12 50/50*			
	Core	*Borrowed*	*Total amount*	*%*	*Core*	*Borrowed*	*Total amount*	*%*
LIC-eligible to DSF grants	555	-	555	13	555	-	555	13
LIC-others	1 197	150	1 347	32	1 197	125	1 322	32
Total LIC	**1 751**	**150**	**1 901**	**46**	**1 751**	**125**	**1 876**	**45**
LMIC	1 309	300	1 609	39	1 309	250	1 559	38
Total LIC+LMIC	**3 060**	**450**	**3 510**	**85**	**3 060**	**375**	**3 435**	**83**
UMIC	340	300	640	15	340	375	715	17
Total	**3 400**	**750**	**4 150**	**100**	**3 400**	**750**	**4 150**	**100**

Scenario 5: 99-1 core resources	*IFAD12 60/40*				*IFAD12 50/50*			
	Core	*Borrowed*	*Total amount*	*%*	*Core*	*Borrowed*	*Total amount*	*%*
LIC-eligible to DSF grants	555	-	555	13	555	-	555	13
LIC-others	1 197	150	1 347	32	1 197	125	1 322	32
Total LIC	**1 751**	**150**	**1 901**	**46**	**1 751**	**125**	**1 876**	**45**
LMIC	1 624	300	1 924	46	1 624	250	1 874	45
Total LIC+LMIC	**3 375**	**450**	**3 825**	**92**	**3 375**	**375**	**3 750**	**90**
UMIC	25	300	325	8	25	375	400	10
Total	**3 400**	**750**	**4 150**	**100**	**3 400**	**750**	**4 150**	**100**

Financial model assumptions

1. In line with practices of other IFIs, the financial assumptions are established on the basis of conservative and realistic cash flow projections to avoid endangering future sustainability or overestimating available resources. It is important to highlight that the assumptions will need to be revised regularly to incorporate the dynamics of portfolio composition and quality, which could affect capital structure and the key variables affecting IFAD's financing capacity, such as effective encashments of contributions, availability of funding and evolution of disbursements.

	IFAD12				
	Scenario 1 very low	*Scenario 2 low*	*Scenario 3 mid-low*	*Scenario 4 mid-high*	*Scenario 5 high*
Sustainable replenishment baseline (US$ billions) (not including grant element of concessional partner loans)	0.9	1.1	1.3	1.5	1.7
Past DSF compensation	Carved out sustainable replenishment baseline for an amount of US$ 93 million				
Liquidity	Minimum liquidity requirement defined as 60 per cent of gross annual outflows				
New DSF grants	145	340	450	600	690
Regular grants	50	50	150	150	150
Resource allocation considerations	-Same list of countries receiving IFAD financing in IFAD11 -Most recent debt sustainability assessment available (November 2019) -Consideration of the DSF reform arrangements for countries in debt or at high level of debt distress and countries at moderate risk of debt distress - PBAS formula variables, exponents and coefficients remain unchanged - Values for PBAS formula variables are those of IFAD11, year one - PBAS methodology preserved with the same rules for minimum and maximum country allocations, while ensuring maximum sustainable level of new DSF and the financial sustainability of IFAD; consequently, allocations have been made using a pooled approach in order to ensure the required income category ratios without applying the modified volume approach.				