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Investing in rural people

Draft Report of the Consultation on the Twelfth Replenishment of IFAD's Resources

Recovery, Rebuilding, Resilience

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Consultation on the Twelfth Replenishment of IFAD's Resources –
Third Session

Rome, 19-21 October 2020

For: Approval

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Abbreviations and acronyms

2RP	Rural Resilience Programme
3S Initiative	Initiative for Sustainability, Stability and Security in Africa
AF	Adaptation Fund
ASAP+	Adaptation for Smallholder Agriculture Programme +
BRAM	Borrowed Resource Access Mechanism
CFS	Committee on World Food Security
COSOP	country strategic opportunities programme
CPL	concessional partner loan
CSN	country strategy note
DSF	Debt Sustainability Framework
ERM	enterprise risk management
FAO	Food and Agriculture Organization of the United Nations
GCF	Green Climate Fund
GEF	Global Environment Facility
GGWI	Great Green Wall Initiative
GIS	geographical information system
GNI	gross national income
LIC	low-income country
LMIC	lower-middle-income country
IBF	Integrated Borrowing Framework
ICT4D	information and communication technology for development
IFAD12	Twelfth Replenishment of IFAD's Resources
IFI	international financial institution
IMF	International Monetary Fund
IOE	Independent Office of Evaluation of IFAD
M&E	monitoring and evaluation
MDB	multilateral development bank
MIC	middle-income country
MSME	micro, small and medium-sized enterprise
NSO	non-sovereign operations
ODI	Overseas Development Institute
PBAS	performance-based allocation system
PoLG	programme of loans and grants
PoW	programme of work
PSFP	Private Sector Financing Programme
PSS	Private Sector Engagement Strategy
RBAs	Rome-based agencies
RIDE	Report on IFAD's Development Effectiveness
RMF	Results Management Framework
RPSF	Rural Poor Stimulus Facility
SDG	Sustainable Development Goal
SECAP	Social, Environmental and Climate Assessment Procedures
SFOAP	Support to Farmers' Organizations in Africa Programme
SH/SEA	sexual harassment, sexual exploitation and abuse
SOFI	State of Food Security and Nutrition in the World
SSTC	South-South and Triangular Cooperation
UMIC	upper-middle-income country
UNCT	United Nations country team
UNDF	United Nations Decade of Family Farming
UNDS	United Nations development system
UNSDCF	United Nations Sustainable Development Cooperation Framework

Draft Report of the Consultation on the Twelfth Replenishment of IFAD's Resources

A note on the Draft Report

This Draft Report of the Consultation on the Twelfth Replenishment of IFAD's Resources presented to the third session of the Consultation provides an initial summary of the papers, presentations and discussions of the Consultation. The report includes a draft matrix of commitments and monitorable actions for the IFAD12 period, and an update on the status of implementation of the IFAD11 commitments. The final version of the report, to be presented to the final session of the Consultation, will include updates resulting from the third session and from further discussions with Member States.

Following the final session, a table of pledges received at that session will be added and regularly updated until the forty-fourth session of the Governing Council takes place in February 2021.

Executive summary

1. The Consultation on the Twelfth Replenishment of IFAD's Resources (IFAD12) occurs at a significant moment: with only 10 years remaining to achieve the Sustainable Development Goals (SDGs), the impacts of critical shocks – including increased climate volatility and the economic and social effects of the crisis brought on by COVID-19 – threaten progress on the eradication of poverty and hunger. Rural communities are being disproportionately affected. It is clear that, without investing in rural people, the SDGs cannot be achieved.
2. IFAD is stepping up to meet this challenge. IFAD12 represents an evolution of IFAD's business model towards a more comprehensive financial, policy-oriented and programmatic package that fosters systemic change for rural people. It places an overarching emphasis on results on the ground. This evolution builds from the platform of recent financial and institutional reforms and requires the full use of all tools at IFAD's disposal to deliver results and scale up impact. It integrates a sharper focus on the needs of historically marginalized populations and on the drivers of fragility. It seeks to augment IFAD's role within the international aid architecture and use strategic partnerships to complement engagement with governments.
3. In a context of increasing global uncertainty and crises, directions taken in IFAD12 can set the institution on course to double its impact by 2030, annually raising the incomes of 40 million rural women and men, while increasing efficiency, sustainability and enhancing value for money.
4. The 10 key messages of the IFAD12 Consultation, as well as the main agreements on targets for increasing IFAD's financing, results and impact over the period 2022-2024, are summarized as follows.

Key message 1: As the only specialized global development organization dedicated to transforming rural economies, IFAD has a critical role in achieving SDGs 1 and 2, which cannot be met without a focus on the rural poor.

5. Hunger is on the rise: the latest report on the State of Food Security and Nutrition in the World (SOFI) 2020 estimates that the number of people suffering from food insecurity reached nearly 750 million in 2019, with most of this increase linked to fragility, climate variability and extremes, and economic decline. Extreme poverty is increasingly concentrated in a small number of low-income countries (LICs) and in pockets in middle-income countries (MICs). Across all countries, food insecurity and extreme poverty are most prevalent among highly vulnerable rural people, including women, youth, indigenous peoples and persons with disabilities. Rural people account for approximately three quarters of the world's poorest and most food-insecure.
6. The COVID-19 pandemic has triggered the largest global economic shock in decades and could lead to a "lost decade" for developing countries. The impact of this pandemic threatens to plunge an additional estimated 100 million people into extreme poverty and add up to 132 million people to the total number of undernourished in the world in 2020 alone. This pandemic has exposed weaknesses in food systems, including through disrupted supply chains. This situation is compounded by rising fragility and rapidly increasing climate-related shocks, whose effects are most severe for poor and marginalized rural people with less capacity to respond.
7. Increased and sustained investment in rural people is required to meet SDGs 1 and 2 and to deliver on the promise of the 2030 Agenda for Sustainable Development to "leave no one behind". As the only specialized global development organization and fund exclusively dedicated to transforming agriculture, rural economies and food systems, IFAD has a pivotal role to play in ensuring that global development

financing – and developing countries' own resources – reach the rural poor. Through an inclusive approach, IFAD's investments target multiple priorities, helping poor rural communities adapt to increasing climate shocks and manage natural resources. They also improve rural women's economic empowerment, advance the nutritional status of rural people and create opportunities for rural youth. IFAD is a leader in the international agriculture and rural development architecture and complements the interventions of others working in the agricultural and rural space, filling a niche to serve those who would otherwise not be reached.

Key message 2: In the face of COVID-19 and other urgent global challenges, IFAD must double and deepen its impact.

8. The emerging impacts of the COVID-19 pandemic, together with more frequent climatic and socio-economic shocks, highlight the need for increased financial investment in recovery, rebuilding and resilience. This increased investment must urgently look beyond emergency assistance to address the escalating negative socio-economic impacts on the world's poorest and most vulnerable. Demand for official development assistance, particularly in the rural sector, is expected to significantly increase due to the current pandemic, while projections show a widening financing gap to reach SDGs 1 and 2, with an estimated US\$160 billion required per year for the next decade to meet SDG 2 alone.
9. IFAD is poised to contribute more to building the resilience of rural communities and strengthening food systems, with a focus on protecting livelihoods and development gains. Based on high demand from its Member States, IFAD's response to the COVID-19 pandemic provisions critical financial, technical, knowledge and policy support to protect the livelihoods of IFAD's target groups. This has demonstrated the Fund's relevance in ensuring the resilience of the rural poor.
10. The challenging global environment calls for significantly increased efforts to end extreme poverty and hunger and build resilience to future crises. By expanding and deepening its impact, IFAD can play a major role in these efforts. Currently, IFAD's operations are enabling 20 million people to increase their incomes by at least 20 per cent every year. However, with the support of its Member States, IFAD has the potential to double this impact by 2030, reaching 40 million people per year, and to significantly deepen it. Deepening impact means increasing ambition on IFAD's mainstreaming themes; targeting the poorest and most vulnerable rural people, including indigenous peoples and persons with disabilities; focusing on the poorest countries and fragile situations; and ensuring that each beneficiary experiences greater and more sustainable improvements in production, income, nutrition and resilience. This can be accomplished by incrementally increasing the Fund's impact over the coming three replenishment cycles, with a target of approximately 27 million people per year with increased income during IFAD12. It will require more diversified resources, enhanced focus on systemic change, and working with an expanded set of partners.
11. To deliver on expanded and deepened impact and maximize the Fund's contributions to the SDGs, the IFAD12 business model aims to deliver a more comprehensive financial, policy-oriented and programmatic package that works in a synergistic manner to foster systemic change. This involves consolidating IFAD's country-level programmatic approach, while strengthening its ability to assemble and deploy finance through different instruments.

Key message 3: IFAD has a leadership role in ensuring that global climate finance reaches small-scale producers and rural poor people, and that its focus on gender, nutrition, youth, indigenous peoples and persons with disabilities drives deeper impact.

12. IFAD's mainstreaming of priority themes will be central to its programmatic country approach during IFAD12 and will deepen its sustainable impact. Efforts will also be made to enhance the policy, initiated in IFAD11, of strengthening linkages between the mainstreaming themes of environment and climate change, gender, youth and nutrition.
13. Climate is critically interrelated with agriculture. Increasing climate variability threatens the lives and livelihoods of rural people, the majority of whom are dependent on natural resources. With IFAD's strong targeting of the poorest people, particularly small-scale producers, in the hardest to reach areas, the Fund is uniquely placed to ensure that rural communities receive the support and financing they need to adapt to the threats posed by climate change. At the same time, rural people are often stewards of natural resources, therefore investments in their livelihoods offer opportunities to mitigate climate change and preserve biodiversity.
14. In IFAD12, efforts to address environment and climate issues and to facilitate social inclusion will be expanded. There will be an enhanced focus on climate finance in IFAD's investment projects and an increased target for climate finance to constitute 35 per cent of the IFAD12 programme of loans and grants (PoLG). The Adaptation for Smallholder Agriculture Programme + (ASAP+) will make it possible to direct targeted resources towards building climate resilience among small-scale producers in the lowest-income countries. IFAD will also increasingly partner with climate finance vehicles such as the Global Environment Facility (GEF), Green Climate Fund (GCF) and Adaptation Fund (AF) to complement other IFAD investments. The Fund will also embed biodiversity considerations into its operations as part of its environmental and climate assessment, and help small-scale producers leverage biodiversity for development gains (e.g. improved nutrition), while contributing to global conservation efforts.
15. IFAD will continue to advance social inclusion through its investments, focusing on transformative change for gender equality and women's empowerment, nutrition, youth and youth employment, indigenous peoples and persons with disabilities. During IFAD12, IFAD will ensure that 35 per cent of the projects it finances are gender-transformative at design, addressing the root causes of inequalities. The Fund will continue to measure its impact on the nutritional status of rural people at an institutional level, and will ramp up its focus on rural youth, ensuring that 60 per cent of new investment projects explicitly prioritize youth and youth employment. It will update its targeting policy, renew its indigenous peoples strategy, and ensure that at least 10 new projects during IFAD12 include indigenous peoples as a priority target group. IFAD will begin to integrate explicit targeting of persons with disabilities within its portfolio, developing a strategy to prioritize and inform interventions and will ensure that at least five projects designed during IFAD12 include persons with disabilities as a priority target group.

Key message 4: IFAD will enhance its focus on addressing the drivers of fragility.

16. An estimated 80 per cent of the world's extremely poor people will live in fragile situations by 2030. Fragile situations disproportionately affect the most vulnerable people and communities, including women and girls, and are a major driver of migration and humanitarian crises. They can have severe consequences for agricultural production and livelihoods, as populations lose access to the resources needed for production.
17. IFAD fills a particular niche in fragile situations, complementing relief efforts with a focus on recovery and resilience of rural populations, helping to protect and restore their livelihoods. Its particular focus areas build on its expertise in ensuring climate adaptation and mitigation support to small-scale producers, addressing gender

equality and women's empowerment and strengthening rural institutions, food security, and natural resource management.

18. IFAD's ability to address the underlying causes of extreme poverty and food insecurity in fragile and conflict-affected areas requires refinement during IFAD12. This will be informed by a review of engagement in fragile situations in IFAD12, building on emerging lessons from the implementation of the Strategy for Engagement in Countries with Fragile Situations and the Special Programme for Countries with Fragile Situations, and with a view to improving IFAD's performance in building resilience, reducing humanitarian needs, and engaging effectively in conflict-affected situations. Priority areas for action include the expanded use of fragility assessments in fragile contexts as well as the use of existing and new tools to adapt to the needs of countries in fragile situations. Interventions will be tailored to the specific conditions in fragile and conflict-afflicted countries and regions, and initiatives for enhanced engagement in the Sahel and Horn of Africa will be developed, with a view to increasing resources and strengthening collaboration with partners. During IFAD12, the Fund will also ensure that at least 25 per cent of core resources continue to be dedicated to most fragile situations.

Key message 5: Investments through IFAD's core resources will focus on the poorest countries.

19. In line with its special mandate to leave no one behind, IFAD's resources must continue to prioritize the poorest. During IFAD12, [100 per cent of IFAD's core resources, which enable IFAD to provide financing at the most concessional terms, will be devoted to meeting the needs of the poorest countries – LICs and lower-middle-income countries (LMICs)]. In line with their critical importance as Members of IFAD and development partners, and to extend benefits for the rural poor, [upper-middle-income countries (UMICs) will receive from 11 to 20 per cent of IFAD's PoLG through access to borrowed resources.]
20. In IFAD12, the approach for allocating financing will be adjusted to better support countries' development needs. While the allocation of core resources will continue to be governed by IFAD's performance-based allocation system (PBAS), [access to borrowed resources will be governed by a new Borrowed Resource Access Mechanism (BRAM)]. The combination of PBAS and [BRAM] will ensure provision of diversified support for countries' changing needs. IFAD will also continue to ensure that 50 per cent of core resources are allocated to Africa, including 45 per cent to sub-Saharan Africa.

Key message 6: Stronger policy engagement and strategic partnerships will underpin IFAD's efforts to expand and deepen impact

21. With the right policies and investments, agriculture could unlock an extra US\$2 trillion in rural growth. Much of this growth could benefit small-scale producers in developing countries. To realize the opportunities agriculture has to offer, the sector needs to be transformed to enable it to operate sustainably and ensure that small-scale producers can access markets and become successful and profitable while also delivering food and nutrition security. IFAD has a key role.
22. Strategic partnerships – those aligned with achieving development results – underlie all of IFAD's efforts and enable it to achieve catalytic impact. IFAD's partnership approach begins with the close alignment of its country programmes with national priorities, which requires strong partnerships with government and other development actors in-country, including other multilateral, bilateral and non-state actors.
23. IFAD plays a crucial role in assembling development finance for agriculture and rural development, and its strategic partnerships in-country have proved critical for leveraging cofinancing that brings additional financing for the benefit of IFAD's target group. Despite constraints in global development financing, IFAD will

continue to focus on mobilizing cofinancing to expand impact for the rural poor, maintaining a cofinancing target of 1:1.4 for the IFAD12 period.

24. IFAD also benefits from the generation and sharing of knowledge, innovation and strengthened policy engagement at the global and country level through partnerships with a variety of strategic actors. This includes other United Nations organizations, multilateral development banks (MDBs) and bilateral donors, as well as with farmers' organizations, with whom IFAD has a long history of joint advocacy and policy engagement, and key private sector actors, with whom IFAD can now partner directly through a range of tools. IFAD's approach to South-South and Triangular Cooperation (SSTC) will also be mainstreamed as a key tool across the portfolio during IFAD12, with fresh approaches articulated in a new SSTC strategy.

Key message 7: Transformational country programmes will be the core vehicle to deliver results for the rural poor in IFAD12.

25. During IFAD12, IFAD will strengthen its support to countries in meeting their most pressing challenges related to food insecurity, rural poverty, climate change and fragility. This will entail enhancing its country presence and offering tailored programmes that help countries deliver on their development priorities, and respond to specific needs and opportunities.
26. Underlying this programmatic, tailored approach will be the application of more adaptive management practices, focused on learning, which will respond and evolve as risks or shocks emerge that could undermine development objectives and outcomes. To maximize impact for beneficiaries, IFAD will also improve portfolio management, prioritizing action on areas where progress has stalled, notably through a focus on project-level efficiency, project-level monitoring and evaluation (M&E) and sustainability of benefits, and will develop action plans that set out a course for improvements in each area.
27. IFAD will also focus on areas that can bring about catalytic impact in IFAD12. For example, it will increase the emphasis on policy engagement as a means of promoting systemic change for IFAD's target groups, and on facilitating and integrating innovations in approaches and technologies throughout the portfolio. Concretely, IFAD will explore methods and instruments to scale up policy engagement and consolidate outcome-level data on policy at the country programme level. It will also develop an operating model and guidelines for innovation, and ensure that 50 per cent of country strategic opportunities programmes (COSOPs) and country strategy notes (CSNs) approved in IFAD12 identify information and communication technology for development (ICT4D) opportunities and at least five projects integrate digital agricultural approaches.
28. While results on the ground are still primarily achieved through the PoLG, significant additional funds are required to meet SDGs 1 and 2 and the evolving needs of Member States. IFAD is therefore leveraging its core resources to crowd in additional financing and capabilities in support of its development objectives during IFAD12. A Private Sector Financing Programme (PSFP) will offer a new instrument to catalyse private funding for rural micro, small and medium-sized enterprises (MSMEs), focusing on generating employment for youth and women, and working directly with a new suite of private sector actors. ASAP+¹ will scale up IFAD's ability to channel critical additional climate financing to small-scale producers, allowing IFAD to complement its PoLG through additional high-impact interventions. A refocusing of the IFAD regular grants programme will provide catalytic complementary financing for non-lending activities that create an enabling

¹ ASAP+ is one of three key pillars forming the Rural Resilience Programme (2RP), a global umbrella programme that will focus on alleviating the climate change drivers of food insecurity, irregular migration and land degradation. The 2RP is composed of: ASAP+; the Initiative for Sustainability, Stability and Security in Africa (3S Initiative), and the GCF-supported Great Green Wall Initiative (GGWI).

environment for scaling up, including through policy engagement, knowledge and partnerships. A new grant financing policy will be brought to the Executive Board for approval prior to the initiation of IFAD12.

Key message 8: Transformational country programmes will be delivered through enhanced institutional capacity and appropriate financing.

29. IFAD12 will focus on consolidating recent institutional changes to enhance the delivery of transformational results and on ensuring the right capacities to deliver the services, products and expertise required by Member States. Concretely, IFAD will extend its level of decentralization to around 45 per cent as a necessary measure to improve country-level delivery, while at the same time optimizing its efficiency ratio. It will also strengthen its technical expertise, ensuring that it remains a partner of choice for excellence in the domain of agriculture and rural development. Finally, IFAD will continue its efforts to prevent and respond to sexual harassment, sexual exploitation and abuse (SH/SEA), including through the development of biennial IFAD action plans, in line with efforts across the United Nations system.

Key message 9: IFAD will consolidate its financial reforms to continue strengthening its financial architecture and maximize financing to all clients.

30. Recent financial reforms – including the reform of the Debt Sustainability Framework (DSF), Capital Adequacy Policy, Liquidity Policy, resources available for commitment approach and Asset and Liability Management Framework – along with the Integrated Borrowing Framework (IBF) will be fully effective in IFAD12. These form the basis of a more comprehensive institutional financial structure and risk framework, oriented at both maintaining long-term financial sustainability and contributing to international efforts to consolidate sustainable development financing for borrowers.
31. As in previous replenishment cycles, core replenishment resources will remain the bedrock of IFAD's financing: only replenishment resources allow IFAD to finance the poorest, most indebted countries that are at the heart of its mandate. In IFAD12, borrowing will play a larger role in order to increase financing to all eligible countries and expand the impact of investments. Achieving the targeted PoLG levels requires diversified funding sources and Members' support for sovereign borrowing. The IBF is key to expanding IFAD's lender base and the borrowing instruments at IFAD's disposal.

Key message 10: IFAD is ready to step up its impact in IFAD12, but this requires increased financial support from Member States.

32. Increasing impact and closing the financing gap to end poverty and achieve zero hunger requires increased financial resources. For IFAD to fulfil its mandate and increase its contribution to the SDGs, a mix of higher core replenishment contributions, leveraging of existing resources through borrowing, additional financing from thematic initiatives such as climate finance, and support from non-state actors, including the private sector and foundations, will be necessary.
33. Core replenishment contributions are the foundation of these efforts. Only the achievement of the highest two replenishment scenarios – scenarios D (US\$1.55 billion) and E (US\$1.75 billion) – will allow IFAD to maintain its level of assistance to the poorest, most indebted countries. Member States' additional contributions to the PSFP and ASAP+ are also critical to expanding IFAD's reach and impact. Only scenario E, along with strong contributions to the PSFP and ASAP+, is consistent with the objective of doubling IFAD's impact by 2030. This strong, joint effort is necessary to maximize support to the rural poor people served by IFAD's financing and to help deliver on the objectives of the SDGs.

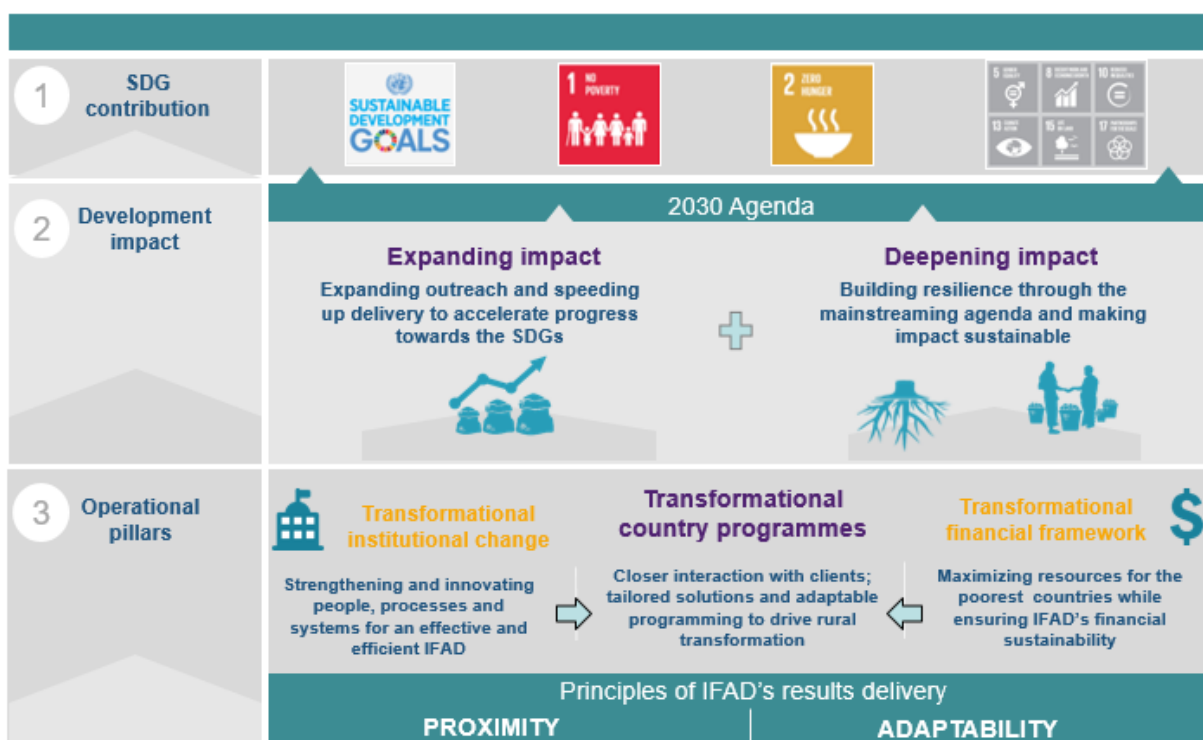
Draft Report of the Consultation on the Twelfth Replenishment of IFAD's Resources

Introduction

1. Every three years, IFAD's Member States assemble to review the Fund's performance, agree on future strategic direction and priorities, and replenish its financial resources. This process is known as the replenishment consultation.
2. At its forty-third session in February 2020, the Governing Council established the Consultation on the Twelfth Replenishment of IFAD's Resources (IFAD12). The Council requested that the Consultation submit a report on the results of its deliberations to the forty-fourth session in February 2021. **[Representatives of IFAD's Member States met four times during 2020 for the IFAD12 Consultation. The Consultation finalized and endorsed this report on 11 December 2020].**
3. Members of the IFAD12 Consultation acknowledged that IFAD is making a unique and critical contribution to the 2030 Agenda and its SDGs through its strong focus on promoting rural transformation and empowering extremely poor and food-insecure rural people. They noted that IFAD's investments achieve impact, reaching 132 million beneficiaries in 2020, and leading to an annual estimated increase in production for 15 million small-scale producers and significantly increased incomes for 20 million rural women and men.²
4. With 10 years until the completion date of the SDGs, it was agreed that IFAD's ambition must be to double its impact by 2030 while increasing efficiency and sustainability to enhance value for money. This means placing IFAD on a course to ensure that, by 2030, its investments increase the incomes of 40 million rural people annually. This requires a robust IFAD12 replenishment as set out in the financial scenarios in section VI of this report.
5. Consultation members acknowledged the important steps taken by IFAD in recent years to evolve from an organization that was predominantly project-focused to one that offers Member States comprehensive and tailored support to address food insecurity and rural poverty and to transform food systems so that they are inclusive, productive, resilient and sustainable. This evolution is captured in the proposed IFAD12 business model, which aims to deliver a more comprehensive financial, policy-oriented and programmatic package that fosters systemic change.
6. The organization and objectives of the proposed IFAD12 business model are captured in the theory of change depicted in figure 1. At the highest level – tier 1 – IFAD will maintain its ambition of making a significant contribution to SDGs 1 and 2 and supporting the achievement of other SDGs such as those focused on gender equality and women's empowerment, climate and justice. In the second tier, IFAD's development impact for the 2030 Agenda is focused on expanding and deepening impact, accelerating delivery and building resilience.
7. In the third pillar, operational results, IFAD12 prioritizes transformational country programmes. This envisages closer interaction with an array of clients, a deepened approach to mainstreaming, and a wider menu of solutions, including the introduction of new innovative financing instruments such as ASAP+ and PSFP. To ensure that IFAD is positioned to support transformational country programmes, efforts will continue to consolidate institutional transformation (people, processes and systems) and financial transformation (ensuring financial sustainability while maximizing resources for the poorest countries) to facilitate a deepening and doubling of impact.

² IFAD: Report on IFAD's Development Effectiveness 2020.

Figure 1
Theory of change for IFAD12



8. Two key principles underpin the IFAD12 business model to ensure increased and deeper impact and to support the recovery, rebuilding and resilience of poor and vulnerable rural people. The first is **proximity**. This will include the further decentralization of staff from 32 per cent to up to 45 per cent to regional hubs and stand-alone IFAD Country Offices. The second, 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 adapt.
9. Consultation members are confident that IFAD can achieve these ambitious goals based on its strong track record of delivering results. Presently, IFAD operations benefit over 132 million rural people. Annually, IFAD assists over 20 million rural poor people to increase their incomes by at least 20 per cent by improving their productivity, food security and nutrition as well as their climate resilience. As a development fund exclusively dedicated to serving the poorest and most vulnerable rural populations, IFAD has developed a unique wealth of experience and expertise in building resilience, creating socio-economic opportunities and delivering impact in remote geographies where other agencies rarely go.
10. This report summarizes the conclusions of the IFAD12 Consultation process and reflects guidance provided by its members. The report is divided into the following sections: (i) the overall context for the IFAD12 Consultation; (ii) IFAD's comparative advantage; (iii) and (iv) the main elements of the IFAD12 operational business model; (v) the agreed institutional framework; (vi) the agreed financial framework; (vii) the IFAD12 Results Management Framework and matrix of commitments and monitorable actions; and (viii) arrangements for the midterm review of IFAD12 and the IFAD13 Consultation.

I. Context

11. **In recent years, economic slowdowns, conflicts and climate-related shocks have set back the work to end poverty and hunger by 2030.** Significant progress in reducing extreme poverty and food insecurity has been made in recent

decades, however, this trend began to reverse some years ago.³ The SOFI 2020 report estimates that the number of people suffering from food insecurity reached nearly 750 million in 2019, while the number of hungry people increased by nearly 60 million in 2019 with respect to 2014.⁴ Most of this increase occurred in LICs and LMICs and is linked to fragility, climate variability and extremes, and economic decline. Extreme poverty is also increasingly concentrated in a number of LICs (just over 30 countries) and in pockets of extreme poverty in MICs.

12. **Progress is further threatened by the emergence of the COVID-19 pandemic.** The social and economic impacts of this latest shock and the subsequent restrictions of movement are substantial and likely to continue in the medium term, with devastating consequences for the poorest and hardest to reach. Already over-represented among the poorest population, rural people located far from the reach of government interventions are likely to suffer most.
13. **Achieving the SDGs by 2030 depends on increased and sustained investment in rural areas, where extreme poverty and hunger are concentrated.** Rural people account for approximately three quarters of the world's poorest and most food-insecure people. Across all countries, food insecurity and extreme poverty are most prevalent among highly vulnerable groups in rural areas (including women, youth, indigenous peoples and persons with disabilities).
Emerging impact of COVID-19
14. **The COVID-19 pandemic has triggered the largest global economic shock in decades.** The latest International Monetary Fund (IMF) and World Bank estimates indicate that the COVID-19 pandemic and related restrictions have already plunged many countries into deep recession.⁵ With more than 90 per cent of developing economies projected to register negative per capita income growth in 2020, the repercussions will be particularly acute for the poorest and most vulnerable populations living in extreme poverty.⁶ The IMF indicates that "without help, low-income developing countries risk a lost decade" as a result of the multiple shocks triggered by the pandemic.⁷
15. **Global poverty is likely to substantially increase.** The World Bank estimates that the effects of the pandemic could shift an additional 100 million people into extreme poverty (see figure 2),⁸ of whom 39 million will likely be in sub-Saharan Africa and 42 million in South Asia (see figure 3). These estimates are particularly concerning for the Democratic Republic of the Congo, India and Nigeria – three countries that together are home to more than a third of the world's poor and where IFAD has significant country programmes.

³ The State of Food Security and Nutrition in the World 2017.

⁴ The State of Food Security and Nutrition in the World 2020.

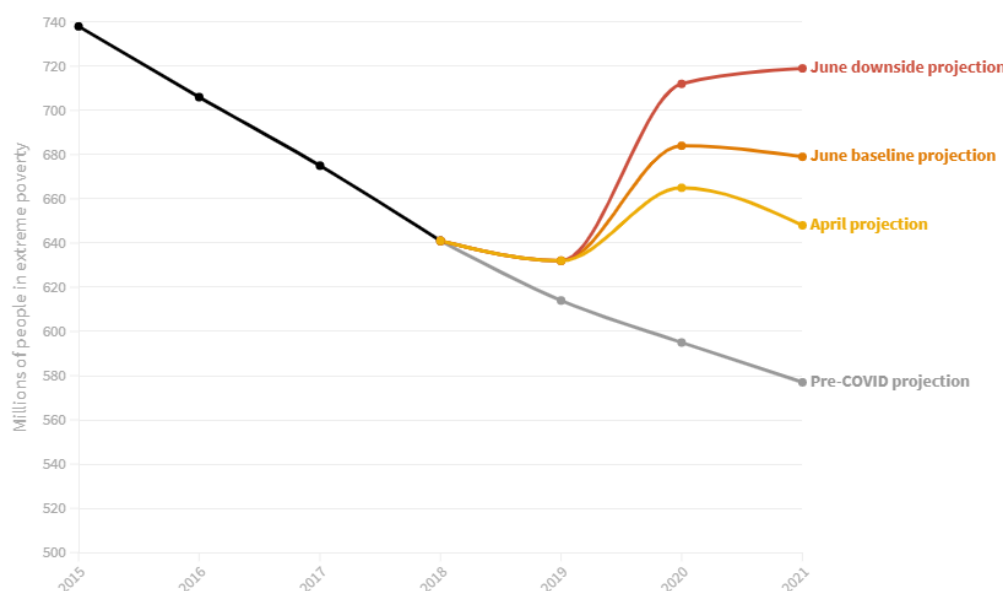
⁵ A World Bank Group Flagship Report, Global Economic Prospects, June 2020: <https://www.worldbank.org/en/publication/global-economic-prospects>.

⁶ IMF, World Economic Outlook Update, June 2020.

⁷ IMF, <https://blogs.imf.org/2020/08/27/covid-19-without-help-low-income-developing-countries-risk-a-lost-decade/>

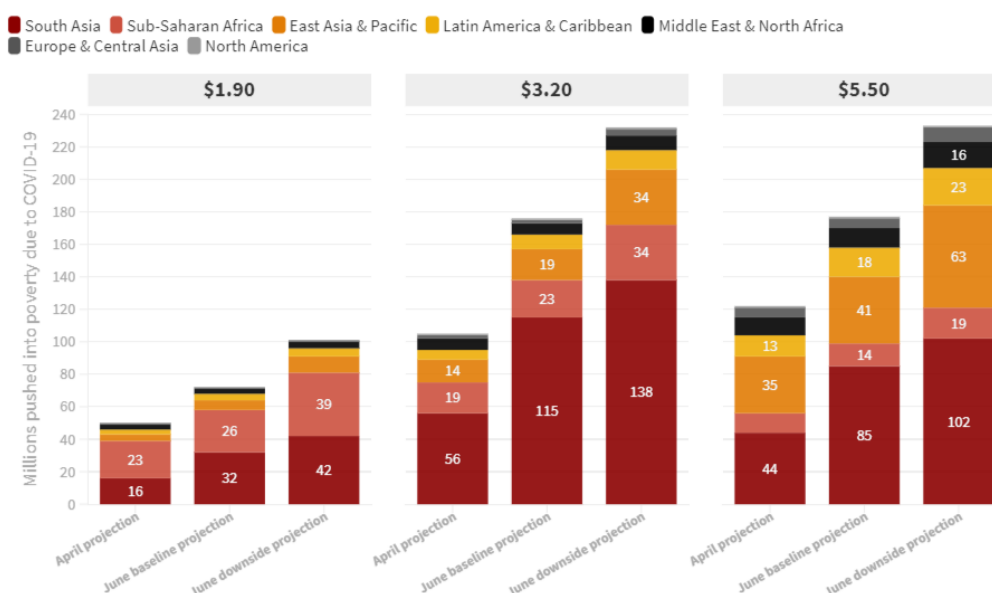
⁸ Updated estimates of the impact of COVID-19 on global poverty: <https://blogs.worldbank.org/opendata/updated-estimates-impact-covid-19-global-poverty>.

Figure 2
The potential impact of COVID-19 on global poverty



Source: Lakner et al. (2020), PovcalNet, Global Economic Prospects. • Extreme poverty is measured as the number of people living on less than \$1.90 per day.

Figure 3
Regional distribution of COVID-19 impact on poverty levels



Source: Lakner et al. (2020), PovcalNet, Global Economic Prospects

16. **Constraints related to COVID-19 are likely to increase debt sustainability risks in LICs, further constraining governments' ability to respond.** Prior to the onset of the COVID-19 pandemic, 48 per cent of LICs were assessed as being at high risk of external debt distress or in debt distress in 2019 – double the number of 2013.⁹ As global growth slows or contracts, the knock-on effects for debt sustainability in countries with high or moderate debt distress could be significant. The World Bank and IMF have asked bilateral creditors to suspend debt payments for International Development Association countries who request it; ministers of African governments have voiced the need for an emergency economic

⁹ IFAD11 Midterm Review.

stimulus of US\$100 billion, US\$44 billion of which they suggest come from suspension of interest payments on debt.¹⁰

17. **Small-scale producers and other vulnerable populations face disproportionate risks from the COVID-19 pandemic.** Experience from other health-related crises – for example, the recent Ebola outbreak in Africa – suggests that poor and vulnerable people, such as rural women and children, will be disproportionately affected by the pandemic. Poor and vulnerable rural people have less capacity to deal with shocks. For example, small-scale producers have limited assets and savings to cope with disruptions to incomes. Small-scale farming households increasingly rely on diverse sources of income such as labouring and remittances. These income streams are now at risk, which leaves households with insufficient income to cover basic needs and to invest in farming inputs. Small-scale farmers are highly dependent on MSMEs as intermediaries for marketing and input supply and often credit; if this network of food system business is disrupted there will be significant flow-on effects for small-scale farmers and rural economies.
18. **The social and economic impacts of COVID-19 further threaten efforts to eradicate hunger.** The outbreak of COVID-19 is compounding the effects of conflicts, climate and natural disasters and the arrivals of pests and plagues, posing even greater threats to global food security. The SOFI 2020 report estimates that the pandemic may add between 83 million and 132 million people to the total number of undernourished in the world in 2020, with potential devastating impacts for vulnerable population groups and rural communities in particular. The report also reveals that more than 3 billion people globally are unable to afford healthy diets. This is a challenge in rural areas where incomes are often lower than in urban centres and seasonal availability of food is more pronounced.¹¹
19. **At the heart of this impending food security crisis are failing food systems.** The pandemic has exposed the fragility of food systems. In many countries, food availability is being constrained due to supply chain disruptions, resulting in sharply reduced earnings for agriculture and food workers, leaving them with fewer resources to prepare for the next season.¹² In line with the 2030 Agenda, the 2021 Food Systems Summit will be a turning point in efforts to transform global food systems, as it focuses on the entire range of actors involved in feeding a population and the sectors that shape food systems to build resilience and sustainability along the value chains.
20. **There is a profound connection between the well-being of rural households, urban food security and food systems.** The livelihoods of a vast majority of rural people still rely on agricultural production or jobs in the food and agriculture sector. In parallel, the food security of urban populations largely depends on the work of small-scale farmers and rural communities. Keeping food available for both rural and urban populations and ensuring access to income to purchase food must be a key priority in responding to shocks and crises.
21. **At a global level, demand for development assistance will increase as a result of COVID-19.** Given the scale and economic repercussions of the current crisis, many governments are constrained in their ability to invest in long-term recovery efforts. They must triage their activities as they deal with over-burdened health systems and alternative ways of working. This often entails shifting the focus away from the very marginalized and vulnerable populations. External assistance beyond emergency support is necessary to avoid worsening the effects of the crisis. A new analysis by Ceres2030 points to the need to urgently mobilize

¹⁰ <https://www.uneca.org/stories/african-finance-ministers-call-coordinated-covid-19-response-mitigate-adverse-impact>

¹¹ Food and Agriculture Organization of the United Nations (FAO), IFAD, United Nations Children's Fund, World Food Programme, and World Health Organization, The State of Food Security and Nutrition in the World 2020: Transforming Food Systems for Affordable Healthy Diets (FAO, 2020).

¹² United Nations Secretary-General, Policy Brief: The impact of COVID-19 on Food Security and Nutrition, June 2020: https://www.un.org/sites/un2.un.org/files/sg_policy_brief_on_covid_impact_on_food_security.pdf

US\$10 billion to prevent millions more people from becoming food-insecure as a result of COVID-19.¹³ At the same time, the preliminary findings from an ongoing study conducted by the Overseas Development Institute (ODI)¹⁴ indicate growing demand for external assistance in agricultural and rural sectors in developing countries, particularly for concessional development finance.

22. **Agriculture and rural development remain critical pathways to deliver on sustainability and poverty reduction targets in a post-COVID scenario.** It is estimated that by 2030, with the right policies and investments, agriculture could unlock an extra US\$2 trillion in rural growth.¹⁵ Much of the growth could benefit small-scale producers in developing countries where agriculture is likely to be the main source of people's livelihoods for the next several decades. Here, agriculture has the potential to become a thriving and successful sector that creates jobs and provides economic and livelihood benefits; a resilient sector that can successfully manage the climate risks of today and tomorrow; and a sustainable sector that minimizes its environmental impacts.

Rebuilding, Recovery, Resilience – IFAD's coordinated COVID-19 response

23. **Beyond emergency: reinforcing the importance of investing in resilience.** The pandemic has highlighted the interconnectedness of economic, climatic and health shocks. It has reinforced the need to focus on the most vulnerable and marginalized people in rural areas and the importance of building resilience through sustained longer-term investment. Over the past months, the impact of COVID-19 on rural economies has required IFAD to respond with immediate financial, technical, policy and knowledge support to mitigate the worsening socio-economic impacts of the pandemic. This has again highlighted the need to ensure both the provision of necessary critical emergency support and investment in recovery, rebuilding and resilience efforts.
24. **Coordination and sequencing of IFAD's COVID-19 response.** In line with the United Nations Secretary-General's call for solidarity and the United Nations socio-economic response framework, IFAD's strategic response to COVID-19 brings together a coordinated range of activities to address immediate impacts of the pandemic on rural people, prevent the erosion of results and put in place the building blocks to support post-crisis recovery and long-term resilience. Based on demand from Member States as well as partners representing small-scale farmers at grass-roots levels, IFAD has coordinated a range of activities to mitigate the negative socio-economic impacts on rural people. In 2020/2021, under IFAD11, this has involved the provision of immediate recovery support through: (i) repurposing ongoing investments; (ii) establishing a rapid-response Rural Poor Stimulus Facility (RPSF) to address the immediate challenges faced by small-scale farmers; and (iii) providing policy and knowledge support. The escalating pandemic has changed the context for IFAD12 (2022–2024), necessitating a stronger focus on fragility, shocks, resilience and adaptive approaches to facilitate sustainable rural transformation.
25. **Urgent and increased financial investment is needed to avert a potential COVID-19-induced food crisis.** As indicated above, despite recognition of the large financing gap to achieve zero hunger by 2030, estimated at US\$160 billion per year for the next decade, the financial resources available to help developing countries are a fraction of what is needed. COVID-19 has increased demand for concessional financing to support more public investment in inclusive and sustainable rural development.¹⁶ COVID-19 accentuates this investment gap with

¹³ Ceres2030, https://ceres2030.org/shorthand_story/10-bn-needed-to-avert-the-covid-19-hunger-crisis/.

¹⁴ ODI 2020: Assessing external demand for public investment in inclusive and sustainable rural development.

¹⁵ EIU research: US\$2 trillion of new growth from rural economies possible by 2030.

¹⁶ ODI 2020: Assessing external demand for public investment in inclusive and sustainable rural development.

billions of dollars of additional financing urgently needed to help prevent millions more people from becoming food-insecure.

26. **IFAD12 provides a framework for scaling up investment in response to COVID-19.** IFAD has a unique focus and experience in investing in inclusive and sustainable rural transformation. As a specialized organization established to address the food crisis of the early 1970s, IFAD can contribute more to building the resilience of rural communities and strengthening food systems, with a focus on protecting livelihoods and development gains within the context of the COVID-19 crisis.
27. **IFAD can amplify its impact, but this requires increased support from Member States.** This increased support must include higher replenishment contributions, but also leveraging existing resources by borrowing, by mobilizing financing from thematic funds (i.e. GEF, GCF, AF) and by sourcing funds from non-state actors, such as the private sector and foundations. With its expertise, IFAD is in the best position to assemble this finance and create synergies in efforts among national and international development partners to address food insecurity and rural poverty.

Box 1

COVID-19's impact on IFAD programmes and how IFAD is responding

In line with the United Nations Comprehensive Response to COVID-19, the RPSF aims to improve the food security and resilience of rural poor people by supporting production, market access and employment. The ultimate goal is to accelerate their recovery from the COVID-19 crisis.

Activities financed by the Facility must fall under one or more of the following pillars: (i) providing inputs and basic assets for production; (ii) facilitating access to markets; (iii) targeting funds for rural financial services; and (iv) promoting the use of digital services.

Financing may be provided in the form of additional components and activities for existing IFAD-financed projects or through stand-alone country or regional initiatives. Implementing partners can be existing project management units or other state and non-state institutions.

Examples of the ongoing and planned projects financed by this Facility, currently three regional and eight country-level initiatives covering 43 countries across Asia and sub-Saharan Africa, are provided below.

Multi-country financing (innovative or strategic regional initiatives)

Asia Pacific

An innovative project is being implemented in the Asia and the Pacific region to support Asian farmers' organizations in mitigating the impact of COVID-19 on the livelihoods and food security of their members. It does so by providing agricultural inputs and supporting marketing through public-private-producer partnerships brokered or implemented by the farmers' organizations and equipping farmers' organizations to distribute food packages to highly vulnerable households.

Sub-Saharan Africa

In sub-Saharan Africa, a project will support African farmers' organizations in protecting local food systems. It aims to help adapt and restore food production through timely access to inputs, information, markets and liquidity, and ensure food security by disseminating information on food availability and safety.

Latin America and the Caribbean

In Latin America and the Caribbean, a project is being set up to simultaneously provide short-term COVID-19 support and promote longer-term rural development in the Plurinational State of Bolivia, Guatemala, Haiti, Honduras and Peru. It will do so by developing infrastructure, capacity and partnerships for digital training and advice, e-finance and e-commerce. The project will help ensure business continuity during the pandemic and accelerate the adoption of digital technologies across the region.

Country-level financing

Palestine (implemented through the Resilient Land and Resource Management Project)

This project aims to ensure that producers can meet requirements for the upcoming planting season and facilitate sales. It does so by focusing on bulk procurement and distribution of short-term inputs (seeds and fertilizers) to small-scale producers and supporting market access by facilitating clustering of agricultural products at village level and connecting farmers with market actors.

Rwanda (stand-alone project implemented by the Rwanda Agriculture and Animal Resources Development Board)

In Rwanda, the RPSF will finance a stand-alone project to protect crop production and income during and after lockdown, by providing seeds and fertilizer for maize, beans and potatoes. It will also support market access by purchasing grains to provide a guaranteed market and purchasing silos to be used for storage.

II. IFAD12 strategic direction and value proposition

IFAD's comparative advantage

28. **Amid a global pandemic and with economic, climate and food crises looming, IFAD plays a critical role in reaching the people at greatest risk of being left behind.** IFAD's mission is to transform rural economies and food systems by making them more inclusive, productive, resilient and sustainable. To do this, IFAD targets and invests in "the last mile" so as to reach the remotest areas and help millions of rural people increase their productivity and incomes, access markets, find jobs and build resilience to climate and other shocks. The Fund also supports them in developing improved coping mechanisms in fragile and conflict-affected environments, in strengthening their capacities and organizations, and in making sure their voices are heard. IFAD's special focus is on small-scale producers, including subsistence farmers, landless workers, women and youth, marginalized ethnic groups and victims of disaster and conflict. Particular attention is paid to sustainability and to safeguarding the natural resource base.¹⁷ As the effects of the pandemic threaten to increase the exclusion and vulnerability of rural communities, IFAD's mission has never been as important as it is today.

Box 2

Why IFAD?

The Fund plays a critical role in fighting poverty and hunger because it focuses exclusively on investing in rural poor people – the populations who face the greatest risk of being left behind. IFAD has a compelling value proposition based on its relevance, reach, results and returns on investment.

- **Relevance – Most of the world's poor and hungry live in rural areas and most of them work in agriculture.** IFAD's particular focus on agriculture and its decades of experience in targeting "the last mile" have helped millions of the world's poorest to increase their productivity, incomes and access to markets, create jobs, and strengthen their resilience to climate and other shocks, including those related to climate change. In the context of COVID-19 and disruptions to food systems, investing in small-scale producers is more important than ever.
- **Reach – IFAD's investments benefit more small-scale producers than any other organization.** IFAD's special long-term relationships with partner governments, its predictable financing and deep reach into remote areas, its expertise and global portfolio all represent a unique contribution to achieving the SDGs. IFAD works in the most fragile and remote areas, with the most marginalized and vulnerable people. By investing in IFAD, Member States can help change the lives of those millions. The Fund's focus on inclusiveness complements the work of governments, the private sector and development-focused organizations.
- **Results – IFAD systematically measures impact and aggregates results across its entire portfolio.** Every year, IFAD-supported projects boost the production of 15 million small-scale producers and increase the sales revenues of another 16 million. At the same time, the Fund helps 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, helps strengthen policies and promotes innovation, thus producing sustainable benefits for countries and lasting rural and food system transformation.
- **Return on investment – IFAD assembles finance to ensure that each Member State dollar translates into more than US\$8 of investment on the ground.** As a development fund, IFAD leverages its capital base to ensure that Member States' financial contributions go much further. For every US\$1 provided to IFAD, it invests, on average, US\$3 in the world's poorest rural people. 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. By helping to mobilize domestic financing, including in the form of loan repayments and cofinancing, IFAD bolsters and helps to direct countries' own investments where they are most needed.

29. **IFAD is the only specialized global development organization exclusively devoted to transforming agriculture, rural economies and food systems.** Decades of experience have given IFAD profound expertise in facilitating rural development and fostering sustainable economic and social transformation. Three quarters of the world's poorest and most food-insecure people live in rural areas, and agricultural growth is two to three times more effective than growth in any other sector against extreme poverty and food insecurity. This means IFAD's efforts are critical to achieving the SDGs.
30. **IFAD is distinctive in its privileged, long-term relationship with its Member States. This enables the Fund to invest directly with small-scale producers**

¹⁷ IFAD Strategic Framework 2016-2025.

and to involve poor rural women and men in their own development. IFAD is an assembler of finance with strong financial leverage. IFAD funding attracts significant domestic cofinancing, while the Fund helps channel borrowing countries' own resources to the most vulnerable rural populations in places where investment is most needed.

31. **IFAD's reach far into remote areas, its expertise and its global portfolio contribute to multiple development results, including on climate, gender equality, youth, and nutrition.** For example, through ASAP, IFAD has directly supported small-scale producers adapt to climate variability and is now enhancing its focus on mitigation. It is also increasing its climate financing throughout its operations by obtaining further funds from the GEF, GCF and AF. In terms of gender equality, youth employment and nutrition, IFAD ensures that interventions reach the most vulnerable and marginalized.

IFAD's role in the international aid architecture

32. **IFAD recognizes that the current global aid architecture for food security and rural development can be strengthened, and that IFAD, given its mandate, must play a leadership role.** More can be gained if the various actors working in food security and rural development band together. Heterogeneity and fragmentation in the international aid architecture is a particular problem. While actors occasionally join forces, coordination mechanisms are frequently disjointed and ineffective in guiding progress towards the SDG poverty and food security targets. IFAD has a key role to play in resolving this coordination deficit.
33. **IFAD's targeted investments complement the work of other development partners.** Large development institutions such as the World Bank and regional development banks also channel resources into agricultural and rural development. But agriculture accounts for only a small fraction of their global portfolios (5 to 10 per cent for the World Bank).¹⁸ In the area of climate adaptation, IFAD has a long-standing role in channelling adaptation finance to people and places otherwise neglected, with 34 per cent of its entire 2019 programming focusing on climate finance. IFAD's mandate means that it is second only to the World Bank among international financial institutions (IFIs) in terms of investments in food security, and reaches more vulnerable, small-scale producers than any other international organization. In many Member States, it is the largest source of multilateral funding in this domain. At the same time, the policy support, data collection, technical assistance, and normative work undertaken by multilateral and regional development banks, FAO, World Food Programme and others, complement IFAD's investments and strengthen IFAD's own unique value proposition. Finally, IFAD facilitates private sector investment in rural areas while empowering rural people, helping to create more dynamic rural economies.
34. **IFAD contributes to the realization of SDG 2 beyond its operational activities.** IFAD's Strategic Framework 2016-2025 indicates that "IFAD's role at the country level will be complemented by a stronger, yet focused, role at the global level". IFAD's proactive engagement in global policy processes is key in advancing inclusive rural transformation.
35. **IFAD has stepped up its global advocacy and policy engagement.** It has forged public-private strategic alliances such as the Smallholder and Agri-SME Finance and Investment Network and the Platform for Agriculture Risk Management. It is hosting the Secretariats of the International Land Coalition and the Global Donor Platform for Rural Development. Tapping into these critical alliances helps IFAD produce relevant analytical work, network with decision makers and enable rural people to make their voices heard in global policy discussions including the G7, G8, the United Nations Climate Change Conference of

¹⁸ Kharas, H. et al., *Ending Rural Hunger: Mapping Needs and Actions for Food and Nutrition Security* (Washington, D.C., Brookings Institution, 2015).

Parties and the United Nations High-Level Political Forum on Sustainable Development. IFAD12 will continue building on these initiatives to enhance synergies among actors working for food security and rural development.

36. **While much is being done, IFAD can do yet more by building on its deep experience and by leveraging and assembling finance, thereby enhancing its role in the global aid architecture and expanding its development impact.** This will be pursued during IFAD12, with a sharper strategic focus on: global engagement; making greater impact and filling the financing gap to end poverty and achieve zero hunger with increased and diversified resources; and strengthening partnerships and development cooperation.

Figure 4
IFAD's unique role in the international aid architecture



Strategic direction in IFAD12

37. **Meeting the SDGs by 2030 depends on action in rural areas, where extreme poverty and hunger are concentrated.** Agriculture remains a key entry point to the economic advancement of extremely poor and marginalized groups, both as a direct employer and as a driver of job creation. IFAD plays a central role in the fight against extreme rural poverty and food insecurity, targeting the hundreds of millions of people who are most at risk of being left behind. They include poor small-scale producers, women, young people and other vulnerable groups. IFAD's investments are designed to generate a productive pathway towards prosperity for rural people while building their resilience to climate change and fragility.
38. **Recognizing that IFAD must significantly step up its contribution to achieving the SDGs, IFAD has undertaken a dialogue with Member States to identify mechanisms to double its impact by 2030.** IFAD's operations currently help 20 million people a year raise their incomes by 20 per cent. Doubling this impact would help 40 million people a year to increase their incomes by 2030. This can be accomplished by incrementally increasing the Fund's impact over the coming three replenishment cycles, with a target of approximately 27 million people per year with increased income during IFAD12.
39. **IFAD12 will capitalize on recent reforms to strengthen its country-level programme approach and its impact on the ground.** The changes ensure that PoLG will remain the staple of IFAD's support to countries, but introduce complementary actions to expand IFAD's overall programme of work (PoW) and strengthen its impact. Actions include: greater leveraging of core resources to increase the availability of financing to all borrowers; a PSFP to accelerate rural growth and create jobs for youth and women; and an ASAP+ building on IFAD's experience with the original ASAP to better mobilize and use climate finance to

enhance resilience. These actions will expand IFAD's resource base, provide new channels of support and build synergies between different sectors.

40. **IFAD12 represents a shift in IFAD's business model towards a more comprehensive financial, policy-oriented and programmatic package that fosters systemic change for rural people.** Overarching emphasis is placed on results on the ground. This stems from recent financial and institutional reform and requires the full use of all tools at IFAD's disposal to deliver results and scale up impact. Close attention will be given to the needs of historically marginalized populations as well as to the drivers of fragility and on partnerships with the private sector and others: all accompanied by closer engagement with governments.

III. Deeper and wider impact through IFAD12 – leaving no one behind

41. **Building on its unique mandate amid urgent challenges, IFAD must intensify its efforts to end extreme poverty and hunger, and double its impact by 2030.** This means that over the next three replenishment cycles,¹⁹ IFAD's investments must progressively increase the Fund's impact, with a target of 27 million people per year with higher incomes during IFAD12, and of 40 million people by 2030. Expanding IFAD's impact in this way requires reaching more of the rural poor through additional, more diversified resources, and working with a wider range of partners. Making a deeper impact on the lives of the rural poor means ensuring that every beneficiary obtains greater and more sustainable improvements in terms of income, nutrition and resilience.
42. **These results will be delivered through the consolidation of IFAD's country-level programme approach and a close focus on increased sustainability, efficiency, and value for money.** The changes in IFAD's business model in recent years have increased the Fund's ability to deliver on its mandate at country level. Fewer and larger operations are being deployed, together with more cofinancing, greater recognition of the need to tailor approaches to countries in transition and stronger efforts to target extreme poverty and food insecurity. Other priorities include addressing mainstreaming themes (environment and climate, gender, youth and nutrition), and expanding IFAD's in-country presence, enabling more effective country-level policy engagement and partnerships.
43. **The following section underlines the core priorities that will guide IFAD's transformational country programmes in achieving deeper, wider impact.** It also addresses how IFAD will operationalize these focus areas and accelerate results.

A. Deeper impact through strengthened mainstreaming

44. **The mainstreaming of climate, gender, youth and nutrition will be key drivers for achieving deeper impact during IFAD12.** The reason for strengthening IFAD's four mainstreaming themes, i.e. environment and climate, gender, youth and nutrition, is to reinforce IFAD's sustainable impact and focus on leaving no one behind. Targeted actions to overcome barriers faced by the rural poor and other vulnerable groups are critical to achieving the SDGs.

IFAD's mainstreaming priorities

45. **Over previous replenishment cycles IFAD has significantly strengthened its focus on mainstreaming themes.** During IFAD11, the Fund, in close dialogue with Membership, made major strides on each theme, with a strong focus on transformational approaches tackling the root causes of challenges, and on horizontal mainstreaming to take advantage of synergies across themes. These are

¹⁹ IFAD12 (2022-2024), IFAD13 (2025-2027), and IFAD14 (2028-2030).

discussed below and detailed in the action plans for each theme, which provide direction for continued focus in IFAD12.

46. **IFAD has a unique offer on climate and environment.** Climate, environment and agriculture are critically interrelated. Agriculture is highly vulnerable to climate. The sensitivity of crops, livestock and fisheries to temperature, water availability, and extreme weather events puts yields at risk, jeopardizes historical productivity gains and exposes farmers to significant losses. Agriculture also contributes to climate change – it accounts for 19 to 29 per cent of total greenhouse gas emissions and produces the largest share of non-CO₂ greenhouse gases. Farmers and other actors across the world food system thus have a crucial role to play in acting on climate change. Environmental and climate considerations are currently embedded in all COSOPs and IFAD investments.
47. **Gender equality and women's empowerment remains a priority and a strength.** Work in this area has intensified, with an increased use of gender-transformative approaches across IFAD-financed projects and programmes. Such approaches go beyond traditional gender mainstreaming by addressing the underlying power relations within households, with a focus on enhancing the role of women, increasing their bargaining power and promoting shared prosperity within families. IFAD is also leading partnerships and advocacy for poor rural women within the United Nations system, among IFIs, and within the broader donor community, including through its leadership of the Inter-Agency Network on Women and Gender Equality.
48. **IFAD has stepped up action on nutrition.** Its approach is based on agriculture's potential to shape food systems to improve nutrition and diets, with particular emphasis on gender. IFAD helps ensure that beneficiaries are supported in producing, accessing and consuming a variety of nutritious foods to improve their health and well-being. IFAD is progressing towards a target of raising the nutritional status of 12 million people in IFAD11. The Fund also strongly engages in global advocacy through initiatives such as the United Nations System Standing Committee on Nutrition as well as through the Committee on World Food Security (CFS).
49. **IFAD11 marked a turning point for IFAD's engagement with rural youth.** As concerns programmes, this has meant focusing on: (i) critical productive factors and assets (e.g. land, water); (ii) services (including financial services); and (iii) skills ranging from financial literacy to entrepreneurship. A key cross-cutting element is access to affordable energy and new technologies. Project-level action is being complemented by efforts to promote youth-related innovation and to enhance knowledge management and partnership-building.
50. **IFAD has championed the rights of indigenous peoples and is promoting their policy engagement.** IFAD has partnered with indigenous peoples for more than 30 years, placing high priority on empowering them and reducing their vulnerability. Efforts have also focused on indigenous peoples' culture and knowledge, and their stewardship of natural resources and biodiversity. Every two years, IFAD hosts the Indigenous Peoples' Forum, which institutionalizes IFAD's partnership with indigenous peoples and represents an opportunity for consultation on critical development issues. The Indigenous Peoples Assistance Facility provides critical support for innovation, while IFAD's current portfolio provides support to more than 6 million indigenous recipients in 37 countries.
51. **IFAD has laid the groundwork for stronger engagement with persons with disabilities.** A recent IFAD study shows that rural persons with disabilities are economically active and are capable of earning incomes and escaping extreme poverty. This argues that persons with disabilities can and should be more systematic partners for IFAD. The starting point for the study was achieving a better understanding of the different needs of persons with disabilities and of the

constraints and barriers they face. Persons with disabilities are a highly heterogeneous group, requiring tailored approaches and solutions. IFAD is continuing to learn about engaging with this important target group, a significant element in IFAD's mandate to ensure that no one is left behind.

52. **The expansion of the mainstreaming agenda has led to increased focus on synergies between mainstreaming themes.** This new emphasis is supported by IFAD's recently formulated transformational mainstreaming framework and facilitated by the creation of a dedicated Environment, Climate, Gender and Social Inclusion Division. IFAD's Social, Environmental and Climate Assessment Procedures (SECAP) have also been strengthened to reinforce safeguards and standards and integrate new areas of focus. At present, all IFAD COSOPs – key entry points for synergies – address environment and climate, gender, nutrition and youth.

Working to further mainstreaming ambitions in IFAD12

53. **Building on experience gained over the past decade, Members have underlined the need to further consolidate and strengthen mainstreaming during IFAD12.** Efforts must also address the identified challenges in implementation, such as inconsistency in the measurement of mainstreaming priorities and results. The Fund will therefore raise ambitions within and across mainstreaming areas in IFAD12 to deliver deeper impact.
54. **Increased ambition begins with effectively incorporating mainstreaming at project design, implementation and completion.** Quality ratings will be used to measure performance on each theme more systematically. While performance on environment, climate change and gender has always been measured, targets related to nutrition and youth have so far only focused on whether projects are nutrition- or youth-sensitive. During IFAD12, IFAD will raise the bar on quality for environment and climate, and gender, and introduce targets for quality ratings for nutrition and youth at design and supervision.
55. **Mainstreaming targets will be suitably increased for all themes.** On environment and climate, IFAD will aim to increase the amount of climate finance for projects approved under IFAD12 to 35 per cent, up from 25 per cent in IFAD11. This is higher than most IFIs, which are generally at about 30 per cent. IFAD will also continue to integrate gender-transformative approaches, aiming for 35 per cent of projects in IFAD12 to be gender-transformative, up from 25 per cent in IFAD11. For nutrition and youth, the use of quality ratings for the first time will advance the integration of each theme in IFAD's portfolio, while IFAD will ensure that, over the course of IFAD12, 60 per cent of new investment projects explicitly prioritize youth and youth employment.
56. **IFAD will more systematically mainstream biodiversity, including agrobiodiversity, in its operations.** Biodiversity is a critical enabler of sustainable development as agriculture is globally the biggest driver of biodiversity loss through land conversion, monoculture and pesticide use.²⁰ Small-scale producers depend on the continued health of ecosystems and natural resources for their livelihoods. At the same time, agricultural ecosystems contribute to conservation and the sustainable use of agrobiodiversity. Such diversity is also a powerful climate adaptation tool, as it facilitates the acclimatization of crops to higher temperatures and soil salinity. While analysis shows that biodiversity is already well integrated into many IFAD-financed projects,²¹ a strategic, purposeful approach is needed to ensure more systematic integration. This will be set out in a biodiversity strategy in IFAD12.

²⁰ Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), *Global Assessment Report on Biodiversity and Ecosystem Services*. E. S. Brondizio, J. Settele, S. Díaz, and H. T. Ngo (editors), Bonn, Germany: IPBES secretariat, 2019.

²¹ IFAD12: *Deepening Impact and Building Resilience through Mainstreaming* (Rev.2).

57. **IFAD will strengthen the inclusion of indigenous peoples in IFAD12.** During IFAD12, the Fund will renew its indigenous peoples strategy, building on knowledge gained to define how IFAD can best address the specific needs of indigenous peoples within a changing global environment. IFAD will also ensure that at least 10 new projects include indigenous peoples as a priority target group; and that a regular grant is provided to replenish the Indigenous Peoples Assistance Facility, which supports innovative solutions to strengthen indigenous peoples' communities and their organizations.
58. **During IFAD12, the Fund will advance its inclusion of persons with disabilities throughout its portfolio.** This priority will be spelled out through a separate strategy, and, during IFAD12, the Fund will ensure that at least five projects include persons with disabilities as a target group. A specific focus on persons with disabilities will be included in revisions of IFAD's targeting policy, detailed below.
59. **IFAD will continue to exploit synergies across mainstreaming themes and ensure that related benefits reach IFAD's target groups.** In IFAD12, targets for quality ratings on integration of mainstreaming themes will be established. At the country level, COSOPs will highlight existing linkages across themes and identify potential additional benefits.
60. **In IFAD12, the four mainstreaming themes will be an integral part of a comprehensive country-level approach combining the PoLG, ASAP+ and PSFP.** IFAD will continue to build partnerships, pursue policy engagement and generate knowledge related to the mainstreaming themes, leveraging on decentralization to further emphasize the country dimensions. These efforts will also be enhanced through setting mainstreaming priorities within the new IFAD12 SSTC strategy (see section D).
61. **IFAD will update its targeting policy to emphasize social inclusion and integration of the mainstreaming themes.** IFAD has long prioritized the poorest and most vulnerable. However, recent independent evaluations have noted that IFAD's current targeting policy, approved in 2006, defines IFAD's target group too broadly, leading to inconsistencies in the quality of targeting across its global portfolio.²² Opportunities for improvement in the Fund's treatment of social inclusion and integration of gender, youth, indigenous peoples and persons with disabilities (a new area of focus) have also been identified. IFAD's targeting guidelines were accordingly updated in 2019 as an interim measure, reflecting a strengthened focus on youth, among other things. A new targeting policy is now required to consolidate new and emerging areas of focus (e.g. on persons with disabilities), and to facilitate more inclusive, innovative targeting throughout IFAD's portfolio.
62. **Reporting on progress on IFAD's mainstreaming priorities will be strengthened.** In order to ensure comprehensive, streamlined reporting, IFAD will record progress on mainstreaming themes through a stand-alone annual report, complementing the yearly Report on IFAD's Development Effectiveness (RIDE). This will ensure that the full set of commitments made in IFAD12 are reported on, including those highlighted through a paper on enhancing mainstreaming presented to the second session of the Consultation.

B. A strategic focus on fragility and resilience

63. **Situations of fragility and conflict contribute significantly to extreme poverty and food insecurity.** The Organisation for Economic Co-operation and Development estimates that 80 per cent of the world's extremely poor people will be living in fragile states by 2030. Fragile situations disproportionately affect the most vulnerable persons and communities, including women and girls, and are a

²² 2018 Annual Report on Results and Impact of IFAD Operations.

primary driver of migration and humanitarian crises. Fragility and conflict have also been identified as significant factors in the recent rise in food insecurity. They are also linked to weak institutions, which can diminish the impact of humanitarian policies and programmes.

64. **The quality of governance in fragile situations is deteriorating, with increasingly poor performance by democratic institutions, public policies and public sector management systems.** Expected climate shocks will disproportionately affect agricultural productivity in fragile situations, given scant resilience and dearth of natural resources. Many government programmes in fragile conditions try to address many of these constraints, but they need to adopt a more inclusive and transformational approach to help engineer and deliver policies that effectively change rural people's lives.
65. **Violent conflicts in fragile situations²³ have more than doubled in the last decade.**²⁴ The number of displaced persons escaping fragility has also risen sharply, accounting for nearly 75 per cent of displaced people in 2018.²⁵ Action is urgently needed as fragility reinforces exclusion and poverty loops stemming, among other drivers, from weak policies and institutions, lack of economic opportunities for youth and increased vulnerability to climate shocks,.
66. **Fragility is often accompanied by a demographic shift towards younger populations.** The number of young people in fragile situations has increased by 20 per cent in the last decade (144 million young people in 2018). Lack of opportunities for youth in fragile areas can exacerbate social discontent and erode human capital. This not only leaves a potential demographic dividend untapped but also risks losing youth to crime and violence.
67. **IFAD has a niche role in addressing fragile and conflict-affected situations.** It has a comparative advantage in fragile situations, laid out in its Strategy for Engagement in Countries with Fragile Situations and the Special Programme for Countries with Fragile Situations. IFAD leads in fostering engagement with rural communities, promoting inclusive approaches that target the needs of women and focus on livelihoods and longer-term resilience.
68. **Ensuring that no one is left behind requires a keen focus on countries in fragile situations and transition.** During IFAD12, the Fund will review its engagement in fragile states, building on the lessons emerging from implementation of the Strategy for Engagement in Countries with Fragile Situations and the Special Programme for Countries with Fragile Situations, as well as from its work with other partners.²⁶ The accent will be on strengthening performance in building resilience, reducing humanitarian needs and engaging effectively in situations of conflict. During IFAD12, the Fund will also continue to ensure that 25 per cent of core resources are allocated to countries in fragile situations (see section C). Emerging lessons, summarized in box 3, provide an early basis for the IFAD12 review exercise.

²³ World Bank "FY20 List of Fragile and Conflict-affected Situations", <http://pubdocs.worldbank.org/en/179011582771134576/FCS-FY20.pdf>.

²⁴ Conflict is measured through one-sided violence conflict data. Source – Uppsala conflict data program (Uppsala Conflict Data Program), <https://ucdp.uu.se/downloads/>.

²⁵ Displacements is measured through refugees and internally displaced individuals. Source – United Nations High Commissioner for Refugees.

²⁶ The recently issued World Bank Group Strategy for Fragility, Conflict and Violence 2020-2025 provides considerable information on the topic.

Box 3

Lessons to strengthen IFAD's approach to fragility

Ten important lessons are emerging from IFAD's engagement in fragile situations.

Better planning

1. **Reliable financing** ensures that engagement in fragile situations takes a long-term perspective. This includes making sure that the level of IFAD's PoLG devoted to most fragile situations remains adequate in IFAD12.
2. **Better data.** In line with IFAD's ICT strategy, investing in data sources and tools such as remote sensing, predictive models and data science techniques can better target the rural poor, track development dynamics, understand policy implications and enable beneficiary feedback in conditions of fragility.
3. **More robust planning.** Country strategies for fragile situations are opportunities to show how IFAD can help chart a path away from fragility. This implies examining how the transition scenarios introduced in IFAD11 can be taken to a different level, developing IFAD's strategy for tackling one or two root causes of fragility in the rural sector over time.

Tailored tools

4. **Smarter approach.** Long-term country strategies should embody a three-step approach aimed at: (i) enabling the right institutional and policy environment to produce more effective and integrated rural development interventions; (ii) steering public policy and programmes to direct public and private sector investments towards rural transformation; and (iii) sustaining private sector-led growth offering increased and inclusive economic opportunities.
5. **Better partnerships.** In order to steer and implement conflict-sensitive policy and interventions in specific regions, there is room to strengthen existing partnerships, reflecting IFAD's comparative advantage in fragile situations, including complementarities with other United Nations agencies, MDBs and non-state actors (including those supporting IFAD in analysis and policy engagement).
6. **More synergies.** Explicitly referencing the linkages between the proposed intervention and existing humanitarian strategies helps increase synergies.
7. **Better instruments.** To achieve lasting impact in fragile situations, IFAD should seek to incorporate multinational, cross-border approaches. For example, multinational policy dialogue in countries facing fragility can help achieve a shared understanding on common issues such as regional connectivity (essential in landlocked countries), agricultural and food trade, and management of shared natural resources.
8. **Smarter alliances.** ASAP+ and PSFP create opportunities for further mobilization of resources for climate resilience action 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 fragile countries and to overcome the delays experienced during the original ASAP.

Focusing on delivery

9. **Smarter investment.** Fragility is often related to weak delivery capacity. When implementing transformational strategies, combining country-wide, capacity-building programmes with continuous support from development agencies would strengthen effectiveness.
10. **Greater presence.** Upgrading IFAD's field presence will help to manage bigger portfolios. Embedding training and capacity-building in performance agreements and supporting staff health, safety and well-being would all help strengthen delivery in fragile situations.

69. **Tools to address the underlying causes of extreme poverty and food insecurity require refinement during IFAD12.** In fragile and conflict areas, IFAD will expand the use of fragility assessments, of existing mechanisms and of new tools that are being developed. For example, the Rural Resilience Programme (2RP) is a global umbrella initiative targeting the climate drivers of fragility (see box 5). Where conflict and climate change are interlinked, the ASAP+ can help overcome governance weaknesses since it allows for partnering more easily with civil society when public institutions are weak. Interventions will also be tailored to the specific needs of fragile and conflict-afflicted countries and regions, as in the Sahel region (box 4).

Box 4

Transforming IFAD's engagement in the Sahel

The Sahel is an example of IFAD's new approach to engagement in fragile situations. The region has faced unprecedented challenges in recent years. Beginning in 2011 it suffered a sharp increase in violence, both cross-border and internal. It is afflicted by some of the world's harshest climatic conditions, which strongly impede day-to-day economic development, restricting access to water, food security, health, viable ecosystems and livelihoods. A rapidly increasing population exacerbates pressure on resources from rising demand and climate change. The demographic surge, 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 upheaval and conflicts leading 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 with more effective, inclusive and sustainable efforts.

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

70. The 2RP represents a strategic addition to the Fund's intervention capacity in fragile and conflict-affected situations.

Box 5

The Rural Resilience Programme

The 2RP is a global umbrella programme focused on drivers of food insecurity such as climate change, irregular migration and land degradation. The programme will equip small-scale producers, together with the landless poor and their communities, with the resources they need to implement locally appropriate, proactive resilience strategies. It has three pillars:

- **ASAP+** is a global programme focusing on addressing the impacts of climate change on food security. ASAP+ will work in countries experiencing growing food insecurity as a result of climate change. It will concentrate on LICs while also engaging in other vulnerable countries such as Small Island Developing States, including through regional projects.
- **The Initiative for Sustainability, Stability and Security in Africa (3S Initiative)** is an African-led programme addressing the root causes of instability in Africa, particularly migration from rural areas and conflict stemming from the degradation of natural resources. It emerged from the United Nations Framework Convention on Climate Change and United Nations Convention to Combat Desertification processes and has initially been joined by 14 countries, with a view to a pan-African expansion.
- **The GCF-supported Great Green Wall Initiative (GGWI)** aims to restore 100 million hectares of degraded land, sequester 250 million tons of carbon and create 10 million jobs. While still under development, it is foreseen that IFAD will have a lead role in coordinating the GGWI programmes alongside its own programmed interventions.

C. Prioritizing IFAD's core resources for the poorest countries while also supporting poor rural populations elsewhere

71. **To make a deeper impact, IFAD's resources must continue to prioritize the poorest.** At the heart of IFAD's mission lies the principle of universality: that while IFAD funding is available to all borrowers, it prioritizes the poorest countries and people. The Agreement Establishing IFAD stipulates that the allocation of its resources should lay special emphasis on the needs of lower-income countries, i.e. those facing continued exposure to external shocks and with limited creditworthiness. The call of the SDGs to leave no one behind further requires a special focus on the countries that have the least resources to eradicate hunger and poverty.
72. **In IFAD12, [100 per cent of IFAD's core resources²⁷ will be devoted to meeting the needs of the poorest countries – LICs and LMICs – that face the greatest challenges in achieving the SDGs.** This means allocating more of IFAD's core resources to countries that receive all or most of their funding in the

²⁷ Defined as replenishment contributions, reflows of loans financed through replenishments, and concessional partner loans.

form of DSF grants as well as super highly concessional and concessional loans. It ensures that IFAD financing targets the poorest countries while safeguarding IFAD's financial sustainability, as discussed further in section IV.]

73. **At the same time, significant support to UMICs continues.** Many UMICs still face challenges in tackling significant pockets of rural poverty. This makes IFAD's continuing support crucial. At the same time, UMICs play a crucial role in IFAD by: (i) contributing to the activities and operations of the Fund, including through core replenishment contributions; (ii) enhancing the quality of IFAD's capital adequacy ratios and the creditworthiness of the loan portfolio, facilitating leveraging; and (iii) disseminating knowledge and expertise, including through SSTC. 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, it is appropriate that UMICs access resources leveraged by the Fund (i.e. borrowed resources²⁸) at less concessional rates.]
74. **[In recognition of UMICs' unique development pathway, at least 11 per cent and up to 20 per cent of the agreed IFAD12 PoLG will be allocated to them, all from borrowed resources.** This will ensure that their share of funding remains at least equal to that of IFAD11. At the same time, IFAD will further develop its offer to UMICs through appropriate financing and other support and services.]
75. **While the allocation of core resources will continue to be governed by IFAD's PBAS, [eligibility for, and access to, borrowed resources will be determined through the BRAM.]** The proposed BRAM, to be reviewed by IFAD's Executive Board, will take into account development effectiveness, demand and creditworthiness and includes a series of criteria and principles to determine the eligibility of countries, projects and programmes. It will ensure that IFAD is still able to serve rural poor people living in UMICs and to progressively enhance support to those in eligible LICs and LMICs, while also safeguarding the Fund's financial sustainability. Generally, considering the increased risk of debt distress faced by many of IFAD's Member States, borrowed resources will be allocated only to countries that can sustain them financially. Active risk management measures will be put in place to ensure this. IFAD will also continue to tailor its financing terms and instruments to countries' economic conditions,²⁹ adapting to any intervening changes.
76. **The combination of PBAS and BRAM will ensure that diversified support for countries' changing needs can be achieved and that wider and deeper impact can be made.** While the PBAS will continue to make certain that IFAD's core resources benefit the poorest and the most vulnerable countries according to their performance, the BRAM will allow countries from various income groups to access additional resources to scale up promising ideas for rural transformation. It will also provide LICs and LMICs that have the capacity to absorb additional funds to benefit from further IFAD support. These changes will be reflected in a graduation policy to be presented to IFAD's Executive Board for approval prior to the beginning of IFAD12.

²⁸ Funds borrowed under any agreement other than concessional partner loans (e.g. loans obtained under the sovereign borrowing framework).

²⁹ 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 6

Allocation of resources in IFAD12

Core resources. IFAD12 financial scenarios assume that all of IFAD's core resources will be allocated to LICs and LMICs (with special provisions currently in place for small states eligible for concessional resources). Country-specific allocations will be calculated through the existing PBAS. 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 DSF grants, regular grants and new loans.

Borrowed resources. IFAD's borrowed resources will be available to UMICs and such LICs and LMICs that can benefit from enhanced financing without compromising debt sustainability. Core principles for allocation include: alignment with IFAD's mandate and development effectiveness, demand from governments and financial safeguards. These principles, along with eligibility and approval mechanisms, will be proposed to the Executive Board.

IFAD11 allocation mechanism, sources and uses of funds

	Resources	Use of funds	Current allocation mechanism
Core	Replenishment	Grants	PBAS
	Core loan reflows	Highly concessional/ concessional loans: LICs & LMICs	
	Concessional loans	DSF	
		Operating costs	
Borrowed	Non-concessional loans	Semi / non-concessional loans	

Proposed IFAD12 allocation by sources and uses of funds

	Resources	Use of funds	Potential allocation mechanisms
Core	Replenishment	Grants	PBAS
	Core loan reflows	Highly concessional/ concessional loans: LICs & LMICs	
	Concessional loans	DSF	
		Operating costs	
Borrow	Non-concessional loans	Semi / non-concessional loans: UMICs / LICs/ LMICs	BRAM

77. **IFAD will continue to ensure adequate prioritization within its core resources.** Building on IFAD11's allocation approach, IFAD will continue to ensure that 50 per cent of core resources are allocated to Africa, of which 45 per cent to sub-Saharan Africa, and that 25 per cent of core resources are allocated to most fragile situations.
- D. Continuing to enhance IFAD's impact through strategic partnerships**
78. **Strategic partnerships must underpin IFAD's efforts to expand and deepen impact, particularly in the context of COVID-19 recovery.** IFAD's business model recognizes that, due to its limited resources, it must pursue strategic partnerships in order to achieve catalytic impact.
79. **Delivering on IFAD's mission requires diverse partnerships at the global, regional and country levels.** In line with the IFAD Partnership Framework

approved in IFAD11, IFAD will continue to be selective in its cultivation of partnerships in IFAD12, prioritizing those that maximize results for IFAD's target groups at the country level and best contribute to the SDGs. In the context of food insecurity and poverty rising amid a global pandemic, partnerships with governments, United Nations organizations and other development actors are critical for sharing knowledge, coordinating action, leveraging appropriate financing and ensuring that issues affecting target groups are raised at the highest level.

Partnerships for financing

80. **IFAD's strong focus on cofinancing will continue in IFAD12.** The IFAD11 business model emphasizes IFAD as an assembler of development finance. To realize this ambition, IFAD institutionalized a cofinancing strategy and action plan for the mobilization of domestic and international financing to complement IFAD's own investments. Through strong commitment to domestic and international partnerships, high levels of cofinancing were achieved in 2019, the first year of IFAD11. This raised the cofinancing ratio at the end of that year to 1:2.05, far exceeding the target of 1:1.4 and reflecting IFAD's success in leveraging and blending development finance.
81. **During IFAD12, the Fund will continue to mobilize domestic and international cofinancing and maintain ambitious targets.** The economic impact of COVID-19 is likely to reduce the availability of domestic and international cofinancing in the foreseeable future. The Fund will continue its efforts to mobilize domestic cofinancing – as this is a strong determinant of country ownership, efficiency and sustainability. It will also pursue international cofinancing through mutually beneficial partnerships with other MDBs, bilateral partners and development funds. In doing so, IFAD will capitalize on its stronger country presence and close relationships with governments and other development actors on the ground. IFAD will maintain a cofinancing target of 1:1.4.

Partnerships for knowledge and policy

82. **IFAD recognizes the critical role of partnerships beyond cofinancing.** For IFAD, partnerships are critical to generating and sharing knowledge, innovation and policy engagement. They also help create pathways for scaling up and improving coordination at country level. In so doing, partnerships contribute to the SDGs, including through key mechanisms such as SSTC.
83. **IFAD will engage with selected partners to mutually leverage knowledge and policy engagement from country to global level.** Such partners include United Nations country teams (UNCTs), governments, bilateral agencies and other critical non-government actors such as civil society and farmers' and indigenous peoples' organizations. For example, the Indigenous Peoples Forum and Farmers' Forum will continue as a core vehicle for global strategic dialogue, advocacy and policy engagement. Enhanced partnerships with beneficiaries and other stakeholders, which IFAD has strengthened through measures such as the stakeholder feedback framework, will also continue in IFAD12.
84. **IFAD will work closely with multilateral partners such as sister United Nations agencies and MDBs.** The Fund will work to ensure that policy issues affecting vulnerable rural populations are identified and included in the United Nations Sustainable Development Cooperation Framework (UNSDCF) (see box 7). IFAD will also continue to work closely with MDBs – key partners for IFAD in terms of policy engagement, knowledge and learning at the operational and institutional levels. Country programmes will continue to be critical entry points for identifying, engaging and delivering through partnership activities.
85. **In IFAD12, partnership with the Rome-based agencies (RBAs) will be strengthened, building on lessons learned.** Coordination with the RBAs on COVID-19 response and recovery will be enhanced to ensure complementarity, as well as continued engagement in and support to the CFS. IFAD will seek to

contribute to a more harmonized approach for SDG reporting across the United Nations system and beyond. Finally, IFAD will work closely with the RBAs on the organization of the Food Systems Summit planned for 2021. The summit is expected to yield actionable global commitments from a range of actors for inclusive, sustainable and resilient food systems. Responsible for coordinating work on equitable livelihoods at the summit, IFAD will ensure alignment and complementarity with actions undertaken in IFAD12.

Box 7

IFAD's engagement with United Nations development system (UNDS) reform

The year 2020 marks the first year of implementation of the UNDS reform process as well as the start of the last decade of the 2030 Agenda. Accordingly, the United Nations Secretary-General has called for a "Decade of Action" to accelerate progress on the SDGs. 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 avoiding duplication and enhancing coordination. This will require transformational shifts from everyone concerned, including IFAD.

The Fund, jointly with FAO, was appointed by the United Nations General Assembly to lead the implementation of the United Nations Decade of Family Farming (UNDIFF). This will help build synergies with other international bodies and promote mutual benefits between the UNDIFF (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 UNDS reform is essentially about the United Nations system repositioning itself to be agile and responsive to national development plans for SDG delivery. IFAD strongly supports efforts to help the system better respond to 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 a system-wide strategic document, a new regional approach, new multi-country offices and business operations strategies 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. Under new IFAD guidelines, COSOPs will be fully aligned with that framework. This will ensure that the Fund's projects and programmes are more closely tailored to national development priorities. Mutually supporting links with the UNDS and its partners will also contribute to reinforcing the impact of IFAD-financed loans.
- (ii) IFAD has developed corporate procedures for the sign-off on business operations strategies 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 a number of pooled services with other UNCT members, on a cost-sharing basis (e.g. a common United Nations consultant roster, learning systems, banking and financial transfers, warehousing and distribution, and building maintenance).

IFAD's partnerships with non-state actors and the private sector

86. **IFAD has long pursued private sector partnerships.** For example, over the past 15 years the Fund has given prominence to value chain solutions across its portfolio. Partnerships between value chain actors and small-scale producers have been promoted through the Fund's public-private-producer partnerships. However, IFAD's capacity to engage directly with private sector actors was limited, mainly due to a lack of relevant instruments as well as by a lack of internal human resources to broker increasingly complex private sector partnerships.
87. **IFAD12 offers an opportunity to significantly step up engagement with the private sector.** In IFAD11, the Fund approved a 2019-2024 Private Sector Engagement Strategy (PSS) enabling direct partnerships with private sector actors. It permits, among other innovations, IFAD to receive financing from and to private enterprises. The objective of the PSS is to: (i) mobilize private funding and investments for MSMEs and small-scale agriculture; and (ii) expand markets and increase incomes and job opportunities for IFAD's target groups. The strategy, and an accompanying framework for non-sovereign operations (NSOs), has paved the way for direct support to key actors in the Fund's work, including producer organizations and female and youth-run MSMEs. Building on the PSS, the PSFP will be established for IFAD12 (see section IV). It will help to systematize IFAD's direct

engagement with the private sector, providing important avenues for learning and expanded impact in line with IFAD's mandate.

Expanding South-South and Triangular Cooperation

88. **IFAD will mainstream SSTC as a key approach in IFAD12.** The global SSTC landscape is changing. SSTC is recognized by Member States as an important instrument in advancing the objectives of the 2030 Agenda and achieving the SDGs. As evidenced during the IFAD12 Consultation, there is growing interest among many Members to increase the Fund's use of SSTC. Members have shown interest in learning about the impact of IFAD-funded SSTC activities on the livelihoods of small-scale farmers and its contribution to IFAD's mainstreaming themes.
89. **Building on existing efforts, IFAD will update its SSTC strategy in IFAD12, focusing on a strengthened role for IFAD as an innovator and knowledge broker.** This will include learning from: (i) implementation of the 2016 SSTC strategy; (ii) activities under the China-IFAD SSTC Facility, currently financing 15 projects across all five regions; (iii) operations of the SSTC and Knowledge Management Centres established in Brazil, China and Ethiopia; and (iv) the Rural Solutions Portal, which is showcasing a growing number of initiatives from IFAD and other partners. The new strategy will focus on promoting the exchange of knowledge, technologies and solutions addressing rural poverty and rural transformation. It will ensure the promotion of SSTC as a key development tool in IFAD's transformational country programmes. The strategy will be supported by establishing a multi-donor financing facility to secure supplementary funds and build a common, IFAD-specific SSTC conceptual framework shared by contributors. This will allow IFAD to consolidate its use of SSTC in IFAD12 to better promote the recovery, rebuilding and resilience of rural livelihoods.

IV. Operationalizing transformational country programmes

90. **A transformational country programme approach is fundamental for delivering expanded and deepened impact in IFAD12.** A transformational country programme approach allows IFAD to support countries in meeting their most pressing challenges related to food insecurity, rural poverty, climate change and fragility. It builds upon IFAD's evolution towards a country-level programmatic model that supports efforts to end rural poverty and hunger by 2030. This approach involves tailored support to countries depending on: (i) their stage of development; (ii) the challenges they face in achieving food security and reducing rural poverty (climate change, fragility, inclusion of marginalized populations, etc.); and (iii) their capacity to obtain resources. This section provides an overview of how IFAD will employ coordinated efforts and instruments to ensure deepened and expanded impact.
- A. Supporting recovery, rebuilding and resilience through enhanced portfolio management**
91. **During IFAD12, the Fund will leverage its country presence to enhance adaptability for improved results.** Adaptive management comprises the ability to learn, respond and evolve quickly and proactively. It is based on robust design that allows for change when necessary and is delivered across investment project cycles, integrating rapid course corrections to ensure achievement of development objectives. It is a key enabler of IFAD's support for rural communities' recovery, rebuilding and resilience to shocks. Through a series of recent reforms, improvements to portfolio management across a range of indicators have been achieved, as noted in the IFAD11 Midterm Review and 2020 RIDE. Nonetheless, certain aspects of portfolio management need to be strengthened in order to maximize impact.

Quality of project design

92. **The quality of project design is critical to achieve development results.** During IFAD11, a new design process was put in place, with a new review procedure, revised guidelines and an upgraded responsibility framework. Overall, projects at the design stage were found to deliver on IFAD11 commitments through: integration of the mainstreaming themes; strong targeting of poor people; good country context analysis, alignment and ownership; and effective mobilization of cofinancing. Nonetheless, several areas for improvement have emerged, as detailed below. These will be the focus of Management discussions during IFAD12.
93. **First, there are opportunities to strengthen IFAD's programmatic approaches.** Ensuring that IFAD-supported interventions are developed as part of programmatic country-level approaches is fundamental to delivering results at scale by linking programmes with governments' long-term development objectives. Along with results-based lending, phased approaches embedded in instruments such as multi-phased programmatic approaches (box 8) are known to generate strong government ownership and contribute to policy objectives. These will continue to be piloted and scaled up in IFAD's portfolio during IFAD12. Country-level policy engagement, facilitated by decentralization, is also a critical entry point for expanding results beyond a limited number of project beneficiaries and bringing about systemic change (see section B).

Box 8

Multi-phased programmatic approaches

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

A flexible multi-phased programmatic approach addresses demand arising from IFAD's operations. In some countries, IFAD is already following a phased approach, whereby projects are designed drawing on previous experiences and embedding lessons learned. The introduction of a multi-phased programmatic approach would 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, such as the Flexible Lending Mechanism of the early 2000s, and from that of other institutions in piloting a multi-phased programmatic approach during IFAD12.

94. **Second, deeper more robust assessments of countries' institutional needs are required.** Analysis of problem projects demonstrates that unrealistic expectations at the design stage contribute to implementation delays and other issues. Project designs must take into account country-level institutional capacity and factor in appropriate support. A focus on country-level capacity, including results-based management, financial management and M&E, is particularly important for efficient implementation. During IFAD12, IFAD will improve its country-level capacity assessments as part of broader measures to enhance efficiency, as detailed in box 10.
95. **Third, the gradual increase in average project size – from US\$28 million to US\$40 million in IFAD11 – is helping to improve results, cofinancing and beneficiary outreach** (see box 9). During IFAD12, the Fund will continue to track average project size as an important indicator of its relevance and expanded impact. In response to increasing demand, these larger projects are facilitating investments in critical rural infrastructure, including water supply and sanitation, small-scale irrigation, small- to medium-scale processing facilities, market infrastructure and rural feeder roads enabling market access. Such infrastructure, designed based on the needs of IFAD's target groups and with their participation, is a core element of IFAD's added value and is increasingly requested by Member States. A forthcoming evaluation synthesis report on IFAD's support to infrastructure will include recommendations to guide these efforts during IFAD12.

Box 9

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 people. Average IFAD financing for projects has increased from US\$28 million in IFAD9 to US\$31 million in IFAD10 and US\$40 million in IFAD11. Beyond allowing IFAD to become more selective and targeted in its support, larger operations tend to achieve better development outcomes (World Bank Group, 2016; African Development Bank, 2010), benefit from economies of scale, reach proportionally more beneficiaries, facilitate cofinancing and investment in rural infrastructure, and provide a more substantial seat at the policy table to advance the cause of rural small-scale producers.

Since IFAD9, the effects of this shift have begun to surface. During IFAD10, the Fund targeted a total average cofinancing ratio of 1:1.2. By the end of 2019, it had reached 1:2.05 (international and domestic). This means that IFAD managed three times the impact it financed – reaching a total of US\$3 for every US\$1 of IFAD financing.

Larger projects facilitate the achievement of more tangible, sustainable impacts on the lives of IFAD's beneficiaries. In Nigeria, IFAD has built on an initial US\$90 million loan during IFAD11. One programme in the country, the Value Chain Development Programme, targets poverty reduction and improved food security through agricultural production, processing and marketing. The programme has reached US\$300 million in total financing 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 – increasing sustainable employment opportunities for youth (40 per cent of beneficiaries) and women (42 per cent). The programme has also leveraged its significant presence to build partnerships and establish the Commodity Alliance Forum, an instrument to replicate and scale up best practices in commodity value chain development.

IFAD is not sacrificing tailored support for increased project size. While its investments may still be smaller than those of other development partners and IFIs financing sector-wide or large infrastructure reforms, IFAD remains focused on its role of reaching those most at risk of being left behind. It is understood that every country has individual needs and requires tailored responses. Even IFAD's smallest projects have important impacts, including policy engagement, technical support and engagement for raising supplementary funds.

Adaptive management at implementation

96. **Through IFAD's decentralization, country teams are now closer to clients and provide stronger and timelier implementation support.** During IFAD11, the Fund updated its guidelines for supervision and implementation support. In addition, the roll-out of IFAD's Operational Results Management System has enabled stronger project monitoring and supervision, allowing access to real-time data and closer follow-up on agreed actions. As a result, problem projects have been reduced from 20 per cent in 2016 to 13 per cent in 2019.³⁰ It is important to recognize that IFAD is mandated to work in some of the world's most difficult areas. Given the Fund's often difficult implementation context, problem projects will likely persist.
97. **IFAD has demonstrated its adaptability during the COVID-19 crisis in response to demand from Member States; however, further action is needed to facilitate timely response.** In the months since the onset of the COVID-19 pandemic, the Fund has demonstrated its ability to repurpose over US\$200 million from its ongoing portfolio to support recovery and rebuilding efforts in rural areas affected by COVID-19. Within the same time frame, it has been able to establish, fund and execute a new instrument, the RPSF. In order to improve its adaptability, IFAD will focus on five key issues during IFAD12.
98. **First, IFAD will continue to utilize project restructuring to improve project performance and inform future design.** Potential problem projects that are proactively restructured before their midterm reviews are more likely to deliver results. Clearly, the timeliness of restructuring matters and Management will seek to ensure that projects are restructured as needed before reaching the midterm point. IFAD will track its proactivity in addressing problem projects in the IFAD12 Results Management Framework (RMF).
99. **Second, IFAD will focus on more efficient project delivery.** While the Fund has historically lagged in its performance on project-level efficiency (distinct from IFAD's own efficiency), project efficiency is critical to deliver results more quickly

³⁰ IFAD11 Midterm Review.

and maximize the number of beneficiaries reached per dollar spent. Analysis of problem projects has demonstrated that project performance is susceptible to several challenges, including high staff turnover, inadequate local capacity, weak disbursement, poor financial management and procurement issues. In IFAD12, there will be a focus on ensuring timelier implementation support, increasing local presence and technical support, and exploring how to support government capacity more directly.

Box 10

Increasing efficiency – an action plan for quicker results

Project-level efficiency has been highlighted as a recurrent weakness both by the Independent Office of Evaluation of IFAD (IOE) and Management's self-assessments. Going the last mile is costly, and given IFAD's target groups, some compromise on project-level efficiency is inevitable. Nonetheless, in order to expand impact for rural poor people, IFAD will place special emphasis on project-level efficiency 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 strong institutional analysis to ensure that ambition is realistic in terms of implementation capacity. Staffing of project management units is not only a strong determinant of efficiency, but also of overall delivery. It is important to have a fully functioning and merit-based recruitment process for these units so that they are ready for implementation when funds are available for disbursement. In addition, and disbursements are related: it is therefore important that a robust procurement plan is in place and that withdrawal applications are processed according to that plan.

How can improvements in project-level efficiency be assessed?

Gains in project-level efficiency are measured against a set of unique indicators during implementation. IFAD uses a number of indicators to assess project efficiency, starting with a composite indicator of overall implementation progress. This key performance indicator includes several sub-indicators, some of which are auto-calculated (like disbursement progress), and others that are assessed during implementation (such as coherence among the annual workplan and budget, and implementation, financial management, procurement and M&E. Taken together, these sub-indicators give a good indication of project-level efficiency and can be used to assess progress.

Does project-level efficiency affect project impact?

Projects completed during IFAD10 showed strong impact as measured by the IFAD10 impact assessment initiative. However, performance on project-level efficiency at completion was below target. Other indicators, including effectiveness, environment and natural resource management, climate change adaptation and gender, were more positive. This shows that while IFAD-supported projects delivered strong impact during IFAD10, they did not do so as efficiently as possible. While this finding is not entirely surprising given IFAD's operating context, sub-indicators 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 the delivery of project results.

An action plan for improved efficiency

In order to address recurrent challenges in project-level efficiency, IFAD will build on evidence and experience to date to develop an efficiency action plan for IFAD12.

100. **Third, Management will ensure that chronic problem projects – those with “problem project” status for the previous three supervision missions – are minimized.** While a portfolio without problem projects is not realistic given the Fund's challenging operating environment, Management's ambition for IFAD12 is to address problem projects more proactively before they become chronic problem projects. If implemented systematically, this should drastically reduce the number of chronic problem projects. For those chronic problem projects that do persist, stricter measures for restructuring and project cancellation will be pursued.
101. **Fourth, there will be a greater focus during project implementation on mainstreaming themes in IFAD12.** As discussed in section III, this will ensure that the priority placed on mainstreaming themes during design carries through to implementation and that challenges are promptly identified and addressed as projects progress.
102. **Finally, learning and accountability during implementation, and at project completion, will continue to be strengthened in IFAD12, with a focus on project-level M&E.** While IFAD has a corporate-level results culture, M&E at the project level still presents weaknesses – with particular gaps in project-level tracking systems and staff capacity. The Fund will take measures during IFAD12 to strengthen project-level M&E through training, capacity-building and information-

tracking systems. This will be captured through an M&E action plan that will address specific constraints, building on the Fund's ongoing work through initiatives such as the grant-financed Advancing Knowledge for Agricultural Impact project.

Driving innovation through transformational country programmes

103. **Facing multiple challenges in meeting the SDGs, innovation is critical for IFAD to bring about sustainable, inclusive rural transformation.** Innovation spurs new actions to improve performance and address problems, including novel practices, approaches, methods, processes, tools and guidelines.³¹ Both IFAD's Strategic Framework 2016-2025 and the strategic directions set out for IFAD11 recognize innovation as necessary for results and impact. IFAD has since pursued organizational changes, including the establishment of a Change, Delivery and Innovation Unit to facilitate innovation across the organization.
104. **IFAD has been particularly strong in social innovation to address socio-economic challenges.**³² A recent corporate-level evaluation found that IFAD performs well on innovations around natural resource management, building social capital (e.g. land rights management) and human capital (e.g. capacity-building), especially for farmers and their organizations. This is facilitated by the Fund's experience with participatory approaches (e.g. participatory budgeting). However, opportunities for improvement were recognized for women, youth and indigenous peoples.³³ IFAD is responding with a conducive operating model and guidelines on innovation to systematically identify and encourage innovations beyond technology at the project level, with implications for IFAD12 and beyond.
105. **During IFAD12, the Fund will continue to place a strong emphasis on innovating for development results, in line with IFAD12 priorities.** For example, IFAD will pursue responsible investment and sustainable agricultural practices in line with sustainability objectives, leveraging science, technology and sustainable agricultural approaches such as agroecology to support small-scale producers and vulnerable rural people. By continuing to focus on gender-transformative approaches and integrating innovations stemming from IFAD's youth action plan, IFAD will also leverage innovations to meet challenges within its mainstreaming themes.
106. **IFAD is leveraging ICT4D to accelerate development results.** The Fund will identify and capitalize on opportunities for integrating digital technologies at the country level. To this end, it will ensure that by the end of IFAD12, 50 per cent of new COSOPs and CSNs will have identified ICT4D opportunities to advance development results and impact, and that at least five projects designed over the course of IFAD12 will integrate digital agriculture approaches. This will include promising practices related to precision agriculture, aimed at helping farmers to increase production sustainably and efficiently, fintech supporting greater access by beneficiaries to financial services, and data collection and analysis to inform decision-making at the project and country levels (see box 11).
107. **Digital technologies will have a special focus in IFAD12.** The application of digital technology in agriculture has the potential to increase farmers' productivity and incomes, improve access to markets and strengthen resilience to climate change – especially for the most vulnerable groups such as women and youth. For example, ICTs for agriculture can extend the reach of services and expertise to remote areas at lower cost, generate high-quality data to inform decision-making and link producers to markets through the provision of pricing information. ICT applications have proven indispensable for IFAD's response to the COVID-19 pandemic by enabling communication in the context of social distancing.

³¹ IOE. Corporate-level Evaluation on IFAD's Support to Innovations for Inclusive and Sustainable Smallholder Agriculture. 2020

³² Ibid.

³³ IOE. Technical Innovations for Rural Poverty Reduction, Evaluation Synthesis. 2019.

Box 11

Priorities for leveraging innovation through ICTs in IFAD12 and beyond

ICTs can provide catalytic support to small-scale producers, improving production, access to markets and resilience to climate change. The areas below offer particularly promising avenues for accelerating results.

Precision agriculture

IFAD is increasing its focus on precision agriculture, which aims to assist small-scale producers in minimizing costs and improving sustainability by making agricultural practices more accurate and controlled. While it involves the application of advanced technologies, including geographical information system (GIS) tools, sensors and drones, precision agriculture is increasingly accessible to small-scale farmers in LICs through mobile-based information, sensors and soil mapping. IFAD is in the early stages of a pilot partnership with Precision Agriculture for Development to deliver personalized agricultural advice to farmers through mobile phones.

Fintech

Improvements in fintech offer a unique opportunity to engage small farmers, connect them to needed resources and help them to develop new business models for sourcing and service delivery. IFAD will support emerging fintech solutions to deliver financial services in faster, cheaper and easier ways.

Geospatial data

The use of geospatial data holds particular promise for enhancing data collection and analysis in support of better decision-making for small-scale producers, and contributes to improved resilience to climate change. IFAD has already employed geospatial initiatives to this end. For example in Yemen, IFAD invested in a combination of GIS modelling, earth observations and social vulnerability assessments for climate change vulnerability mapping. This mapping enabled IFAD to target areas and communities according to their vulnerability to climate change, and tailor infrastructure adaptation plans to local risk levels and needs.

Enhanced management of programmatic risk and strengthened safeguards

108. **Active management of programme delivery risk is a critical enabler of development results.** Adequate risk management ensures that as risks materialize, IFAD is ready to respond and adjust country programmes accordingly. In its move towards an enterprise risk management (ERM) approach (detailed in section V), IFAD is focusing on identifying and mitigating programme delivery risk – one of the Fund's most significant risks. Programme delivery risk comprises subdomains such as sector strategies and policies, financial management, project procurement, safeguards and stakeholder risks, as well as risks related to the environment and climate, people, institutional capacity and sustainability of interventions. An integrated project risk matrix is being elaborated for all new and ongoing projects to identify, assess, mitigate, manage and monitor risks to programme delivery. The matrix will also help IFAD to avoid exceeding the established risk appetite in its country programmes.
109. **Adopting business continuity processes should not compromise IFAD's effectiveness and efficiency.** These measures provide IFAD with flexibility in responding to countries' urgent needs, such as those related to COVID-19. However, the risks of operating amid the pandemic are high (including those arising from economic impacts and restrictions on public gatherings and travel to reduce virus transmission). Since IFAD's ability to mitigate these risks is fairly limited, operating in COVID-19-affected countries inevitably involves heightened residual risk exposure.
110. **Enhanced safeguards includes stronger linkages between procurement and IFAD's SECAP.** The changes in IFAD's business model, its new financial architecture and the focus in IFAD12 on larger projects – along with potential demand for more rural infrastructure – require strengthening the links between SECAP and procurement. This is especially important since procurement processes forge new relationships with suppliers, providing an opportunity to address associated risks and monitor compliance through safeguards. MDBs are already developing measures to close the gap between safeguards and procurement by integrating sustainable socio-economic and environmental objectives into procurement, supported by expertise. IFAD will review the steps needed to ensure an adequate focus on safeguards, including through a review of its capacity in this area.

111. **IFAD will continue to strengthen national grievance redress mechanisms as part of its evolving safeguards.** The implementation of IFAD's transparency action plan in IFAD11 included a stakeholder feedback framework to ensure that the voices of those IFAD serves are heard and increase its accountability to them. In IFAD12, Management will embed new core indicators on citizens' engagement in country strategies and project designs, and ensure that national grievance redress mechanisms, as reflected in IFAD's safeguard policy, are reported on as part of the stakeholder feedback framework.

B. Sustainable, scaled-up results for lasting impact

112. **In order to deepen impact, the results of IFAD-financed projects on target beneficiary groups must be sustained over time and must be maintained in the face of shocks.** Recent evaluations have shown that IFAD consistently performs below its aspirations on sustainability. Lack of long-term exit strategies, insufficient synergies with complementary projects and stakeholders in-country, limited learning from previous projects, and lack of strong government commitment have been highlighted as important obstacles to progress.³⁴
113. **In IFAD12, the Fund will aim to turn a corner on sustainability to enhance the resilience of its target groups.** Actions will focus on: testing tools to enhance government ownership of results; ensuring closer stakeholder engagement; better measuring the sustainability of benefits; and a more purposeful focus on scaling up and exit strategies, including through policy engagement towards systemic change (see figure 6).

Box 12

Building resilience and making impacts sustainable over time

While achieving more sustainable results is central to deepening impact, IFAD has not always performed well in this area according both to the Fund's self-evaluations and IOE. IFAD is therefore undertaking four concrete actions to improve the sustainability of its results during IFAD12, to be compiled in a sustainability action plan.

- 1) **Fostering sustainability through lending instruments that generate ownership.** Sustainability improves when government partners and beneficiaries are given the opportunity to assume greater ownership of projects from the outset. These partners can then assist IFAD in establishing pathways for either scaling up projects or pursuing exit strategies. Working towards IFAD12, the Fund will roll out pilot and expand instruments that generate strong government ownership. This will include extending the results-based lending pilot and introducing multi-phased programmatic approaches – facilitating the integration of lessons learned from previous projects.
- 2) **Generating sustainability through closer engagement with stakeholders.** IFAD will ensure closer collaboration with a diversity of partners in-country, facilitated through decentralization. Building on its stakeholder feedback framework and the revised SECAP approved during IFAD11, IFAD will double its efforts to ensure early, meaningful and continuing engagement with, and feedback from, stakeholders – especially the populations it serves.
- 3) **Thinking more deeply about scaling up and exit strategies.** IFAD has played a leading role in development debates about scaling up impact. In IFAD12, the Fund will continue to emphasize pathways for scaling up project results to ensure greater sustainability, with a focus on policy engagement. Prior to IFAD12, its scaling-up strategy will be reviewed to ensure alignment with IFAD's new business model. While all project designs are required to include an exit strategy, the Fund's quality assurance process will ensure that they are adequate, and project teams will ensure that they form an integral part of project supervision.
- 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 rural poor people, Management will explore with IOE the possibility of undertaking ex post evaluations three to five years after project completion in order to determine whether the results measured at project closure have been maintained.

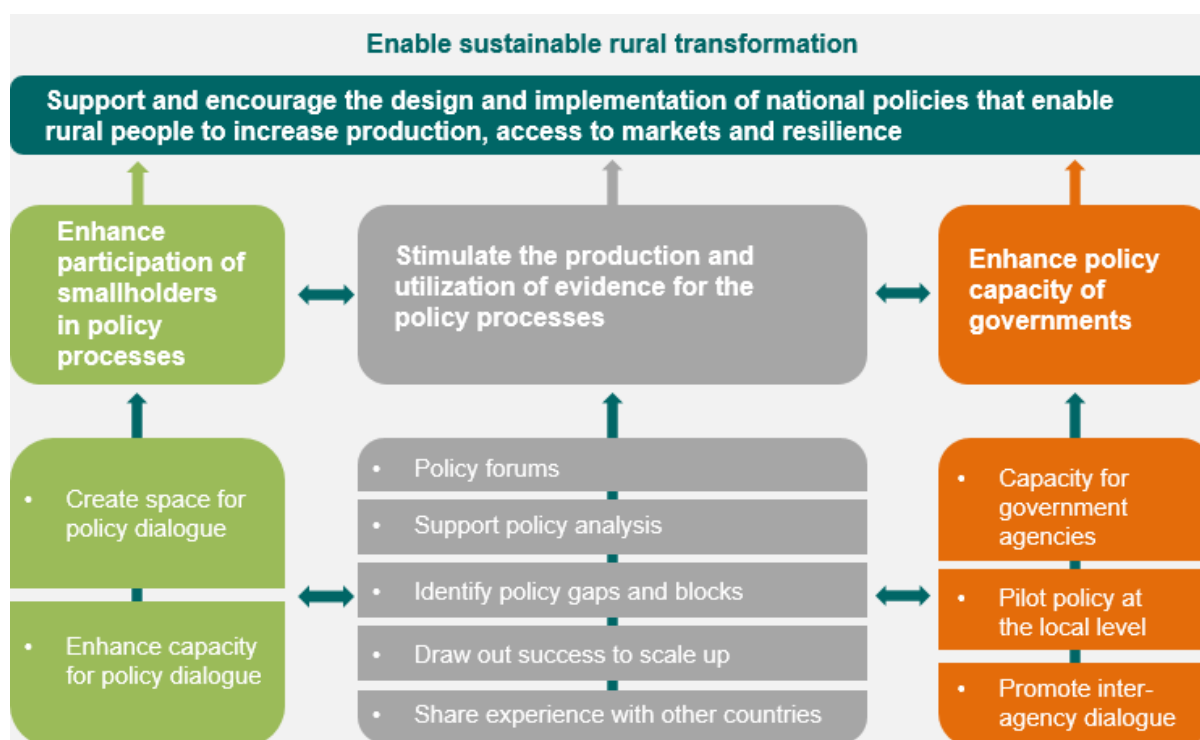
114. **In order to produce more sustainable results for beneficiaries, IFAD will enhance its role in country-level policy engagement during IFAD12.** IFAD's enhanced proximity to governments through decentralization offers opportunities to heighten its impact through policy engagement – a critical way to ensure that results extend beyond the targeted beneficiaries of IFAD-financed projects.

³⁴ 2020 Annual Report on Results and Impact of IFAD's Operations.

115. **This builds on existing efforts across IFAD's portfolio.** IFAD's theory of change for policy engagement, articulated during IFAD10, aims to support the design and implementation of national policies that enable rural poor people to increase production, access to markets and resilience. These efforts are pursued through three channels and 10 types of activities (see figure 5 below).
116. **Several core indicators** are used to track policy-related outcomes within IFAD projects, along with ratings on the extent to which institutional and policy objectives are being met. To date, approximately 50 projects in the Fund's portfolio are tracking policy-related outcome indicators. Results suggest that: more than 500 policy-relevant knowledge products have been completed; nearly 40 multi-stakeholder platforms have been created; and 15 policies have been proposed for approval, ratification or amendment. Performance data on policy engagement during supervision also indicate that the large majority of projects are striving to do well in this area – 87 per cent of projects have scores of "moderately satisfactory" or above.

Figure 5

IFAD's theory of change for policy engagement



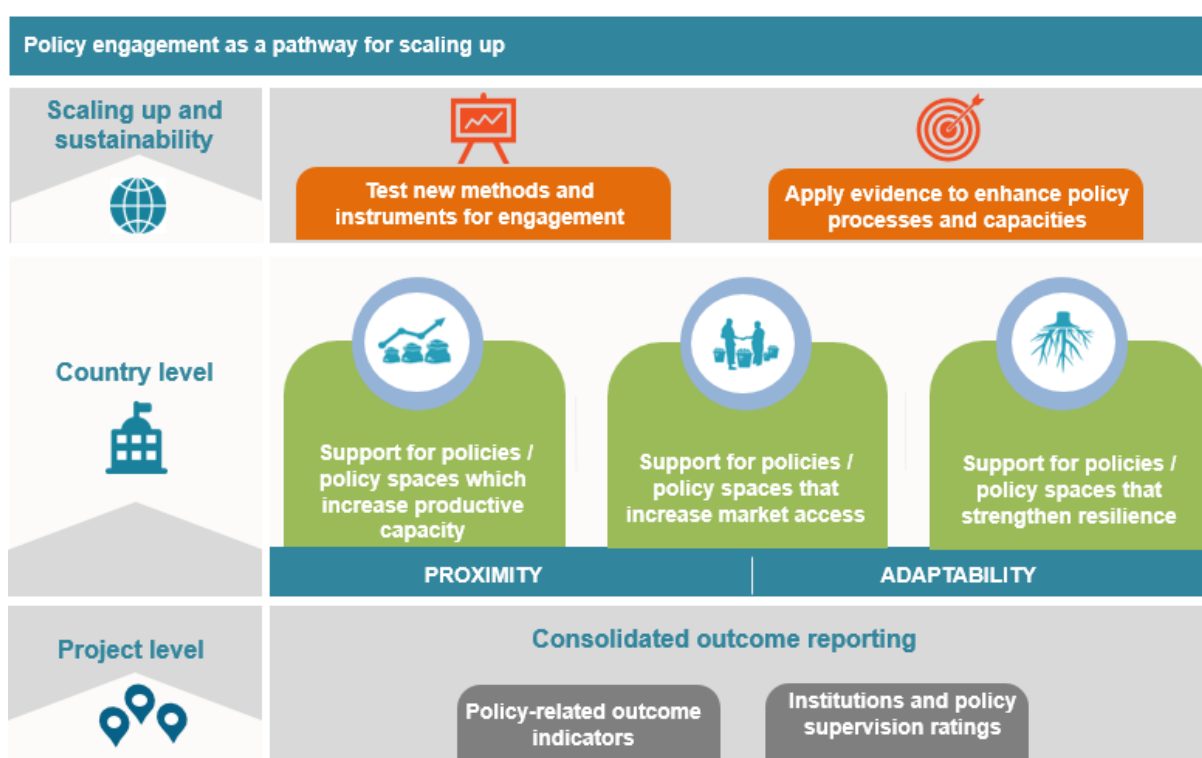
117. **Nonetheless, the metrics available at the country programme level continue to show a great deal of room for improvement in policy engagement.** The stakeholder survey, COSOP completion reviews and IOE's country strategy and programme evaluations show policy engagement as the weakest performer among all areas tracked. The disconnect between project-level performance and country programme-level performance is mirrored in external data, which suggest that while IFAD is perceived as "helpful" it is not perceived as "influential" in the policy space.
118. **IFAD12 will build on IFAD's comparative advantage of supporting the participation and inclusion of rural poor people in the policy space to achieve better results at the country level.** A unification of approaches, tools and methods for measuring policy engagement will: support policy engagement as a critical pathway for scaling up; and contribute to the sustainability of project outcomes. During IFAD12, IFAD will seek to make an impact – and to measure it – in three specific areas mapped to IFAD's strategic objectives (see figure 6 below):

- (i) Supporting policies or policy dialogues aimed at enhancing rural poor people's productive capacity;
- (ii) Supporting policies or policy spaces that enhance rural poor people's market access; and
- (iii) Supporting policies and policy spaces focused on strengthening the resilience of rural poor people.

119. **In any of the areas listed above, IFAD's support could include participation in – and leadership of – agriculture sector working groups and collaborating with governments to ensure that new or updated sector strategies reflect IFAD's mandate.** While IFAD will continue to be opportunistic in its policy engagement – providing support to governments upon request – it will also seek to streamline its engagement to areas in which it can have the most concrete impact.

Figure 6

Enhancing and measuring policy engagement as a pathway for scaling up in IFAD12



120. **Monitoring policy impact will be simplified by tracking results in the three areas listed above at the country programme level.** This will allow IFAD to test new tools and methods for policy engagement, including instruments to: facilitate rural people's participation in policy processes; utilize existing evidence in policy processes; and enhance governments' policy capacity.

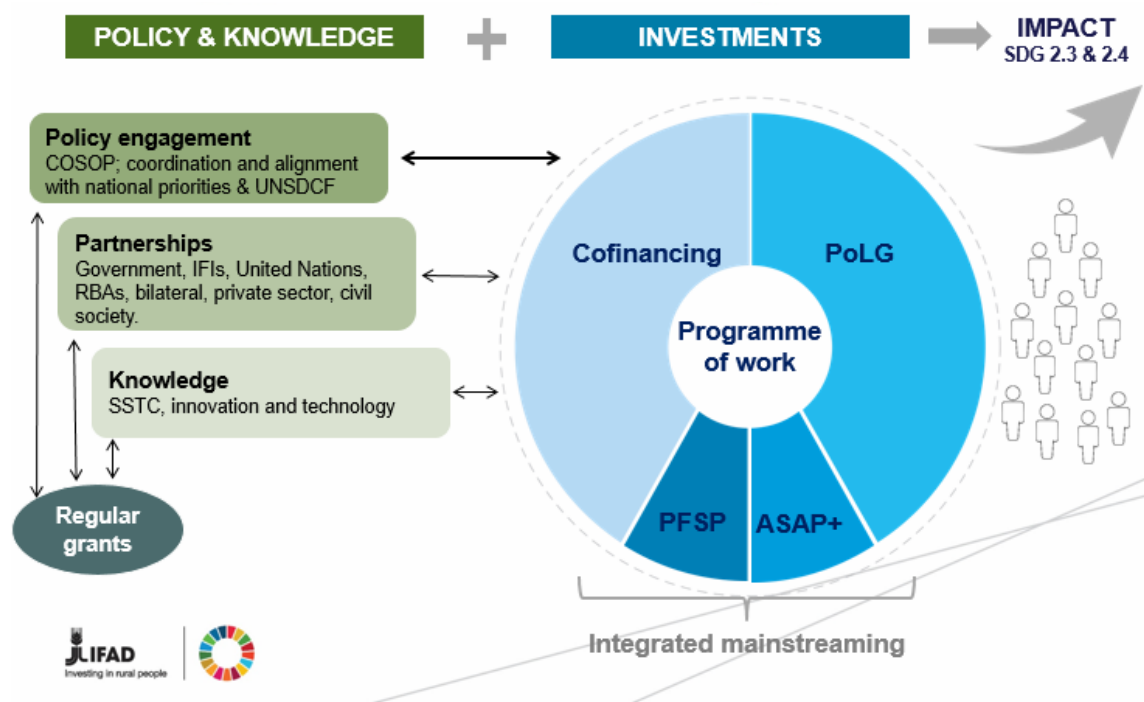
C. An expanded country toolkit responding to the evolving needs of rural poor people

121. **IFAD12 presents an opportunity to provide a broader suite of tools to respond to countries' changing needs.** In IFAD12, IFAD's PoLG and core replenishment resources will remain the primary means of IFAD's engagement with countries. However, they will be complemented by actions to expand IFAD's work and amplify its impact. Leveraging of IFAD's core resources will be increased to allow all eligible borrowing countries to obtain additional resources and achieve greater impact. The PSFP is a new instrument to catalyse private funding for rural

MSMEs, focused on employment generation for youth and women. A new phase of the ASAP+ will scale up efforts to provide critical climate financing. A refocusing of IFAD's regular grant programme will provide catalytic complimentary financing in the areas of policy, knowledge and partnerships.

Figure 7

IFAD12 country programmes – alignment and complementarity



Private Sector Financing Programme

122. **The PSFP will be an important vehicle for increasing private sector investment in IFAD12.** With the goal of raising US\$200 million in financing, the PSFP is designed to crowd in private sector investments and leverage private sector know-how and innovation for the benefit of small-scale producers and rural communities. It will have a special focus on youth, women and climate resilience. Through the PSFP, IFAD aims to focus on areas where it can play the most catalytic role, directly supporting under-served market segments through support in areas such as volatile agricultural activities and by addressing specific financing gaps. PSFP projects are expected to be impactful, commercially viable, adhere to strict environmental and climate standards, and promote good governance and coordination between public and private sector efforts.
123. **The PSFP expands IFAD's instruments for country-level operations, helping the Fund's target groups to grow their businesses, generate income and access more commercial funding sources.** PSFP support will be provided through debt, equity and risk mitigation (e.g. guarantees). It will deliver targeted technical assistance to private sector partners. This will provide country programmes with a new tool to address critical investment gaps and deliver on core programmatic and country-level objectives.
124. **IFAD is leveraging its expertise and strengthening its private sector capacity and risk management capacity.** Investment potential for PSFP-financed investments is enhanced by IFAD's strong sectoral expertise, extensive network and alignment with its ongoing loan portfolio. Through a combination of recruitment, secondments, consultancies and training, IFAD is strengthening its in-house capacity to meet the demands of – and manage risks associated with – increasingly complex private sector operations. IFAD has also developed guidelines for review of NSOs to ensure early identification and mitigation of risk. IFAD's

NSOs are complementary with those of other IFIs, but respond to a specific niche targeting smaller investment opportunities and tailored to the needs of rural poor people. The Fund will also partner with other IFIs whenever possible, tapping into their risk management and structural expertise.

125. **PSFP will be fully aligned with IFAD's country programme strategic objectives and complement its loans and grants.** Ensuring complementarity is a core underlying principle of IFAD's private sector NSOs. This means that investment opportunities may be generated by building on IFAD's existing portfolio. NSOs that do not directly originate from IFAD's PoLG must demonstrate complementarity and alignment with COSOPs in order to secure approval.³⁵

Adaptation for Smallholder Agriculture Programme +

126. **ASAP+ offers an additional tool for building resilience at the country level.** A key pillar of the 2RP, ASAP+ aims to raise US\$500 million and increase the climate resilience of 10 million vulnerable rural people, with a focus on women and youth. It addresses an important gap in climate finance by aligning with poverty reduction and food security objectives,³⁶ and targeting rural poor people, who are often the most vulnerable to climate impacts.
127. **ASAP+ will enhance resilience by targeting the underlying climate and social drivers of food insecurity.** It will increase the resilience of vulnerable populations, especially rural women, youth, indigenous peoples and other marginalized groups by increasing production of diverse foods under adverse climate conditions. It will ensure continuous access to foods through improved infrastructure, introduce risk-sharing instruments to protect livelihoods and assets, and facilitate the development and management of storage facilities and other measures. Finally, ASAP+ activities aim to reduce greenhouse gases while simultaneously driving development impact, such as by rehabilitating degraded soils and reducing emissions from agricultural practices.
128. **IFAD will strengthen the mainstreaming of climate through its operations using diversified instruments.** Recent analysis³⁷ has shown that the poorest countries struggle to prioritize borrowing for climate-related activities. ASAP+ presents an important instrument to assist member countries in achieving their stated climate objectives, including the nationally determined contributions. By building on IFAD's experience implementing ASAP – with an enhanced focus on mitigation, capacity-building and policy engagement for systemic change – ASAP+ will strengthen resilience and increase IFAD's impact on poverty, food insecurity, and fragility.
129. **ASAP+ will complement IFAD's PoLG.** It will focus on countries where IFAD has an active portfolio and ensure alignment with IFAD country strategies in the absence of ongoing investment operations. ASAP+ will prioritize areas where climate vulnerability is especially high and where IFAD could greatly contribute to preventing further crises.

IFAD's catalytic grant programme

130. **The IFAD12 consultation recognized the importance of IFAD's regular grant programme and the need to ensure its use for catalytic purposes.** IFAD has employed regular grants since its inception in 1977. These grants are used to support activities that cannot be funded through IFAD's core programme of loans or any other instrument, but that are critical for IFAD to fulfil its mandate. While recent independent evaluations³⁸ have shown that regular grants are indeed critical, several improvements have been made, including better integration of

³⁵ EB 2020/129/R.11/Rev.1.

³⁶ See: Oxfam. Climate finance shadow report: Assessing progress towards the US\$100 billion commitment. 2018.

³⁷ ODI. Assessing external demand for public investment in inclusive and sustainable rural development.

³⁸ IOE, 2020, Corporate-level Evaluation on IFAD's Support to Innovations for Inclusive and Sustainable Smallholder Agriculture,

outcomes into IFAD country programmes, stronger knowledge management and improved monitoring, reporting and learning.

131. **It was recognized that IFAD's regular grant programme and the DSF are substantially different.** The DSF provides highly indebted countries with grant support that would normally be funded through loans. The grant programme finances non-lending activities – including global and regional public goods, policy engagement, innovations and partnerships – that cannot be financed through IFAD's lending programme. This includes support to initiatives like the Farmer's Forum, CFS, seed funding for partnerships that leverage additional financing and support for global mechanisms such as the Food Systems Summit (see box 13). Without grant financing, these activities could not take place. Therefore, the discontinuation of the regular grants programme risks being inconsistent with the Agreement Establishing IFAD and could potentially deprive the Fund of an indispensable instrument for pursuing its mandate. In line with the sustainable replenishment baseline approach, a smaller percentage than the current 6.5 per cent is proposed for regular grants under all scenarios.³⁹
132. **To address challenges and ensure that the grant programme is catalytic and financially sustainable, a new grant policy is being devised to guide the strategic focus and allocation of grants.** The policy, to be approved by the Executive Board, will apply three principles to the approval of grant proposals: (i) robust justification for why funding can only come from grant resources; (ii) demonstrated leveraging potential; and (iii) rigorous assessment to prioritize among other projects. While the overall envelope for the grant programme will be set in the replenishment consultation, the revised policy and implementation procedures will include allocation and approval mechanisms.

³⁹ Between 3.6 per cent and 4.5 per cent.

Box 13

IFAD's catalytic grants programme

IFAD's regular grants programme has unique characteristics that distinguish it from IFAD's other instruments. Critically, the regular grants programme is often the only avenue for IFAD to:

- (i) **Address regional and global challenges** – including subregional, regional and global policies and public goods;
- (ii) **Support engagement in key forums** – global initiatives, platforms and networks;
- (iii) **Respond rapidly** – particularly in situations of unforeseen crisis;
- (iv) **Strengthen partnerships** – with multiple organizations at different levels in order to leverage cofinancing opportunities;
- (v) **Pilot innovations** – allowing safe experimentation with innovative approaches that can be scaled up for wider impact;
- (vi) **Strengthen the results of IFAD operations** – including through support to amplify the results of IFAD-funded loan operations;
- (vii) **Promote non-lending activities** – including critical activities such as policy engagement and knowledge management;
- (viii) **Enhance partners' capacity** – and build the capacity of country-level project staff for better delivery of loan-funded operations;
- (ix) **Further the Fund's global mandate** – allowing IFAD to remain engaged in countries with limited or no PBAS allocations; and
- (x) **Deploy easily** – since grant-funded projects take less time to design, approve and implement than investment projects.

Examples of successful grant-funded initiatives include the following:

- **Rural Youth, Territories and Opportunities: A Policy Engagement Strategy.** This knowledge-sharing and policy dialogue project covered Colombia, Ecuador, Mexico and Peru, where it established national rural development groups. It also facilitated the drafting of 14 project documents and seven policy briefs, and greatly influenced all four countries' national youth and rural development policies.
- **Scale Up Empowerment through Household Methodologies: from Thousands to Millions.** Covering multiple countries in sub-Saharan Africa, this grant-funded programme contributes to the gender-transformative impact of IFAD's activities through piloting and scaling up household methodologies, which position marginalized rural women, men and youth as drivers of change. As of March 2020, 3,230 households – 6,490 individuals (55 per cent women and 45 per cent men) – had been reached.
- **Support to Farmers' Organizations in Africa Programme (SFOAP).** Through SFOAP (2013-2017), an IFAD-funded grant of EUR 1.9 million helped to attract a total investment of almost EUR 20 million to strengthen farmers' organizations in Africa. Among its most notable results, SFOAP increased farmers' productivity and incomes: SFOAP-supported farmers' organizations were able to mobilize EUR 12 million from public sources and over EUR 4 million through partnership agreements or contract sales during implementation.

V. Transformational institutional change

133. **Building on recent institutional reforms, efforts will continue to ensure that the Fund has the capacity to deliver on IFAD12 ambitions.** IFAD is now building on the changes implemented in recent years and investing in people, processes and technology to: become more efficient and agile; deliver more effectively on its mandate; and meet client demand, including in the most challenging environments. During IFAD12, previous improvements will be reinforced by strengthening decentralization and technical expertise, fully embedding new ERM approaches and continued diligence in preventing and responding to SH/SEA. These actions provide the enabling institutional environment underpinning the IFAD12 theory of change.
134. **Decentralization will continue in the lead-up to and during IFAD12, with the aim of having 45 per cent of staff based in ICOs by 2024.** Since IFAD9, the proportion of staff in field offices has risen from 16 per cent to 32 per cent (see figure 8). Greater proximity to projects, governments and other partners has improved IFAD's delivery capacity, policy engagement and partnerships, and established a strong foundation for the transformational country programmatic approach envisioned in IFAD12. This next phase of decentralization will include

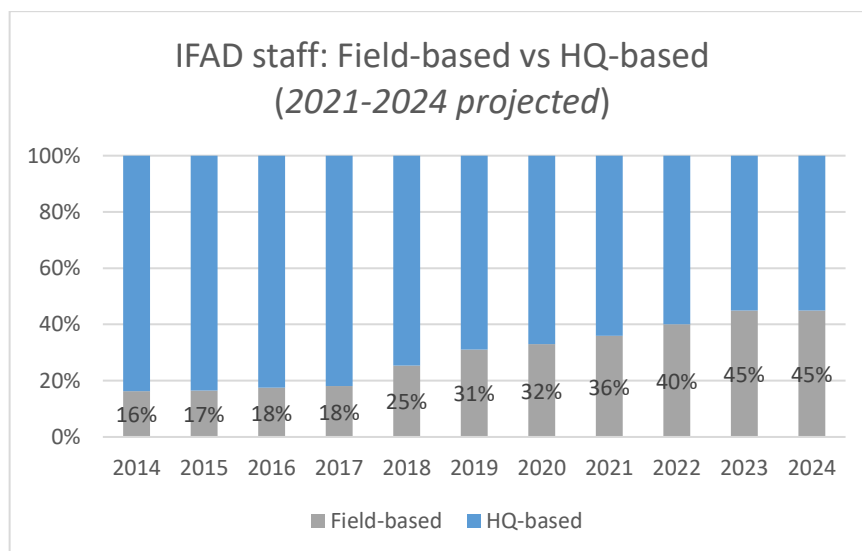
existing headquarters-based functions and newly established technical and programme management positions. ICOs will be strengthened, reflecting lessons learned on the importance of in-country presence for policy engagement and partnerships, and agile country programme management. ICO strengthening will focus on fragile or challenging situations, and countries with large and complex portfolios, where there is the greatest potential for in-country staff to increase impact.

135. Ensuring effective and efficient management of greater decentralization.

Most multilateral and bilateral development partners are already highly decentralized and have adapted their business process and budgets accordingly. In IFAD, decentralization is a recent and ongoing process. Based on lessons learned to date and using a COVID-19 lens, IFAD is conducting a comprehensive analysis of its increased field presence and capability. The aim is to determine an appropriate organizational configuration for the next two to three years, underpinned by a clear delegation of authority and strong fiduciary and safeguard mechanisms. In the short term, it is recognized that decentralization could bring additional costs; however, these may be offset by reductions in travel and some headquarters costs. Such changes are expected to bring about significant measurable improvements in the results and impact of IFAD's operations.

Figure 8

Presence of IFAD staff in the field versus headquarters: 2014-2024



136. The People, Processes and Technology Plan is an additional element of transformational institutional change and enabler of the IFAD12 business model. Replenishment consultations have highlighted that continued efforts are needed to reinforce IFAD's workforce capacity and skill set. The plan, approved by IFAD's Executive Board in April 2020, seeks to bridge the gap in workforce and corporate processes in order to help IFAD to deliver its PoW and navigate the global challenges ahead. It responds to external assessments, which identified gaps in human capital, inefficient processes and the need for enhanced technology solutions to support change. Implementation of the plan will continue throughout IFAD12 and beyond.

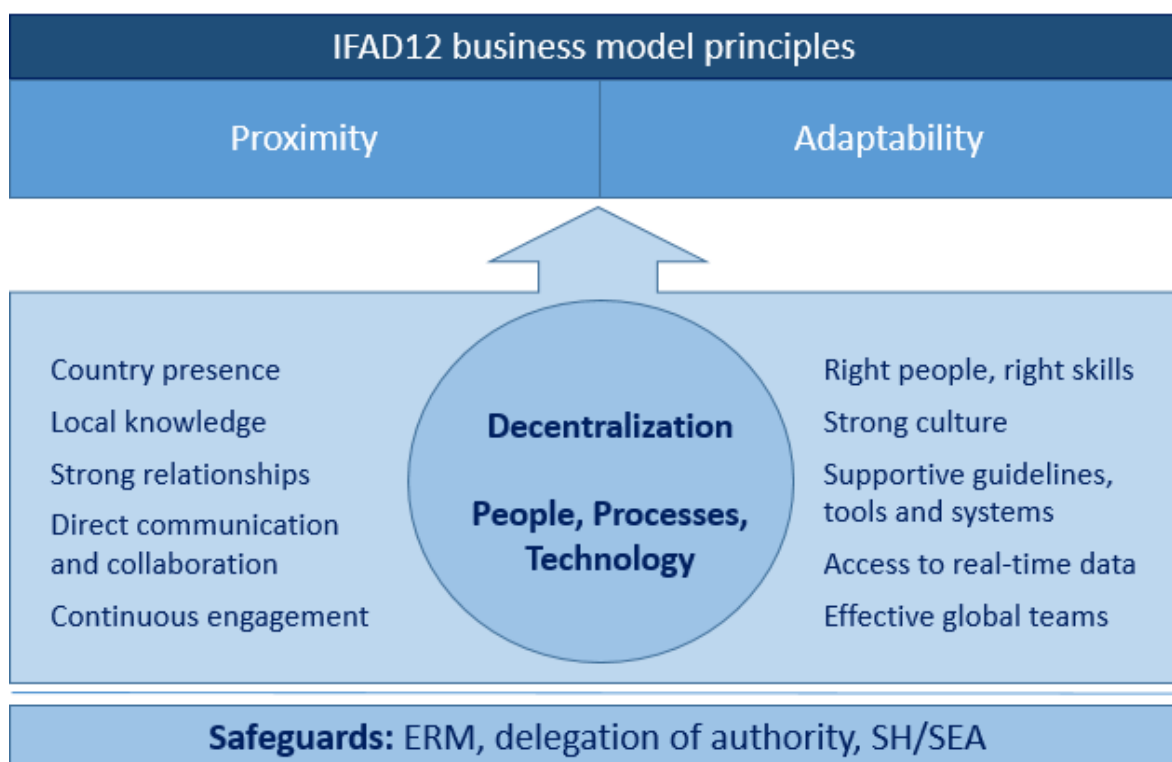
- (i) **People.** The objective of the "people" work stream is to ensure that IFAD has the right people, with the right skills, in the right roles and at the right times and places. Divisional strategic workforce plans are being created to propose targeted training for skills development and performance management. As part of IFAD's decentralization, Management will ensure that the requisite technical and managerial capacity is present in regional hubs and ICOs to deliver on IFAD's mandate, including in mainstreaming areas, portfolio

performance in fragile situations, private sector engagement and policy dialogue.

- (ii) **Processes.** The objectives of the “processes” work stream are to ensure that IFAD’s underlying business processes are fit for purpose and provide IFAD with the operational capacity to meet its objectives, manage risks and enhance its efficiency. Solutions currently being rolled out will allow cost savings and other benefits to be realized during IFAD12. Management will conduct reviews of other business processes during IFAD12 as required.
- (iii) **Technology.** To support the “people” and “processes” work streams, IFAD is: upgrading its systems; piloting automation for efficiency gains; improving technologies, including for performance management; and enhancing the digital fluency and data analysis skills of its personnel. The aim is to maximize the use of workplace technologies that improve productivity, collaboration and delivery. The impacts of COVID-19 have accelerated this transformation.

Figure 9

Institutional change: Contribution to the IFAD12 business model



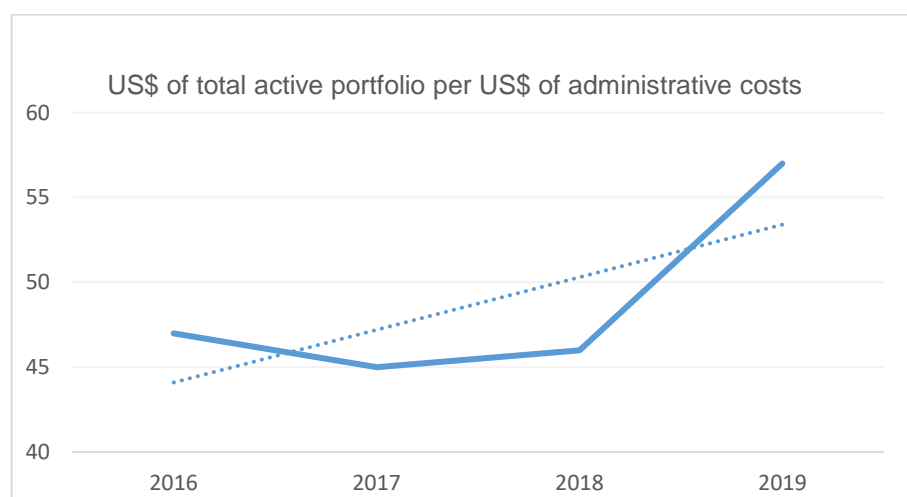
137. **IFAD has strengthened ERM to improve risk governance in line with its evolving business model and financial framework.** Greater decentralization, increased engagement with the private sector and a more sophisticated financial architecture are essential elements of the IFAD12 business model, but also impact IFAD’s risk profile. The recent establishment of the Office of Enterprise Risk Management will enable IFAD to measure its risk profile against its risk appetite more accurately, integrate risk management capacity into its operations and take better-informed risks to support rural transformation. It will also ensure regular risk reporting to IFAD’s governing bodies during IFAD12.
138. **During IFAD12, IFAD will continue its SH/SEA prevention efforts and outreach to raise awareness internally and externally.** In the replenishment consultations, Members reiterated their support for IFAD’s Policy to Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse, and welcomed the concrete actions and alignment with the United Nations Secretary-General’s

strategy in the report Special Measures for Protection from Sexual Exploitation and Abuse: A New Approach (A/71/818). Management affirmed its commitment to work with all partners in order to promote IFAD's zero-tolerance policy at all levels. Management informs the Executive Board at each session on SH/SEA allegations received and has joined the United Nations Secretary-General quarterly reports on SEA and "Clear Check" screening database. During IFAD12, the Fund will continue to develop biennial IFAD action plans to prevent and respond to SH/SEA, aligned with United Nations Sustainable Development Group strategies and best practices, and provide regular updates to the Executive Board.

139. **During IFAD12, Management will focus on optimizing institutional efficiency and investing in capacity improvements.** IFAD11 is on track to become the first replenishment period in IFAD's recent history with a PoLG delivered entirely under zero-real-growth budget principles. Budget restraint, combined with growth of the Fund's portfolio, enabled IFAD to improve the ratio of the total active portfolio to the organization's administrative costs over the past three years. As shown in figure 10, for each US\$1 of administrative costs, IFAD is currently managing US\$57 in investments – a 20 per cent increase from 2016. In IFAD12, the goal is to maintain stable efficiency ratios between IFAD's administrative budget and level of operations. Efficiency savings will be invested in improving IFAD's effectiveness and impact, enhancing the Fund's value for money.

Figure 10

IFAD efficiency ratio: 2016-2019



VI. Transformational financial framework for IFAD12

140. **IFAD12 is a critical juncture for IFAD's financial sustainability.** As recognized by its Member States, several dynamics built up in the past decade will converge during IFAD12. A growing PoLG, a larger share of DSF grants and increasing – and faster – disbursements are exerting pressure on IFAD's capital and liquidity.
141. **The financial framework for IFAD12 consolidates financial reforms and reflects IFAD's evolution as a development finance institution.** Recent reforms constitute the main pillars of IFAD's future financial architecture. The new DSF mechanism, the sustainable replenishment baseline, the Capital Adequacy Policy, the revised Liquidity Policy, the IBF and the revised approach to determining the resources available for commitment strengthen IFAD's sustainability and financial discipline in a synergistic manner. The updated internal control framework and controllership function, new guidelines on financial crime and an updated ERM Framework also reinforce the Fund's governance for enhanced financial discipline.
142. **The economic effects of the global pandemic increase the need to ensure a robust financial profile.** The unprecedented current crisis is affecting both donor

and recipient countries. While the full impact of the crisis is still uncertain, IFAD's financial profile is exposed to increased risks. This could present trade-offs between the Fund's long-term financial sustainability and the need to respond to growing operational needs.

143. **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 changes within a single replenishment cycle. 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. Management will regularly review the key determinants of its commitment capacity in line with revised principles for assessing available resources, and make adjustments as needed in consultation with the Executive Board. Active portfolio management, integration of potential buffers and early warning indicators of key financial metrics will support this adaptive management of finance and operations.
144. **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, underpin the Fund's financial sustainability and serve as the most important source of financing for IFAD's mission. They are essential to support those countries most in need, and will be deployed at maximum levels of concessionality consistent with IFAD's financial sustainability – including through DSF grants to the poorest and most vulnerable indebted countries.
145. **Borrowing through the IBF will be crucial to secure increased funding for all eligible countries.** Borrowed funds will be channelled to UMICs as well as to eligible LICs and LMICs. Through this framework, 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 of funding required.
146. **Leverage will increase gradually and prudently.** IFAD's current leverage is 9.1 per cent,⁴⁰ with US\$741 million of borrowing liabilities. In line with a conservative risk appetite, Management proposes a gradual increase in leverage over time, maintaining a 40-45 per cent leverage ratio by the end of IFAD14. During IFAD12, the leverage ratio will remain below 35 per cent – IFAD's current limit approved by the Executive Board.
147. **A strong credit rating will be key to increasing borrowing and the PoLG, and broadening IFAD's financial offering.** A strong outcome of the credit rating exercise to be finalized during IFAD11 is crucial for a more effective and resilient IFAD. With a strong credit rating, IFAD will be able to increase funding from a broader range of counterparts, achieve greater funding predictability to support its mission and ensure appropriate liquidity levels at competitive prices. The support of Member States through replenishment contributions sends a strong signal of the importance of the Fund to its shareholders. This support is a key determinant of the success of the rating exercise.

Replenishment and DSF grants

148. **New DSF grants will be pre-financed through new replenishment contributions.** The prefunded DSF mechanism and the establishment of the sustainable replenishment baseline will ensure that IFAD commitments for new DSF grants do not further erode the Fund's liquidity and capital. Limited DSF grants will be redirected exclusively to countries with the highest debt distress. In IFAD12, countries in moderate debt distress will no longer receive grants, but will be eligible for loans on super or highly concessional terms.

⁴⁰ This percentage is calculated in line with the definition of the Capital Adequacy Policy, i.e. the principal portion of outstanding debt to total equity. Total equity is defined as total contributions + retained earnings (general reserve + accumulated deficit).

149. **A strong replenishment is the prerequisite for more DSF support to the most indebted countries.** 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 the overall concessionality offered in IFAD's portfolio.

Replenishment and borrowing

150. **Member States have recognized that IFAD's ambitious PoLG cannot be sustained solely by replenishment contributions.** In line with the Addis Ababa Action Agenda, IFAD will further optimize and leverage its balance sheet to increase support to all countries. But 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 shrink over time.
151. **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 borrowing. A strong capital base, sustained by increased new replenishment contributions, is a prerequisite for IFAD to increase leverage in a safe manner. A strong replenishment is also important for securing a positive credit rating since it gives a clear signal of significant Member State support.
152. **IFAD will ensure that it covers its cost of borrowing.** The Fund will ensure that the financing terms of onlending exceed its borrowing costs and generate a marginal positive income. IFAD's Asset and Liability Management Framework and other financial policies will determine the most appropriate borrowing terms.

A. IFAD12 financial scenarios and impact

153. **During IFAD12, the Fund is committed to maximizing its concessional support to the poorest countries, within prudential limits, to maintain its own financial sustainability.** The level of concessionality of IFAD's financing depends on the interplay among: (i) the level of replenishment; (ii) the use of capital and the level of borrowing; and (iii) the composition of the overall PoLG among groups of countries with different financing terms.
154. **IFAD will manage the trade-offs between the financial variables.** The main variables mentioned in the previous paragraph – notably the replenishment level and the level of borrowing – are projected at ambitious and realistic levels. Should any of these variables not materialize at the targeted levels, IFAD will need to adjust the others to ensure its 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 its leverage capacity, thereby reducing its PoLG.
155. **Three financially sustainable IFAD12 scenarios are presented.** These scenarios are based on Member State contributions resulting in new replenishment targets of US\$1.35 billion, US\$1.55 billion and US\$1.75 billion. In addition to these replenishment levels, IFAD aims to mobilize US\$500 million for ASAP+ and US\$200 million for PSFP. These important complements to the PoLG allow for stronger and sustainable impact in IFAD's country programmes. All scenarios also assume that Member States will support IFAD through US\$225 million in new concessional partner loans (CPLs).⁴¹
156. **The IFAD12 scenarios have been adjusted to account for updated IFAD11 expectations.** As IFAD's operations generate financial flows (i.e. encashments, disbursements and repayments) over several years,⁴² any change in one replenishment cycle has natural repercussions in subsequent years. The estimated

⁴¹ The CPL Framework for IFAD12 is unchanged compared to IFAD11. The updated CPL discount rates for IFAD12 are presented in annex III.

⁴² For example, disbursements made during IFAD11 correspond mainly to approvals from IFAD9 and IFAD10, and only a limited portion pertain to projects approved in IFAD11.

effects of the COVID-19 economic shock on the remainder of IFAD11,⁴³ as well as adjustments due to gaps between actual replenishment payments received and replenishment targets, impact the determination of a sustainable PoLG size in IFAD12. IFAD's future cash flows are projected on a conservative basis to avoid endangering future sustainability or overestimating future resources.⁴⁴

157. **The scenarios assume an efficient utilization of the available capital base, with some degree of frontloading in the use of IFAD's current capital.**⁴⁵ The aim is to maximize IFAD's contribution to achieving the SDGs. To do so, the Fund aims 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

158. Table 1 presents the sustainable level of IFAD's PoLG under the three replenishment scenarios. All scenarios ensure a financially sustainable trajectory.⁴⁶

Table 1

Replenishment scenarios and PoLG for IFAD12

(Millions of United States dollars)

	End IFAD11	Scenario C	Scenario D	Scenario E
Replenishment target *	1 100	1 350	1 550	1 750
Total PoLG	3 500	3 400	3 800	4 200
Sustainable total grants	790	600	750	840
Proposed DSF grants	595	450	600	690
Level of concessionality (end of IFAD12)	52%	47%	49%	50%
Leverage ratio IFAD12 (debt/equity)	17%	29%	28%	27%
Total new IFAD12 debt **	-	1 275	1 225	1 200
Deployable capital (end of IFAD12)	30%	19%	19%	19%

* 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 for CPLs in IFAD12 across all scenarios, with current estimated discount rates.

** Includes US\$225 million forecast for CPLs to be secured in IFAD12 across all scenarios.

- **The replenishment target in the three scenarios ranges from US\$1.35 billion to US\$1.75 billion.** The target accounts for new Member State cash contributions and the grant element of CPLs. The latter 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 that IFAD can provide under each scenario of core replenishment contributions paid in cash, level of additional debt assumed and use of capital.** In assessing the new PoLG size, IFAD commits to disburse previously approved funds while maintaining an appropriate liquidity level.

⁴³ As detailed in document IFAD12/2/R.4, approximately US\$300 million of inflows from contributions, reflows and borrowing could be forgone in IFAD11.

⁴⁴ These assumptions will need to be revised regularly in response to dynamics that could affect capital structure, required liquidity and the key variables affecting financing capacity. For example, the level of new commitments and IFAD's disbursement capacity could be subject to adjustments depending on encashments of contributions, availability of funding and changing disbursement patterns.

⁴⁵ A portion of IFAD's current deployable capital is required to support loans and grants that have already been approved but not yet disbursed to cover past commitments. In addition, capital generation during IFAD12 after operating expenses and grants exceeds the projected requirement to support new loans, causing a decrease in deployable capital; this is characteristic of IFAD's business model.

⁴⁶ IFAD's financial trajectory is deemed to be unsustainable when, in the absence of sufficient new capital, current and future liquidity projections are depleted (e.g. less borrowing, reflows or contributions, or higher-than-expected outflows) so that the Fund is not able to disburse according to existing targets, or deployable capital is forecast to fall below zero.

- **Sustainable total grants are directly related to the level of new core replenishment contributions and cover both DSF grants and regular grants.** The amount shown in table 1 is the sum of the maximum sustainable size of new DSF grants and a proposed allocation to regular grants. All three scenarios provide for a static regular grant envelope of US\$150 million, representing a 20 per cent reduction from IFAD11.⁴⁷ Maintaining the same level of regular grants across the scenarios, with higher replenishment levels, would allow more contributions to be directed to loans. New loans funded by new replenishment funds generate reflows that form part of IFAD's core resources, thereby multiplying the use of core contributions.
- **Level of concessionality is calculated from the overall PoLG, assuming current financing terms, PBAS allocations and level of borrowed resources.** The levels of concessionality reached in IFAD11, driven by an unsustainable share of DSF grants, cannot be maintained in IFAD12. However, IFAD is committed to maximizing the concessionality of its loans while preserving its financial sustainability.
- **The Fund's leverage is expressed both by the debt-to-equity ratio target for end of IFAD12 and the total amount of new debt expected in each scenario.** Borrowing is needed to deliver on: existing commitments (i.e. the disbursement of loans and grants approved in previous cycles);⁴⁸ new disbursements to be approved in IFAD12; and an achievable level of grants. IFAD's level of debt in IFAD12 will remain within the current 35 per cent debt-to-equity ratio. This conservative strategy is in line with current economic uncertainty. If IFAD is unable to secure the needed borrowing amount, the PoLG level will either need to decrease substantially or replenishment contributions will need to cover the funding gap.
- **The deployable capital at the end of IFAD12 is determined by projected PoLG approvals and reflects IFAD's capital base at the end of the cycle.** In all scenarios, the capital base will be positive given IFAD's strong capital position. Two additional considerations demonstrate the evolution of deployable capital during IFAD12. First, most of the reduction in IFAD's deployable capital is a result of past decisions – notably unsustainable DSF levels and regular grant financing, which negatively affected IFAD's equity position. Second, there was a decision to frontload resources in order to deliver on past commitments and sustain ambitious PoLG targets. In assessing the deployable capital dynamic for IFAD12 and beyond, it is important to understand that IFAD provides high levels of grant and concessional financing, which are not entirely offset by the sustainable replenishment baseline.

159. The following sections compare the different scenarios. The graphs present each scenario by type of resource and income category allocation. Because of the interconnections between replenishment levels and borrowing, differences among the scenarios are not fully proportionate. However, in each of the scenarios, there is a strict correlation between the level of replenishment and IFAD's financial support through core resources to the poorest countries – especially LICs with the highest levels of debt distress.

⁴⁷ In the past, regular grants were fixed at 6.5 per cent of the PoLG. Together with increased levels of DSF grants, this contributed to an unsustainable trajectory. An upper limit to the level of grants based on replenishment and capital availability is therefore a necessary change to past practice.

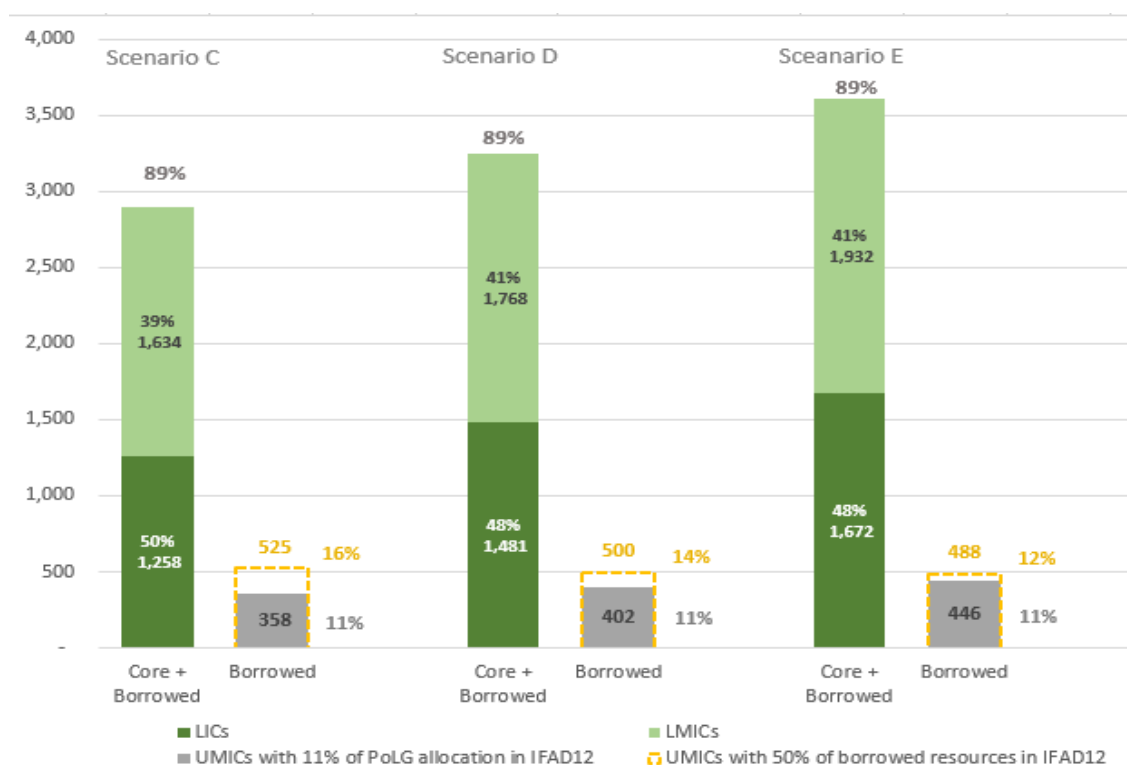
⁴⁸ This is explained by the lag between approvals and disbursement. IFAD12 will represent a peak in disbursement commitments, making it necessary to ensure adequate liquidity levels through the new Liquidity Policy and calibrate future approvals with existing commitments. For reference, cumulative approvals during IFAD8, IFAD9 and IFAD10 amounted to almost US\$10 billion, doubling cumulative approvals from IFAD5, IFAD6 and IFAD7.

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

160. **IFAD will focus its core resources on LICs and LMICs.** Figure 11 provides a breakdown of the scenarios by country income category. Consistent with the first pillar of IFAD's Comprehensive Approach to Transition/Graduation,⁴⁹ 100 per cent of core resources will be allocated to LICs and LMICs, directing the funding with the highest concessionality to these countries. Borrowed funds will finance eligible LICs and LMICs, and all UMICs.
161. **UMICs will be allocated a minimum share of 11 per cent of total resources.** UMICs will be allocated 11 per cent of PoLG – the same share as in IFAD11 – and up to a maximum of 20 per cent. Higher replenishment levels provide additional resources to countries in all income categories. Figure 11 shows two alternative views of allocation to UMICs: the minimum allocation of 11 per cent and the allocation derived from assuming that 50 per cent of borrowed resources will be channelled to UMICs. The latter assumption leads to an allocation to UMICs ranging from 12 per cent to 16 per cent under current assumptions of demand for borrowed resources. It should be noted that within this range, the overall PoLG in IFAD12 will not be impacted by the UMIC allocation.

Figure 11

PoLG composition for IFAD12 (Millions of United States dollars)



IFAD12 scenarios by income category allocation

162. Figure 12 compares the three scenarios with the IFAD11 PoLG and details their composition by income category. In scenario C, the PoLG would be just below the IFAD11 level of US\$3.5 billion. In this case, IFAD would need to scale down its support, hampering already limited progress on SDGs 1 and 2.
163. An analysis of LMICs by gross national income (GNI) levels allows for deeper insights into the Fund's projected resource allocation. The resources projected for LICs and LMICs with a GNI below US\$2,000 in scenario C represent 96 per cent of the total volume provided in IFAD11. This proportion rises by 10 per cent in

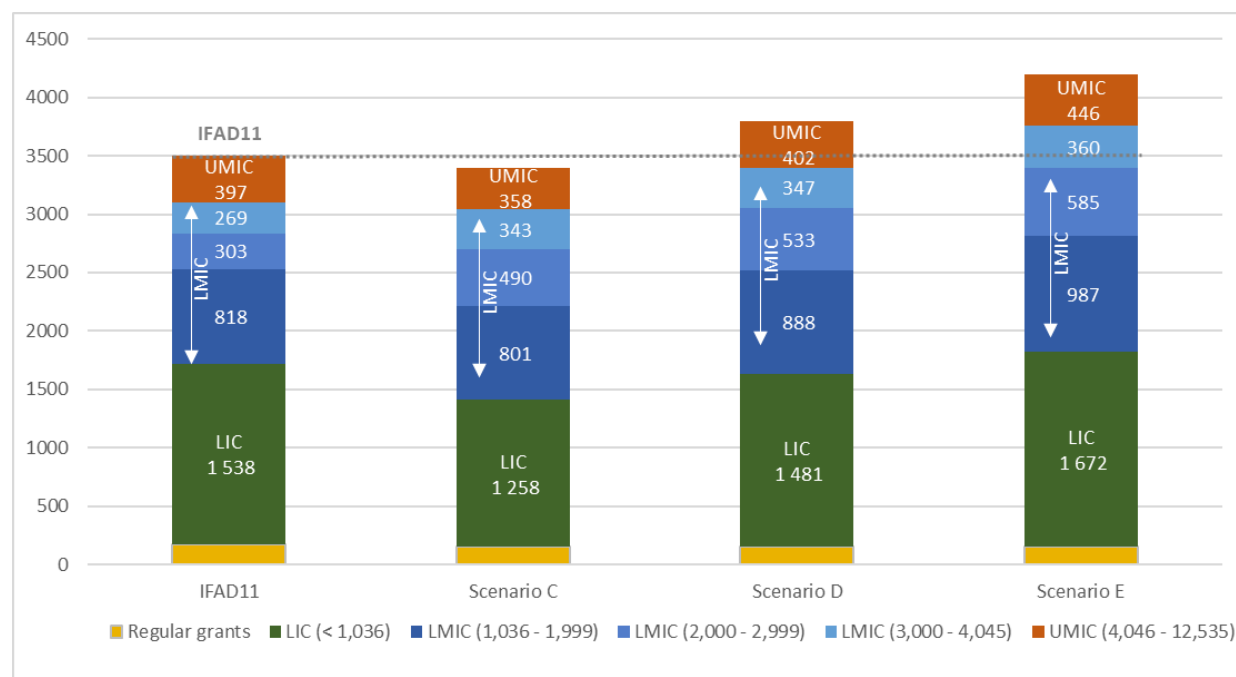
⁴⁹ Distribution of IFAD's financial resources: IFAD12/2/R.2/Rev.1.

scenario D and by 22 per cent in scenario E, including a US\$60 million increase in the DSF envelope for eligible LICs.

Figure 12

PoLG scenarios for IFAD12 by income category⁵⁰

(Millions of United States dollars)



164. **Scenario D would allow a PoLG of up to US\$3.8 billion.** This is the minimum level allowing IFAD to provide countries in the highest debt distress with the same level of DSF grant financing as in IFAD11 (US\$595 million compared to the proposed US\$600 million). This scenario also would allow for a US\$222 million increase in resources for LICs and LMICs compared to IFAD11. Up to US\$1.225 billion in borrowed funds would be needed to address existing commitments and sustain the PoLG.
165. **Scenario E would enable a PoLG of up to US\$4.2 billion.** With new IFAD12 cash contributions of US\$1.7 billion, IFAD could provide record levels of new loan and grant approvals. This scenario would increase IFAD's support to the most indebted LICs in IFAD12 through a maximum sustainable DSF grant financing level of US\$690 million. Scenario E clearly shows how a higher replenishment would enable IFAD to increase its focus on LICs and LMICs. IFAD's total financing to LICs would increase significantly to US\$1.7 billion (from US\$1.5 billion in IFAD11), including an increase in DSF funding of nearly US\$90 million from IFAD11 for eligible indebted LICs. In scenario E, for each US\$1 in contributions, IFAD would be able to provide US\$2.64 per rural population capita for LICs and the lowest-income LMICs.

IFAD12 scenarios by share of financing by income category

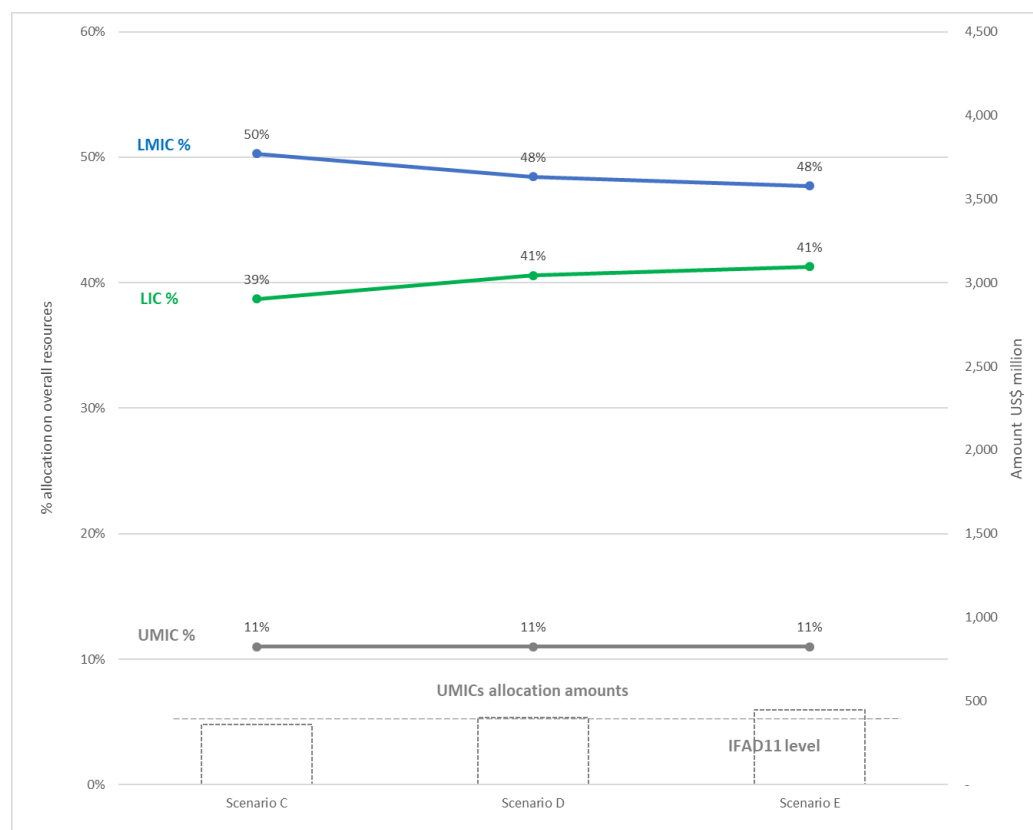
166. Figure 13 compares the relative share of total resources by income category across scenarios. It highlights how a higher replenishment allows for a shift of resources to LICs in both absolute and relative terms, while maintaining a minimum allocation to UMICs. While the dynamics among income categories are illustrated clearly, due to variables like funding source, liquidity and capital, these relationships are not linear.

Figure 13

⁵⁰ The graph breaks down LMICs into three GNI ranges: US\$1,036-US\$1,999; US\$2,000-US\$2,999; and US\$3,000-US\$4,045.

IFAD12 scenarios: Relative allocations by income category and absolute allocation amounts to UMICs

(Percentages and millions of United States dollars)



167. By analysing the dynamics described above, the following 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 (scenario D) is secured.** The only way for IFAD to provide substantial funding to LICs, which have access to the greatest proportion of the DSF envelope, is through greater replenishment contributions from Member States. Only scenarios D and E allow for IFAD to provide indebted LICs with at least the same level of DSF grants as in IFAD11 (US\$595 million). IFAD aims to increase its support to highly indebted LICs, which could also increase in number due to the pandemic. In order to respond to the increasing needs of these countries – and double IFAD's impact by 2030 – Member States would need to double their contributions⁵¹ compared to IFAD11.
- (ii) **The higher the replenishment, the higher the shift in resources to the countries most in need.** A higher replenishment would allow for a relative and absolute shift in the volume of IFAD's resources towards LICs. Overall, a higher replenishment would produce more benefits for the poorest countries (with GNI less than US\$2,000).
- (iii) **In each scenario, a minimum of 11 per cent and a maximum of 20 per cent of total resources are allocated to UMICs.** Since UMICs can be financed sustainably almost exclusively through borrowed funds, these countries' dependence on higher replenishments is less pronounced than with LICs and LMICs.

⁵¹ Including additional contributions to core resources, ASAP+ and PSFP.

- (iv) **Borrowing is key for all scenarios and underpins a transformational financial framework to expand and deepen IFAD's impact.** Member States' support for an expanded borrowing framework and consequent lender base is crucial to the evolution of IFAD's business model. Borrowing finances UMICs as well as eligible LICs and LMICs, providing more resources for all income categories of countries.

IFAD12 impact and expanded investment for greater reach

168. **IFAD aims to double its impact by 2030 (i.e. by IFAD14). This can only be achieved in scenario E.** Doubling impact means doubling the number of people with increased income from the current 20 million per year to 40 million per year by 2030 (i.e. over IFAD12, 13 and 14). Assuming a linear progression, the Fund would need to achieve one third of this increase during IFAD12. This equals approximately 7 million more people per year from the current level, resulting in 27 million people per year with increased incomes. As shown in tables 2 and 3, this target can only be reached by: (i) combining scenario E of IFAD's PoLG (75 million total or 25 million per year) with the ASAP+ and PSFP low scenarios; or (ii) scenario D of the PoLG (68 million total or 23 million per year) with the ASAP+ and PSFP high scenarios.
169. **Table 2 presents the impact levels to be reached during IFAD12 for each of the three scenarios. Assuming a cofinancing ratio of 1.4, the PoW will total between US\$7.9 billion and US\$9.8 billion.** The IFAD10 corporate impact assessments indicated that IFAD10 increased the incomes of 62 million people, the agricultural 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 data were used to estimate IFAD12 impacts. As shown in the table, only scenarios D and E would increase IFAD's impact because they are the only scenarios that raise the PoLG beyond IFAD11 levels.

Table 2

Scenarios and IFAD12 impact

	IFAD12		
	Scenario C	Scenario D	Scenario E
Total PoLG (maximum level)	3 400	3 800	4 200
Cofinancing ratio	1.4	1.4	1.4
PoW ⁵²	7 950	8 910	9 870
Goal: increased income	60	68	75
Strategic objective 1: increased production	46	51	57
Strategic objective 2: increased market access	49	55	61
Strategic objective 3: greater resilience	25	28	32

Note: Maximum total PoLG and the PoW are measured in millions of US\$. Targets for increased income and the strategic objectives of increased production, greater market access and stronger resilience are measured in millions of people.

170. **The distribution of impact across countries depends on resource allocation across country income categories, which is in turn sensitive to the level of DSF funding.** Table 3 provides the distribution of estimated impact of the PoLG on the number of people with increased income across income categories based on scenarios presented in table 2. From scenario C to E, impact increases from 60 million to 75 million people; these gains are primarily in LICs. In fact, nearly two thirds of the additional impacts accrue to LICs, with the other third in LMICs.

⁵² In this table, the PoW was calculated by applying the cofinancing ratio of 1.4 to the PoLG excluding regular grants (since these grants do not leverage cofinancing). It does not include ASAP+ or PSFP since the impact estimates for those programmes are presented separately in table 4.

Table 3

Distribution of IFAD12 impact by scenario as number of people with increased income

	IFAD12		
	Scenario C	Scenario D	Scenario E
LICs – DSF	7	9	11
LICs – other	16	18	20
LICs – subtotal	23	28	31
LMICs	30	33	36
LICs + LMICs subtotal	54	60	67
UMICs	7	7	8
Total	60	68	75

Note: Increased income is measured in millions of people.

171. **The introduction of ASAP+ and PSFP would lead to additional impact.**

Table 4 provides estimates of impact based on two possible funding scenarios for ASAP+ (US\$250 million and US\$500 million), and three for PSFP (US\$67 million, US\$100 million and US\$200 million). Using the IFAD10 impact assessments as a baseline, it is expected that these two programmes would increase the total number of people with higher incomes by 3 to 9 million, depending on the scenario.

Table 4

ASAP+ and PSFP impact

	ASAP+		PSFP		
	Scenario 1	Scenario 2	Scenario 1	Scenario 2	Scenario 3
Initial resources	250	500	67	100	200
Cofinancing ratio	0.3	0.3	5.0	5.0	5.0
Total resources	325	650	335	500	1 000
Goal: increased income	2.9	5.8	3.0	4.4	8.9

Note: Initial and total resources are measured in millions of US\$ while increased income is measured in millions of people.

VII. Reporting on results and progress in IFAD12

172. **IFAD12 objectives will be measured and reported on systematically and transparently.** The two key vehicles for articulating and measuring the Fund's ambitions during IFAD12 are the IFAD12 matrix of commitments and monitorable actions (annex I), and the IFAD12 RMF (annex II).
173. **The IFAD12 matrix of commitments and monitorable actions (annex I) reflects the key commitments made during the Consultation.** Each commitment reflects high-priority areas for action agreed upon during the Consultation and is linked to a set of time-bound, monitorable actions to be taken towards honouring those commitments. The matrix also identifies the RMF indicators that will be influenced by each commitment. This format continues the practices from IFAD11 of providing an integrated accountability framework, distinguishing higher-level commitments from monitorable actions, and clarifying the theory of change by linking to specific RMF indicators.
174. **The IFAD12 RMF provides the basis for demonstrating IFAD's performance in relation to its theory of change.** The RMF is an integral part of the Fund's Development Effectiveness Framework and a critical tool for demonstrating and managing performance at the institutional level. It reflects key priority areas identified and agreed upon during a replenishment, and includes core indicators to track progress.

175. **The proposed RMF (annex II) builds on the approach pursued over previous replenishment cycles, and is updated in line with the principles of refining the framework and aligning commitments with global objectives.** The refined IFAD12 RMF is built on the structure and approach of previous versions, and is updated to align with current practice in results management at other IFIs. This includes the: use of more real-time data; introduction of new outcome-oriented indicators such as job creation to measure outcomes more accurately; and introduction of a dashboard to illustrate progress against targets in a comprehensive manner. Aligning institutional commitments with global processes entails aligning corporate indicators with those related to the SDGs. This enables a better understanding among international organizations of their contributions towards the 2030 Agenda.
176. **The proposed RMF is based on the IFAD12 theory of change and has a three-tiered structure.** Tier I includes SDG indicators that are relevant to IFAD's mandate. Tier II relates to delivering impact and results, and reports on specific measures at the impact, outcome and output levels. New core indicators at this level include job creation and land tenure. Tier III also relates to delivering impact, but reports on organizational and operational performance – underpinning results in tiers I and II.
177. **Progress on the commitment matrix and achievement of IFAD12 RMF targets will be reported annually through the RIDE.**
178. **As in previous replenishments, IFAD will report on impact indicators during the last year of IFAD12.** A synthesis report on the outcomes of IFAD's impact assessments will be presented to the Executive Board in early 2024. This continues IFAD's practice as one of the only IFIs to systematically measure the impact attributable to the operations it finances.

VIII. Arrangements for the IFAD12 Midterm Review and IFAD13 Consultation

179. **IFAD12 Midterm Review.** A midterm review of IFAD12 implementation will be undertaken and its findings presented at an early session of the IFAD13 Consultation. Adequate time will be allocated at that session to finalize the agenda for subsequent sessions of the IFAD13 Consultation.
180. **Selection of the IFAD13 Chairperson.** The Chairperson for the IFAD13 Consultation will be selected through an open process to be completed prior to the first session of the IFAD13 Consultation, in collaboration with the Executive Board.

IX. Recommendation

181. The IFAD12 Consultation recommends to the Governing Council that it adopt the draft resolution attached as annex VIII to this report.

IFAD12 matrix of commitments and monitorable actions

Commitments	Monitorable actions	Time frame	Selected RMF indicators
1. Deepening and expanding impact – leaving no one behind			
1.1 Increased ambition on mainstreaming and other priority issues, and enhanced targeting of the most vulnerable rural people	1. Increase target for climate finance to 35 per cent of the IFAD12 PoLG	Q4 2024	
	2. Approve a strategy on biodiversity	Q4 2021	
	3. Ensure that 35 per cent of projects are gender-transformative at design	Q4 2024	
	4. Ensure that 60 per cent of new investment projects explicitly prioritize youth and youth employment	Q4 2024	
	5. Develop a new strategy for IFAD's work with indigenous peoples	Q2 2022	
	6. Ensure that at least 10 new projects include indigenous peoples as a priority target group	Q4 2024	
	7. Provide a regular grant to replenish the Indigenous Peoples Assistance Facility and mobilize additional resources from other partners	Q4 2022	
	8. Develop a strategy for persons with disabilities	Q2 2022	
	9. Ensure that at least five projects include persons with disabilities as a priority target group	Q4 2024	
	10. Revise IFAD's targeting policy to better reflect mainstreaming and social inclusion priorities (indigenous peoples, persons with disabilities)	Q4 2022	
	11. Strengthen reporting on mainstreaming themes and commitments through a stand-alone annual report to complement the RIDE ⁵³	Q3 2023	
1.2 Strategic focus on fragility, conflict and building resilience	12. Review IFAD's engagement in fragile situations to improve performance in building resilience, reducing humanitarian need and engaging effectively in conflict-affected situations	Q4 2022	
	13. Develop specific initiatives for enhanced IFAD engagement in the Sahel and Horn of Africa, leveraging 2RP (including the 3S and the GGWI initiatives) to increase resources and strengthen collaboration with partners	Q4 2023	
	14. Allocate at least 25 per cent of core resources to countries with fragile situations	Q2 2022	
1.3 Prioritizing IFAD's core resources for the poorest countries	15. Allocate 100 per cent of core resources to LICs and LMICs, ensuring that 50 per cent are allocated to Africa, and 45 per cent to sub-Saharan Africa	Q2 2022	
	16. Allocate between 11 per cent and 20 per cent of the IFAD12 PoLG to UMICs through the use of borrowed resources	Q4 2024	
	17. Approve a graduation policy prior to IFAD12	Q3 2021	
	18. Establish a borrowed resource access mechanism	Q2 2021	

⁵³ Reporting will be based on the IFAD12 mainstreaming paper (IFAD12/2/R.3/Rev.2)

<i>Commitments</i>	<i>Monitorable actions</i>	<i>Time frame</i>	<i>Selected RMF indicators</i>
1.4 Strategic partnerships to enhance impact	19. Approve a new SSTC strategy	Q4 2021	
2. Operationalizing transformational country programmes			
2.1 Enhancing performance and efficiency	20. Develop an action plan on project-level efficiency	Q4 2021	
	21. Develop a project-level M&E action plan	Q4 2022	
	22. Review and update IFAD's Development Effectiveness Framework	Q4 2021	
	23. Develop an operating model and guidelines for innovation in IFAD	Q3 2021	
	24. Ensure that 50 per cent of COSOPs and CSNs approved in IFAD12 have identified ICT4D opportunities	Q4 2024	
	25. Develop at least five projects that integrate digital agricultural approaches	Q4 2024	
2.2 Sustainability and scaling up results	26. Explore methods and instruments to scale up policy engagement	Q4 2022	
	27. Consolidate outcome-level policy data at the country programme level	Q4 2022	
	28. Develop and implement an action plan on the sustainability of results	Q4 2021	
	29. Update IFAD's scaling up strategy	Q4 2021	
2.3 Expanding IFAD's toolkit for supporting rural poor people	30. Approve the new Policy for Grant Financing	Q2 2021	
	31. Develop guidelines and pilot multi-phased programmatic approaches	Q4 2024	
3. Transformational institutional change			
3.1 Increase IFAD's decentralization, while strengthening institutional safeguard mechanisms and risk management	32. Increase decentralization from 32 per cent to 45 per cent of staff	Q4 2023	
	33. Continue to develop biennial IFAD action plans to prevent and respond to SH/SEA aligned with United Nations Sustainable Development Group strategies and best practices, and provide regular implementation updates to the Executive Board	Ongoing	
4. Transformational financial framework			
4.1 Increase resources by integrating borrowing and two new funding windows – ASAP+ and PSFP – into IFAD's financial framework, and achieving a target PoLG of US\$XX billion and PoW of US\$XXX.	34. Establish the PSFP to crowd in private sector investments, know-how and innovation for the benefit of small-scale producers	Q4 2021	
	35. Establish ASAP+ to assist in closing the climate finance gap and strengthening the resilience of vulnerable populations, and mobilize additional resources through 2RP	Q4 2021	
	36. Continue implementation of the cofinancing strategy approved during IFAD11 and maintain the cofinancing target of at least 1:1.4 (0.8 domestic, 0.6 international)	Q4 2024	
	37. Participate in MDB debt management working groups and seek to join other global forums on debt monitoring, transparency and debt management such as the Paris Club (as an observer)	Ongoing	

IFAD12 Results Management Framework 2022-2024

IFAD12 Results Management Framework indicators

Discount rates for IFAD12 concessional partner loans

1. The framework for providing CPLs in support of IFAD12 is unchanged when compared to the IFAD11 Framework.⁵⁴ The discount rates applicable to the IFAD12 replenishment period are hereby reported.
2. The resulting discount rates produced by the described methodology are contained in table 1 below. The rates are calculated with values as of 30 June 2020.

Table 1
IFAD12 discount rates
(Percentage)

Currency	Project funding cost/discount rate	
	25-year CPL	40-year CPL
Special drawing rights (SDR)	1.69	1.77
United States dollars (US\$)	2.07	2.34
Japanese yen (JPY)	0.63	0.79
British pound sterling (GBP)	1.46	1.57
Euro (EUR)	0.89	0.70
Chinese renminbi (RMB)	3.49	3.62

3. The currency-specific discount rates allow the grant element to be calculated in each individual currency. These are shown in the tables below.

Table 2a
Corresponding coupon rates between SDR and the currencies of the SDR basket (25-year CPL)
(Percentage)

25-year CPL with three-year disbursement schedule					
Currency	Coupon rates				
SDR	0.00	0.50	1.00	1.50	2.00
US\$	0.33	0.85	1.36	1.88	2.39
JPY	(0.91)	(0.45)	0.01	0.47	0.93
GBP	(0.19)	0.30	0.79	1.28	1.77
EUR	(0.69)	(0.22)	0.25	0.72	1.19
RMB	1.54	2.11	2.68	3.25	3.83
Grant element	20.84	14.63	8.42	2.22	(3.99)

Table 2b
Corresponding coupon rates between SDR and the currencies of the SDR basket (40-year CPL)
(Percentage)

40-year CPL with three-year disbursement schedule					
Currency	Coupon rates				
SDR	0.00	0.50	1.00	1.50	2.00
US\$	0.44	0.97	1.51	2.04	2.58
JPY	(0.77)	(0.33)	0.11	0.55	0.99
GBP	(0.16)	0.33	0.82	1.31	1.79
EUR	(0.84)	(0.41)	0.03	0.47	0.90
RMB	1.40	2.02	2.64	3.26	3.88
Grant element	33.91	24.29	14.67	5.05	(4.57)

⁵⁴ EB 2017/S10/R.2/Rev.1.

Table 3a
Illustrative grant elements from CPLs at different coupon rates
 (Percentage)

<i>25-year CPL with three-year disbursement schedule</i>			
<i>Currency</i>	<i>Coupon rates</i>		
SDR	0.00	0.50	1.00
US\$	0.33	0.85	1.36
JPY	(0.91)	(0.45)	0.01
GBP	(0.19)	0.30	0.79
EUR	(0.69)	(0.22)	0.25
RMB	1.54	2.11	2.68
Grant element	20.84	14.63	8.42

Table 3b
Illustrative grant elements from CPLs at different coupon rates
 (Percentage)

<i>40-year CPL with three-year disbursement schedule</i>			
<i>Currency</i>	<i>Coupon Rates</i>		
SDR	0.00	0.50	1.00
US\$	0.44	0.97	1.51
JPY	(0.77)	(0.33)	0.11
GBP	(0.16)	0.33	0.82
EUR	(0.84)	(0.41)	0.03
RMB	1.40	2.02	2.64
Grant element	33.91	24.29	14.67

4. **Option of an interest rate floor.** An interest rate floor will be required for Member States that contribute in currencies for which the equivalent of 1 per cent of SDR (the maximum interest rate in the CPL Framework) is negative. In this case, Member States would provide a loan at 0 per cent in a CPL currency (this 0 per cent coupon ratio could also be achieved through a combination of a higher coupon rate loan and a supplemental grant). The 0 per cent floor means that the loan coupon rate will be higher than the maximum 1 per cent SDR rate. Fair treatment across Member States will be ensured by using the 0 per cent coupon rate of the CPL to calculate the loan's grant element, and to determine voting rights and compliance with the minimum grant contribution. Using the 0 per cent CPL currency rate will result in a lower grant element associated with the loan, which implies that the Member State would need to provide a larger loan to meet the minimum grant contribution requirement.
5. **Possibility of additional grant payments.** If a Member State elects to make an additional grant payment upfront, the required payment amount will be calculated based on the present value of the difference in future cash flows between the original coupon payments and the targeted coupon payments. The same discount rate used in the CPL Framework will be used in the present value calculation. The Member State can make the additional grant payment over several instalments only if the CPL has the same disbursement schedule and if the present value of the additional grant payment is maintained. Table 4 illustrates the additional grant payments required at different original and targeted coupon rates.

Table 4

Additional grant payments required to bridge the original and target coupon rates

(Percentage)

<i>1 billion 25-year CPL in denomination currency, with three-year disbursement schedule</i>					
<i>Currency</i>	<i>Desired coupon</i>	<i>Targeted coupon</i>	<i>Difference (original vs. target coupon)</i>	<i>Discount rate</i>	<i>Additional grant (upfront) in currency</i>
SDR	2.00	1.00	1.00	1.69	122 million
US\$	2.36	1.36	1.00	2.07	118 million
JPY	1.01	0.01	1.00	0.63	134 million
GBP	1.79	0.79	1.00	1.46	125 million
EUR	1.25	0.25	1.00	0.89	131 million
RMB	3.68	2.68	1.00	3.49	105 million

6. The grant element of the CPL will entitle lending Member States to vote using the same formula applicable to replenishment contributions, as stipulated in article 6, section 3(a)(ii) of the Agreement Establishing IFAD, which states that: "the votes for each replenishment shall be established in the ratio of one hundred (100) votes for the equivalent of each one hundred and fifty eight million United States dollars (USD 158 000 000) contributed to the total amount of that replenishment, or a fraction thereof".
7. Management assures Member States that all grant contributions received from partners will go directly to IFAD recipients. Concessional loans will be self-contained and will be serviced via reflows from IFAD highly concessional and blend-term loans approved in IFAD12. IFAD CPL grant providers will bear no costs or risk associated with concessional loans.