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Executive summary

1. **Through its Strategic Framework 2016-2025, IFAD is committed to pursuing three interlinked strategic objectives:** (i) increase poor rural people’s productive capacities; (ii) increase poor rural people’s benefits from market participation; and (iii) strengthen the environmental sustainability and climate resilience of poor rural people’s economic activities. Since the adoption of the Strategic Framework, IFAD has delivered strong results and impact against these objectives during the Tenth Replenishment of IFAD’s Resources (IFAD10) period and is well positioned to continue doing so for the remainder of IFAD11.

2. **IFAD12 (2022-2024) is the final full replenishment cycle that will operate under the current Strategic Framework.** It is also the last cycle during which operations will deliver impact by the 2030 deadline for the Sustainable Development Goals (SDGs). It provides a significant opportunity to ensure that IFAD’s business model is best placed to build resilience and deliver sustainable impact in the context of fragility and heightened uncertainty. IFAD12 is a critical cycle for IFAD to increase its contribution to the SDGs and deliver on its core mandate of promoting sustainable rural transformation. It intends to step up its contribution in the countdown to Agenda 2030, especially now that progress towards ending hunger and extreme poverty is being threatened by novel coronavirus (COVID-19).

3. **To achieve this, IFAD proposes an operational business model for IFAD12 that is a natural evolution from the IFAD11 model and builds on over 40 years of operational experience.** It also incorporates the lessons learned from the COVID-19 pandemic to ensure that IFAD’s beneficiaries can sustain progress achieved, and build back better, stronger and more resilient livelihoods to withstand present and future shocks.

4. **The paper presents a vision of IFAD’s business model during the IFAD12 period (2022-2024).** It outlines IFAD’s ambition of delivering transformational country programmes through which impact can be expanded, deepened and sustained, and the supporting operational and financial framework that is needed to deliver on this ambition.

5. **The IFAD12 business model will focus on a transformational country programme approach.** It will combine the lending programme with new or expanded means of engagement, such as through the private sector and with grant financing in the countries most vulnerable to climate change, fragility and food insecurity to create a comprehensive programme of work (PoW). IFAD will also increase its emphasis on programme approaches that prioritize and support policy outcomes rather than individual projects that are ends in themselves. To do that, the institution will need to undergo a series of transformational institutional changes and be well equipped with a financial architecture that facilitates such transformation. This will ensure that IFAD has the tools to build resilience, expand and deepen its impact.

6. **Two core principles will guide IFAD’s operational model in IFAD12.** These principles reflect the most salient changes in IFAD’s way of doing business. They are: (i) proximity – being closer and connected to governments, rural people and other development partners; and (ii) adaptability and agility – offering not only a broader range of ways of working with governments and the rural poor, but also more flexibility to learn and “course correct” as programmes are executed, especially in the light of shocks.

\[\text{See figure 7 for the components of IFAD’s PoW.}\]
Delivering impact

7. **To expand and deepen impact, transformational approaches are needed both internally for the institution and externally in the way IFAD engages with stakeholders.** Expanding impact by 2030 will require concerted efforts on two fronts: accelerating the delivery of results and broadening outreach through greater financing, and investment in rural development. However, expanding impact alone is not sufficient. IFAD also needs to deepen its impact on the lives of rural poor people – ensuring that each beneficiary experiences greater and more sustainable improvements to incomes, market access, resilience and nutrition. Deepening impact requires more precision and differentiation in IFAD’s targeting approaches to ensure no one is left behind, and renewed efforts to build the resilience of rural poor people in light of shocks such as the current COVID-19 crisis.

8. **Therefore, IFAD needs to aspire to three transformational changes:** country programmes should be transformational in their ambition and at the centre of IFAD’s focus, and this needs to be supported by transformational changes in the institution and an accompanying transformational financial framework.

9. **Transformative country programmes.** Over the years, IFAD has increasingly adopted a country-level programmatic approach to ensure that the package of its support at the country level has a transformational impact. Building on the IFAD11 business model, in IFAD12, the Fund will further strengthen the programmatic approach at the country level in order to support governments in their development pathways by leveraging its PoW to support transformational change. This will involve not only the utilization of new instruments and means of engagement, but also putting more emphasis on supporting governments to achieve transformation through their policy and programming choices.

10. IFAD will pursue strategic and selective transformative partnerships for greater impact and target its interventions to cater to the needs of the poorest and most vulnerable, be more responsive to the needs of diversified client countries by engaging more strongly in supporting government on strategy and policy, ensure that it has a strong risk framework in place to mitigate risks and be innovative in its support.

11. Additionally, in IFAD12, IFAD will seek to build on the country programme approach outlined in the transition framework developed in IFAD11 but work to integrate new instruments and approaches into the country-level approach including the Private Sector Financing Programme and the Adaptation for Smallholder Agriculture Programme +. All interventions will place resilience at their core to ensure sustainability and impact even in the face of a crisis such as COVID-19.

12. Sustainability is at the heart of the SDGs. While longer-term sustainability is challenging to measure, IFAD recognizes that it needs to do more at the outset to strengthen the likelihood that the benefits of its operations endure. In IFAD12, it will continue to strengthen country-level policy engagement by leveraging its proximity, expertise and knowledge to ensure that its country programmes are fully aligned with national priorities, have strong national ownership and can identify pathways for scaling up impact. It will also improve its understanding of sustainability and measure progress accordingly.

13. In IFAD11, a number of initiatives were put into place to improve project-level efficiency, such as the disbursement action plan, greater support for project procurement, a faster implementation for project start-up facility and initiatives for enhancing capacities of project management units to deliver results. IFAD has also introduced a number of new and streamlined procedures designed to help country teams react quickly to development needs brought to light by COVID-19, for example, facilitating remote design and supervision. In IFAD12, these initiatives
will be further strengthened at the country programme level and progress on improvements in project implementation will be closely monitored.

14. At the core of IFAD’s ambition to deepen impact is its mainstreaming agenda. IFAD’s four mainstreaming themes – youth, gender, nutrition and climate – continue to remain central elements of rural transformation. As part of IFAD12, IFAD will enhance its approach to biodiversity, expand engagement with indigenous peoples and operationalize the inclusion of persons with disabilities (PwD). It will also have an enhanced focus on tailoring its offer in countries with fragile situations and leverage existing and new instruments and initiatives – including technology and digitalization – for transformative engagement in these countries.

15. **Transformative organizational change.** Delivering impact will require the organization to evolve and change in step with its expanding ambition and areas of work. IFAD will therefore need to be well equipped as an efficient, dynamic and agile organization that can deliver results and impact. Building on the analytical work carried out for the business process review and the human resources study, IFAD will implement, in IFAD12, an action plan and work on transformational changes in three key areas: people, processes and technology.

16. **Transformational financial framework reform.** In IFAD11, IFAD initiated the implementation of activities under the financial road map. The Debt Sustainability Framework (DSF) reform, the Capital Adequacy Policy, the Asset Liability Management Framework, and the new approach to IFAD’s liquidity management are all new tools to preserve IFAD’s commitment capacity and financial sustainability. IFAD12 represents a crucial crossroads at which IFAD has to maintain the financial discipline that is vital for it to deliver on the ambition of expanding impact in the medium term. This will call for adaptability to changes in financial resources, a very close link between the financial and the operational model, and concerted efforts by both Management and Member States to make IFAD a strong and financially sustainable development finance institution.

17. **The transformation of IFAD’s financial architecture will be further consolidated with three key enhancements:** first, the completion of IFAD’s credit rating process; second, the implementation of the Integrated Borrowing Framework; and last, the adoption of key principles to support IFAD’s financial sustainability as part of the revision of the existing procedures and definitions for determining the resources available for commitment. In addition, the Framework for Accelerated Repayments and Voluntary Prepayments will constitute a new instrument to boost IFAD’s commitment capacity. All these elements are aimed at enhancing IFAD’s financial profile and risk management so as to strengthen its capacity to absorb losses and play a countercyclical role.

18. **IFAD is committed to further enhancing the focus of its core resources on low-income countries (LICs) and lower-middle-income countries (LMICs).** During IFAD11, IFAD allocated 90 per cent of its core resources to LICs and LMICs, and 10 per cent to upper-middle-income countries (UMICs). During IFAD12, IFAD’s aim is to increase this focus by directing the totality (100 per cent) of its core resources to LICs and LMICs. At the same time, to preserve its universal nature, IFAD aims to provide UMICs with a level of financing at least equal to that of IFAD11; therefore total resources allocated to UMICs will range between 11 per cent and a maximum of 20 per cent.

19. **The allocation of resources and type of support that IFAD can provide depend on the source of the funding, that is the volume of replenishment contributions and borrowing that IFAD can secure.** As in any development finance institution, financial and operational variables are heavily interdependent. Replenishment contributions and borrowing resources cannot be used

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interchangeably: LICs and LMICs that receive grant financing and concessional loans can only be financed through additional replenishment resources.

20. **The support that IFAD provides to the most-indebted LICs cannot be scaled back.** While core resources will be entirely devoted to LICs and LMICs, Management is conscious of the fact that the greatest need for support is among the most-indebted LICs that receive grant financing through the DSF. Only scenarios D and E allow securing for indebted LICs at least the same level of DSF grants provided in IFAD11 (i.e. US$595 million). IFAD is aiming to increase its support to highly indebted LICs, which could also increase in number due to the effects of the pandemic. To allow IFAD to effectively respond to the increasing needs of these countries, and to be able to double its impact by 2030, Members would need to double their contribution\(^3\) when compared to IFAD11.

21. **Borrowing will remain a complement to replenishments. Increased borrowing capacity will serve to secure a larger programme of loans and grants (PoLG), which will benefit all countries.** Additional borrowing, including concessional partner loans, is expected to be in the range of US$1.2 billion to US$1.4 billion in order to provide financing to selected LICs and LMICs and the totality of UMICs across scenarios. Should IFAD not secure this volume of borrowing, the level of its PoLG – and therefore its development impact – will need to be adjusted. To reach this level of borrowing, IFAD will need to tap into a broader lender base and borrowing instruments, as proposed by the Integrated Borrowing Framework.

22. Management recognizes the challenging trade-offs faced at this crucial crossroad. It is therefore calling for increased support from the Members to ensure that IFAD continues supporting all countries, especially LICs and LMICs that are not in a position to receive loans and can only receive IFAD’s grant financing.

**Measuring success**

23. IFAD is now a results-driven organization as evidenced by the focus on results introduced in its first Development Effectiveness Framework. As the institution diversifies its instruments and enhances its ambition, it will also need to update its Development Effectiveness Framework (DEF). The updated DEF will capture evolving priorities and new areas of work to ensure that the institution’s approach to results is all-encompassing. IFAD’s success will be assessed against the agreed indicators of the IFAD12 Results Management Framework (RMF). Through the priorities identified in the business model for IFAD12, Management will work with Member States to refine the RMF and the commitments for the IFAD12 cycle. The RMF and the commitments taken by Management will be central to IFAD’s accountability on results for the IFAD12 cycle, and will be complemented by the results delivered prior to IFAD12 through IFAD11 and the Rural Poor Stimulus Facility. Special attention will be paid to making sure that IFAD also coordinates with other partners – bilateral institutions, international financial institutions and the United Nations system including the Rome-based agencies – in reporting on the SDGs.

\(^3\) Members’ contributions may include additional contributions to core resources and to ASAP+ and the PSFP.
I. Introduction

A. The IFAD12 business model and theory of change

1. This paper lays out IFAD’s ambition for the decade of action remaining for the achievement of the Sustainable Development Goals (SDGs), particularly in light of the challenges now posed by the novel coronavirus (COVID-19) pandemic. It is primarily a vision of IFAD’s operational offer for 2022-2024, the period of the Twelfth Replenishment of IFAD’s Resources (IFAD12). The paper will outline how IFAD will leverage its increased proximity to clients to respond to their needs with greater agility and flexibility, ensure responsiveness to shocks and risks as they arise, and enhance the resilience of the rural poor to those shocks.

2. The IFAD12 business model will focus on two principles in order to achieve significantly increased and deepened impact. The first is proximity. At the time of the IFAD11 Consultation, only 16 per cent of IFAD’s staff were based in field offices. In IFAD12, strong decentralization of operational staff will continue (currently 32 per cent), with a target of deploying 45 per cent of staff to service and support functions in subregional hubs and stand-alone IFAD Country Offices.

3. In IFAD11, greater proximity to clients was seen as a way of increasing IFAD’s relevance, influencing policy discussions, and ensuring more consistent follow up and support for projects. But experience has revealed an added benefit of decentralization: it brings IFAD closer to all its partners, which facilitates the ability to work in genuine partnership and find solutions to common problems, and make a more transformational impact on policy.

4. The COVID-19 pandemic has also shown that IFAD’s field presence matters. It ensures that IFAD plays a role in shaping the response from the United Nations country team and in coordinating action with the Rome-based agencies (RBAs), international financial institutions (IFIs) and other development partners in the field during times of crisis. Decentralization has also enabled IFAD to continue operating despite the challenging circumstances at headquarters and in many of its subregional hubs.

5. The second principle of the IFAD12 business model, facilitated by proximity, is the need for IFAD to adopt an adaptive approach to “doing development”. Adaptive management approaches emphasize the ability to learn, respond and evolve quickly and reactively.

6. Adopting an adaptive, learning-centred approach will require IFAD to implement course corrections more quickly when risks emerge that could undermine development objectives and outcomes, or when economic or other shocks emerge. In IFAD12, country teams will be provided with tools and incentives to learn more quickly and effectively what works and what doesn’t, and to adapt more fully. This will require more frequent strategic planning with stakeholders, and more agility during project design and implementation.

7. Focusing on these two new principles will enable IFAD to expand and deepen the results achieved when working through country programmes. First, by increasing the resources available to IFAD through growth in both core contributions and leveraged finance, and by improving the efficiency of every dollar spent in IFAD12, IFAD will be well on the way to expanding impact by 2030 and ensuring that the impact on each individual is more meaningful and sustainable. Investing more in IFAD now will provide the push needed to achieve this before the decade of action is over.

8. The organization and objectives of the IFAD12 business model are captured in figure 1, which outlines the theory of change for IFAD12. At the highest level – tier 1 – IFAD will maintain its ambition to make a significant contribution to SDGs 1 and 2, and to have a positive impact on other SDGs, such as those focused on
gender equality and women’s empowerment, climate and justice. IFAD will continue to map all of its impact and outcome indicators to specific SDG targets to ensure that its reporting on the SDGs is joined up with other members of the international development community and national governments.

9. At the second tier, IFAD’s development impact for Agenda 2030 is focused on expanding and deepening impact by expanding outreach, speeding up delivery and building resilience.

10. In the third tier – operational results – IFAD places transformational country programmes at the centre. These country programmes will involve closer interaction with an array of clients; a deepened approach to mainstreaming; and a wider menu of solutions, including access to new ways of working through the Adaptation for Smallholder Agriculture Programme + (ASAP+) and the private sector facility. Supporting the achievement of these goals will be the transformation of the institution (through people, processes and systems) and its financial architecture (ensuring financial sustainability while maximizing resources for the poorest countries and the poorest people).

Figure 1
Theory of change for IFAD12

11. IFAD is confident it can achieve these ambitious goals because it has experience and a track record of delivering results. Presently, operations are reaching over 100 million people. Every year, IFAD helps 20 million poor rural people increase their incomes by at least 20 per cent by increasing their productivity, food security and nutrition as well as their resilience to climate change. IFAD is able to do this because it is a financial institution dedicated to serving poor rural population with a wealth of experience and expertise, and because it works in partnership with others to create opportunities and deliver impact in places others often do not go.

12. Prior to articulating the offer, expected impact, and proposed pillars to deliver impact in depth, the remainder of the introduction lays out the challenging context in which the articulation of this business model takes place.
B. COVID-19 and other acute shocks in the global context

13. Prior to the onset of the global health pandemic, three trends of major concern were highlighted in IFAD12 Consultation documents that pointed to the need for IFAD to maximize its contribution to sustainable and inclusive rural transformation: poverty, although in decline, is declining less rapidly and becoming more concentrated; the number of those experiencing food insecurity is on the rise; and debt burdens are becoming increasingly unsustainable. Climate change is an important driver of all three trends and also drives fragility.

14. The global crisis caused by COVID-19 exacerbates all three of these trends and makes it necessary for IFAD to continue scaling up and tailoring its offer to ensure that the rural poor build their resilience to shocks. This is central to stopping the COVID-19 crisis from becoming a food crisis.

15. This section takes a holistic view of the impact of COVID-19 on livelihoods, as well as providing specific indications of how COVID-19 is interacting with trends on poverty, food security and debt. While it is hoped that the health impacts of COVID-19 will not be an ongoing concern in 2022 when IFAD12 begins, the longer-term socio-economic impacts on poverty, hunger, incomes and livelihoods are likely to persist, setting back progress by one to three years.

16. IFAD must therefore build interventions in 2020 and 2021 that help mitigate the worst impacts of COVID-19, and ensure that the IFAD12 business model puts a renewed emphasis on risk readiness, resilience and adaptive approaches to rural development.

Understanding the impact of COVID-19 on rural communities

17. COVID-19 affects rural livelihoods through multiple pathways. Beyond the immediate health emergency now ongoing, the spread of the disease and the domestic and global restrictions implemented in response will have longer-run impacts on markets, production and employment, and may even cascade into problems such as increased hunger and civil unrest, and a rise in sexual and gender-based violence.4

18. Through these pathways, impacts will be acute for poverty, food security, well-being and ultimately resilience. There are also specific impacts for more vulnerable groups, especially women and youth (see box 1 below), and persons with disabilities (PwD), given that these groups are already disadvantaged in accessing economic and financial resources. The impact on these areas will vary over time: while health impacts are expected in the short run, disruption to markets, income and food will occur in the medium run, and the impacts on poverty and setbacks to resilience will be longer term.

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4 Programme Delivery Risks from COVID-19, IFAD.
19. **These impacts may push rural people further behind, and even leave them forgotten.** Compounding the effects on livelihoods, governments must triage their activities as they deal with over-burdened health systems and alternative ways of working. Countries with limited capacity will be most severely affected and may see the need to shift support away from those already marginalized and vulnerable – those likely be disproportionately affected by secondary impacts of COVID-19.

20. Figure 2 shows the impact of COVID-19 by theme and time, and attempts to measure the intensity of impact on the lives of small producers and rural poor communities. Examples of the ongoing impact in some of the countries where IFAD works are also provided (see also box 2).
Figure 2
Matrix of impact – COVID-19 and rural livelihoods

<table>
<thead>
<tr>
<th>Health &amp; Wellness</th>
<th>Production</th>
<th>Markets, Jobs &amp; Incomes</th>
<th>Food Security</th>
<th>Poverty</th>
<th>Resilience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affected communities will likely face higher health costs due to increased stress.</td>
<td>Agriculture and rural sectors will likely have lower yields, leading to food scarcity.</td>
<td>Prices may fluctuate and remain volatile.</td>
<td>Countries that are not importers of food may suffer from higher food prices.</td>
<td>There will likely be a global recession.</td>
<td>It is likely that the ability of many communities to cope with shocks and recover from them in the short term will be severely impacted.</td>
</tr>
<tr>
<td>Medical facilities may become overstretched due to a need for enhanced health care.</td>
<td>Local labour availability may suffer due to sickness or mortality.</td>
<td>Prices may fluctuate and remain volatile.</td>
<td>Countries that are not importers of food may suffer from higher food prices.</td>
<td>There will likely be a global recession.</td>
<td>It is likely that the ability of many communities to cope with shocks and recover from them in the short term will be severely impacted.</td>
</tr>
<tr>
<td>Difficulty of effective social distancing due to limited access to transport or living in close quarters.</td>
<td>Movement restrictions may limit access to markets and thereby reduce incomes.</td>
<td>Operations across sectors will be disrupted.</td>
<td>Business may permanently fail.</td>
<td>Movement restrictions will reduce opportunities for income generation.</td>
<td>Marginalized groups are at increased risk of being left behind.</td>
</tr>
</tbody>
</table>

Immediate

- Women are more likely to face domestic and gender-based violence.
- Women are more likely to bear the brunt of food insecurity for the elderly and sick, therefore limiting their economic opportunities.
- Nutritional levels will fall as the variety of foods available decreases due to reduced food availability.
- Youths are already 2 to 3 times more likely to be unemployed and may be disproportionately affected by economic shocks.
- Women are more engaged in informal or low-skilled work, and therefore may be disproportionately affected.
- Nutritional levels fell due to disruptions in food supply chains and reduced economic activity.
- Youths are more likely to be wage earners and less likely to own land, and are particularly vulnerable during economic recessions.

Ethiopia's ability to fight locusts and plant in the upcoming season is at risk if fertilizers and other inputs are disrupted, as the country has very limited production capacity. Some countries only have one planting season and are already facing high food insecurity due to crop failures, such as Burkina Faso.

Vehemently constituishes about 60 per cent of cereal output in the region. Despite efforts by the Government and WFP to increase food aid distribution, prices have increased by more than 15 per cent in city markets from March to April 2020, accompanied by decreasing incomes and purchasing power (World Bank Covid-19 updates).

By late March, around 9.5 million children in 37 countries were no longer receiving WFP-supported school feeding programmes due to lockdowns and city-wide closure of schools (WFP).

Tourism accounts for more than half of the GDP of the Maldives and other small island developing states. The Maldives would need US$1.2 billion to account for revenue losses in order to service external debt and pay for imports (United Nations COVID-19 Response).

Source: Adaptation by IFAD of a framework proposed by MasterCard Foundation.
21. The impacts are not homogenous across countries or societies (particularly between urban and rural areas). The United Nations Office for the Coordination of Humanitarian Affairs (OCHA) and the World Health Organization (WHO) have created an updated Index for Risk Management (INFORM) which maps the risk faced by countries from COVID-19: the countries most likely to be impacted are those where poverty is most concentrated; in many cases there is a strong overlap with fragility.

![INFORM COVID-19 Combined Risk Index](source.png)

Source: WHO, OCHA Index for COVID-19 risks.
Impact of COVID-19 on IFAD programmes and IFAD’s response

Asia and the Pacific
In March, IFAD teams working in Bangladesh observed a breakdown in national food production and distribution. This was due to disruptions in both input supply and output marketing. As was true in many countries, the country was in lockdown – and this prevented agricultural producers and microenterprises from accessing markets to purchase inputs such as seeds, fertilizers, fingerlings and livestock feed and from selling crops, livestock and aquaculture products. Mounting concerns that human contact and exchange would spread the coronavirus has disrupted the supply chain. In response, the IFAD team in Bangladesh submitted a proposal to the Government to set up a certified transport and logistics system for the movement of inputs and produce in rural areas, operating according to the COVID-19 safety protocols issued by WHO and national health authorities. The system would be applied for both the safe harvest and distribution of standing crops (temperate vegetables and paddy) to markets, and the application of safety protocols for distributing inputs and equipment for the upcoming cropping season of tropical vegetables, paddy and maize. It will also facilitate the secure production and market distribution of livestock and aquaculture products.

East and Southern Africa
In Zambia, US$200,000 of funds from the Enhanced Smallholder Livestock Investment Programme (ESLIP) have been used to address the short-term gaps in information access caused by movement and social distancing restrictions. This involves identifying and implementing alternative training and extension approaches, including collaboration with Life-Long Learning for Farmer (L3F) and Mobile Fisheries and Livestock Advisory Information System (M-FLAIS) to bypass human-to-human contacts.

Latin America and the Caribbean
Projects in Latin America currently under implementation are supporting initiatives to help family farmers keep their jobs and sustain enterprises while supporting their communities as food suppliers during the crisis. In El Salvador, the National Programme of Rural Economic Transformation for Living Well – Rural Adelante has sped up investment plans in four eastern departments, allowing family farmers’ associations to produce vegetables, fruits and dairy products to supply local markets. In Ecuador, the Strengthening the Rural Actors of the Popular and Solidarity Economy Project (FAREPS) is working with rural associations in the Morona Santiago province to set up a network that will keep the local food supply chain active by financing transportation and storage facilities. In Brazil’s Bahia State, Pro-Semi-Arid is encouraging its beneficiaries to sign up for the COVID-19 radar platform, a virtual marketplace that will create new marketing opportunities in the recovery phase of the pandemic.

Near East, North Africa and Europe
In Bosnia and Herzegovina, IFAD is working with the Ministry of Agriculture, Water Management and Forestry to safeguard local food systems by distributing seed packages to small farms. Support packages contain fertilizer, seeds and seed material from basic vegetable crops. This is enabling small-scale farmers to support their own food needs as well as those of the local community. In total, the initiative is expected to reach 9,000 small farmers.

West and Central Africa
IFAD has already responded to the threat of COVID-19 in Africa by repurposing funds through ongoing projects. For example, in Burkina Faso, US$390,000 of funds for the Agricultural Value Chains Support Project (PAFA-4R) have been repurposed to procure seeds and fertilizer and assist with land preparation in the absence of labour.

Impacts of COVID-19 on existing trends in poverty, food security and debt sustainability

22. Poverty. According to the World Poverty Clock, SDG 1 is currently off track by over 100 million people. By 2030, this gap will reach nearly half a billion.5 Extreme poverty is becoming increasingly concentrated in a number of low-income countries (LICs) facing deeper structural challenges and in certain geographic regions.6 Already, sub-Saharan Africa is home to around half of the world’s extreme poor, and, Brookings Institution projects that by 2030 80 per cent of the world’s poverty will be in only 31 countries.

23. The World Bank estimates that an additional 50 million people may fall into extreme poverty as a result of the COVID-19 crisis and poverty may

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5 https://worldpoverty.io/headline.
even rise for the first time since 1998 (see figure 4). However, even before the pandemic, almost 90 per cent of LICs and one third of upper-middle-income countries (UMICs) had “poverty hot-spots,” and faced challenges in achieving widespread eradication of poverty and hunger.

Figure 4
Potential impact of COVID-19 on global poverty

24. Of the above 49 million people pushed into extreme poverty, the World Bank forecasts that 23 million will be in sub-Saharan Africa, and 16 million in South Asia. This includes 12 million more estimated in India, 5 million more in Nigeria and 2 million more in the Democratic Republic of the Congo – all countries in which IFAD has large programmes.

25. Food security and hunger. SDG 2 faced equally if not more troubling trajectories prior to the crisis, as it was not only lagging but also reversing back to levels of 2010-2011. Between 2015 and 2018, those experiencing hunger grew from 785 million to a projected 820 million. Should the impact of COVID-19 grow in countries that are in need of external food assistance or facing high levels of extreme food insecurity, the consequences on food security and livelihoods could be even more severe. Beyond the health crisis, there is the lingering threat of vulnerabilities to the effects of climate change, which may in other ways shock food systems or inhibit resilience to food insecurity.

26. The Food and Agriculture Organization of the United Nations (FAO) and the World Food Programme (WFP) suggest that food insecurity and hunger may increase significantly as a result of COVID-19. Their projections show that acute food insecurity will double by the end of the year, and may in fact be higher should policy responses not be quick enough or provide adequate responses. The pathways through which this health crisis could impact food security include underlying health conditions, food availability, and food access, including humanitarian assistance. Displaced populations may be at additional risk, as are people living in areas affected by conflict or social tensions. These estimates are sensitive to the areas at highest risk prior to the pandemic.

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27. **Fragile situations complicate the eradication of poverty and hunger and create new vulnerabilities.** Violent conflict has tripled since 2010 and is contributing to the largest forced displacement crisis ever recorded, with 31 people newly displaced each minute. Fragile situations are expected to further increase and intensify from climate change, demographic changes, technological transformation, shifting illegal financial flows and violent extremism; the global health crisis also presents significant risks given limited capacity to manage the health and production challenges.\(^\text{12}\) By 2030, as many as two thirds of the world’s extreme poor will be living in fragile situations.\(^\text{13}\) This will multiply the hurdles towards reaching SDGs 1 and 2.

28. **Debt distress.** Trends in debt sustainability in low-income countries already at high risk are now likely to be accompanied by significant constraints due to COVID-19 and continuing lack of access to international capital markets. As shown in figure 5 below and reported in the IFAD11 midterm review, 48 per cent of low-income countries were assessed as being at high risk of external debt distress or in debt distress in 2019 – double the number in these categories in 2013. These categories (high risk of external debt distress or in debt distress) include 33 countries representing 58 per cent of IFAD Debt Sustainability Framework (DSF)-eligible countries covered under the joint World Bank/International Monetary Fund (IMF) Debt Sustainability Framework for Low-Income Countries.

29. **It is expected that the current global health crisis will exacerbate this situation.** As GDP declines and economies slow down globally; the knock-on effects for debt sustainability in countries with high or moderate debt distress could be significant. The World Bank and IMF have already asked all bilateral creditors to suspend debt payments for International Development Association countries who request it;\(^\text{14}\) ministers of African governments have stated that there is need for an emergency economic stimulus of US$100 billion, US$44 billion of which they suggest could come from suspension of interest payments on debt.\(^\text{15}\)

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\(^\text{13}\) IFAD11 midterm review; OECD (2018), States of Fragility Report.


30. **Rural communities already at risk of being left behind bear the brunt of these challenges.** People living in rural areas make up 80 per cent of those in extreme poverty and 75 per cent of the moderately poor.\textsuperscript{16} These trends compound the risk of being excluded from progress towards zero poverty and zero hunger faced by these communities who already live farthest from the span of government structures and formal markets. They also compound the acute and chronic climate vulnerabilities that result from being largely dependent on livelihoods such as agriculture, fishing and livestock production.

Box 3
**Impact of COVID-19 on remittances**

Due to COVID-19, for the first time, both sides of remittance corridors are impacted simultaneously. For both senders and receivers, the double punch of job losses and lockdowns leaves many unable to make up for lost income or to alleviate the deep uncertainty gripping their families. Lockdowns, layoffs and the virus itself are upending the plans and finances of 200 million migrant workers in over 40 sending countries, and threatening the security of 800 million family members in more than 125 countries. According to the latest World Bank forecast, remittances worldwide are expected to decrease by 20 per cent in 2020. This translates into a drop of US$110 billion in available resources for the basics – food, health, housing and educational expenses – of millions of migrant families.

Millions risk being locked out of economies as their livelihoods and incomes disappear. Even considering the great uncertainties and unknowns regarding the direction, duration and intensity of this pandemic, trends will emerge in the short- and medium-term horizons for the remittance market.

The Remittance Community Task Force (RCTF) was launched on 24 March 2020 in response to the call by the United Nations Secretary-General for global solidarity. In that call, the Secretary-General noted that “remittances are a lifeline in the developing world”. To date, over 30 organizations have joined the RCTF, including IFAD and other international organizations, inter-governmental bodies, industry and private sector groups, networks of diaspora organizations and international experts on remittances. The task force also includes a large reference group composed of government representatives and national development agencies. The group will cooperate on drafting specific recommendations for key actions to maintain the flow of remittances during the post-COVID-19 crisis period. These recommendations will be completed through a consensual process.

31. **COVID-19 presents several lessons for IFAD12.** Learning lessons in preparedness and resilience is key to enabling IFAD to ensure rural transformation and declining poverty in IFAD12. The crisis underlines the interplay between economic, climatic and health shocks, and the need to maintain focused on the most vulnerable and marginalized people in rural areas at all times.

C. **IFAD’s value proposition in IFAD12**

32. **In the face of a global pandemic and looming economic and food crisis, the world has a unique opportunity to rethink, adapt and reinvest in a more sustainable future, especially for the poorest and most vulnerable.** This latest global shock reinforces the relevance of the 2030 Agenda and the SDGs. In

\textsuperscript{16} Leave no one behind, chapter 4, p. 59.
any crisis – whether a pandemic or a climatic disaster or other emergency – it is the poor and vulnerable who suffer the most. **Rural transformation remains a key driver to reduce poverty, improve food and nutrition security, and increase resilience to shocks like COVID-19, and to ensure that no one is left behind.**  

### Box 4

**Agriculture driving the fight against poverty and hunger in Ethiopia**

Agriculture is the main engine of Ethiopia’s economy. It is responsible for 80 per cent of employment and 42 per cent of GDP, and has played a decisive role in the fight against poverty and hunger. Driven by nationally led strategies such as Ethiopia’s First Growth and Transformation Plan (GTP) I 2010-2015 and GTP II 2016-2020, which emphasize agriculture as the backbone of economic development, the agricultural sector’s contribution to the national economy and its performance has substantially increased. From 2004-2014, real agricultural output increased by 7.6 per cent annually. This was mainly the result of expanding land under cultivation and agricultural intensification. The factor productivity growth reached 2.3 per cent per annum, also due to the inclusion of new technologies and practices (EB 2016/2019/R.15).

This has contributed to Ethiopia’s strong progress towards SDGs 1 and 2 with poverty and undernourishment rates declining from 50-55 per cent in the early 2000s to 23-28 per cent in 2015-2018. If these trends continue, Ethiopia will lift an additional 16 million rural people out of poverty in the next 10 years (Kharas, Di Nucci, Hamel, Tong. 2020).

### 33. 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 future. Investment in agriculture and sustainable food systems – particularly with a focus on small-scale producers – has benefits for all, starting with the rural poor themselves. Access to efficient and inclusive agricultural supply chains can raise real incomes for poor producers, and higher prices received by farmers both provide additional income and create incentives for greater productivity and diversification. A further effect is that a more abundant and more diverse food supply means that well-fed and prosperous populations can maintain higher levels of health and resilience during economic hardship – or a crisis like the current one. Healthy and resilient people fare better against COVID-19, with reduced severity of infections, burdens on country health systems and potentially transmission rates, and are more prepared to deal with the cascading economic effects.

**IFAD’s comparative advantage**

### 34. 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 disadvantaged groups. IFAD targets “the last mile” and the remotest areas, to help millions of rural people increase their productivity and incomes, access markets, create jobs, build their resilience to a changing climate, improve their coping mechanisms in fragile and conflict-affected environments, and strengthen their voice, capacities and organizations.

### 35. IFAD today remains 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 development of rural areas that leads to economic and social transformation. IFAD’s long-term and privileged relationships with its Member Governments enable it to invest directly with small-scale producers, and involve poor rural women and men in their own development to deepen impact. It works in the remotest fragile

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18 Leave no one behind, p. 63.
areas and targets the most vulnerable. No other institution or fund has this degree of experience in investment that is both people-centred and aimed at achieving results at scale – both of which are essential to reaching those most at risk of being left behind. Considering that three quarters of the world’s poorest and most food-insecure people live in rural areas, IFAD’s efforts are critical to achieve the SDGs, whose avowed purpose is to leave no one behind. This makes IFAD a partner of choice for investing in long-term sustainable results in rural areas.

36. **IFAD’s targeted investments complement the work of other development partners including IFIs and United Nations agencies.** The current pandemic has again highlighted that no institution has capacity to address all development challenges faced by vulnerable rural people in fragile contexts. IFAD’s targeted investments are essential to deliver inclusive and sustainable rural transformation and complement broader efforts in rural areas by partner institutions. By maintaining a dedicated focus on small-scale agriculture, food security and rural transformation for the most marginalized and remote communities, IFAD channels investment and support to extremely poor people who might otherwise not be reached. IFAD continues to engage a widening variety of partners in order to deliver on its core mandate in fragile contexts, increasingly leveraging public and private investment.

<table>
<thead>
<tr>
<th>Box 5</th>
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<tr>
<td><strong>Why IFAD?</strong></td>
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<tr>
<td>IFAD is the only specialized global development organization exclusively dedicated to transforming agriculture, rural economies and food systems. It has a critical role in ending poverty and hunger because it is solely focused on investing in poor rural people, who are those most at risk of being left behind. IFAD has a compelling value proposition based on its relevance, reach, results and return on investment.</td>
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<tr>
<td>➢ <strong>Relevance:</strong> most of the world’s poor and hungry people live in rural areas and most of them work in agriculture. IFAD’s specialized focus on agriculture and decades of experience targeting “the last mile” have helped millions of people increase their productivity, incomes and access markets, create jobs, build their resilience to climate variability, improve their coping mechanisms in fragile and conflict-affected environments, and strengthen their capacities and organizations. In the context of COVID-19 and disruptions of global food systems, investing in small-scale producers is more important than ever.</td>
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<td>➢ <strong>Reach:</strong> IFAD’s investments benefit more small-scale producers than any other organization in the world. IFAD’s special long-term relationships with partner governments and deep reach into remote areas combined with its expertise and global portfolio enable it to make a unique contribution to the achievement of the SDGs. IFAD specializes in working in the most fragile and remote areas and with the most marginalized and vulnerable people. By investing in IFAD, Member States directly improve the lives of millions of the world’s poorest and hungriest people. Its focus on inclusiveness and the most marginalized complements the work of governments, private sector and other development-focused organizations.</td>
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<td>➢ <strong>Results.</strong> IFAD systematically measures impact and aggregates results across its entire portfolio. Every year, IFAD-supported projects raise the production of 15 million small-scale producers and increase the value of sales of another 16 million, improve the resilience of 9 million project participants, and raise the income of 20 million rural women and men by at least 20 per cent. IFAD catalyses public and private investment, helping to strengthen policies, promoting innovation to achieve sustainable benefits at scale, and supporting all countries in achieving lasting rural and food system transformation.</td>
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<td>➢ <strong>Return on investment.</strong> As a financial institution, IFAD leverages its capital base to ensure that Member States’ financial contributions go much further. For every US$1 provided to IFAD, it directly invests more than US$3 in the world’s poorest rural people. IFAD assembles finance to ensure that each Member State dollar translates into more than US$8 of investment on the ground. This multiplier effect enables IFAD to step up its role in the global effort to end extreme poverty and achieve zero hunger by doubling its impact by 2030.</td>
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37. **IFAD’s mandate of transforming rural economies and food systems and building the resilience of rural people gives it an important role in mitigating risks associated with shocks, as well as future crises.** The full impact of COVID-19 on rural communities has not yet materialized, but experience in working in fragile contexts and building resilience to other shocks would indicate that there will be inevitable negative socio-economic consequences for rural livelihoods. IFAD’s programme of work, with its focus on poor and vulnerable populations and investments in better livelihoods and increased resilience, is already helping rural people to cope with direct and indirect effects of COVID-19.
But IFAD is also doing more to deliver support to help rural people weather this and other crises that threaten to set back progress towards SDG 1 and SDG 2.

Figure 6
IFAD’s role in the international architecture

38. **IFAD seeks to step up its role in the global effort to end extreme poverty and achieve zero hunger in rural areas by expanding and deepening its impact.** 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 and respond to emerging needs from its Member States and target groups. 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.
39. **IFAD’s is uniquely placed to lead more ambitious efforts to promote rural transformation and leverage its key role in reaching SDG 1 and SDG 2.** While current challenges are considerable, IFAD is well positioned to deliver impact in support of pandemic response and recovery, a renewed push toward the SDGs, and building greater resilience to crises, especially for those populations most at risk and the countries most in need. But IFAD is not complacent. The new business model is designed to enable IFAD to address more effectively the drivers of fragility and to build the resilience of those who are most vulnerable.

40. **Despite the challenges, IFAD will seek to significantly enhance and expand its impact by 2030, while also increasing the sustainability of its results.** The remainder of this section presents how IFAD is evolving to deliver on its ambition through the operations under IFAD12.

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**Box 6**

**IFAD’s Rural Poor Stimulus Facility**

The IFAD multi-donor COVID-19 Rural Poor Stimulus Facility (RPSF) is aligned with the United Nations socio-economic response framework and complements IFAD’s broader COVID-19 response efforts. The Facility will leverage the Secretary-General’s Response and Recovery Fund and the work of other multilateral partners to achieve food security for the millions of poor rural people in the most remote and vulnerable communities.

The RPSF is a short-term strategy that feeds into IFAD’s longer-term development objectives. IFAD will initiate the Facility with US$40 million in seed funding from grant resources and aims to mobilize at least US$200 million from Member States and other donors to scale up support.

**Objectives and planned interventions**

The RPSF aims to improve the food security and resilience of poor rural people by supporting production, market access and employment. The ultimate goal is to accelerate their recovery from the COVID-19 crisis. This will be achieved through IFAD’s target group having the capacity, assets and overall resilience to cope with shocks; through lessons that are incorporated into IFAD’s work from the implementation and innovations of the RPSF; and through a strengthened capacity to deliver digital support.

The planned interventions fall into four main categories:

1) Providing inputs and basic assets for production of crops, livestock and fisheries
2) Facilitating access to markets to support small-scale farmers in selling their products in conditions where market functions are restricted
3) Targeting funds for rural financial services to ensure sufficient liquidity and to ease repayment requirements so as to maintain services, markets and jobs
4) Promoting the use of digital services to deliver key information on production, weather, finance and markets
II. Delivering impact: transformational country programmes

41. To achieve its vision of vibrant, inclusive and sustainable rural economies, where people live free from extreme poverty and hunger, IFAD must increase and deepen its impact. This is particularly critical at a moment when the COVID-19 crisis is dramatically reducing economic growth, disrupting food markets and potentially leading to increases in rural poverty and food insecurity. While immediate action must be and is being taken, the impact of the crisis is likely to be felt for years, requiring that IFAD be prepared to address these emerging challenges.

42. IFAD’s impact can expanded through the more efficient use of its existing resources or by obtaining greater resources, which makes it possible to reach more people. It can also be expanded by placing more focus on policy objectives, rather than project outcomes, as the end goal of IFAD’s work.

Box 7
Building resilience and making impact sustainable over time

Deepening impact is a matter of building resilience and sustaining impact over time. While achieving a strategic objective such as increased incomes is a critical impact of IFAD investments, the hope is that these income gains will be maintained in the face of shocks due to climate conflict or economic slowdown, and that they will be sustained over time. While achieving more sustainable results is central to deepening impact, it is an area in which IFAD has not performed well, according both to the Fund’s self-evaluations and to the Independent Office of Evaluation of IFAD (IOE). IFAD is therefore undertaking four concrete actions to improve the sustainability of its results in IFAD12.

1) Fostering sustainability through lending instruments that generate ownership. Sustainability improves when government partners and beneficiaries alike are, from the outset, given the opportunity to assume greater ownership of projects and work, to articulate and generate pathways through which projects can either be scaled-up or utilize other strategies to exit. Working towards IFAD12, the Fund will pilot and expand instruments that are known to generate strong government ownership including the piloting of results-based lending, introducing multi-phased programmatic approaches and sub-national lending.

2) Generating sustainability through closer engagement with stakeholders. Building on its stakeholder feedback framework and its revised Social, Environmental and Climate Assessment Procedures approved during IFAD11, IFAD will redouble its efforts to ensure early, meaningful and continuing engagement and feedback from key stakeholders, notably populations served by the projects it supports, throughout country strategic opportunity programme (COSOP) and project cycles.

3) Thinking more deeply about scaling up and exit strategies. IFAD has played a leading role in development debates about scaling-up impact, appropriate given its small size vis-à-vis the development architecture. In IFAD12, the Fund will further emphasize pathways for scaling up projects results to ensure greater sustainability, and review the scaling up strategy prior to IFAD12 to make sure it is fit for purpose for IFAD’s new business model. Additionally, all projects are required to articulate an exit strategy when they are designed, and the Fund’s quality assurance process will ensure that this is adequately scrutinized at design, and forms an integral part of the supervision process.

4) Improving IFAD’s ability to measure sustainability. Sustainability over time refers to the likely continuation of net benefits from a development intervention after it ceases receiving external funding support. In order to gain a better understanding of whether IFAD’s programmes are making a sustainable impact on the lives of small-scale producers and the rural poor, IFAD will explore with IOE the possibility of undertaking ex post evaluations some 3-5 years after project completion in order to see whether the evidence found at the time of project closure has been maintained.

43. The Fund can also deepen impact by improving the inclusion of vulnerable groups, increasing the co-benefits of investment, building resilience and enhancing the sustainability of its impact. This section provides an overview of how IFAD will in practice expand and deepen its impact through delivering transformational country programmes.

44. As highlighted in the introduction, in IFAD12, the Fund will seek to leverage its proximity and focus on working in a flexible, agile and adaptive fashion to deepen
its impact on every individual and household it supports, ensuring that benefits reach deeper into pockets of poverty, the degree and types of impact are expanded, and impact is sustainable over time.

45. Transformational country programmes are designed to enable IFAD to meet its impact ambitions and ensure that it: (i) prioritizes inclusion, i.e. leaves no one behind, and responds to the specific needs of the poorest and most vulnerable people and countries; (ii) fosters partnerships, leveraging proximity to work better and more comprehensively with partners; (iii) adapts to meet the changing needs of governments, beneficiaries and partners to leverage policy for transformational change; and (iv) drives innovation, while being cognizant of, and mitigating against, emerging risks, particularly in the post-COVID scenario.

46. They also ensure that IFAD’s actions, using a variety of tools including the new RPSF, the Private Sector Financing Programme (PSFP) and the revamped ASAP+, are joined up to create a single programme of work (PoW) with those principles.

A. Inclusion – leaving no one behind

47. Deepening impact through dedication to mainstreaming. The motivation for continuing to improve IFAD’s mainstreaming of environment and climate change, gender, youth and nutrition is intended to ensure no one is left behind, and deepen IFAD’s impact. Targeted action to overcome the barriers faced by the rural poor and other vulnerable groups is critical to achieving the SDGs. Addressing environmental issues and climate change as well as nutrition provides additional critical impacts from IFAD’s interventions, beyond productivity, income and resilience, which contribute to the SDGs. Ultimately, mainstreaming allows IFAD to bring transformational change to the lives of the rural populations with which it works.

48. Historically, and particularly in the last decade, IFAD has had a strong focus on mainstreaming themes, regularly raising ambition and delivering results. At present, all COSOPs factor in environment and climate change, gender, nutrition and youth in their analyses. All projects that form part of the programme of loans and grants (PoLG) mainstream environment and climate and gender, and at least 50 per cent of projects at design are nutrition and youth sensitive. Further, at least 25 per cent of IFAD11’s PoLG is being invested in climate-focused activities and at least 25 per cent of projects approved in IFAD11 go beyond being gender sensitive to being gender transformative.

49. Nonetheless, IFAD needs to strengthen and consolidate these efforts in IFAD12 and expand its ambition to ensure it integrates the mainstreaming themes across all components of its PoW. While the significant efforts made to date across the four mainstreaming themes have significantly advanced their individual agendas, each theme has evolved independently. As detailed in the IFAD12: Deepening Impact and Building Resilience through Mainstreaming paper presented in June 2020, in IFAD12, the Fund will systematize the mainstreaming agenda and continue to work on integrating the four mainstreaming themes in operations. The four themes will be integral parts of an overall country-level approach combining PoLG-financed activities as well as the new PSFP and ASAP+. Moving forward, IFAD will also embed biodiversity considerations in its operations as part of its environmental and climate change assessments. Further, it will expand engagement with indigenous peoples and operationalize the inclusion of PwD as part of social inclusion and targeting efforts.

50. Continuous strengthening of targeting within countries. Complementing the deepening dedication to the mainstreaming themes, in IFAD12, all investment projects will continue to target poor, vulnerable and marginalized rural populations based on a clear understanding of the causes of rural poverty at country and local levels, and of the vulnerabilities or structural constraints facing these groups. All projects will aim to enable the rural poor to increase their incomes, improve their
food security and strengthen their resilience to shocks. The approach will be, on the one hand, to create economic opportunities for these groups, and on the other to strengthen their capacity – as individuals and collectively – to make the best of these opportunities. To ensure marginalized populations are included across all activities, a new Targeting Policy building upon IFAD’s recently approved Targeting Guidelines will be introduced in IFAD12.

51. Examples of successful targeting in IFAD country programmes and projects are numerous, some are highlighted in box 8 below. They draw on national poverty scorecards and other classification mechanisms, as well as project-specific mechanisms ensuring that IFAD reaches the poorest people in rural communities and brings about a positive, transformational change in their lives.

Box 8
Targeting in IFAD country programmes and projects*

Targeting in country programmes – Pakistan and Dominican Republic

The targeting strategy used in the 2016-2021 COSOP for Pakistan, in line with IFAD’s policy on targeting and based on exchanges with provincial and federal governments, focuses on: (i) priority regions – the provinces of Balochistan and Punjab and the territories of Azad Jammu and Kashmir and Gilgit-Baltistan; (ii) the poorest villages in these regions; (iii) the poorest households, pre-identified through the Benazir Income Support Programme – a cash transfer scheme – and validated by communities and social mobilization partners. People in band 0-34 will remain the IFAD target group, with a particular focus on the extremely poor (band 0-11), chronically poor (band 12-18) and transitorily poor (band 19-23).

The COSOP for the Dominican Republic identifies clear criteria for geographic targeting. These include: (i) government priorities and complementarities with other interventions; (ii) poverty levels; (iii) exposure to climate risks; (iv) presence and capacity of producers’ organizations; (v) risks and opportunities for productive inclusion.

Targeting in projects – Rwanda

The 2016-2022 Rwanda Dairy Development Project is designed to promote the economic inclusion of poor farmers in the dairy value chain. The project targets 80,000 smallholder dairy farms (mostly zero-grazing operations) and 20,000 people, by creating opportunities in off-farm activities. This target population is further disaggregated into the following subgroups:

- 6,000 Girinka (“one cow per poor family”) programme beneficiaries. Participants each receive a cow whose first female offspring they give to a qualifying neighbour. Beneficiary households are drawn from members of Ubudehe (the national wealth-ranking system) category I meet the eligibility criteria set by the government programme, and have some land for forage and the ability to construct a cow shed.
- 15,400 young farm assistants aged between 15 and 24 employed as wage labourers. These people are the “hands-on” male labourers in many dairy farms, especially farms run by woman-headed households with no adult males. They typically come from very poor families (Ubudehe categories I and II).
- 5,400 rural women aged between 15 and 35 (childbearing age) who will benefit from new economic opportunities and the creation of small off-farm business opportunities.

*Source: Annex V, IFAD Targeting Guidelines.

52. **Resources must prioritize the poorest.** At the heart of IFAD’s mission lies the principle that while IFAD’s resources are available to all borrowers, they prioritize the poorest countries and people. The Agreement Establishing IFAD stipulates that the allocation of its resources should place special emphasis on the needs of lower-income countries, those facing continued exposure to exogenous shocks and limited creditworthiness. In line with its charters, IFAD’s most valuable resource, its replenishment contributions, will be allocated primarily to the poorest countries, which also suffer from the most limited institutional capacity.

53. A more efficient use of resources benefits all countries. As IFAD’s ambition is to grow its support in a sustainable manner, an efficient and simultaneously disciplined use of its resources will allow IFAD to channel different types of funds to the right uses thereof. Right uses assume the recognition of the varying financial capacities of client countries.
54. In IFAD12, 100 per cent of IFAD’s core resources will be devoted to meeting the needs of the poorest countries – LICs and lower-middle-income countries (LMICs) – who face the most pressing needs to achieve the SDGs. By reducing the number of countries eligible for core resources, IFAD will be able to expand the individual envelope for each LIC and LMIC.

55. **Support to middle-income economies facing challenges will continue.** IFAD recognizes that many middle-income countries still face challenges in tackling pockets of poverty in rural areas. IFAD financing may play an important role in helping to solve these. However, a higher level of development and creditworthiness allows many of these countries to access financial resources from other sources, including private investors and financial markets. Therefore, while IFAD’s support will continue, it is appropriate for UMICs to access resources leveraged by the Fund (i.e. borrowed resources) at less concessional rates. At the same time, IFAD will further expand its offer of the innovative financial instruments piloted during IFAD11 that are attractive to UMICs and other countries.

56. In recognition of the important role that UMICs have in IFAD, Management proposes directing a 20 per cent share of the PoLG to them. In IFAD, UMICs play a crucial role, they: (i) contribute to the activities and operations of the Fund, including through core replenishment contributions; (ii) enhance the quality of IFAD’s capital adequacy ratios and the creditworthiness of the loan portfolio, thereby facilitating leveraging; and (iii) disseminate their knowledge and expertise through South-South and Triangular Cooperation (SSTC) and other forms of knowledge sharing. In order to maintain or increase the financial resources targeted to UMICs, Management proposes that up to 20 per cent of the total PoLG could be allocated to UMICs exclusively from borrowed resources. The intention in IFAD12 would be to ensure that the share of total resources allocated to UMICs would remain at least the same as in IFAD11.

57. Considering the increased risk of debt distress faced by many of its Member States, borrowed resources will be allocated only to countries that can sustain them financially and active risk management measures will be put in place to ensure this. In general, IFAD will continue to tailor its financing terms and instruments to countries’ economic conditions, adapting to any changes thereto. Box 9 shows the principles for allocation of core resources. Core resources are defined as replenishment contributions, loan reflows of loans financed through replenishments, and concessional partner loans. Box 10 shows the principles for allocation of borrowed resources. These are defined as funds borrowed under any agreement other than concessional partner loans (e.g. loans obtained under the sovereign borrowing framework).

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19 In so doing, it adheres to the Fundamental Principles of Operation of the IMF, which, as regards uniformity of treatment, require taking account of unequal circumstances among members.
Box 9
Principles of allocation of IFAD’s core resources

Core resources. In building IFAD12 financial scenarios, it is assumed that the entirety of IFAD’s core resources will be allocated to LICs and LMICs (with special provisions currently in place for Small States eligible to concessional resources). Single country allocations will be calculated though the existing PBAS. No core resource will be allocated to UMICs. The financing terms applied will follow the current Policies and Criteria for IFAD financing.

In line with the concept of a sustainable replenishment baseline, replenishment contributions, after covering operational costs, will be devoted to funding grants, both Debt Sustainability Framework (DSF) grants and regular grants, with the remaining small portion used to fund new loans.

Box 10
Principles of allocation of IFAD’s borrowed resources

Borrowed resources. IFAD Management proposes that UMICs and selected LICs and LMICs may access IFAD’s borrowed resources in the indicative shares shown below. The allocation of such resources is expected to be demand-driven and eligibility will be determined on the basis of development effectiveness and creditworthiness. A detailed proposal on the principles for allocation of borrowed resources will be presented to IFAD’s Executive Board.

The proposed allocation mechanism will retain the overall risk management approach. Loan exposures (current and future) will be managed as shown in the figure below.

All risks resulting from IFAD’s balance sheet (namely credit risk from loans), irrespectively of the allocation mechanism, need to be covered by a portion of capital, or in other words consume some of that capital. The size of capital consumption depends on the degree of risk. This is the so-called exposure management framework, which sets prudential boundaries through targets and limits optimizing the Fund’s capital utilization and is based on a three-tier limit structure.

IFAD’s deployable capital constitutes the strategic limit of risk-bearing capacity and shall always remain above zero.

A single country limit states that no country exposure in nominal terms should represent more than 20 per cent of IFAD’s capital.

In order to consider credit differentiation among countries, indicative operational country limits will be calculated as the prudent exposure to be maintained for each country in relation to its capital consumption. Compliance with this threshold will be monitored for all countries, regardless of the allocation mechanism.
Projects funded by regular grants are an integral component of IFAD’s business model and a key element for the achievement of IFAD’s mandate. Over the years, regular grants have enabled IFAD to achieve tangible results and take part in a number of activities, which complement IFAD’s programme of work and would not have been possible had regular grants not been available as part of the instruments at IFAD’s disposal. Regular grants enable IFAD go beyond its traditional ways of engagement at the country level, by addressing rural transformation from a regional and global perspective, while at the same time strengthening our country programme approach. Regular grants also allow IFAD to engage with a wider range of partners, in addition to governments.

For example, regular grants have provided opportunities for regional and global policy dialogue, funded pro-poor agriculture research for food security and enabled the piloting of innovations that have subsequently been replicated. One example are the grants provided to research centres as cofinancing to the EC-CGIAR and CAADP XP programmes, which are a prime example of partnership between IFAD and the European Union and focus on research and innovation for sustainable agricultural systems with impacts on nutrition and resilience. Through grants, IFAD has been able to deliver training to investment projects’ management units (e.g. in M&E, financial management and results-based management), thus strengthening quality and delivery across regional portfolios. Moreover, grants have permitted IFAD to support important international initiatives such as the Decade of Family Farming and the Food Systems Summit, and allowed the organisation to engage in contexts with limited or no loan operations, for example in SIDS. Grants have also enabled IFAD to engage with farmers’ organizations through large cofinanced initiatives, such as the Support to Farmers’ Organizations in Africa Programme (SFOAP) and the Farmers’ Organizations for ACP (FO4ACP), and to provide rapid responses in emergencies such as the Ebola crisis in West Africa and natural disasters in Asia and the Pacific, within the broader context of IFAD’s specialized mandate.

Regular grants as a unique value-adding instrument to enable initiatives that are relatively small, can be designed rapidly and can catalyse and leverage other existing instruments to achieve broader and deeper impact. During IFAD11, the regular grants programme will be revised and adapted to emerging priorities, in order for it to be strongly positioned within the IFAD12 business model and financial architecture, and responsive to the varying needs of developing country Members. Regular grants in IFAD12 will focus on the following dimensions:

- **Policy engagement** through the formulation of global, regional and national policies in support of inclusive and sustainable rural and food system transformation. Grants will be key to achievement of the non-lending activities identified in country strategies and will support coordination and alignment with national priorities and the UNSDCF.

- **Strategic and operational partnerships**, not only with Governments but also with other IFIs and United Nations Agencies (including the RBAs), bilateral development partners, private sector, civil society organizations and academia. Engagement through partnerships will also include building the capacities of agricultural institutions and organizations in developing countries, and acting in situations in which rapid response is required to address situations of crisis or fragility.

- **Pro-poor knowledge** generation, dissemination and application in areas related to agriculture, rural transformation and food systems. Relevant knowledge will include SSTC and innovative pro-poor research and technology options.

In line with the IFAD12 financial architecture, the regular grants programme will be resized to ensure that it remains affordable and that it does not hinder the availability of resources for the DSF initiative, with variable funding levels determined according to replenishment scenarios and particular consideration for grant activities being implemented in LICs and LMICs. Activities funded through regular grants will be catalytic and act as key enablers of other initiatives, programmes, policies and strategies that form part of the IFAD12 business model.

58. **Transforming IFAD’s approach in fragile situations.** Ensuring that IFAD leaves no one behind and works with the poorest and most vulnerable rural populations requires a particular focus on countries in fragile situations, particularly given their vulnerability due to COVID-19, as highlighted in the introduction. During IFAD12, the Fund will build on its Strategy for Engagement in Countries with Fragile Situations, its Special Programme for Countries with Fragile Situations, and lessons learned by IFAD and other development partners working in fragile environments. Ten actions will be implemented to transform IFAD’s approach to fragility, thus increasing its impact in line with the ambition of this business model. These actions are outlined in box 12 below and detailed in annex II.

59. Fragility is accompanied by a demographic shift towards a younger population. The number of young people in fragile situations has increased by 20 per cent in the last decade (accounting for 144 million youth in 2018) while in non-fragile situations the youth population decreased by 3 per cent over the same period. Lack of opportunities for youth in a digitally interconnected world can exacerbate social discontent and erode human capital. This not only signifies missing the

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20 The recently issued World Bank Group Strategy for Fragility, Conflict and Violence 2020-2025 provides considerable information on the topic.
demographic dividend but also losing potential skills and human resources to violent groups.

60. The quality of institutions in fragile situations is also worsening, with increasingly poor performance by democratic institutions, public policies and public sector management systems. Expected climate change shocks will disproportionately affect agricultural productivity in fragile situations, given scarce resilience and dearth of natural resources. Many current government programmes in fragile conditions are attempting to address many of these constraints, but there is need for a more inclusive and transformational approach to help IFAD's clients engineer and deliver effective policies that change rural people's lives.

Box 12
Ten actions to transform IFAD's approach to fragility

IFAD proposes three pillars and 10 actions to transform its approach to fragility.

Transforming planning

1. More financing. In IFAD12, the Fund will explore ways to ensure that, by focusing core resources on the poorest countries, the share of financing available for fragile situations continues to increase in line with acute development needs.

2. More data. IFAD should use expertise and invest in big data sources and tools, such as remote sensing, and in using predictive models and various data science techniques to better target the rural poor, track development dynamics, understand policy implications and enable beneficiary feedback in conditions of fragility.

3. Better planning. Country strategies for fragile situations will be designed to focus on charting a path away from fragility and on IFAD's specific contribution. This is taking the transition scenarios introduced in IFAD11 to a different level, developing IFAD's strategy with the sole purpose of tackling one or two root causes of fragility in the rural sector over time.

Transforming tools

4. Smarter approach. Long-term country strategies will embody an approach rooted in a three-pronged sequence aimed at: (i) enabling the right institutional and policy environment to produce more effective and integrated rural development interventions; (ii) steering public policy and programme implementation to direct public and private sector investments towards rural transformation; and (iii) sustaining private-sector-led growth offering increased inclusive economic opportunities.

5. Better partnerships. Existing partnerships will be strengthened, reflecting IFAD's comparative advantage in fragile situations. Complementarities will be sought with other United Nations agencies, multilateral development banks (MDBs) and non-state actors (including actors supporting IFAD in analysis and policy engagement) to steer and implement conflict-sensitive policy and intervention bundles in specific regions.

6. More synergies. Every IFAD project will make explicit reference to the linkages between the proposed intervention and existing humanitarian strategies.

7. Better instruments. To achieve durable impact in fragile situations, IFAD will need to move from single- to multi-country cross-border programmes and strategies. IFAD will decisively engage on multi-country policy dialogue in countries facing fragility and will seek to achieve a shared understandings on common issues such as regional connectivity (essential in landlocked countries), agricultural and food trade, and management of shared natural resources.

8. Smarter alliances. IFAD is creating the ASAP+ and PSFP. ASAP+ will help mobilize resources for climate resilience practices among IFAD target groups, with a particular focus on low-income countries and fragile situations. The new features of ASAP+ have been designed to fit the needs of countries with fragile situations and to overcome the delays experienced during the original ASAP.

Transforming delivery

9. Smarter investment. Given that fragility drivers are most likely related to low delivery capacity, a combination of country-wide capacity-building programmes should be put in place, in parallel with continuous support from development agencies, during implementation of transformational strategies.

10. Greater presence. IFAD must take into account the need to upgrade its presence so as to successfully manage bigger portfolios. Staff experience in fragile environments should be reflected in career development opportunities and requirements, and training and capacity-building must be embedded in performance agreements. Corporate support for staff health, safety and well-being must be strengthened.

61. Violent conflicts in fragile situations have more than doubled in the last decade. The number of displaced persons escaping fragility has also escalated significantly,

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22 Conflict is measured through one-sided violence conflict data. Source – Uppsala conflict data program (Uppsala Conflict Data Program), https://ucdp.uu.se/downloads/.
accounting for nearly 75 per cent of displaced people in 2018. Action is urgently needed as fragility reinforces exclusion and poverty loops stemming from weak policies and institutions, lack of economic opportunities for youth and increased vulnerability to climate shocks, among other drivers.

Box 13
Transforming IFAD’s engagement in the Sahel

The Sahel is a prime example of IFAD’s transformed approach to engagement in fragile situations. The region has faced unprecedented challenges in recent years. Beginning in 2011 it experienced a sharp increase in violence, both cross-border and internal. In addition, it suffers from some of the world’s harshest climatic conditions, which strongly impede day-to-day economic development and restrict access to water, food security, health, viable ecosystems and livelihoods. The stress on resources due to rising demand and climate change is exacerbated by a rapidly increasing population. The rapid population growth combined with rapidly declining child mortality has resulted in a huge youth bulge, with roughly 65 per cent of the population aged below 25.

The lack of meaningful employment opportunities for youth in rural areas makes them vulnerable to radicalization and religious extremism. This in turn generates social upheavals and conflicts that lead to massive irregular migration, both within the region and externally. Resource constraints also increase the risk of food insecurity. The most recent data from the Food Security Information Network shows that more than 4 million people in the Sahel are currently food insecure and almost 18 million are experiencing stress. Many current IFAD-funded programmes in the G5 Sahel countries are attempting to address many of these constraints, and the new fragility framework will seek to make efforts more effective, inclusive and sustainable.

Given the nature of the challenges in the Sahel and the drivers of fragility, in IFAD12 the Fund will adopt a five change drivers strategy (5Cs) with the following pillars: creation of jobs, focus on climate change, cross border investments, focusing on conflict-affected areas and co-leadership with actors such as the G5 Sahel.

B. Fostering partnerships for transformational change

62. **Making selective and strategic partnerships at the country level.** IFAD’s country programmes need to be strongly aligned with national priorities, act to complement other development partners’ work, and most importantly, remain relevant and responsive to the needs of IFAD’s target group – the poorest and most vulnerable. Additionally, the relevance of IFAD’s country programmes is measured by the relevance of the instruments it can draw on to respond to the dynamic demands of sophisticated clients.

63. Experience shows that the stronger the alignment with government priorities and plans, the greater is national ownership and the stronger is the likelihood of better development results – especially in terms of efficiency and sustainability.

64. During IFAD11, the Fund met its commitment to develop a comprehensive partnership framework. IFAD recognized that it needed to be more strategic and selective in partnering at country level so as to avoid partnerships being ends in themselves, but, rather, make them a means of achieving improved development results at the country level. With rising threats to food security and poverty in the post-COVID-19 recovery scenario, partnerships will become even more central to IFAD’s work at global, regional and country levels. IFAD will need to work closely with other development partners and within the United Nations system – and particularly United Nations Country Teams (UNCTs) and resident coordinators to ensure that issues impacting IFAD’s target groups are raised at the highest level and result in national policy and legislative action. This will help ensure that activities are complementary, that recovery work is well coordinated and that IFAD is able to maximize its policy engagement through its role within the United Nations system.

65. **Cofinancing partnerships.** The IFAD11 business model put significant emphasis on IFAD becoming an assembler of development finance in agriculture and rural development. In order to realize this ambition, IFAD developed a cofinancing strategy and action plan to mobilize both domestic and international resources to supplement IFAD’s own investments in agriculture. Through a strong commitment

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23 Displacements is measured through refugees and internally displaced individuals. Source – United Nations High Commissioner for Refugees.
to strengthening both domestic and international partnerships, high volumes of cofinancing were mobilized in the first year of IFAD11 (2019). This brought the cofinancing ratio at the year’s end to 1:2.05, higher than the level in IFAD10 when it fell to 1:0.85. This not only demonstrated the effectiveness of IFAD’s efforts, but also showed that IFAD is the partner of choice for governments and other stakeholders in agriculture and rural development.

66. In IFAD12, the Fund seeks to continue its efforts to assemble finance at country level from both domestic and international sources. Although it delivered impressive cofinancing in 2019, the Fund is well aware that cofinancing is driven by projects – meaning that the presence of single, largely cofinanced project can spike the overall cofinancing ratio. Therefore, Management will aim to maintain the IFAD11 cofinancing targets but strive for more level distributions across countries. Furthermore, the economic impact of COVID-19 may have a negative effect on both domestic and international cofinancing over the remainder of IFAD11 and potentially IFAD12 as official development assistance and domestic resources may be repurposed to respond to immediate COVID-19 challenges.

67. Nonetheless, the Fund will continue its efforts to mobilize domestic cofinancing as this is a strong determinant of both sustainability and efficiency. In doing so, IFAD will leverage its country presence and its deeper and closer relationships with governments, ensuring that IFAD’s country programmes are strongly aligned with national priorities.

68. **Partnerships beyond financing.** Cofinancing has enabled IFAD to maximize and expand its impact by designing larger projects with greater outreach. However, IFAD’s intention is not just to mobilize financing, but also to assemble knowledge, facilitate policy engagement, provide pathways for scaling up and improve donor coordination efforts at the country level in order to contribute to the SDGs. It will also put strong emphasis on partnerships with beneficiaries and other stakeholders by continuing to roll out and expand the stakeholder feedback framework approved by the Executive Board in April 2020.

69. At the country level, IFAD will continue to engage with a range of partners beyond financial partnerships to build on, and leverage, knowledge and policy work. The Fund will leverage the UNCT to ensure that policy issues are identified and receive maximum attention, and will remain involved in the United Nations Sustainable Development Cooperation Framework. IFAD will continue to partner with MDBs on the ground, and will use country programmes as an entry point for identifying, engaging and delivering through partnerships. In IFAD11, the partnership framework developed guidance on how IFAD should be strategic and selective in partnerships.

70. In IFAD12, the Fund will also strengthen its monitoring and reporting on partnership outcomes and impact. IFAD will continue to partner with the RBAs, building on lessons learned from joint RBA programming in IFAD11. The Fund will work with the RBAs on COVID-19 response to ensure complementarity in the support provided to Member States. It will adopt a harmonized approach along with other actors in reporting on the SDGs in the United Nations system and beyond.
Box 14
IFAD's current and upcoming engagements with United Nations reform

UNDs during the final decade of the 2030 Agenda

The adoption of General Assembly resolution 72/279 in May 2018, has triggered a consortium of United Nations organizations to come together and rethink how the United Nations Development System (UNDs) can deliver more coherent, accountable and effective support to help countries achieve the 2030 Agenda. The year 2020 marks the first year of implementation of the UNDS reform as well as the start of the last decade left to achieve the 2030 Agenda. Accordingly, the United Nations Secretary-General has called for a “Decade of Action” to accelerate sustainable solutions to the Agenda. The Decade will catalyse the efforts of all UNDS entities to leverage new and innovative partnerships and focus on results and efficiencies, with the overall goal of reducing duplication and enhancing coordination. This will require transformational shifts from everyone concerned, including IFAD.

The Fund, jointly with FAO, was nominated by the United Nations General Assembly to lead the implementation of the United Nations Decade of Family Farming (UNDFF). This will help build synergies with other international bodies and promote mutual benefits between the UNDFF (2019–2028), the United Nations Decade of Action on Nutrition (2016–2025), the United Nations Decade of Water (2018–2028), and the United Nations Decade of Ecosystem Restoration (2021–2030).

IFAD’s role in the implementation of reforms

The essence of the UNDS reform is about the United Nations system repositioning itself to be agile and responsive to national development plans linked to SDG delivery. IFAD strongly supports the repositioning of the UNDS to increase agile and responsive to national development plans and unforeseen shocks such as COVID-19.

In 2019 and 2020, IFAD has actively engaged with UNDS entities in developing new instruments to ensure integration and results on the ground. These include the system-wide strategic document, a new regional approach, new multi-country offices, and business operations strategies (BOS) at country level.

In particular, IFAD has actively participated in the roll-out of two key United Nations reform products:

(i) Starting in January 2020, IFAD is joining the UNDS (and the UNCTs) in every country and engaging in partnerships with other agencies and programmes through the UNSDCF vehicle. Under new IFAD guidelines, COSOPs will be fully aligned with the UNSDCF. This will ensure that the Fund’s projects and programmes are better tailored to national development priorities. Mutually supporting links with the UNDS and its partners will also contribute to reinforcing the implementation capacity of IFAD-financed loans, thus improving impact and results.

(ii) IFAD has developed corporate procedures for the sign off on BOS to be in place by 2021. The strategies are intended to improve cost-efficiency and enable IFAD to leverage collective purchasing power while maximizing economies of scale in the use of a number of pooled business operations services with other UNCT members, on a cost-sharing basis (i.e. a common United Nations consultant roster, learning systems, banking and financial transfers, warehousing and distribution, building maintenance, etc.).

71. Additionally, IFAD will work closely with the RBAs on the organization of the Food Systems Summit planned for 2021. The summit is expected to have an important catalytic impact in mobilization around food systems to ensure actionable commitments from a range of actors in inclusive, sustainable, climate-adapted and resilient food systems. IFAD, in its pivotal role as summit organizer, will work on delivering the actionable commitments in IFAD12.

72. Engaging with the private sector. In IFAD11, the Fund developed its 2019-2024 Private Sector Engagement Strategy (PSS) to enable the Fund to interact more closely with the private sector in terms of receiving financing from, and providing financing to, private enterprises. The objective of the PSS is twofold: (i) mobilize private funding and investments for small and medium rural enterprises and small-scale agriculture; and (ii) expand markets and increase incomes and job opportunities for IFAD’s target groups.

73. Following approval of the PSS, IFAD developed a framework for non-sovereign operations (NSOs). It was presented to the 129th session of the Executive Board and will be the guiding document to govern IFAD’s NSOs. IFAD will continue to learn from the NSOs it finances over IFAD11 and into IFAD12.

74. Expanding IFAD’s work on SSTC. Having been recognized in IFAD’s Strategic Framework for 2016-2025 and with a first SSTC strategy being adopted in 2016, SSTC is now being revisited in discussions by Management. Since the original strategy was approved, IFAD has managed to launch its China-IFAD SSTC Facility, currently financing 15 projects across all five regions; it has established three SSTC and Knowledge Centres; and developed a Rural Solutions Portal with an ever-growing presence and number of solutions populated by IFAD and other development partners.
75. In light of lessons learned from its engagement, IFAD's new SSTC strategy will aim to maintain and grow its activities in two areas: technical cooperation and investment promotion. It will also introduce further activities, including leveraging existing strengths in policy dialogue and institutional capacity building.

76. Various divisions in IFAD will work together to coordinate, integrate, track and quality-check implementation of SSTC activities, while also ensuring complementarity and support to mechanisms such as PSFP and ASAP+ in IFAD12.

77. The 2018 China–IFAD SSTC proved successful in mobilizing and diversifying resources, but IFAD will look to increase effectiveness by establishing a multi-donor financing facility to secure supplementary funds and build a common, IFAD-specific SSTC conceptual framework shared by contributors. Other potential financing sources include voluntary funding from countries (north and south), the private sector, and United Nations or global funds. Through a renewed strategy and facility, SSTC will be an important mechanism in supporting IFAD12’s ability to address the recovery, reactivation, and resiliency of livelihoods throughout the global South.

C. Adapting to meet changing needs

78. Differentiated solutions for country needs. IFAD will focus on recovery, reactivation, and resilience-building with all available instruments in order to respond to the changing needs of governments due to COVID-19. IFAD has already launched the RPSF as a first response to support governments in dealing with the crisis. In IFAD12, it will use all instruments available at the country programme level to provide more tailored support to countries, depending on their individual needs.

79. During IFAD11, IFAD developed new instruments such as regional operations and results-based lending, and new guidance was issued for formulating suitable country strategies that ensure this relevance and alignment at the country level. In IFAD12, IFAD will pilot and expand instruments that are known to generate strong government ownership and contribute significantly to policy objectives. These include the programmatic approaches within results-based lending, introducing multi-phased programmatic approaches and piloting approaches like policy-based lending to ensure that a wide suite of instruments is available to meet client needs.

80. IFAD will work to make sure that the new instruments and windows developed, such as the PSFP and the ASAP+, are properly integrated into country programmes and are relevant to objectives in each country. The country-level situation analyses conducted prior to developing COSOPs will allow IFAD to identify gaps that can be filled through these new instruments.

81. Leveraging all tools at IFAD’s disposal – a broader PoW. The IFAD12 PoW will move beyond the instruments that have been a core part of IFAD’s PoLG to date to incorporate tools that are better suited to working with the private sector,

Box 15
A focus on building resilience in the post-COVID-19 era

Resilience and sustainability of benefits continue to be at the heart of the SDGs and IFAD’s strategic objectives. IFAD targets the most vulnerable of the rural poor and those most at risk of being left behind or falling back into poverty and food insecurity as a result of global crises such as the COVID-19 pandemic. In IFAD12, the Fund will continue to ensure that resilience is at the heart of its programmes.

IFAD’s strategic objective 3 is entirely dedicated to building the resilience of rural poor communities. As stated in the IFAD10 impact assessment, “Resilience encompasses both a subjective indicator of farmers’ perceived ability to recover from shocks and indicators of crop and income diversification. Results, which are positive and significant, show that beneficiaries are more resilient than their counterparts.” The report shows that IFAD project beneficiaries are more likely to recover from economic shocks or other unforeseen events such as droughts.

In the post-COVID-19 scenario, IFAD will need to strive even harder to make sure the livelihoods of poor rural people are secure and resilient to post COVID-19 impacts. IFAD’s new programming in IFAD12 will ensure that projects are designed to ensure that incomes and livelihoods are sustainable and resilient to shocks.
such as the PSFP, and will expand the approach to climate and resilience-building in ASAP+ and the RPSF (see figure 7).

82. The PSFP will scale up IFAD’s impact and contribution by complementing and strengthening the results delivered through the PoLG and other IFAD activities. The programme aims to crowd-in private sector investments and leverage private sector know-how and innovation for the benefit of small-scale producers and rural communities, with a particular focus on job creation for youth, gender empowerment and strengthened resilience to climate change through support to private sector mitigation and adaptation efforts.

83. It will aim to achieve a high cofinancing/leveraging ratio from private sector investors (US$2 for every US$1 IFAD invests at an overall portfolio level, meaning that projects may catalyse more and others less depending on IFAD’s additionality and expected development impact) and, thanks to IFAD’s own comparative advantage, reinforce efforts currently deployed by other IFIs and development partners. PSFP projects are expected to make a strong impact and be commercially viable while also adhering to strict environmental and climate standards and promoting good governance and coordination of public and private sector efforts.

84. Climate change is one of the main underlying causes of food insecurity, and IFAD intends to increase its efforts on this front by establishing ASAP+, which will provide grant-based climate change finance. Building on the experience of ASAP, ASAP+ aims to respond to growing concerns that trends in increasing climate finance are not aligned with poverty reduction and food security targets. It is also responding to the need to adopt more integrated approaches when designing adaptation and mitigation measures and resilient strategies to manage, cope and ultimately thrive in the face of fragility and rapid social, environmental degradation and climate change, combined with rising rates of urbanization, migration, globalization, changing diets and the demographic shifts resulting from the youth bulge. Thus, ASAP + seeks to maintain the focus on climate adaptation, and will take the current approach further by increasing the focus on climate mitigation and addressing the interlinkages between climate, fragility, nutrition and social inclusion, including women and youth, in line with IFAD’s integrated approach for mainstreaming issues.

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24 See Oxfam’s 2018 Climate Finance Shadow Report, Assessing progress towards the $100 billion commitment.
85. **Steering transformational change through the PoLG.** The effectiveness of IFAD’s country programmes is achieved primarily, though not exclusively, through its lending portfolio. Through a series of reform initiatives introduced in IFAD11 to strengthen portfolio management, improvements have been seen on a range of indicators, as noted in the IFAD11 midterm review (MTR). Nonetheless, certain aspects throughout the project cycle need to be strengthened in order to maximize development impact and results. Particular focus is needed on strengthening project-level efficiency and ensuring post-project sustainability in order to increase impact and strengthen the resilience of rural communities.

**Box 16 Increasing attention on programmatic approaches**

IFAD-supported interventions are increasingly being developed as part of programmatic approaches at the country level whereby interventions are complementary and implemented concurrently or in phases. This is in recognition of the fact that a phased approach makes it possible to reconcile long-term commitment to some strategic orientations and sustainability with the agility and flexibility of shorter implementation periods.

Programmatic approaches have positive operational impact and encourage private sector engagement. They further foster lasting partnerships and government ownership. The experience of other IFIs that have introduced variations of multi-phase approaches show that the enhanced policy dialogue and partnership-building inherent in such approaches have been especially useful in attracting private sector participation.

A multi-phased programmatic approach with higher flexibility addresses demand arising from operations. Evidence shows that in particular in some countries IFAD is following more and more a phased approach, whereby projects are designed drawing on previous ones and embedding lessons learned. The introduction of the multi-phased programmatic approach would therefore facilitate the current practice and allow for a smoother start-up of subsequent phases. IFAD will learn from its experience in implementing similar instruments in the past and from that of other institutions to develop and pilot the multi-phased programmatic approach in IFAD12.

86. **Designing country programmes and projects for impact.** In IFAD11 a new design process was put in place, with a new review procedure, revised guidelines and an upgraded responsibility framework. During the first implementation of this new process in IFAD11, a number of key lessons emerged and 34 investment projects were approved in the cycle’s first year for a total PoW of US$4.5 billion.
Box 17

A transformative approach to policy engagement

IFAD has, over the years, improved the consistency of its approach to policy engagement, developing several ways of tracking and financing policy. All COSOPs propose a policy approach and associated objectives, while core indicators focused on policy outcomes are being used by an increasing number of projects. Finally, there is a consistent approach to rating projects during implementation on their support to policy processes.

While these have delivered good results, with more than 85 per cent of projects rating their performance on institutions and policy engagement as moderately satisfactory or better, ambition has sometimes been limited to specific activities. IOE has noticed this, rating IFAD’s performance on policy engagement at the country programme level as the weakest of the three “non-lending” areas (see graph below), and IFAD has also received feedback from the client survey that performance on policy engagement is lagging.

Other reports have slightly different interpretations. Aid Data, in their 2018 “Listening to Leaders” report shows, for example, that while IFAD’s influence on policy engagement is relatively small, and limited to rural development, it is perceived by clients as being more helpful than other MDBs.

This gap can be explained in part by IFAD’s decision to play to its strengths: as a smaller institution, it has tended to use evidence generated by projects for policy engagement, focusing on technical solutions and approaches and on increasing the participation of the poor in policy processes. However, new approaches are needed in IFAD12 to ensure that policy ambition, and delivery, increases. Three concrete actions are proposed:

(i) **Finding sources of financing for policy.** Less than 20 per cent of COSOPs stipulate how their policy objectives will be paid for, but those that do rely heavily (70 per cent) on grant financing. Given the increasing pressure on grant resources, new instruments focusing specifically on policy – including analyses and studies to feed policy processes – will be explored in IFAD12.

(ii) **More comprehensive monitoring.** While the inclusion of policy outcomes in the core indicators (CIs) is important, more effort is needed to monitor policy in the COSOP annual and midterm reviews, and to use the CIs more broadly in projects.

(iii) **Leveraging partnerships to pursue policy initiatives.** IFAD’s proximity to governments and development partners should facilitate policy processes. The United Nations Resident Coordinator and UNCT in particular are venues for ensuring policy issues of concern to IFAD are raised in broader country dialogue.
87. IFAD conducts rigorous arm’s length quality reviews of all project designs at entry. Together with enhancements to the design process, the reviews, conducted by IFAD’s Quality Assurance Group (QAG), have also been strengthened. Based on the reviews conducted in 2019 by QAG, the average ratings for quality of projects were higher in 2019 than in IFAD10 and IFAD9. Of the 34 new projects, 97 per cent were rated moderately satisfactory or better (4+) for overall quality of design and, after further disaggregation, 76 per cent were rated satisfactory (5+). The reviews highlighted areas of strength as well as critical issues for reflection and further improvement. During IFAD12, Management will strive to ensure all projects are at least moderately satisfactory and will raise the bar so that an even larger proportion of projects are rated above satisfactory.

88. Overall, projects at design are delivering on IFAD11 commitments such as good integration of the mainstreaming themes, strong targeting on the poor, good country context analysis, alignment and ownership, and effective mobilization of cofinancing. Nonetheless, the following lessons, pointing to the need for further improvement, have emerged. They will be the focus of Management discussions during IFAD12 in line with activities proposed under the IFAD12 operational framework.

89. First, there is a need for a stronger programmatic approach through greater integration of lending and non-lending activities, most notably policy engagement (see box 17). Specific actions will be taken in IFAD12 in the ambit of policy, with new instruments to ensure that policy studies and processes have sufficient financing beyond project funds; new emphasis on monitoring at the country programme level; a more thorough inclusion of CIs at the project level; and increased leveraging of IFAD’s proximity and in-country partnerships by country directors to deliver on policy outcomes with UNCTs and other actors.

90. This additionally means ensuring that individual projects fit better into the broader portfolio in the country, as laid out in the COSOPs, and stronger engagement of the private sector. As mentioned earlier, a transformational country programme approach is the backbone of the IFAD12 operational framework and Management will work to make the PoLG deliver greater impact at the country programme level.

91. Second, deeper assessments of the countries’ institutional needs are required. Project designs must take account of the organizational structures and the capacities at the country level and need to invest more in activities that enhance these areas. During IFAD12, further efforts will be made to strengthen countries’ capacities on multiple fronts including results-based management, financial management, procurement and M&E – all of which are critical to successful project implementation.

92. Third, although overall new project designs have adequately integrated the mainstreaming themes, more attention is needed in particular on youth. In IFAD11, the Fund committed to disaggregated data by youth; however, in IFAD12 the Fund will work to further identify specific and tailored activities targeted for young people with specific youth indicators in projects to track performance. In this context the PSFP will be instrumental in providing innovative solutions and options for youth.

93. **Adaptive management during implementation.** As noted in the MTR, significant improvements have been noted in a range of indicators on portfolio management. Through decentralization, country teams are now closer to clients and can provide greater, closer and more regular support during implementation. During IFAD11, the Fund delivered updated guidelines for teams providing supervision and implementation support. In addition, the roll-out of the Operational Results Management System has enabled project monitoring and supervision to be done through the system, allowing access to real-time data and close monitoring and follow up on agreed actions.
Box 18
Increasing efficiency – an action plan for quicker results

Project-level efficiency has been highlighted as a recurrent weakness by both IOE and Management’s self-assessments. At the outset, as recognized by IOE in its 2018 Annual Report on Results and Impacts of IFAD Operations, going the last mile is costly, and given IFAD’s target group and niche, some compromise on project-level efficiency is inevitable. Nonetheless, IFAD has taken several steps during IFAD11 to help governments improve project efficiency and will continue to do so in IFAD12.

What are the factors that contribute to project-level efficiency?

Various factors influence project-level efficiency. At design, for example, it is important to conduct a strong institutional analysis to ensure that ambition is realistic in terms of implementation. Staffing of the project management unit (PMU) has a strong bearing not only on efficiency but also on overall delivery. It is therefore important to have a fully functioning and merit-based recruitment process for PMUs and that they are ready for implementation when projects become available for disbursement. Procurement and disbursements are related, therefore it is important that a good procurement plan is in place and that withdrawal applications are processed on the basis of that plan.

How can we assess improvements in project-level efficiency?

In order to measure gains in project-level efficiency it is important to look at the relevant indicators during implementation. Projects reaching completion are most likely unable to make improvements. And while assessing project efficiency at completion is helpful, measuring progress requires looking at the ongoing portfolio. A number of objective and subjective indicators are used by IFAD to assess project efficiency, starting with a composite indicator of overall implementation progress. This key performance indicator (KPI) has a number of sub-indicators, some of which are auto-calculated like disbursement progress, and others that are assessed during implementation, such as coherence between the annual workplan and budget, and implementation, financial management, procurement, M&E, etc. These, taken together, give an indication of project-level efficiency and should be used to assess progress.

Does project-level efficiency affect project impact?

Projects completing in IFAD10 showed strong impact as measured by the IFAD10 impact assessment initiative. At the same time, performance on project-level efficiency at completion was relatively weaker and behind target. Other indicators, however, including effectiveness, environment and natural resource management, climate change adaptation and gender were overall positive. This shows that while IFAD-supported projects deliver strong impact, they are not necessarily doing so as efficiently. This finding is not entirely surprising given the context in which IFAD works. At the same time, sub components of project-level efficiency are important determinants of a project’s success. For example, the capacity of the project management unit is a critical to project results.
The Goldilocks of IFAD project size

IFAD has increased its average project size so that it is not too large, not too small, but just right for the types of support best suited to achieving rural transformation for the world’s poorest and most vulnerable groups. Average IFAD financing in projects has increased from US$28 million in IFAD9, to US$31 million in IFAD10, and to US$40 million in IFAD11. Beyond allowing IFAD to become more selective and targeted in its allocations and impact, larger operations tend to achieve better development outcomes (World Bank Group, 2016; AIIB, 2010). Benefit from economies of scale, reach proportionally more beneficiaries, facilitate cofinancing and increased investment in rural infrastructure, and provide a more substantial seat at the policy table to advance the cause of rural smallholders.

Since IFAD9, the effects of this shift are beginning to surface. For example, during IFAD10, IFAD targeted a total average cofinancing ratio of 1:2.05 (international and domestic), meaning IFAD managed 3 times the impact it financed – reaching a total of US$3 for every dollar of IFAD financing.

Larger projects are also demonstrating how they can facilitate the achievement of tangible, sustainable impact on the lives of IFAD target groups. In the case of Nigeria, IFAD has allocated nearly US$90 million during IFAD11. One of the country’s projects, the Value Chain Development Programme (VCDP), targets poverty reduction and improved food security through agricultural production, processing and marketing. VCDP has reached a total financing level of over US$300 million since its inception and has received the highest possible rating for likelihood to achieve its development objectives. The programme has been successful in enhancing the productivity and incomes of women and youth involved in rice and cassava value chains, including notably increasing sustainable employment opportunities for youth (40 per cent of beneficiaries) and women (42 per cent). This programme has also leveraged its large presence to build partnerships with various stakeholders, and to establish of the Commodity Alliance Forum, a reliable instrument for replicating and scaling up best practices in commodity value chain development.

But despite these positive results, IFAD is not sacrificing tailored support to force increased project size. First, investments may still be smaller than those of other development partners and IFIs financing sector-wide or large infrastructural reform, as IFAD remains focused on its role of reaching those most at risk of being left behind. Secondly, and most importantly, every country has individual needs and requires tailored responses. Even IFAD’s smallest projects have key impacts including necessary policy engagement, technical support or engagement for raising supplementary funds. The latter has been the case for four projects supporting 85,000 agropastoralist households in Somalia, where, since the collapse of the State in the 1990s and accumulation of arrears, IFAD contributes no core resources and has been relying on limited grant funding.

94. As a result of these improvements during IFAD11 and a strong and close portfolio performance review system in place, the IFAD11 MTR reported a reduction in problem projects from 20 per cent in 2016 to 13 per cent in 2019. It is important to recognize that problem projects will always exist given the context in which IFAD works and if they did not it would only indicate that IFAD is not necessarily going the last mile. Moreover, problem projects are also a signal that Management and the government are being proactive and candid in flagging issues to be addressed during implementation and ensuring that projects deliver development results.

95. IFAD’s agility and adaptive management approaches has been put to the test during the COVID-19 crisis as IFAD needed to respond swiftly to changing requirements and cater to the demands of client countries. The Fund was able to identify and repurpose its portfolio in order to respond to meet government requests arising from COVID-19. IFAD successfully repurposed US$200 million from its ongoing portfolio towards activities that will help with recovery and reactivation activities in rural areas affected by COVID-19.

96. Nonetheless, IFAD recognizes that further and sustained efforts are needed in adaptive portfolio management to ensure that the right actions are taken in a timely manner during implementation. In this context, during IFAD12, IFAD will work on three key fronts.

97. First, it will continue to use the restructuring policy and monitor project restructuring lessons for future design and to keep the Board informed. Literature shows that projects that are restructured proactively pre-midterm review are more likely to deliver results. Clearly, the timeliness of restructuring matters and Management will ensure that, to the extent possible, projects are restructured as needed before reaching the midterm point.

98. Second, an analysis of the problem projects shows that they are most problematic due to challenges with implementation, including high staff turnover, inadequate capacity, weak disbursement, poor financial management, procurement issues and unrealistic expectations at design that are not aligned with the institutional context.
More rarely, projects fail to deliver due to technical design faults (although this does happen in some cases). In IFAD12, IFAD will therefore ensure that financial management and procurement support are not only used for supervision but leveraged extensively in implementation. The decentralization of financial management staff to hubs will help here.

99. Third, Management will ensure that chronic problem projects – classified as projects with problem status for the previous three supervision missions – are minimized. While Management does not believe that a portfolio without problem projects is realistic, Management’s ambition for IFAD12 is to see a portfolio without chronic problem projects.

100. **Learning and accountability at completion.** Revised guidance on completion reviews was issued at the end of 2015 and applied to all projects closing from 2016 onwards. As a result, IFAD significantly tightened its quality assurance process for ratings contained in project completion reports (PCRs) by introducing a more credible review process. This has not only improved the quality of PCRs and the credibility of ratings but has also reduced inter-evaluator variability within and across divisions. IOE’s ratings on the quality of PCRs improved and the disconnect also declined over the IFAD10 period. As a result, completion ratings became more candid in IFAD10 than in IFAD9. Furthermore, at the beginning of 2018, in the push for greater transparency, Management began disclosing completion reports following a commitment made for IFAD11.

101. While the quality and candour of project completion reports significantly improved from IFAD9 through IFAD10 and into IFAD11, the PCR products and guidelines will be addressed in IFAD12 as part of the broader review of the self-evaluation products as recommended by the peer review exercise.

D. **Driving innovation and mitigating risks**

102. **A focus on innovation and mitigation of risks.** The COVID-19 crisis shows that IFAD needs to find new and innovative ways of supporting rural transformation at the country level and to have a strong risk framework in place in order to respond to unforeseen problems arising during implementation. At the same time, the crisis has also demonstrated IFAD’s ability to be an agile and responsive organization, as highlighted by the Multilateral Organization Performance Assessment in 2018, as IFAD was able to swiftly set up a response to the crisis, re-programme resources to support rural communities, and leverage technology to prevent rural communities from being cut off during the crisis.
103. **Transparency and technology for transformation.** During IFAD11, the Fund implemented the transparency action plan, which included a series of actions aimed at increasing transparency at IFAD and supporting Member States in enhancing transparency in order to improve development results. The action plan included a stakeholder feedback framework providing greater accountability and ensuring that the voices of those IFAD serves were heard, and that accountability towards them was increased.

104. In IFAD12, Management will work on further enhancing the Fund’s efforts on transparency and focusing on helping governments become more transparent by embedding indicators on citizens’ engagement in country strategies and project designs. New core indicators on stakeholder feedback will be included in all projects and greater emphasis is being placed on assessing the strengths of national grievance redress mechanisms in IFAD’s safeguarding policy. These will be reported on as part of the action plan introduced in the stakeholder feedback framework.

105. In December 2019, IFAD adopted its first Information and Communications Technology for Development (ICT4D) strategy in order to promote technology for supporting smallholder farmers. The strategy, now in place, will be operationalized for the remainder of IFAD11 and into IFAD12. Leveraging technology to achieve transformational change is increasingly important in light of the COVID-19 crisis.

106. **Digitalization of agriculture.** The importance of digital technologies is widely recognized in accelerating progress towards the SDGs. ICT is identified as crucial to the United Nations-wide approach in the Secretary-General’s Strategy on New Technologies. Experts in rural transformation, including the 2019 G20 Agriculture Ministers’ meeting, have highlighted ICT’s role in increasing production, efficiency and sustainability.

107. The World Bank too has underlined the potential of digital solutions to support responses to the COVID-19 pandemic in the short term, including improved monitoring, market linkages and extension and advisory services. In the longer run digital technology can help enhance productivity and resilience, risk management, and implementation of agrifood policies.

108. The centrality of ICT is recognized in IFAD’s Strategic Framework 2016-2025. Accordingly, IFAD is working to scale up technologies in supporting its target groups and increasing the efficiency of business activities.
109. **Empowerment through technology.** In agriculture, digitalization can help increase farmers’ productivity and incomes, strengthen resilience to climate change and improve access to markets – particularly for most the vulnerable groups such as women and youth. IFAD and its partners are aiming to reach farmers to offer tailored information for production, such as early warning systems, crop optimization, input utilization, sustainable practices, pest management, and lessons learned. As well as improving production, such tools offer a means of connecting smallholders to markets. Digital solutions can also provide agile responses during crises, reaching those furthest from governments’ ability to assist, including during the COVID-19 pandemic, by transmitting real-time information related to market interruptions or occupational risks that may exacerbate the transmission of the infection. IFAD is already looking to leverage these solutions and increase its engagement in IFAD12 and beyond.

110. IFAD is exploring new partnerships to harness digital benefits with a variety of institutions, including private sector and non-profit organizations. For example, still in the early stages of discussions, IFAD is working with Precision Agriculture for Development (PAD) to deliver personalized agricultural advice to farmers through mobile phones, both during the COVID-19 crisis and afterwards. PAD provides a two-way flow of digital information to farmers using SMS, interactive voice response and other mobile-phone-based digital channels to deliver low-cost, customized advice to farmers. PAD is currently active in Ethiopia, India, Kenya and Pakistan and looking to coordinate efforts with IFAD in these countries. It also plans to align with IFAD priorities and work with the Fund in the Democratic Republic of the Congo and Nigeria.

111. **Fintech.** IFAD wants to provide small-scale farmers with the technologies to unlock access to finance, technical assistance, markets and services so that they can achieve higher yields and standards as well as higher prices at market. The World Bank reports that formal banking reaches about 40 per cent of the population in emerging markets while 90 per cent of adults today own a mobile phone. Improvements in Fintech offer a unique opportunity to engage small farmers, connect them to the resources they need and help them develop new business models for sourcing and service delivery. IFAD will therefore look for ways to support emerging Fintech and Agritech solutions that are emerging to deliver easier, cheaper and faster ways to provide financial/non-financial services. Additionally, the Fund aims to develop, test, and sustainably deploy digital solutions that improve smallholder access to market services while also enabling IFAD to collect the data necessary to target investments, inform strategy, and build partnerships with the private sector.

112. During IFAD12, the Fund will work to scale up its solutions. For example, in 2020, IFAD will look to launch the implementation of its grant support to the Latin America and the Caribbean (LAC) region for the customization of technologies such as crypto-currencies, block-chain, credit scores, big data, AI, regulatory technology (RegTech), Cloud Computing, biometrics, keystroke dynamics, or the use of drones, satellite imaging, biotech or remote sensing by Fintech/Agritech companies for cooperatives, producers’ organizations (POs) and associations, and small and medium-sized farm enterprises. This will serve to improve clients’ access to regional, national and international markets as well as to other financial and non-financial services.

113. As a part of its 2019 Innovation Challenge, Management approved the development of a prototype for the digitalization of business plans to be used for certain IFAD projects in the LAC region. Through a dedicated platform and web application, beneficiaries, partners, funders and implementers are helped to prepare and manage plans, thus increasing efficiencies and standardization across value chains. Through the platform, participants can create a standardized format that still allows for tailoring to POs’ needs, ensures that plans fulfill all
requirements for banks and financial institutions, tracks the business plans’ performance based on key indicators, offers data management and an analytical dashboard, and identifies opportunities for private sector involvement. During 2020, IFAD will work to improve the platform on the basis of user experience; further develop dashboards, metrics and guidelines; offer more language versions; develop offline capabilities; and employ machine learning for business.

Box 21
Driving and leveraging innovation in IFAD12 and beyond

IFAD has made various efforts to inspire innovation since it adopted an innovation strategy in 2007. Recent actions include: the creation the Change, Delivery and Innovation Unit (CDI) to monitor organizational reforms and promote innovation; the launch of the first-ever Innovation Challenge by CDI; and approval of the ICT4D Strategy in December 2019. IFAD is planning to increase, refine and scale up innovative initiatives through the rest of IFAD11 and IFAD12.

In March 2020, nine of more than 50 innovative entries proposed by IFAD staff in the Innovation Challenge were selected for implementation. The projects can be classified by (i) prototypes; (ii) application of technology; and (iii) research, and included ideas on machine learning, remote sensing, virtual reality and even board games to “gamify” the integration of mainstreaming themes.

The benefits of these efforts are already manifesting in IFAD’s ways of working and will continue to be scaled up. During the Governing Council and IFAD12 Consultation sessions in February 2020, Members were able to discover the life of Mariamo – a young women entrepreneur, and the ProPESCA fishery project in Mozambique. The ProPESCA project team hopes to share more stories through wider dissemination by various platforms. Others have already helped IFAD reach and tailor its beneficiaries by using geo-spatial data to better develop evidence-based country strategies or identify implementation needs and are offering geographic information system (GIS) data for those with limited connection or offline. This is key in allowing IFAD to work more efficiently in the field under the restrictions imposed by COVID-19. IFAD is looking to expand this, including developing a regional web map application for West and Central Africa, incorporating special indicators into COSOPs and providing training to increase user uptake. It will also scale up other successful projects from the Innovation Challenge.

Also important is the rolling out of the ICT4D strategy covering the 2020-2030 period. Specifically, IFAD is aiming to: (i) improve poor rural people’s productive capacities; (ii) increase poor rural people’s benefits from market participation; and (iii) strengthen the environmental sustainability and climate resilience of poor rural people’s economic activities while also deepening engagement with mainstreaming themes, addressing fragility and continuing to promote decentralization. The Fund will be assembling a cross-divisional task team to ensure ICT4D implementation, with specialists in each of IFAD’s five regions to focus on technology and communication, partnership-building, research and impact assessment, and inclusion of the mainstreaming themes.

114. Being responsive to emerging risks. Strengthening the risk framework at the country level ensures that if risks materialize, IFAD’s is ready to respond and adjust country programmes accordingly. This requires a strong risk framework to be developed at the country level with a strong analysis of local risks. Mitigation strategies will also need to be developed up front should any of the risks materialize.

115. IFAD’s Enterprise Risk Management (ERM) Framework is currently being strengthened to improve IFAD’s risk governance and refresh relevant risk management policies, procedures, and frameworks. IFAD is also developing an enterprise risk taxonomy to catalogue IFAD’s top risks and organize risk management efforts. At the same time IFAD is working to articulate its risk appetite and integrate elevated risk management capabilities in its operations. This should result in an improved risk culture and effective risk reporting.

116. Programme delivery risk is one of IFAD’s high-level risks, and is composed of sub-domains such as sector strategies and policies, risks related to the environment and climate change, institutional capacity and sustainability of interventions, financial management, project procurement, safeguard risks and stakeholder risks. An integrated project risk matrix (IPRM) is being elaborated for all new and ongoing projects to help identify, assess, mitigate, manage, monitor and update risks to programme delivery. The IPRM will also help IFAD avoid exceeding established risk appetite in its PoW. The matrix will be used to gauge any implementation risks emerging during project life-cycles.
117. Management is adopting a number of temporary crisis or emergency measures to ensure continuity of key IFAD business processes without substantially compromising control effectiveness and efficiency. The measures provide IFAD with additional flexibility and agility in responding to countries’ urgent needs of assistance due to COVID-19. However, the inherent risks of operating in the conditions created by the pandemic are markedly higher (given the human and economic toll experienced, and restrictions on public gatherings and travel to and within countries to prevent and reduce the risk of the virus transmission) and IFAD’s ability (or that of any other development actor) to mitigate them will be more limited. As such, operating in COVID-19-affected countries will inevitably involve higher residual risk exposures.

118. **Social, Environmental and Climate Assessment Procedures (SECAP) and procurement.** The changes in IFAD’s business model, the new financial architecture and the move towards IFAD12 – which envisages larger projects with potentially more rural infrastructure – require strengthening the link between SECAP and procurement and, whenever possible, introducing an integrated approach for both areas. As IFAD progresses towards an ERM approach, it will be essential to coordinate safeguards and procurement more closely.

119. Scrutiny of supply chains has increased. Here, procurement provides an opportunity to address the associated risks and monitor compliance with safeguards, as procurement is where relationships with suppliers are created. MDBs are already developing measures to close the gap between safeguards and procurement by including sustainable socio-economic and environmental objectives in the procurement process and supporting this process with relevant expertise.

120. Management is proposing a series of actions in the following areas (i) policy and procedures – introducing nine SECAP standards and improving the procurement framework; (ii) financing agreements (FAs) – incorporating new/relevant requirements into FAs (schedule 3) and the programme implementation manual; and (iii) project procurement – including relevant requirements in the bidding documents currently being prepared by IFAD.

**III. Supporting transformational country programme delivery**

**A. Transformational institutional change**

121. **IFAD needs to ensure that the institution is well positioned to support transformational country programmes to expand and deepen impact.** During IFAD10, a transformation of the Fund’s operating model was initiated with the decentralization initiative. The proportion of operational staff in the field has now risen from 16 per cent to 32 per cent, significantly enhancing delivery capacity at the country level. Growing ambition, venturing into new areas of business including with the private sector, significantly strengthening risk management and an evolving financial model then made it necessary to undertake further efforts to ensure that the workforce, systems and processes were in place to support the institution in delivering the expected results.

122. **During the IFAD11 period, two external assessments were concluded.** Both assessments identified gaps in IFAD’s human capital, as well as inefficient processes and a need for technological solutions to support changes. After careful review, and considering IFAD’s strategy in moving towards a more decentralized business model, Management launched an action plan centred on three mutually reinforcing workstreams: people, processes and technologies. Uniting these three areas follows best practices in organizational design and change management to enhance organizational efficiency and value for money. The action plan was presented to the Executive Board at its 129th session in April 2020, together with proposals for implementation across the three workstreams. The action plan
included steps to strengthen all three areas, on which work has already begun, to equip IFAD to deliver on results into IFAD12 and beyond.

123. **People.** In order to be able to deliver results, IFAD needs to have adequate human resource capacity. In light of IFAD’s growing ambition and emerging areas of work, the human resource studies conducted identified some gaps in existing human resource capacity, retention and attraction of staff and IFAD’s performance management system. In order to address these gaps, IFAD is working on three fronts. First, divisional workforce plans are employed to understand where capacity gaps exist and where new positions or changes in existing positions may be needed both at headquarters and in the field. Second, IFAD is upskilling and reskilling staff through targeted capacity development and training initiatives. Third, to address the weaknesses identified by the studies in terms of managing underperformance, training will be given to managers and supervisors in addressing performance issues. The performance management system is also being enhanced.

124. **Processes.** The business process review identified inefficiencies in IFAD’s processes and presented recommendations to achieve staff time savings, cost savings and non-tangible benefits. Some quick-win solutions have already been implemented by Management, and further solutions are being rolled out during the course of IFAD11. An important aspect of this workstream is to strengthen and implement IFAD’s ERM framework. The implementation of these recommendations and activities require a longer timeframe. However, the related cost savings and benefits will be realized over the course of IFAD12.

125. **Technology.** To support the people and process workstreams, IFAD needs to upgrade and automate certain processes for efficiency gains. The business process review exercise identified a number of opportunities for automation across the people and process workstreams. These will be implemented in phases, with certain actions being initiated immediately and others requiring a longer time frame. Furthermore, Management will conduct reviews of other business processes as relevant.

126. As noted in the Targeted Capacity Investment paper presented to the 129th session of the Executive Board, complementing both the overall plan presented here and IFAD’s broader efforts to enhance efficiency, the following technological solutions are required for one-time investment:

(i) **People – talent management.** The selected talent management solution will leverage the existing enterprise resource planning to use relevant talent management modules, ensuring that the latest functionality is made available to resolve gaps in effectively managing skills.

(ii) **Processes – system changes.** While the implementation of technology solutions for the 24 recommendations could be supported by capital budget in normal circumstances, it is being proposed as a one-time activity in 2020. This is to ensure that implementation commences swiftly. At the end of 2020, an assessment will determine whether technology upgrades belong under maintenance or capital. If the decision is capital they will be capitalized and depreciated in the normal course of business.

(iii) **Automation.** An in-depth (“deep dive”) analysis will be performed to validate 15 options, and pilots will be selected for progressive implementation, starting with transaction-oriented exercises in 2020 and continuing with more complex, strategic pilots that require more analytical effort. The criteria used to select the first set of solutions include ensuring corporate-wide engagement across all areas, potential impact, complexity, risk and resource requirements. This evaluation will be assessed against potential benefits and will inform the proposed activities for 2021-2022.
127. **IFAD has taken major steps towards fully implementing its Policy to Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse (SH/SEA).** 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 reporting procedures and background checks, and introducing 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 SECAP to address gender-based violence and SH/SEA.

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

129. **Maximizing institutional efficiency.** With a continued focus on improving organizational efficiency and resource containment, IFAD was able to visibly improve the ratio of the total active portfolio in relation to the organization’s administrative costs. As shown in figure 8, for each US$1 of administrative costs, IFAD was able to leverage US$57 of total funds under management, representing a 20 per cent increase compared to 2016. This trend is indicative of the increased delivery capacity resulting from the ongoing reforms, and additional sources of financing to expand the PoLG whenever possible while maintaining relatively low levels of budget growth.
130. The trend towards increased organizational efficiency is further evidenced by comparing the development of programme delivery capacity in relation to the budget that was set aside for IFAD’s Corporate Services Department (CSD). As shown in figure 9, the PoLG has increased steadily over the last four years while the budget for administrative services gathered under CSD – facility services, human resources, information technology, medical services and field support services – shows a declining trend for the same period.

131. In addition to pushing for organizational efficiencies and reducing administrative support costs, IFAD moved towards a more targeted allocation of resources towards areas where a sustainable impact on project delivery could be expected. To better track resources by type of activity, IFAD introduced institutional output groups (IOGs) in 2018. During the first three years of using the IOGs, resources dedicated to country-level policy engagement increased over 25-fold. Resources for communication and outreach increased by 180 per cent, for effective corporate planning by 80 per cent, and for SSTC by over 60 per cent.

132. Solid progress was made on reengineering the country-based model through greater decentralization in order to maximize IFAD’s contribution to the 2030
Agenda. IFAD’s increased proximity to rural areas and increased engagement in policy dialogue and partnership-building are reflected in the higher proportion of field-based IFAD staff, up from 16 per cent in 2014 to 31 per cent in 2019 (see figure 10). This strong field presence is a powerful driver of effective beneficiary targeting and focused project delivery.

Figure 10
Presence of IFAD staff in the field versus headquarters (HQ): 2014-2019

B. Transformational financial framework

133. The financial framework for IFAD12 reflects IFAD’s evolving maturity as a development finance institution and consolidates the financial reforms introduced in IFAD11. IFAD11 has built the main pillars of IFAD’s future financial architecture, focusing on strengthening IFAD’s sustainability and financial discipline: capital, liquidity and borrowing. The Capital Adequacy Policy is the key risk management tool used to assess the adequacy of IFAD’s capital to sustain its portfolio. It is supported by a new, enhanced liquidity policy and a yearly funding programme. Additionally, IFAD has embarked on an ambitious set of reforms to build a strong second line of defence and consolidate IFAD’s financial discipline. The reforms include an updated internal control framework and controllership function, new guidelines on financial crime, and an updated Enterprise Risk Management Framework.

134. During the IFAD12 replenishment cycle, the Fund will stand at a critical juncture in its financial development. As recognized by the Member States during discussions of the financial reform, IFAD12 is a cycle where several dynamics built up over the past decade converge: a growing PoLG, a larger share of DSF grants and faster disbursements have been building pressure on IFAD’s capital and liquidity.

135. In IFAD12, the Fund will safeguard the long-term benefits of reforms introduced under IFAD11. Specifically, this means ensuring that new grants financing is established in line with the Sustainable Replenishment Baseline (SRB). The SRB was introduced through the recent DSF reform approved by the Executive Board in December 2019. The SRB should cover at minimum: (i) the pre-financing of new DSF grant commitments; (ii) the regular grants; (iii) operational expenses projected for the replenishment cycle; and (iv) the timely reimbursement of forgone principal reflows from approved DSF commitments falling due in the replenishment cycle. If new replenishment contributions exceed the sum of these amounts, IFAD will have the financial capacity to expand its lending operations. Otherwise IFAD will have to significantly reduce the PoLG in order to remain sustainable, thereby lessening its contribution to the SDGs.
136. **The economic effects of the global pandemic increase the need to ensure a robust financial profile enabling IFAD to play a countercyclical role in its operations.** The current unprecedented crisis affects IFAD’s donor and recipient countries. While the full extent of the crisis is still unknown, IFAD’s financial profile is exposed to potentially increased risks. This could result in trade-offs between the Fund’s long-term financial sustainability and the need to respond to growing operational needs. With the support of its Members, IFAD stands ready to align with coordinated initiatives of the international development community, securing full and timely compensation from Members of potential debt moratorium or relief, or lack of encashment of contributions from Members most affected by the pandemic.

137. **More adaptability and agility will underpin IFAD’s financial strategy.** As IFAD evolves into a more financially sophisticated institution, it will strengthen its capacity to adapt to intra-cycle changes. The link between finance and operations will become more dynamic, and increases or decreases in resource availability will be reflected in adjustments to planned delivery. IFAD will regularly review the key determinants of its commitment capacity in line with revised principles for assessing the resources available and adjust the trajectory as needed. Active portfolio management, exploration of potential buffers and early warning indicators of key financial metrics will support this adaptive management of finance and operations.

138. **Member State replenishment contributions will remain the bedrock of IFAD’s capitalization 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 in realizing IFAD’s mission. These resources are essential to support the countries most in need, and are deployed at maximum levels of concessionality, including through DSF grants to the poorest and most vulnerable indebted countries.

139. **Borrowing through the Integrated Borrowing Framework (IBF) will be key to secure increased funding to all eligible countries.** Borrowed funds will be channelled to UMICs, as well as to selected LICs and LMICs. Through the IBF, IFAD aims to introduce a broader pool of eligible lenders and additional borrowing instruments in the form of bilateral private placements to ensure efficient access to the levels required. In the negative scenario of IFAD being unable to secure the borrowing levels, and in absence of increased contributions from Members, the PoLG would have to be adjusted accordingly (see annex V for a sensitivity analysis).

140. **Leverage will increase gradually and prudently.** IFAD’s current leverage is 8.1 per cent, with US$741 million of borrowing liabilities. In line with a conservative risk appetite, Management proposes a gradual increase in leverage over time, keeping within a 40-45 per cent leverage ratio by the end of IFAD14. In IFAD12, the leverage ratio will remain below 35 per cent, IFAD’s current limit approved by the Executive Board. Should the replenishment from Members be in line with the very low or low scenarios, increased borrowing would also be needed to honour existing commitments, thereby leading to a higher leverage ratio. At any event, the amount of borrowing will be capped by the evolution of equity and availability of deployable capital.

141. **A strong credit rating will be key to increasing the PoLG and successfully broadening IFAD’s financial offer.** A strong outcome of the credit rating exercise, to be finalized during IFAD11, is crucial to support a stronger and more effective IFAD. With a strong rating, IFAD will be in a position to increase funding

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25 Or 9.8 per cent recalculated with the computation included in the Capital Adequacy Policy and in line with the methodology included in the Integrated Borrowing Framework.
from a broader range of counterparts to support its level of ambition and ensure appropriate levels of liquidity at competitive pricing ranges.

**Replenishment and DSF grants**

142. **New DSF will be pre-financed through new replenishment.** The recently approved reform of the DSF mechanism acknowledged that historically IFAD has faced an unsustainably large allocation to grants compared to replenishment contributions. The prefunded DSF mechanism will ensure that IFAD commitments for new DSF grants do not further erode the Fund’s liquidity and capital. Another important change introduced by the reform is that scarce DSF grants will be redirected exclusively to the countries with the highest debt distress. From IFAD12 onwards, countries in moderate debt distress will principally receive super highly concessional loans, which have a higher degree of concessionality than regular highly concessional loans.

143. **A strong replenishment is the prerequisite for more grant support to most-indebted LICs.** DSF grants are an important element of the SRB: the higher the replenishment, the greater IFAD’s capacity to finance indebted LICs and other countries in debt distress that are eligible for grants, and the higher will be the concessionality offered.

**Replenishment and borrowing**

144. **Member States have recognized that IFAD’s ambitious PoLG cannot be sustained solely by contributions.** In line with the Addis Ababa Action Agenda, IFAD will further optimize and leverage its balance sheet to increase support to all countries. 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.

145. **The success of IFAD’s leveraging strategy is highly dependent on the success of the replenishment.** Ultimately, IFAD’s leverage is constrained by the capacity of its capital to support an increase in loans. A strong capital base, sustained by significant new replenishment contributions, is a prerequisite for IFAD to increase leverage in a safe manner. A strong replenishment is also important in securing a positive credit rating since it gives a clear signal of significant Membership support.

146. **Borrowing will not be subsidized through replenishment contributions.** Borrowed resources will be on-lent respecting the condition of financial sustainability. IFAD will ensure that the financing terms of borrowing are more favourable than onlending conditions in order to generate a marginal positive income (also considering hedging costs), and avoid subsidization from core resources. This entails making certain that, after any potential hedging activity, IFAD is immunized from currency and interest rate risks. IFAD’s Asset and Liability Management Framework and other financial policies will determine the most appropriate borrowing terms with the aim of mirroring the financing conditions of the assets to be financed.

**C. IFAD12 financial scenarios and impact**

147. **During IFAD12, the Fund is committed to maximizing its concessional support to the neediest countries while further reinforcing its financial profile.** With a forecast level of concessionality of 52 per cent for IFAD11, IFAD’s overall level of concessionality is historically higher than that of the concessional arms of other IFIs. The level of concessionality of IFAD’s financial offer depends on the interplay between three key dimensions: (i) the level of replenishment; (ii) the use of capital and the level of borrowing; and (iii) the composition of the overall PoLG as between groups of countries with different financing terms.

148. **IFAD will manage the trade-offs between key financial variables.** Should any of the key variables not materialize at the targeted levels, IFAD would need to
adjust the others to ensure the Fund’s financial sustainability. For example, a lower replenishment would not only have a direct impact on IFAD’s ability to provide grants, but would also impact IFAD’s sustainable leverage, thereby reducing IFAD’s PoLG as a result of both effects.

149. **Following feedback from Member States, Management is presenting five financially sustainable scenarios based on incremental levels of new Member contributions.** The scenarios are based on Member State contributions resulting in new replenishment targets of between US$0.95 and US$1.75 billion. These levels of replenishment do not include the pledges for the ASAP+ and the PSFP, which are important complements to the PoLG to allow for stronger and sustainable impact in funded projects. All scenarios also assume that Members will also support IFAD through US$225 million of new concessional partner loans (CPLs).

150. **The scenarios have been adjusted to account for the updated IFAD11 expectations.** As IFAD’s operations generate financial flows (i.e. encashments, disbursements, and repayments) over several years,26 any change in one replenishment cycle has natural repercussions in subsequent years. The estimated effects of the COVID-19 economic shock on the remainder of IFAD11,27 as well as adjustments due to past gaps between actual replenishment payments received and replenishment targets have an impact when determining the sustainable size of the PoLG in IFAD12. IFAD’s future cash flows are projected on a conservative basis to avoid endangering future sustainability or overestimating future available resources.28

151. **The scenarios assume an efficient utilization of the available capital base, with some degree of frontloading in the use of IFAD’s current capital.** The aim is to maximize IFAD’s contribution to achieving the SDGs. To do so, the scenarios aim to reach a maximum leverage of 40–45 per cent by 2030. This is consistent with the proposed pattern of capital utilization and current levels of liquidity.

**IFAD12 scenarios and key financial variables**

152. Table 1 presents the sustainable level of the PoLG under the five different replenishment scenarios. Given current uncertainty, Management is proposing a narrow range of PoLG for each replenishment scenario. By the last IFAD12 replenishment consultations session, Management will have a better view of the impact of COVID-19 and will reassess the outcomes to present a single level of maximum sustainable PoLG for each scenario to Member States. All scenarios ensure a financially sustainable trajectory.29 See annexes II, III and IV for detailed financial models and lending term assumptions.

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26 As an example, disbursements made during IFAD11 correspond mainly to approvals from IFAD9 and IFAD10, and only a limited portion pertains to projects approved in IFAD11.
27 As detailed in the June document, approximately US$300 million of inflows from contributions, refloows and borrowing could be forgone in IFAD11.
28 The assumptions will need to be revised regularly to incorporate dynamics that could affect capital structure, required liquidity and the key variables affecting financing capacity. For example, the level of new commitments as well as IFAD’s disbursement capacity could be subject to adjustments depending on effective encashments of contributions, availability of funding and evolution of disbursement patterns.
29 IFAD’s financial trajectory is deemed to be unsustainable when in the absence of sufficient fresh capital, current and any future projections of liquidity are depleted (less borrowing, refloows and/or contributions, or higher than expected outflows) to the extent that the Fund does not have enough capacity to disburse according to existing targets, or the deployable capital is forecast to fall below zero.
**Table 1**

**Scenarios and PoLG for IFAD12**

(Millions of United States dollars)

<table>
<thead>
<tr>
<th></th>
<th>End IFAD11</th>
<th>Scenario A</th>
<th>Scenario B</th>
<th>Scenario C</th>
<th>Scenario D</th>
<th>Scenario E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replenishment target *</td>
<td>1 100</td>
<td>950</td>
<td>1 150</td>
<td>1 350</td>
<td>1 550</td>
<td>1 750</td>
</tr>
<tr>
<td>Total PoLG</td>
<td>3 500</td>
<td>2 600-2 800</td>
<td>2 900-3 100</td>
<td>3 200-3 400</td>
<td>3 600-3 800</td>
<td>4 000-4 200</td>
</tr>
<tr>
<td>Sustainable total grants</td>
<td>790</td>
<td>195</td>
<td>390</td>
<td>600</td>
<td>750</td>
<td>840</td>
</tr>
<tr>
<td>Proposed DSF grants</td>
<td>595</td>
<td>145</td>
<td>340</td>
<td>450</td>
<td>600</td>
<td>690</td>
</tr>
<tr>
<td>Level of concessionality (end of IFAD12)</td>
<td>52%</td>
<td>39%</td>
<td>43%</td>
<td>47%</td>
<td>49%</td>
<td>50%</td>
</tr>
<tr>
<td>Leverage ratio IFAD12 (debt/equity)</td>
<td>17%</td>
<td>27%-31%</td>
<td>25%-30%</td>
<td>24%-29%</td>
<td>23%-28%</td>
<td>22%-27%</td>
</tr>
<tr>
<td>Total new IFAD12 debt**</td>
<td>-</td>
<td>1 175-1 375</td>
<td>1 125-1 325</td>
<td>1 075-1 275</td>
<td>1 025-1 225</td>
<td>1 000-1 200</td>
</tr>
<tr>
<td>Deployable capital (end of IFAD12)</td>
<td>32-27%</td>
<td>22%-17%</td>
<td>22%-17%</td>
<td>22%-17%</td>
<td>21%-16%</td>
<td>21%-16%</td>
</tr>
</tbody>
</table>

* Includes the cash component of the IFAD12 new replenishment amounts, and an assumed CPL grant element of US$50 million, derived from the US$225 million forecast CPLs to be secured in IFAD12 across all scenarios, with current estimated discount rates.

** Includes the full amount of US$225 million forecast CPLs to be secured in IFAD12 across all scenarios.

- **The replenishment target** in the five scenarios ranges from US$0.95 billion to US$1.75 billion. The target accounts for new Member State cash contributions and the grant element of CPLs. This last component counts towards reaching the replenishment target but does not represent a new cash inflow. These levels exclude contributions to ASAP+ and PSFP.

- **Total PoLG** represents the maximum sustainable programme range that IFAD can provide under each scenario of core replenishment contributions paid in cash, level of additional debt assumed and use of capital. By definition, in assessing the new PoLG size, IFAD commits to disburse previously approved projects while maintaining an appropriate liquidity level.

- **Sustainable total grants** are directly related to the level of new core replenishment contributions paid in cash. Total grants are broken down into DSF grants and regular grants. The amount shown in the table is the sum of the maximum sustainable size of new DSF grants and a proposed allocation to regular grants. In the first two scenarios, given the limited amount of total grants, the proposed regular grants envelope is brought down to a very low figure (US$50 million) whereas in the other three scenarios Management suggests a grant envelope of US$150 million, which represents a 20 per cent reduction compared to IFAD11 levels.30

- **The level of concessionality** is calculated on the overall PoLG assuming the current financing terms and allocations derived through the performance-based allocation system (PBAS), and the level of borrowed resources. The decomposition by income categories is presented in annex II and assumed lending terms are shown in annex IV. The levels of concessionality reached in IFAD11, driven by an unsustainable share of DSF grants, cannot be maintained in IFAD12. IFAD is, however, committed to maximizing the concessionality of its offer while at the same time preserving its own financial sustainability.

30 Regular grants were in the past fixed at 5 per cent of the PoLG. This did not, however, consider the composition of funding sources, thereby contributing to an unsustainable trajectory. A fixed level of grants based on replenishment and capital availability is therefore a necessary, disciplined change to past practice.
• **Leverage ratio and new debt.** The leverage is expressed both through the debt-to-equity ratio to be reached by the end of IFAD12 and by the total amount of new debt that IFAD is expected to borrow under each scenario. Borrowing is needed to deliver existing commitments (the disbursement of loans and grants approved in previous cycles)\(^3\) and new disbursements of projects to be approved in IFAD12 as well as the achievable maximum level of grants. The level of debt in IFAD12 will remain within the current 35 per cent debt/equity ratio. This conservative strategy is in line with current economic uncertainty and also leaves space for any unforeseen borrowing that could arise during the IFAD12 cycle. The approach reflects the gradual borrowing strategy that IFAD aims to implement and shows the level of borrowing required to deliver the respective target levels of PoLG and existing commitments. If IFAD is unable to secure this amount, PoLG levels will need to decrease substantially or replenishment contributions would need to cover the funding gap. Annex V performs a sensitivity analysis and provides an estimate of the reduction of PoLG and of the any required replenishment increase.

• **Deployable capital (DC).** The DC at the end of IFAD12 is the outcome of the suggested PoLG approvals and reflects IFAD’s capital base at the end of the cycle. In all scenarios, the latter would always be positive given IFAD’s strong capital position.

Two additional considerations show the drivers of the evolution of the DC during IFAD12. First, most of the reduction in the DC is explained by past strategic decisions, notably by unsustainable levels of DSF and regular grant financing that negatively affected IFAD’s equity position. Second, there is an explicit strategic decision to frontload resources to deliver past commitments and sustain ambitious PoLG targets. In assessing the DC dynamic for IFAD12 and beyond, it is also important to recall the loss-making structural business nature of IFAD due to the provision of a high level of grants and concessionality, which is not entirely offset by the SRB principle.

153. The following sections aim to compare the different scenarios. The graphs present them by type of resource, income category allocation and type of financing provided.\(^3\) Due to the interconnections between levels of replenishment and borrowing, changes among scenarios are not fully proportionate. However, in each of the views, the basic relationship between replenishment level and support through core resources on concessional terms to LICs, and especially DSF LICs, is evident.

**IFAD12 scenarios by type of resources (core and borrowed funds)**

154. **IFAD will increase the focus of core resources to LICs and LMICs.** Figure 11 shows the alternative scenarios by highlighting how the different types of resources (core and borrowed) are channelled. As evidenced, and coherently with the first pillar of IFAD’s Comprehensive Approach to Transition/Graduation,\(^3\) 100 per cent of core resources will be allocated to LICs and LMICs, thereby further strengthening the focus on those countries as compared to IFAD11. Borrowed funds will finance selected LICs and LMICs, and the totality of UMICs. UMICs will be allocated at least the same share of total resources as in IFAD11 (11 per cent of PoLG), and a maximum of 20 per cent. Clearly, the relative share of total resources to LICs and LMICs is larger in higher replenishment scenarios, while the share to UMICs is at a

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\(^3\) This is explained by the lag between approvals and disbursement. IFAD12 will represent a peak in disbursement commitments, making it necessary to ensure adequate liquidity levels through the new liquidity policy and calibrate future engagements with existing commitments. For reference, cumulative approvals during IFAD8, IFAD9 and IFAD10 amounted to almost US$10 billion, doubling cumulative approvals from IFAD5, IFAD6 and IFAD7.

\(^3\) The allocations are derived by applying the PBAS formula to the core resources including CPLs, and by assuming that borrowed resources are allocated outside PBAS. Regular grants are not included in this view as they are not allocated to a specific income category. See annex IV for additional details.

\(^3\) Distribution of IFAD’s financial resources IFAD12/2/R.2/Rev.1.
minimum of 12 per cent, 1 per cent higher than in IFAD11, and never exceeds the proposed 20 per cent cap.

Figure 11
Scenarios of PoLG for IFAD12 by allocation of core and borrowed resources by income category
(Millions of United States dollars)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>LICs</th>
<th>LMCs</th>
<th>UMICs</th>
<th>UMICs</th>
</tr>
</thead>
<tbody>
<tr>
<td>A low</td>
<td>575</td>
<td>575</td>
<td>80%</td>
<td></td>
</tr>
<tr>
<td>B low</td>
<td>1,600</td>
<td>1,950</td>
<td>20%</td>
<td>82%</td>
</tr>
<tr>
<td>C mid low</td>
<td>2,200</td>
<td>650</td>
<td>18%</td>
<td>84%</td>
</tr>
<tr>
<td>D mid high</td>
<td>525</td>
<td>525</td>
<td>16%</td>
<td>86%</td>
</tr>
<tr>
<td>E high</td>
<td>500</td>
<td>500</td>
<td>14%</td>
<td>88%</td>
</tr>
</tbody>
</table>

IFAD12 scenarios by income category allocation

155. Figure 12 compares the scenarios with the IFAD11 PoLG and the detailed composition by income category. For illustrative purposes, PoLG is assumed at the high value of the ranges shown in table 1. As shown in figure 12, scenarios A, B and C imply a decrease in the overall PoLG, penalizing LICs and LMICs in particular. Most of financing to these countries has to be provided at the highest levels of concessionality, which in these scenarios is limited by the size of Members’ replenishment. In scenarios A and B, the PoLG would be substantially below IFAD11 and in scenario C just below this level. IFAD would need to scale down its support, hampering the already limited progress on SDG 1 and SDG 2.

Figure 12
Scenarios of PoLG for IFAD12 by income category
(Millions of United States dollars)
IFAD12 scenarios by type of financing (concessional and semi-concessional)

156. Figure 13 provides another view of the scenarios by comparing them by the type of financing that IFAD can provide, split between total grants (DSF and regular grants), concessional loans (including super highly concessional, highly concessional and blend lending terms) and semi-concessional loans (at ordinary lending terms). It also highlights the proposed level of DSF in each scenario compared to the IFAD11 level of US$597 million.

157. **Only the replenishment size in scenario D or above would allow IFAD not to scale back its DSF envelope size.** Between 75 and 85 per cent of the DSF envelope is focused on LICs, with the remainder accessed by LMICs and a very small share of upper-middle-income small island states. As evidenced in figure 13, should a replenishment lower than the US$1.55 billion in scenario D materialize, LICs and especially DSF LICs would be more penalized than LMICs and UMICs, which can be funded through loans and borrowed resources.

Figure 13
IFAD12 scenarios by type of financing
(Millions of United States dollars)

158. The three graphs analysed above show that only scenarios D and E would allow IFAD to maintain the same level of support to the poorest countries in debt distress as in IFAD11, and make an impactful contribution in its target beneficiaries.

159. **Scenario D shows a PoLG of up to US$3.8 billion, allowing IFAD to guarantee its support to LICs in debt distress.** This is the minimum level allowing IFAD to provide DSF countries in highest debt distress with at least the degree of DSF grant financing as under IFAD11 (US$595 million in IFAD11 compared to the proposed US$600 million). This scenario would allow for an increase of US$222 million in resources for LICs and LMICs compared to IFAD11.

160. Borrowing needed to address existing commitments and sustain these PoLG levels would amount to as much as US$1.225 billion, slightly declining with higher replenishment funding. This would allow IFAD to channel more resources to all borrowing countries through a higher PoLG

161. **Scenario E would enable a PoLG of up to US$4.2 billion, representing, for IFAD, an unprecedented level of contribution to the SDGs.** With new IFAD12 cash contributions of US$1.7 billion, IFAD could provide record levels of financing. This scenario would increase IFAD’s support to the most-indebted LICs in IFAD12.
through a maximum sustainable level of DSF grant financing of up to US$690 million.

162. This scenario clearly shows how a higher replenishment would enable IFAD to focus even more on LICs and LMICs. IFAD’s total financing to LICs would increase significantly to US$1.7 billion (US$1.5 billion in IFAD11), including an increase of nearly US$90 million over IFAD11 in funding for indebted LICs eligible for DSF grants.

163. The amount of borrowing in this case would decline to US$1.2 billion. IFAD’s equity would increase through higher replenishment, leading to the most contained debt/equity ratio.

**IFAD12 scenarios by share of financing by income category**

164. Figure 14 completes the picture provided in figures 11, 12 and 13 by comparing the relative share of total resource by income category across scenarios. Dynamics among income categories are made clear, although, due to the effect of variables like source of funding, liquidity or capital, these relationships are not linear.

165. Figure 14 highlights how a higher replenishment allows for an absolute and relative shift of resources to LICs while maintaining a minimum allocation to UMICs. When moving from the very low to the very high scenario, the largest benefit in terms of relative allocation is to LICs, from 33 per cent to 42 per cent of total resources. The share to LMICs remains much the same at around 46 per cent. It is important to note that while the share of allocation to UMICs would decline, the absolute amount of financing would remain stable, increasing in fact from IFAD11. The split between LICs and LMICs is a simulation of how the current PBAS formula would allocate the core resources. The outcome of the formula depends on the countries included and is mostly mechanical, without any intervention from Management.

Figure 14

IFAD12 scenarios: relative allocations by income category and absolute amounts of allocation to UMICs
(Percentage terms and millions of United States dollars)
Analysing the dynamics between alternative scenarios, the following main conclusions can be drawn:

(i) **Support to indebted LICs, which are at the heart of IFAD’s mission, can only be maintained if a replenishment of at least US$1.55 billion – as in scenario D – is secured.** The only way for IFAD to adequately fund LICs, which have access to the greater part of the DSF envelope, is through higher replenishment from Members. Only scenarios D and E allow securing for indebted LICs at least the same level of DSF grants provided in IFAD11 (i.e. US$595 million). IFAD is aiming to increase its support to highly indebted LICs, which could also increase in number due to the effects of the pandemic. To allow IFAD to effectively respond to the increasing needs of these countries, and to be able to double its impact by 2030, Members would need to double their contribution when compared to IFAD11.

(ii) **The higher the replenishment, the higher the shift in resources to the countries most in need.** A higher replenishment allows for a relative shift of resources toward LICs, offset by a decreased share of resources to UMICs, with the percentage of total resource to LMICs being rather stable (as shown in figure 14). Under an increase of US$400 million between scenario C and E, the hike in in resources channelled to LICs is more than proportional – US$447 million. This multiplier effect of core resources will benefit LICs and LMICs, especially the least developed countries characterized by fragility.

(iii) **Under every scenario, UMICs are guaranteed a level of financing that is larger than the IFAD11 allocation (US$397 million) and a relative allocation of total resources at least equal to the 11 per cent of IFAD11.** UMICs can be financed sustainably almost exclusively through borrowed funds, so the dependence of these countries on higher replenishments is less pronounced than with LICs and LMICs.

(iv) **Borrowing is key for all scenarios, and IFAD has to broaden its lender base to ensure support at the levels presented.** Borrowing finances UMICs as well as selected LICs and LMICs.

(v) **The highest scenarios allow for broader benefits to all countries, with a specific focus on LICs and LMICs.** Unequivocally, the high D and E scenarios offer the most tangible benefits to all clients. The amount of resources to LICs and LMICs increase by US$222 million in scenario D and US$635 million in scenario E when compared to IFAD11. For UMICs, absolute allocation remains rather stable, with an additional volume of US$103 million and US$91 million in D and E.

**IFAD12 impact and expanding investment for greater reach**

167. **The ability of IFAD to boost its impact in LICs, where stubbornly high poverty and food insecurity are increasingly becoming concentrated, requires an increase of contributions and resources at the mid-high and high scenario level.** This hinges on IFAD core resources, its ability to leverage those resources through borrowing and the cofinancing obtained through international and domestic partners as well as any resources from other sources, including multi-donor trust funds and facilities (PSFP, ASAP+, COVID-19 RPSF) – in other words IFAD’s total PoW. The basis of IFAD’s capacity to fund development is its core replenishment since this largely determines its capacity to leverage other funds.

168. **When assessing the impact, the source of the financial resources (core, borrowed, cofinancing) does not influence the outcome.** A dollar spent in the field is a dollar regardless of its source. However, the origin of IFAD financial

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34 Members’ contributions may include additional contributions to core resources and to ASAP+ and the PSFP.
resources does influence in which country category (LIC, LMIC, or UMIC) impact will occur since it dictates which countries will receive funds and the amounts received. In the discussion below, the overall impact is described and then the distribution of impact across countries is considered.

169. **Table 2 presents the impact levels for each of the five scenarios.**

Consistent with the IFAD11 target, a cofinancing ratio of 1.4 is assumed, which creates a PoW of between US$6.6 billion and US$9.8 billion. The IFAD10 corporate impact assessments indicated IFAD10 increased the income of 62 million people, the production of 47 million people and the value of market access for 50 million people while building greater resilience for 26 million. Since IFAD11 impact assessments have not been completed, IFAD10 estimates are used to estimate IFAD12 impacts. As shown in the table, scenarios D and E increase IFAD’s impact because they are the only scenarios that raise the PoW beyond IFAD11 levels.

### Table 2

<table>
<thead>
<tr>
<th>Scenario</th>
<th>IFAD12 Impact</th>
<th>Total PoLG (maximum level)</th>
<th>Cofinancing ratio</th>
<th>PoW</th>
<th>Goal: increased income</th>
<th>SO1: increased production</th>
<th>SO2: increased market access</th>
<th>SO3: greater resilience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario A very low</td>
<td>2 800</td>
<td>3 100</td>
<td>3 400</td>
<td>3 800</td>
<td>4 200</td>
<td>6 650</td>
<td>7 370</td>
<td>7 950</td>
</tr>
<tr>
<td>Scenario B low</td>
<td>1.4</td>
<td>1.4</td>
<td>1.4</td>
<td>1.4</td>
<td>1.4</td>
<td>6 650</td>
<td>7 370</td>
<td>7 950</td>
</tr>
<tr>
<td>Scenario C mid-low</td>
<td>3 400</td>
<td>3 800</td>
<td>4 200</td>
<td>4 600</td>
<td>5 000</td>
<td>7 950</td>
<td>8 910</td>
<td>9 870</td>
</tr>
<tr>
<td>Scenario D mid-high</td>
<td>3 800</td>
<td>4 200</td>
<td>4 600</td>
<td>5 000</td>
<td>5 400</td>
<td>8 910</td>
<td>9 870</td>
<td>10 800</td>
</tr>
<tr>
<td>Scenario E high</td>
<td>4 200</td>
<td>4 600</td>
<td>5 000</td>
<td>5 400</td>
<td>5 800</td>
<td>9 870</td>
<td>10 800</td>
<td></td>
</tr>
</tbody>
</table>

Note: Maximum total PoLG, and PoW are measured in US$ millions while IFAD’s goal of increased income and its strategic objectives of increased production, greater market access and stronger resilience are measured in millions of people.

170. **Beyond the PoLG, ASAP+ and the PSFP would lead to additional impact.**

This will also depend on their size and cofinancing from other development partners. Table 3 provides estimates of impact based on two possible funding scenarios for each programme, which for ASAP+ range from US$250 million to US$500 million and for PSFP from US$100 million to US$200 million. The cofinancing ratios are based on initial expectations. Again, using the IFAD10 impact assessments as a base, the expectation is that these two programmes would increase the total number of people with higher incomes by 5 to 10 million. Of course, since ASAP+ focuses on climate finance, it is likely to have greater impact on resilience; and since PSFP focuses on employment, the expectation is that it will primarily increase incomes.

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**Note:** The PoW in this table is calculated by applying the cofinancing ratio of 1.4 to the PoLG excluding the regular grants since such grants do not leverage cofinancing. It does not include ASAP+ or PSFP since the impact estimates for those programmes are presented separately in table 3.
Table 3
ASAP+ and PSFP Impact

<table>
<thead>
<tr>
<th>Scenario</th>
<th>ASAP+</th>
<th>PSFP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario 1</td>
<td>250</td>
<td>100</td>
</tr>
<tr>
<td>Scenario 2</td>
<td>500</td>
<td>200</td>
</tr>
<tr>
<td>Scenario 1</td>
<td>0.3</td>
<td>2.0</td>
</tr>
<tr>
<td>Scenario 2</td>
<td>0.3</td>
<td>2.0</td>
</tr>
<tr>
<td>Scenario 1</td>
<td>300</td>
<td>600</td>
</tr>
<tr>
<td>Scenario 2</td>
<td>650</td>
<td>600</td>
</tr>
<tr>
<td>Scenario 1</td>
<td>2.9</td>
<td>2.7</td>
</tr>
<tr>
<td>Scenario 2</td>
<td>5.8</td>
<td>5.3</td>
</tr>
</tbody>
</table>

Note: Initial and total resources are measured in US$ millions and IFAD’s goal of increased income is measured in millions of people.

171. As noted, the distribution of impact across countries depends on resource allocation across country income categories. While the resources are generally allocated through the PBAS, financial constraints due to agreements on funding under the DSF also influence allocation. Table 4 provides the distribution of the estimates of impact on the number of people with increased income across income category based on scenarios presented in annex II. Going from Scenario A to Scenario E, where impact increases from 51 million to 75 million people, the gains are primarily felt in LICs. In fact, nearly two-thirds of the additional impacts accrue to LICs, with the other third in LMICs.

Table 4
Scenarios and distribution of IFAD12 impact on number of people with increased income

<table>
<thead>
<tr>
<th>IFAD12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario A very low</td>
</tr>
<tr>
<td>LICs – DSF</td>
</tr>
<tr>
<td>LICs – other</td>
</tr>
<tr>
<td>LICs – total</td>
</tr>
<tr>
<td>LMICs</td>
</tr>
<tr>
<td>LICs + LMICs</td>
</tr>
<tr>
<td>UMICs</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Note: Increased income is measured in millions of people.

IV. Conclusions and expected results

172. IFAD12 marks a critical period for the achievement of SDGs 1 and 2. Challenges continue to grow in the countdown to Agenda 2030. To meet those challenges, the ambitions of the global community must respond. In presenting the IFAD12 business model, IFAD seeks to increase its ambition on multiple fronts over the IFAD12 period in order to respond to the needs of those most at risk of being left behind.

173. Members’ replenishment contributions remain critical in order to ensure that IFAD is able to deliver at its level of ambition, and most importantly to continue adequately supporting the most-indebted LICs and LMICs, at least with the current level of resources. With higher replenishments, IFAD will be able to channel increased core
resources to those most in need, and achieve higher impact in the poorest
countries, while at the same time maintaining stable support to UMICs with
borrowed resources. If IFAD wants to continue providing the same level of support
to its recipient countries in terms of allocation and DSF volume as in IFAD11 – and
to do so in a financially sustainable manner – Member States would need to
increase their contribution substantially during IFAD12.

174. The business model being proposed for IFAD12 serves to build on IFAD’s existing
business model and the experience it has gained over the past 40 years. Delivering
on the IFAD12 business model will enable IFAD to have a transformational impact
on the lives of rural poor men and women and ensure that they have more resilient
livelihoods to cope with shocks, such the COVID-19 pandemic. By leveraging
existing and new tools and facilities and working through new and deepened
partnerships, IFAD expects to achieve the following broad results at the end of the
IFAD12 replenishment cycle.

(i) **Expanded impact**
- Increased market access, productive capacity, resilience and improved
  nutrition of rural poor men and women.
- Greater investments in rural development for greater outreach.

(ii) **Deeper impact**
- Smallholder agriculture that is climate smart (adaptation and mitigation).
- Sustainable natural resource management (including biodiversity).
- Stronger policy frameworks at the national and global level for
  agricultural and rural development.
- Inclusive impact for men, women, indigenous peoples, youth and PwD.

175. IFAD will measure its success against these broad areas. Implementation progress,
facilitated by the support received from Member States, will be monitored through
the performance indicators and metrics that will be included in IFAD’s agreed RMF
for IFAD12. The output areas that will support the aforementioned results include:

(i) **Delivering impact:**
- Transformational country programmes: inclusive approaches aimed at
  leaving no one behind, deepened partnerships, a suite of adaptive
  products and tools suited to country needs and significant investment in
  innovation and risk.
- Transformative institutional change: a dynamic and skilled workforce
  within an efficient organization that has greater proximity to clients.
- Transformative financial framework: A strong development finance
  architecture that is sustainable and responsive to client needs.
### Proposed IFAD12 Results Management Framework indicators

#### Tier I – goals and context

<table>
<thead>
<tr>
<th></th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Sustainable Development Goal 1: No poverty</td>
<td></td>
</tr>
<tr>
<td>1.1.1 Proportion of population below the international poverty line of US$1.90 a day (SDG 1.1.1)</td>
<td>United Nations Statistics Division (UNSD)</td>
</tr>
<tr>
<td>1.2 Sustainable Development Goal 2: Zero hunger</td>
<td></td>
</tr>
<tr>
<td>1.2.1 Prevalence of food insecurity (SDG 2.1.2)</td>
<td>UNSD</td>
</tr>
<tr>
<td>1.2.2 Prevalence of stunting among children under 5 years of age (SDG 2.2.1)</td>
<td>UNSD</td>
</tr>
<tr>
<td>1.2.3 Prevalence of malnutrition (SDG 2.2.2)</td>
<td>UNSD</td>
</tr>
<tr>
<td>1.2.4 Productivity of small-scale food producers (SDG 2.3.1)</td>
<td>UNSD</td>
</tr>
<tr>
<td>1.2.5 Total official flows to the agriculture sector (billions of United States dollars) (SDG 2.A.2)</td>
<td>UNSD</td>
</tr>
<tr>
<td>1.2.6 Government expenditure on agriculture (index) (SDG 2.A.1)</td>
<td>UNSD</td>
</tr>
</tbody>
</table>
## Tier II – development impact and results

### 2.1 Impact

<table>
<thead>
<tr>
<th>Strategic objective (SO)</th>
<th>SDG targets</th>
<th>RMF12 code</th>
<th>Indicator</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.3 and 1.2</td>
<td>2.1.1</td>
<td>Number of people with increased income (millions) (SDGs 2.3 and 1.2)</td>
<td>IFAD Impact Assessment (IIA)</td>
</tr>
<tr>
<td>SO1</td>
<td>2.3.2</td>
<td>2.1.2</td>
<td>Number of people with improved production (millions) (SDG 2.3.2)</td>
<td>IIA</td>
</tr>
<tr>
<td>SO2</td>
<td>2.3</td>
<td>2.1.3</td>
<td>Number of people with improved market access (millions) (SDG 2.3)</td>
<td>IIA</td>
</tr>
<tr>
<td>SO3</td>
<td>1.5</td>
<td>2.1.4</td>
<td>Number of people with greater resilience (millions) (SDG 1.5)</td>
<td>IIA</td>
</tr>
<tr>
<td>SO1</td>
<td>2.1</td>
<td>2.1.5</td>
<td>Number of people with improved nutrition (millions) (SDG 2.1)</td>
<td>IIA</td>
</tr>
</tbody>
</table>

### 2.2. Outreach, outcomes and outputs

<table>
<thead>
<tr>
<th>Areas of thematic focus</th>
<th>SDG target</th>
<th>RMF12 code</th>
<th>Indicator</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outreach</strong></td>
<td>1.4</td>
<td>2.2.1</td>
<td>Number of persons receiving services promoted or supported by the project</td>
<td>Core indicators</td>
</tr>
<tr>
<td><strong>Access to</strong></td>
<td>1.4, 2.3 and 2.4</td>
<td>2.2.2</td>
<td>Number of hectares of farmland under water-related infrastructure constructed/rehabilitated</td>
<td>Core indicators</td>
</tr>
<tr>
<td><strong>technologies and</strong></td>
<td>1.4, 2.3 and 2.4</td>
<td>2.2.3</td>
<td>Number of persons trained in production practices and/or technologies</td>
<td>Core indicators</td>
</tr>
<tr>
<td><strong>production services</strong></td>
<td>1.4, 2.3 and 8.3</td>
<td>2.2.4</td>
<td>Number of persons in rural areas accessing financial services (savings, credit, insurance, remittances, etc.)</td>
<td>Core indicators</td>
</tr>
<tr>
<td><strong>Inclusive financial</strong></td>
<td>8.2, 8.3 and 10.2</td>
<td>2.2.5</td>
<td>Number of rural enterprises accessing business development services</td>
<td>Core indicators</td>
</tr>
<tr>
<td><strong>services</strong></td>
<td>8.2, 8.3 and 10.2</td>
<td>2.2.6</td>
<td>Number of persons trained in income-generating activities or business management</td>
<td>Core indicators</td>
</tr>
<tr>
<td><strong>Diversified rural</strong></td>
<td>2.2.7</td>
<td></td>
<td>Number of supported rural producers that are members of a rural producers' organization</td>
<td>Core indicators</td>
</tr>
<tr>
<td><strong>enterprises and</strong></td>
<td>2.2.8</td>
<td></td>
<td>Indicator measuring jobs/employment [placeholder indicator]</td>
<td>Core indicators</td>
</tr>
<tr>
<td><strong>employment</strong></td>
<td>2.2.9</td>
<td></td>
<td>Number of kilometres of roads constructed, rehabilitated or upgraded</td>
<td>Core indicators</td>
</tr>
<tr>
<td><strong>opportunities</strong></td>
<td>2.2.10</td>
<td></td>
<td>Number of hectares (ha) of farmland with water-related infrastructure constructed/rehabilitated</td>
<td>Core indicators</td>
</tr>
<tr>
<td><strong>Rural infrastructure</strong></td>
<td>2.2.11</td>
<td></td>
<td>Number of hectares of land brought under climate-resilient management</td>
<td>Core indicators</td>
</tr>
<tr>
<td><strong>Environmental</strong></td>
<td>2.2.12</td>
<td></td>
<td>Number of groups supported to sustainably manage natural resources and climate-related risks</td>
<td>Core indicators</td>
</tr>
<tr>
<td><strong>sustainability and</strong></td>
<td>2.2.13</td>
<td></td>
<td>Number of persons/households reporting adoption of environmentally sustainable and climate-resilient technologies and practices</td>
<td>Core indicators</td>
</tr>
<tr>
<td><strong>climate change</strong></td>
<td>2.2.14</td>
<td></td>
<td>Number of tons of greenhouse gas emissions (CO2) avoided and/or sequestered</td>
<td>Core indicators</td>
</tr>
<tr>
<td><strong>Nutrition</strong></td>
<td>2.2.15</td>
<td></td>
<td>Number of persons/households provided with targeted support to improve their nutrition (millions)</td>
<td>Core indicators</td>
</tr>
<tr>
<td><strong>Nutrition</strong></td>
<td>2.2.16</td>
<td></td>
<td>Number of women reporting minimum dietary diversity (MDDW)</td>
<td>Core indicators</td>
</tr>
<tr>
<td><strong>Land tenure</strong></td>
<td>2.2.17</td>
<td></td>
<td>Land tenure [placeholder indicator]</td>
<td>Core indicators</td>
</tr>
</tbody>
</table>

### 2.3 Project-level development outcome ratings at completion

<table>
<thead>
<tr>
<th>2.3.1</th>
<th>Overall project achievement (ratings 4 and above) (percentage)</th>
<th>Project completion report (PCR) ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.3.2</td>
<td>Overall project achievement (ratings 4 and above) (percentage)</td>
<td>IOE ratings</td>
</tr>
<tr>
<td>2.3.3</td>
<td>Efficiency (ratings 4 and above) (percentage)</td>
<td>PCR ratings</td>
</tr>
<tr>
<td>2.3.4</td>
<td>Gender equality (ratings 4 and above) (percentage)</td>
<td>PCR ratings</td>
</tr>
<tr>
<td>2.3.5</td>
<td>Gender equality (ratings 5 and above) (percentage)</td>
<td>PCR ratings</td>
</tr>
<tr>
<td>2.3.6</td>
<td>Sustainability of benefits (ratings 4 and above) (percentage)</td>
<td>PCR ratings</td>
</tr>
<tr>
<td>2.3.7</td>
<td>Scaling up (ratings 4 and above) (percentage)</td>
<td>PCR ratings</td>
</tr>
<tr>
<td>2.3.8</td>
<td>Environment and natural resource management (ratings 4 and above) percentage</td>
<td>PCR ratings</td>
</tr>
<tr>
<td>2.3.9</td>
<td>Climate change adaptation (ratings 4 and above) percentage</td>
<td>PCR ratings</td>
</tr>
</tbody>
</table>

**Tier III – delivering impact**

**Transformational country programmes**

<table>
<thead>
<tr>
<th>3.1</th>
<th>Performance of country programmes</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1.1</td>
<td>Relevance of IFAD country strategies (ratings of 4 and above) (percentage)</td>
</tr>
<tr>
<td>3.1.2</td>
<td>Effectiveness of IFAD country strategies (ratings of 4 and above) (percentage)</td>
</tr>
<tr>
<td>3.1.3</td>
<td>Partnership-building (ratings of 4 and above) (percentage)</td>
</tr>
<tr>
<td>3.1.4</td>
<td>Country-level policy engagement (ratings of 4 and above) (percentage)</td>
</tr>
<tr>
<td>3.1.5</td>
<td>Knowledge management (ratings of 4 and above) (percentage)</td>
</tr>
<tr>
<td>3.1.6</td>
<td>South-South and Triangular Cooperation (SSTC) (percentage of COSOPs with comprehensive approach at design)</td>
</tr>
<tr>
<td>3.1.7</td>
<td>Percentage of operations with activities or components that advance transparency in borrowing countries</td>
</tr>
</tbody>
</table>

**3.2 Designing for impact**

| 3.2.1 | Overall rating for quality of project design (ratings 4 and above) (percentage) | Quality assurance ratings |
| 3.2.2 | Overall rating for quality of project design (fragile situations only) (ratings 4 and above) (percentage) | Quality assurance ratings |
| 3.2.3 | Projects designed to be gender transformative | Corporate validation |
| 3.2.4 | Climate focused PoLG (climate finance) | Corporate validation based on MDB Methodologies for Climate Finance Tracking |
| 3.2.5 | Appropriateness of targeting approaches in IFAD investment projects (percentage) | Quality assurance ratings |
| 3.2.6 | Time from concept note to approval (months) | Corporate databases |
| 3.2.7 | Percentage of operations with activities or components that advance transparency in borrowing countries | Corporate databases |

**3.3 Proactive portfolio management**

| 3.3.1 | Time from project approval to first disbursement (months) | GRIPS |
| 3.3.2 | Disbursement ratio (percentage) | Oracle FLEXCUBE |
| 3.3.3 | Disbursement ratio – fragile situations only (percentage) | Oracle FLEXCUBE |
| 3.3.4 | Overall implementation progress (ratings 4 and above) (percentage) | Supervision ratings |
| 3.3.5 | Likelihood of achieving development results (ratings 4 and above) (percentage) | Supervision ratings |
| 3.3.6 | Proactivity index | Corporate databases |
| 3.3.7 | IFAD’s performance (ratings 4 and above) (percentage) | PCRs |

**Transformational financial framework**

<table>
<thead>
<tr>
<th>3.4</th>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.4.1</td>
<td>Cofinancing ratio (international)</td>
</tr>
<tr>
<td>3.4.2</td>
<td>Cofinancing ratio (domestic)</td>
</tr>
<tr>
<td>3.4.3</td>
<td>Average size of IFAD’s investment projects (IFAD financing) (millions of US$)</td>
</tr>
</tbody>
</table>

**3.5 Institutional efficiency**

| 3.5.1 | Ratio of IFAD’s administrative expenditure to the PoW | Corporate databases |
| 3.5.2 | Ratio of actual administrative expenditures (including expenditure financed by management fees) to annual disbursements | Corporate databases |
| 3.5.3 | Ratio of the administrative budget to the ongoing portfolio of loans and grants | Corporate databases |

**3.6 Decentralization**
<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3.6.1</td>
<td>Ratio of budgeted staff positions in IFAD Country Offices (ICOs)/regional hubs (percentage)</td>
<td>Corporate databases</td>
</tr>
<tr>
<td>3.6.2</td>
<td>Decentralization effectiveness (placeholder indicator)</td>
<td>Corporate databases</td>
</tr>
<tr>
<td>3.7</td>
<td>Human resource management</td>
<td></td>
</tr>
<tr>
<td>3.7.1</td>
<td>Percentage of women in P-5 posts and above</td>
<td>Corporate databases</td>
</tr>
<tr>
<td>3.7.2</td>
<td>Percentage of women in D1 and above</td>
<td>Corporate databases</td>
</tr>
<tr>
<td>3.7.3</td>
<td>Percentage of women in NOC</td>
<td>Corporate databases</td>
</tr>
<tr>
<td>3.7.4</td>
<td>Percentage of Professional staff from Lists B and C</td>
<td>Corporate databases</td>
</tr>
<tr>
<td>3.7.5</td>
<td>Time to fill Professional vacancies (days)</td>
<td>Corporate databases</td>
</tr>
<tr>
<td>3.7.6</td>
<td>SEA/SH (placeholder indicator)</td>
<td>Corporate databases</td>
</tr>
<tr>
<td>3.8</td>
<td>Transparency</td>
<td></td>
</tr>
<tr>
<td>3.8.1</td>
<td>Percentage of project completion reports submitted within six months of completion, of which the percentage publicly disclosed</td>
<td>PMD</td>
</tr>
<tr>
<td>3.8.2</td>
<td>Comprehensiveness of IFAD’s publishing to International Aid Transparency Initiative (IATI) standards (percentage)</td>
<td>IATI</td>
</tr>
</tbody>
</table>

*Placeholder indicators will be defined in the final version of the RMF.*
**Total programme of loans and grants allocation, disaggregated by resource type and income category**

1. The tables below illustrate the scenarios presented in table 4 of the main document, by providing a breakdown of allocations by type of resource (core and borrowed) and income category.

2. The totality of core resources (100 per cent) is channelled to LICs and LMICs. Borrowed resources are allocated to selected LICs, LMICs and the totality of UMICs as follows: 50:50 to LICs/LMICs:UMICs.

3. Core resources are assumed to be allocated through the existing PBAS formula. Borrowed resources are allocated based on potential demand. Therefore, the below breakdown represents an indicative estimate and should not be considered final.

<table>
<thead>
<tr>
<th>Scenario A Very low</th>
<th>Core</th>
<th>Borrowed</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC (DSF grants)</td>
<td>108</td>
<td>-</td>
<td>108</td>
<td>4</td>
</tr>
<tr>
<td>LIC (others)</td>
<td>578</td>
<td>192</td>
<td>770</td>
<td>28</td>
</tr>
<tr>
<td>Total LIC</td>
<td>686</td>
<td>192</td>
<td>878</td>
<td>33</td>
</tr>
<tr>
<td>LMIC*</td>
<td>914</td>
<td>383</td>
<td>1 297</td>
<td>47</td>
</tr>
<tr>
<td>Total LIC + LMIC</td>
<td>1 600</td>
<td>575</td>
<td>2 175</td>
<td>79</td>
</tr>
<tr>
<td>UMIC</td>
<td>-</td>
<td>575</td>
<td>575</td>
<td>20</td>
</tr>
<tr>
<td>Maximum PoLG*</td>
<td>1 600</td>
<td>1 150</td>
<td>2 750</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scenario B Low</th>
<th>Core</th>
<th>Borrowed</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC (DSF grants)</td>
<td>279</td>
<td>-</td>
<td>279</td>
<td>9</td>
</tr>
<tr>
<td>LIC (others)</td>
<td>636</td>
<td>183</td>
<td>819</td>
<td>27</td>
</tr>
<tr>
<td>Total LIC</td>
<td>914</td>
<td>183</td>
<td>1 098</td>
<td>36</td>
</tr>
<tr>
<td>LMIC</td>
<td>1 036</td>
<td>367</td>
<td>1 402</td>
<td>46</td>
</tr>
<tr>
<td>Total LIC + LMIC</td>
<td>1 950</td>
<td>550</td>
<td>2 500</td>
<td>82</td>
</tr>
<tr>
<td>UMIC</td>
<td>-</td>
<td>550</td>
<td>550</td>
<td>18</td>
</tr>
<tr>
<td>Maximum PoLG*</td>
<td>1 950</td>
<td>1 100</td>
<td>3 050</td>
<td>100</td>
</tr>
</tbody>
</table>

---

36 These amounts exclude regular grants, which form part of the PoLG but are not attributable to any specific income category.

37 In this breakdown, LMICs include also allocation of core resources to eligible small states.
### Scenario C: Mid-low

<table>
<thead>
<tr>
<th></th>
<th>Core</th>
<th>Borrowed</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC (DSF grants)</td>
<td>376</td>
<td>-</td>
<td>376</td>
<td>12</td>
</tr>
<tr>
<td>LIC – others</td>
<td>689</td>
<td>175</td>
<td>864</td>
<td>27</td>
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<tr>
<td>Total LIC</td>
<td>1 066</td>
<td>175</td>
<td>1 241</td>
<td>38</td>
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<tr>
<td>LMIC</td>
<td>1 134</td>
<td>350</td>
<td>1 484</td>
<td>46</td>
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<tr>
<td>Total LIC + LMIC</td>
<td>2 200</td>
<td>525</td>
<td>2 725</td>
<td>84</td>
</tr>
<tr>
<td>UMIC</td>
<td>-</td>
<td>525</td>
<td>525</td>
<td>16</td>
</tr>
<tr>
<td>Maximum PoLG*</td>
<td>2 200</td>
<td>1 050</td>
<td>3 250</td>
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</table>

### Scenario D: Mid-high

<table>
<thead>
<tr>
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<th>Core</th>
<th>Borrowed</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC – DSF grants</td>
<td>508</td>
<td>-</td>
<td>508</td>
<td>14</td>
</tr>
<tr>
<td>LIC – others</td>
<td>806</td>
<td>167</td>
<td>973</td>
<td>27</td>
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<tr>
<td>Total LIC</td>
<td>1 314</td>
<td>167</td>
<td>1 481</td>
<td>40</td>
</tr>
<tr>
<td>LMIC</td>
<td>1 336</td>
<td>333</td>
<td>1 669</td>
<td>46</td>
</tr>
<tr>
<td>Total LIC + LMIC</td>
<td>2 650</td>
<td>500</td>
<td>3 150</td>
<td>86</td>
</tr>
<tr>
<td>UMIC</td>
<td>-</td>
<td>500</td>
<td>500</td>
<td>14</td>
</tr>
<tr>
<td>Maximum PoLG*</td>
<td>2 650</td>
<td>1 000</td>
<td>3 650</td>
<td>100</td>
</tr>
</tbody>
</table>

### Scenario E: High

<table>
<thead>
<tr>
<th></th>
<th>Core</th>
<th>Borrowed</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC – DSF grants</td>
<td>587</td>
<td>-</td>
<td>587</td>
<td>14</td>
</tr>
<tr>
<td>LIC – others</td>
<td>938</td>
<td>163</td>
<td>1 100</td>
<td>27</td>
</tr>
<tr>
<td>Total LIC</td>
<td>1 525</td>
<td>163</td>
<td>1 688</td>
<td>42</td>
</tr>
<tr>
<td>LMIC</td>
<td>1 550</td>
<td>325</td>
<td>1 875</td>
<td>46</td>
</tr>
<tr>
<td>Total LIC + LMIC</td>
<td>3 075</td>
<td>488</td>
<td>3 563</td>
<td>88</td>
</tr>
<tr>
<td>UMIC</td>
<td>-</td>
<td>488</td>
<td>488</td>
<td>12</td>
</tr>
<tr>
<td>Maximum PoLG*</td>
<td>3 075</td>
<td>975</td>
<td>4 050</td>
<td>100</td>
</tr>
</tbody>
</table>
Financial model assumptions

1. The financial assumptions are based on conservative cash flow projections to ensure long-term financial sustainability under each scenario. It is important to note that the assumptions are revised regularly to incorporate changes in key variables that could affect IFAD’s financing capacity, such as the effective encashment of contributions, availability of funding and trends in disbursements.

2. The main assumptions for the financial scenarios are presented below. Additional considerations of a qualitative nature include: (i) the level of CPLs and new sovereign borrowing in the scenario deemed necessary to ensure financial sustainability is the level that IFAD expects to receive during IFAD12 but has not yet secured; (ii) the long-term time horizon for testing the financial sustainability of the scenarios is in line with current policies. The IFAD12 PoLG is deemed to be financially sustainable because minimum liquidity requirements and other ratios, including a projected 40 per cent debt-to-equity target by IFAD14, are respected; and (iii) the level of debt in IFAD12 is mainly derived from the need to cover payment commitments arising from IFAD10 and IFAD11 PoLG approvals.

3. Further changes in the liquidity policy could also affect the scenario outcomes. All the scenarios presented here are deemed to be sustainable under the current liquidity policy, but new definitions of minimum and target liquidity are to be presented to the Executive Board for consideration and approval by the end of 2020. As this policy may affect the scenario’s outcomes, the Treasury Services Division will engage in parallel financial sustainability testing as the new liquidity policy is developed.
### IFAD12

<table>
<thead>
<tr>
<th>Replenishment target (new cash contributions plus grant element of CPLs) (in US$ million)</th>
<th>Scenario A Very low</th>
<th>Scenario B Low</th>
<th>Scenario C Mid-low</th>
<th>Scenario D Mid-high</th>
<th>Scenario E High</th>
</tr>
</thead>
<tbody>
<tr>
<td>950</td>
<td>1 150</td>
<td>1 350</td>
<td>1 550</td>
<td>1 750</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sustainable replenishment baseline (new cash not including grant element of CPLs) (in US$ million)</th>
<th>Scenario A Very low</th>
<th>Scenario B Low</th>
<th>Scenario C Mid-low</th>
<th>Scenario D Mid-high</th>
<th>Scenario E High</th>
</tr>
</thead>
<tbody>
<tr>
<td>900</td>
<td>1 100</td>
<td>1 300</td>
<td>1 500</td>
<td>1 700</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Estimated grant element of CPLs (in US$ million)</th>
<th>Scenario A Very low</th>
<th>Scenario B Low</th>
<th>Scenario C Mid-low</th>
<th>Scenario D Mid-high</th>
<th>Scenario E High</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Time horizon</th>
<th>The scenarios are presented for IFAD12 only Scenario assumptions apply for a time horizon of three replenishment cycles – up to IFAD14 (2030).</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Compensation for approved DSF grants (IFAD7-IFAD11)</th>
<th>Carved out from the sustainable replenishment baseline</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Gross replenishment level growth rate</th>
<th>1 per cent per year</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Liquidity</th>
<th>Liquidity levels at any point in time will be in line with the prudential minimum and target liquidity levels in view of the proposed implementation of IFAD’s New Liquidity Policy in IFAD12</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Maximum sustainable new DSF grants (in US$ million)</th>
<th>145</th>
<th>340</th>
<th>450</th>
<th>600</th>
<th>690</th>
</tr>
</thead>
</table>

| Regular grants (in US$ million) | 50 | 50 | 150 | 150 | 150 |

<table>
<thead>
<tr>
<th>CPLs (in US$ million)</th>
<th>US$225 million split in 3 tranches of US$75 million per year</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Sovereign Borrowing (in US$ million)</th>
<th>Grant element estimated with discount rates with market rates as at 29 February 2020</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Leverage</th>
<th>Leverage target of 40 per cent debt/equity to be reached in IFAD14</th>
</tr>
</thead>
</table>

<p>| Resource allocation | Borrowed resources are all allocated to ordinary terms loans Borrowed resources are allocated outside of PBAS LMICs borrowing on ordinary terms have access to PBAS allocation and borrowing resources |
|---|---|---|---|</p>
<table>
<thead>
<tr>
<th>Other considerations on country resource allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Pledges and other core resources are expected to be fully encashed.</td>
</tr>
<tr>
<td>- Same list of countries receiving IFAD financing in IFAD11.</td>
</tr>
<tr>
<td>- 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.</td>
</tr>
<tr>
<td>- Values for PBAS formula variables are those of IFAD11, year one.</td>
</tr>
<tr>
<td>- 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, <strong>for DSF grants only</strong>, in order to ensure the required income category ratios without applying the modified volume approach.</td>
</tr>
</tbody>
</table>
Overview of simulated and expected IFAD12 lending term decomposition

1. The following IFAD12 lending term decomposition tables are the result of an aggregation of country allocations derived by applying the PBAS formula\(^{38}\) to borrowers eligible for core resources, the available World Bank income categories as of June 2020 and projected IFAD financing terms. The analysis assumes the same 80 countries that received financing during IFAD11.

2. These assumptions, and the lending terms presented in this paper, which are a required input for the scenario production process, should be considered as indicative, and do not constitute a firm commitment for IFAD12. These data will be updated to calculate the official allocations of IFAD12 core resources.

3. Therefore, by applying the PBAS formula to allocate IFAD’s core resources, and based on projected IFAD lending terms, under the lowest replenishment scenarios A and B – it may not be possible to ensure that two thirds of IFAD’s financing can be provided on grant and highly concessional terms\(^{39}\) as indicated in the Policies and Criteria for IFAD Financing adopted by the Governing Council. Such possibility is ensured in the higher scenarios C, D and E.

<table>
<thead>
<tr>
<th>Scenario 1 Lending terms</th>
<th>US$0.95 billion Very low</th>
<th>Scenario 2 Lending terms</th>
<th>US$1.15 billion Low</th>
<th>Scenario 3 Lending terms</th>
<th>US$1.35 billion Mid-low</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSF</td>
<td>145</td>
<td>DSF</td>
<td>340</td>
<td>DSF</td>
<td>450</td>
</tr>
<tr>
<td>SHC</td>
<td>248</td>
<td>SHC</td>
<td>273</td>
<td>SHC</td>
<td>296</td>
</tr>
<tr>
<td>HC (regular)</td>
<td>466</td>
<td>HC (regular)</td>
<td>512</td>
<td>HC (regular)</td>
<td>556</td>
</tr>
<tr>
<td>Blend</td>
<td>428</td>
<td>Blend</td>
<td>482</td>
<td>Blend</td>
<td>522</td>
</tr>
<tr>
<td>Ordinary PBAS</td>
<td>304</td>
<td>Ordinary PBAS</td>
<td>343</td>
<td>Ordinary PBAS</td>
<td>377</td>
</tr>
<tr>
<td>Total PBAS</td>
<td>1 600</td>
<td>Total PBAS</td>
<td>1 950</td>
<td>Total PBAS</td>
<td>2 200</td>
</tr>
<tr>
<td>Ordinary (borrowed resources)</td>
<td>1 150</td>
<td>Ordinary (borrowed resources)</td>
<td>1 100</td>
<td>Ordinary (borrowed resources)</td>
<td>1 050</td>
</tr>
<tr>
<td>Grants</td>
<td>50</td>
<td>Grants</td>
<td>50</td>
<td>Grants</td>
<td>150</td>
</tr>
<tr>
<td>Maximum PoLG</td>
<td>2 800</td>
<td>Maximum PoLG</td>
<td>3 100</td>
<td>Maximum PoLG</td>
<td>3 400</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Scenario 4 Lending terms</th>
<th>US$1.55 billion Mid-high</th>
<th>Scenario 5 Lending terms</th>
<th>US$1.75 billion High</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSF</td>
<td>600</td>
<td>DSF</td>
<td>690</td>
</tr>
<tr>
<td>SHC</td>
<td>346</td>
<td>SHC</td>
<td>402</td>
</tr>
<tr>
<td>HC (regular)</td>
<td>650</td>
<td>HC (regular)</td>
<td>755</td>
</tr>
<tr>
<td>Blend</td>
<td>611</td>
<td>Blend</td>
<td>711</td>
</tr>
<tr>
<td>Ordinary PBAS</td>
<td>444</td>
<td>Ordinary PBAS</td>
<td>517</td>
</tr>
<tr>
<td>Total PBAS</td>
<td>2 650</td>
<td>Total PBAS</td>
<td>3 075</td>
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<tr>
<td>Ordinary (borrowed resources)</td>
<td>1 000</td>
<td>Ordinary (borrowed resources)</td>
<td>975</td>
</tr>
<tr>
<td>Grants</td>
<td>150</td>
<td>Grants</td>
<td>150</td>
</tr>
<tr>
<td>Maximum PoLG</td>
<td>3 800</td>
<td>Maximum PoLG</td>
<td>4 200</td>
</tr>
</tbody>
</table>

Note 3: SHC: super highly concessional terms; HC: highly concessional terms.

---

\(^{38}\) EB 2017/121/R.3.

\(^{39}\) Including DSF grants, regular grants, SHC and HC loans.
Sensitivity analyses on scenarios D and E

1. Some Members requested information about the impact on IFAD’s commitment capacity (i.e. new IFAD12 PoLG) if IFAD were not in a position to secure the levels of borrowing assumed in the financial scenarios presented for IFAD12.

2. In response, two sensitivity analyses were performed on scenarios D and E. Specifically, the analyses aim to answer the following questions:
   (i) Keeping all other variables constant, what would be the impact on the level of IFAD12 PoLG if IFAD can access only 50 per cent of the assumed level of non-concessional borrowing?
   (ii) Keeping all other variables constant, what would be the increase needed in core contributions to keep the expected level of IFAD12 PoLG in the corresponding scenarios if IFAD can access only 50 per cent of the assumed level of non-concessional borrowing?

Figure 1
Impact on the level of IFAD12 PoLG
(Millions of United States dollars)

<table>
<thead>
<tr>
<th>Scenario D</th>
<th>Scenario E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Mid-high</strong></td>
<td><strong>High</strong></td>
</tr>
<tr>
<td>Replenishment target</td>
<td>1 550</td>
</tr>
<tr>
<td>Total new sovereign borrowing</td>
<td>1 000</td>
</tr>
<tr>
<td>Total PoLG</td>
<td>3 800</td>
</tr>
</tbody>
</table>

3. As evidenced in the table above, should only 50 per cent of the assumed level of non-concessional borrowing be secured (equalling US$500 million in scenario D and US$488 million in scenario E), and the same replenishment size is maintained, the PoLG would drop from US$3.6 billion - US$3.8 billion in scenario D to US$2.4 billion - US$2.5 billion, and from US$4.0 billion - US$4.2 billion in scenario E to US$2.7 billion - US$2.8 billion.

Figure 2
Increase needed in core contributions
(Millions of United States dollars)

<table>
<thead>
<tr>
<th>Scenario D</th>
<th>Scenario E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Mid-high</strong></td>
<td><strong>High</strong></td>
</tr>
<tr>
<td>Replenishment target</td>
<td>1 550</td>
</tr>
<tr>
<td>Total new sovereign borrowing</td>
<td>1 000</td>
</tr>
<tr>
<td>Total PoLG</td>
<td>3 800</td>
</tr>
</tbody>
</table>

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40 Sensitivity analyses were performed on the high end of the IFAD12 PoLG ranges of the two scenarios. The analyses were performed in such a way as to maintain the total volume of grants unchanged from the related base case scenarios, i.e. Scenario D includes US$600 million of DSF grants and US$150 million of regular grants, while Scenario E includes US$690 million of DSF grants and US$150 million of regular grants. Borrowing levels and PoLG remain constant in IFAD13 and IFAD14.

41 Non-concessional borrowing refers to the level of borrowing excluding the US$225 million of CPLs, which remains constant also in the sensitivity analyses. Replenishment targets shown in this analysis therefore also include the same level of US$50 million CPL grant element.

42 This would bring total borrowing to US$625 million and US$725 million, considering US$225 million of CPLs.
4. As shown in the table above, in order to keep the same levels of PoLG under scenario D and E, core replenishment contributions would need to increase from US$1.55 billion in scenario D to US$2.15 billion, and from US$1.75 billion in scenario E to US$2.35 billion.

5. In conclusion, if IFAD were to have access to only 50 per cent of the level of non-concessional borrowing shown in the base cases in table 4 of the main document, it is estimated that donors would need to increase their contributions by US$600 million to ensure/guarantee the same PoLG levels as in the base case IFAD12 scenarios.

6. If donors are not able to increase their contributions accordingly, then it is expected that IFAD’s PoLG will drop by US$1.3 billion – US$1.4 billion compared to the base case IFAD12 scenarios thereby decreasing to much lower levels when compared to IFAD9, IFAD10 and IFAD11.

7. It should be noted that new replenishment resources represent new capital for IFAD, whereas debt is a resource that can complement the replenishment. However, these sensitivity analyses evidence the importance that borrowing plays during IFAD12 to complement replenishment resources. The support – also in the form of loans – provided by Members and their development agencies to IFAD will therefore be important to reach the levels of PoLG that would make a significant contribution to achieving the SDGs.

**Methodological note:**

8. In order to make the outcome comparable to the base scenarios D and E in table 4 of the main document, this analysis was performed assuming the same percentage distribution by lending terms as in the base scenarios (see annex III for distribution by lending terms). In practice, should either of the two sensitivity analyses materialize, the application of the PBAS formula and assumptions about the allocation of resources could result in a different distribution by lending terms thereby potentially impacting the results of the analysis.

9. These sensitivity analyses take into account dynamics such as disbursements from approved PoLGs in past replenishments, as well as the different effects of capital versus debt. It is not possible in all scenarios to maintain the expected liquidity levels of the base case scenarios due to innate timing mismatches between forgone immediate inflows from borrowing and disbursement outflows compared to PoLG approvals. The IFAD12 PoLG will be disbursed during IFAD12, IFAD13, IFAD14 and a small portion in IFAD15. The financial model assumes that the borrowing size will be kept at this reduced level for the next replenishments, which reduces financial commitment capacity going forward, and requires the IFAD12 PoLG and future PoLG sizes to be adjusted accordingly.