Document: REPL.IX/2/R.3
Agenda: 4
Date: 16 May 2011
Distribution: Public
Original: English

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Enabling poor rural people
to overcome poverty

IFAD's business model in IFAD9

Note to Consultation members

Focal points:

Technical questions:

Kevin Cleaver
Associate Vice-President, Programmes
Tel.: +39 06 5459 2419
e-mail: k.cleaver@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Governing Bodies Officer
Tel.: +39 06 5459 2374
e-mail: gb_office@ifad.org

Consultation on the Ninth Replenishment of IFAD's Resources —
Second Session
Rome, 13-14 June 2011

For: **Review**

Contents

Abbreviations and acronyms

CFS	Committee on World Food Security
COSOP	country strategic opportunities programme
DSF	Debt Sustainability Framework
FAO	Food and Agriculture Organization of the United Nations
GEF	Global Environment Facility
IOE	IFAD Office of Evaluation
PMD	Programme Management Department
RIMS	Results and Impact Management System
RMF	Results Measurement Framework

IFAD's business model in IFAD9

I. Introduction

1. This report describes how IFAD will manage the development of its work to implement its strategic vision.[1] Since 2006, IFAD has undertaken a significant change and reform programme, of which business model reform was the core. This report describes that reform. A separate paper was submitted to IFAD's Executive Board describing the entire change and reform programme.

II. Summary of the broad characteristics of IFAD's business model – now and in IFAD9

2. IFAD's approach to implementing its strategic vision is to provide funding, technical advice and partnership-building to assist governments and national organizations (civil society, farmers' groups, NGOs, the private sector) in sustainably increasing rural incomes and food security. In doing so, IFAD contributes to building local capacity and shares its knowledge broadly. It focuses exclusively on rural areas and rural development – and primarily on agriculture and rural employment. It also provides assistance to farm input supply, marketing and the processing of agriculture products in order to reduce rural poverty and enhance food security. IFAD's financial and technical inputs complement and increasingly catalyse those of governments, local institutions and other donors (see document REPL.IX/2/R.2).

3. What makes IFAD's business model distinct is that it always works with others – in all its programmes and projects (hereafter, "projects"). IFAD does not manage its own projects nor does it ever prepare an exclusively IFAD-run project. IFAD's financing is provided in a manner similar to that of other international financial institutions, although it does not provide budget support. It primarily funds projects through loans, on rates ranging from highly concessional for low-income countries to non-concessional for middle-income ones. IFAD has joined the debt sustainability initiative and provides grants to heavily indebted poor countries (HIPC) that have joined the HIPC Debt Initiative. IFAD also provides strategic grants, up to US$1.5 million, to NGOs that have projects consistent with IFAD's objectives and are evaluated as being of high quality.

4. Key concepts in the business model include:

   (a) Country leadership in the preparation and execution of country strategies, programmes and projects.

   (b) IFAD support is confined to its mandate and its strategic framework as approved by its governing structures.

   (c) IFAD participates in country strategy and policy formulations, project design, project supervision, innovation and knowledge-sharing.

   (d) The quality of IFAD-supported projects is critically important to the model. Only high-quality projects that deliver results will be sustained and replicated.

   (e) Partnerships are key. Given that IFAD does not implement the projects it finances, governments, local partners, beneficiaries and other donors are key partners. And as IFAD will not have sufficient resources to fully address agriculture and rural development needs, partnerships with other donors and the private sector are key to the success of this business model.

   (f) Monitoring and reporting on results and outcomes is important, in order to improve the quality of projects and to ensure impact. Results also convince other institutions – local and foreign – to partner and cofinance with IFAD.

[1] See document REPL.IX/2/R.2, IFAD's Strategic Vision to 2015.

5. The Ninth Replenishment of IFAD's Resources (IFAD9) will be a period of further strengthening of the business model in the following ways:

   (a) The scaling up of successful projects for broader, more significant impact on rural poverty and food security will be the main theme of IFAD9.

   (b) Scaling up will require expanded partnerships with governments, farmers' groups, civil society, the private sector and other donors.

   (c) Scaling up will involve a wider variety of IFAD projects along the agriculture value chain, comprising not just farming, but farm input supply, marketing, processing and retailing.

   (d) Consistent with the scaling-up agenda, IFAD will expand its policy advice and local capacity-building work.

   (e) Due to the crucial importance of rural environment and climate change issues, IFAD will expand its work in these areas beyond that already begun with the Global Environment Facility (GEF). Similarly, seeing that gender issues are interwoven with issues of rural poverty, IFAD will focus more effectively on gender roles.

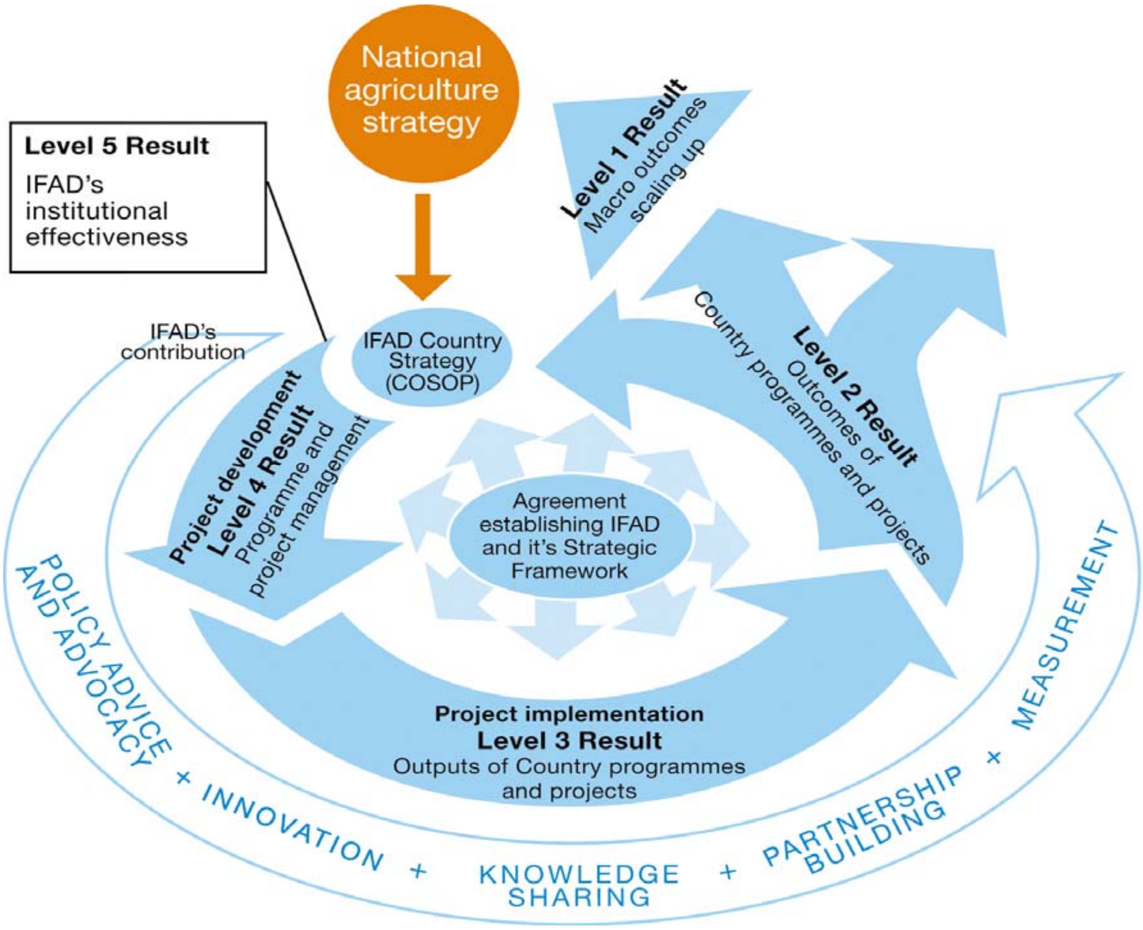
   (f) Impact evaluation and improved monitoring of results will become even more important in order to identify what should be scaled up – and what should be scaled back.

   (g) Improving IFAD's efficiency – doing all of the above well, and as cheaply as possible – will be a theme.

III. Existing business model

6. The business model now used by IFAD is illustrated in figure 1 and discussed in the paragraphs following.

Figure 1
Existing business model



7. **IFAD's main operating principle is that each country's rural development, agriculture and rural poverty problems are largely unique, and thus the country's own agriculture strategy or plan is the key driver of what IFAD will support in a country**. In consequence, IFAD's country-level work begins with the country's own development plan, agriculture plan and/or poverty reduction strategy (reflected in the diagram's orange circle, "National agriculture strategy").

8. IFAD's potential contribution to the country's agriculture programme is based on the Agreement Establishing IFAD and the Strategic Framework (the central circle in the diagram). The confluence of a country's plans and what IFAD has to offer results in the country strategy,[2] which is the joint product of government, IFAD, other partners at the country level and, in most cases, other donors. A COSOP is prepared every three to five years for each country in which IFAD has significant operations. The COSOP defines the results to be pursued by IFAD and its partners at the country level. It also describes the ingredients needed to obtain those results. These ingredients include projects, programmes and policies to be supported by IFAD and participating partners. IFAD uses the performance-based allocation system (PBAS) to allocate loan and grant funds to countries. The allocation to each country is also recorded in the COSOP. What distinguishes IFAD's business model from that of most other donors and NGOs is that it is not IFAD strategy or policy alone that drives what IFAD does at the country level. It is both the country's own programme and IFAD Strategic Framework, agreed by its Members, which are the drivers. This enables IFAD to be responsive to government and local development plans. It also results in IFAD receiving high marks on

[2] Country strategic opportunities programme (COSOP).

assessments of its alignment with country programmes under the Paris Declaration on Aid Effectiveness agenda and positive feedback in surveys of clients in developing countries.

9. **IFAD's strategic vision for the IFAD9 period is critically important to the functioning of the business model** in that it defines what IFAD can do within country programmes and, by exclusion (based on the Strategic Framework), what it cannot do.

10. **The projects that IFAD finances are designed to be consistent with COSOP objectives** (see "Project development" in figure 1). Each operation identified in the COSOP is jointly designed by government, IFAD, and domestic and international partners. These partners are expected to cofinance the projects that result. During design, IFAD oversees substantial quality enhancement efforts to assure the best possible quality of project design and policy advice. This is then checked by independent quality assurers before submission to the Executive Board. Projects found wanting are rejected or sent back for redesign. What is unique to IFAD's business model is that IFAD does not design its interventions alone. They are designed progressively more by locally led teams, and include IFAD staff and consultants as well as staff from other donor agencies and, increasingly, the private sector.

11. **Approved projects have a financing plan that includes an IFAD loan or grant and cofinancing**. The terms of IFAD financing range from normal grants and grants under the Debt Sustainability Framework (DSF), through highly concessional loans (essentially International Development Association (IDA) terms for IDA-eligible countries), to non-concessional loans at an interest rate slightly above the London Interbank Offered Rate (LIBOR). The IFAD reference rate applicable to loans on non-concessional terms is based on a composite special drawing rights (SDR) LIBOR six-month composite rate of the four currencies that constitute the SDR basket (United States dollar, Japanese yen, euro and British pound sterling), plus a variable spread. The spread applied by IFAD is a weighted average of the spreads applied by the International Bank for Reconstruction and Development (IBRD) to its variable rate loans for the same semester. A minimum of 60 per cent of IFAD loans must be on highly concessional terms.

12. **Once the Executive Board approves a loan or grant for a new project, implementation begins** (see "Project implementation" in figure 1). Implementation is always the responsibility of government and/or local authorities, NGOs, civil society and/or the private sector. In order to ensure that implementation and the expenditure of funds are undertaken in the manner specified in the financing agreement, IFAD staff supervise each operation. Increasingly, IFAD supervision is intensive and contains implementation support to help solve problems. It also contains fiduciary checks on financial management, accounts, audits, procurement, management effectiveness and anticorruption practices. It is particularly in this effort that IFAD country presence is crucial, as supervision/ implementation support is most effective if it comes when needed, and not just periodically in visits from Rome (a separate document was prepared on IFAD's country presence strategy for the 102nd session of the Executive Board [EB 2011/102/R.10]). Supervision reports are prepared for each project, based in part on data from each project's monitoring and evaluation system (obtained by IFAD staff during the supervision missions). IFAD supervision of projects has changed the nature of IFAD's relationship with borrowing governments – from simple lender to a source of support to government and civil society during implementation.

13. **At the end of the implementation period, usually lasting from four to eight years, the project undergoes a completion evaluation** (see "Level 2 result" in figure 1). Projects are first evaluated by IFAD Management and the government

(self-evaluation), and then on a sample basis by the IFAD Office of Evaluation (IOE). The results are reported to the Executive Board through the Report on IFAD's Development Effectiveness (RIDE). IOE reports separately to the Board in its Annual Report on Results and Impact of IFAD Operations (ARRI).

14. **Both monitoring and evaluation data and project results are then fed back into the preparation of future COSOPs and projects** (see “Level 1 result” in figure 1). They are also fed back into IFAD's knowledge base, contributing to IFAD's work in other countries. The cycle then repeats itself.

15. **IFAD's Results and Impact Management System (RIMS) collects data from all points in this cycle.** In figure 1, *Level 1 results – Macro outcomes* measures ultimate outcomes of IFAD's progress at the country level. *Level 2 results* are measures of project outcomes and outputs. *Level 3 results – Project implementation* measures outputs of projects and country programmes during implementation (early indicators). *Level 4 results – Project development* measures likely or predicted outcomes gleaned from project and COSOP quality reviews just before presentation of a project to the Executive Board. These are expected results, as the projects have not yet been implemented. *Level 5 results* measures IFAD's own institutional effectiveness. All data are reported to the Executive Board in the RIDE (see the most recent instalment, EB 2010/101/R.11 and Add.1). A new Results Measurement Framework (RMF) will be agreed by the IFAD9 Consultation, setting new targets at each level.

16. **IFAD's business model is staff intensive** and costly. Adapting best practice to extraordinarily diverse country situations, and within countries to diverse regional situations, requires highly qualified and experienced staff and consultants. Mobilizing partners at the country level – and working with cofinanciers to catalyse expanded funding – is expensive. It is cheaper for a donor to have a few development models that are rolled out in all countries, or to provide budget support for government programmes. IFAD tailors each country programme – and each project within the country programme – to the needs and plans of the country. As a result, it has undertaken extensive professional staff recruitment and training of its existing staff. IFAD Professional staff, excluding consultants but including field staff, went from 258 full-time equivalents (FTE) in 2009 to 289 in 2010[3] and is planned to reach 309 by end 2011. Consultants went from 199 in 2009 to 247 FTE in 2010. However, the use of cooperating institution (CI) staff went from about 65 FTE in 2007 to 1 in 2010.[4] In summary, staff and consultant use has increased, substituting for the use of CI staff. General Service staff numbers have remained relatively stable (298 in 2010). IFAD's administrative expenditure (as distinct from budget) was increased by 6.7 per cent per annum (in current prices) from 2007 to 2009 and by 3.7 per cent in 2010, largely to fund the expansion in staff and consultants.

17. **An important part of IFAD's business model is its country presence**. Staff and consultants based in the field are more effective in providing continuous support for policy advice, project design, supervision, and partnership-building at the country level. Decentralization of IFAD staff to country offices will thus continue. IFAD currently has 29 operating country offices with 63 staff, with an additional office in Guinea to be opened shortly. Its plan is to expand by another 10 offices by the end of 2013, and to stabilize after that. IFAD works in 90 countries, so this means that just under half the countries will be directly served by a country office. The half not served includes either small programmes, programmes easily handled from an office in an adjoining country, or a country in close proximity to Rome (parts of North Africa and Eastern Europe). The IFAD Country Presence Policy and Strategy submitted to the Executive Board in

[3] Human Resources Division database – see annex.
[4] This is estimated by converting the resources paid to the CIs using IFAD standard rates.

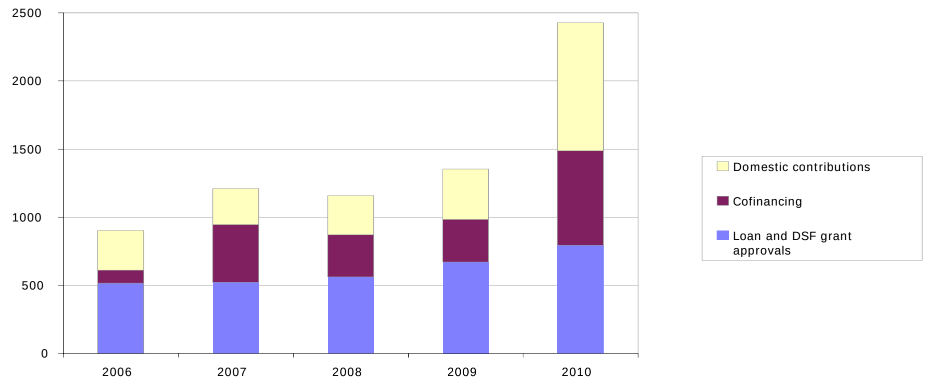
May 2011[5] concludes that placing staff in country offices increases their effectiveness in project design and supervision, as well as in policy dialogue. It is also less expensive than placing staff in Rome. There are management constraints, however. Thus the plan for 2011 is that IFAD maintain 249 professional staff in Rome and 60 professional staff based in the 40 countries having country offices (hence the total of 309). These numbers would remain at this level in 2012 and beyond in the case of the low scenario, or increase at about 4 per cent per annum in the high-case scenario (discussed in documents on the programme of work for IFAD9 and the resulting financing requirements [REPL.IX/2/R.4 and REPL.IX/2/R.5]).

IV. Outcomes and costs of business model

18. **Outcomes in terms of the dollar value of loans, grants and cofinancing are expanding rapidly.** This suggests that the business model is working, as evidenced by the interest of governments and other donors in cofinancing IFAD-supported projects.

Figure 2

IFAD loans and DSF grants, cofinancing and domestic contributions (2006-2010)



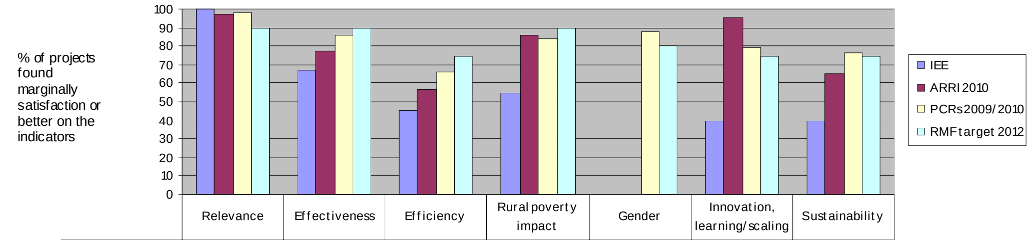
19. In 2010, IFAD surpassed the IFAD8 target of US$1.50 of cofinancing for each US$1.00 of IFAD loans or grants, and it surpassed the target IFAD loan and grant programme of US$800 million in 2010 by US$55 million. IFAD partnerships with other donors are now extensive: the World Bank, European Commission, African Development Bank (AfDB), OPEC Fund for International Development (OFID), Islamic Development Bank (IsDB), Alliance for a Green Revolution in Africa (AGRA), Food and Agriculture Organization of the United Nations (FAO), GEF, the United Nations system (within the High-level Task Force on Global Food Security Crisis [HLTF] and the FAO Committee on World Food Security [CFS]), Consultative Group on International Agricultural Research (CGIAR), and many bilateral donors.

20. **Figure 3 gives a sample of some of the dramatic improvements in project outcomes already obtained since the introduction of the business model described above.** The first row shows key results observed by the 2005 Independent External Evaluation of IFAD; the second row shows IFAD's latest results as reported by IOE; in the third row are the results reported in project completion reports; and in the fourth, the desired results (objectives) agreed with the Executive Board for 2012 (in accordance with the RMF).

[5] Document EB 2011/102/R.10 and its Add.1/Rev.1 and Add.2.

Figure 3

Key project performance indicators for IFAD's development results



	Relevance	Effectiveness	Efficiency	Rural poverty impact	Gender	Innovation, learning/scaling	Sustainability
IEE	100	67	45	55		40	40
ARRI 2010	97	77	57	86		95	65
PCRs 2009/2010	98	86	66	84	88	79	76
RMF target 2012	90	90	75	90	80	75	75

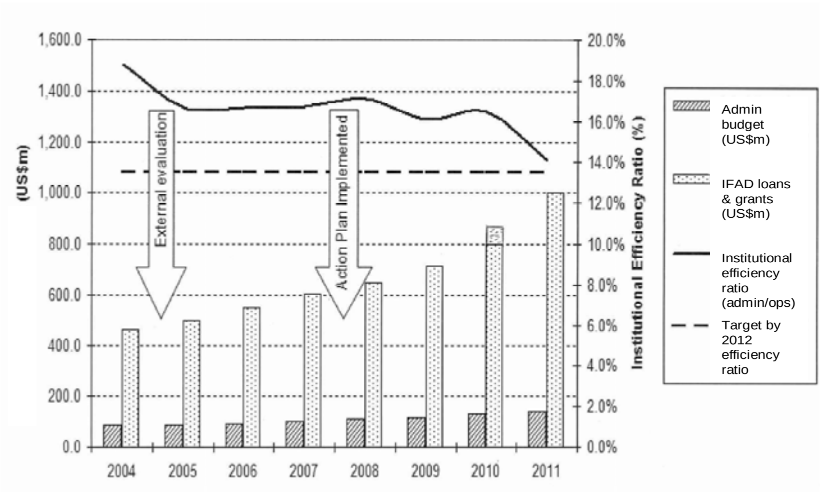
IEE: Independent External Evaluation of IFAD, 2005
ARRI: Annual Report on Results and Impact of IFAD Operations (prepared by the IFAD Office of Evaluation)
PCR: Project completion report
RMF – Results Measurement Framework

21. Figure 3 shows that, at project completion, performance of IFAD-supported interventions has improved considerably on the whole since 2005, with many targets for 2012 close to being met, or indeed already surpassed. The improved results were achieved with concurrent significant growth in new loan and grant commitments and an expansion of the portfolio of ongoing investment operations. This indicates that the business model has raised IFAD's capacity to deliver improving results on a broader scale. With respect to the key dimension of innovation, learning and scaling up, there has been tremendous progress in at-completion performance since 2005, according to the IOE and IFAD assessments, both showing performance above the 2012 target.

22. Administrative costs to achieve these quantitative and qualitative improvements have increased more slowly than the programme of loans and grants (see figure 4). The administrative budget is also used to manage much of the cofinancing shown in figure 2, not just IFAD's own lending. Including cofinancing in figure 4 would demonstrate an even more-rapid increase in the total programme supported compared with the increase in IFAD's administrative costs. The comparison of IFAD's programme of loans and grants, cofinancing and IFAD administrative costs is important in demonstrating that expansion in the programme, with improved quality, can be delivered using this business model with only a limited expansion in administrative costs. The solid line at the top refers to the conventional measure of IFAD's institutional efficiency, which is its total administrative costs divided by the total of IFAD's loans and grants. The ratio has been declining since 2004, reaching its lowest level in 2010, with a further drop projected in 2011.

Figure 4

IFAD is progressing towards improved efficiency



23. **An analysis of the part of the administrative budget used to manage cofinancing and to build local capacity to manage projects suggests that 25 per cent of the budget of the Programme Management Department (PMD) (or about US$20 million) was used in 2010 for these purposes, which is effectively technical assistance**. This is equivalent to about 14 per cent of IFAD's total administrative budget. IFAD's business model includes capacity-building of development partners, financing, and implementation support. If this amount were deducted from administrative costs, the institutional efficiency ratio would drop further in 2011, from 14 per cent to about 12 per cent. If cofinancing managed by IFAD were also counted, the ratio would fall to 5 per cent.

V. Enhancing IFAD's business model during IFAD9

24. The strategic vision prepared for the IFAD9 Consultation calls for an ambitious IFAD programme aiming at significant impact in reducing rural poverty and hunger by 2015. As currently conceived, IFAD's business model remains valid to implement this strategic vision, but with some important modifications.

25. **Achieving a more significant impact on a larger number of poor rural people will require much greater IFAD attention to scaling up successful projects and catalysing broader partnerships to this end**. IOE completed an analysis of IFAD's work on innovation and scaling up. It found that IFAD was a successful innovator, but had less success in scaling up. Scaling up successful projects will be "mission-critical" to IFAD during IFAD9. The Brookings Institution, based in the United States, completed a first-phase study on scaling up by IFAD, and has provided an extensive set of recommendations for this purpose. Management agrees with these recommendations, and an important agenda item for IFAD9 is their implementation. The key thrust is to ensure that every country programme and project considers and plans for scaling up, rather than simply assuming that good ideas will be scaled up. This will require quality partnerships, because, in all cases, operating at scale will require resources beyond IFAD's own. It will require that IFAD carefully identify key drivers for impact at scale, and key institutional mechanisms that can operate sustainably at scale. Relatively small projects can be isolated from a poor policy environment, but large-scale operations cannot be. Thus IFAD will have to engage more forcefully in policy dialogue, and

provide advice in policy implementation and in building national and local policy capacities in agriculture and rural development. It will also have to harness knowledge better in order to scale up.

26. Partnership-building and scaling up will involve continued efforts to mobilize financial, knowledge and technical resources from domestic partners in countries in which IFAD works (governments, the private sector, civil society and beneficiaries), and from other donors. The average size of an IFAD loan or grant will continue to increase, although this is not a necessary outcome of scaling up. The average size of an IFAD loan or DSF grant reached US$24 million in 2010, compared with US$20 million in 2009 and US$19 million in 2006. As a result, the number of projects submitted to the Executive Board declined to 33 in 2010, from 34 in 2007. As the cost to IFAD per project is relatively insensitive to project size, this enabled IFAD to expand the dollar value of the programme of loans and grants (18 per cent per annum) faster than the administrative costs (4-7 per cent per annum). It was this more rapid expansion in loan and grant volumes than in administrative costs that led to the decline in the ratio of administrative costs to volume of loans and grants. Scaling up, requiring a broader spectrum of partners, will also bring a broader spectrum of technical skills to project design and implementation. The result is that the scaling-up agenda is likely to deliver a lot more resources, more effectively, but to not require a proportional increase in IFAD administrative costs.

27. Under a scaling-up agenda, IFAD's financing instruments will continue to be loans and DSF grants, with the difference that they will increasingly be used as a means to mobilize domestic and international partnership and investment. Global and regional grants will continue to be used to encourage innovative research on sustainable agricultural intensification policies and practices, and to develop the capacities of poor rural people's and producers' organizations. IFAD's new Office of Strategy and Knowledge Management will coordinate expanded knowledge-sharing activities, as was already begun with IFAD's *Rural Poverty Report 2011* and in collaboration with FAO and the World Food Programme (WFP) on the CFS.

28. On aggregate, IFAD intends to raise US$1.50 for each US$1.00 that IFAD lends or grants. In this way, as an example, a US$4.50 billion programme of IFAD loans and grants for 2013-2015 would leverage an additional US$6.75 billion in total cofinancing. A US$3.50 billion programme of IFAD loans and grants would leverage US$5.30 billion in cofinancing (see document REPL.IX/2/R.4 on the programme of work for IFAD9). IFAD is already achieving these leveraging ratios in the IFAD8 period, so this objective is feasible.

29. **A second key area of change to the business model will be in the nature of IFAD partnerships – expanding to include a broader range of private-sector actors and actors working on environmental and climate change issues**. The strategic vision points to substantially increased focus by IFAD in four substantive areas:

(a) Agricultural production;
(b) Agriculture value chains, from input supply through marketing, processing and retailing;
(c) Rural environmental issues and climate change; and
(d) Gender issues.

The second and third of these expanded areas will require new partnerships. For value chains, this is the private sector. For environment and climate change, it will involve a range of financing and technical partners beyond the more-limited GEF work for which IFAD has acted as an implementing agency. Gender issues lie at the root of some causes of rural poverty, and to address these issues successfully, IFAD will need to find more-effective ways of overcoming gender-related constraints. Finding increasingly effective ways of working with new actors, while working even more productively with national and local governments, farmers' associations and other associations of rural people (indigenous organizations, NGOs, civil society more broadly) will be major challenges under IFAD9.

30. A related change will be an increased focus on facilitating South-South cooperation. There is an increasing body of agricultural and rural development experience in developing countries that can effectively inform other developing countries. The older development paradigm of transferring knowledge from developed countries to developing, though still holding value, is being replaced by more diverse rural development models from developing countries themselves. As a United Nations agency with experience in over 100 developing countries, IFAD will play a role in helping transfer this knowledge. A separate paper is being prepared for the IFAD9 Consultation on IFAD's role in fostering South-South cooperation in agriculture and rural development.

31. **A third area of business model change will be an increased focus on IFAD's internal efficiency**. Despite a much more rapidly increasing programme of loans and grants compared with slowly increasing administrative costs, many observers have found IFAD to be a relatively costly institution. Much of this is implicit in IFAD's hands-on business model. But given the "belt tightening" in which most of IFAD's Member States are currently engaged, IFAD will need to tighten its belt by relentlessly pursuing efficiency and cost-cutting measures. This will be done by reducing internal processes that require administrative staff, decentralizing staff positions to the field using in-country nationals, technology improvements, and the sharing of costs with partners. A corporate-level evaluation of IFAD's efficiency, planned for 2012, will identify additional measures.

32. **A fourth area of business model change will be to support monitoring and evaluation systems** at the country level much more systematically. These systems, which must provide high-quality data to governments, partners and IFAD, are often weak. IFAD will expand its capacity-building efforts in this area, and will further develop its impact evaluation capacity to help guide its scaling-up work and policy advice. The RIMS will be updated with new targets for 2015, and will require additional resources for data collection and analysis.

IFAD staffing

	2009	*2010*	*Projection 2011*
Professionals (FTE)[a]	258	289	309
General Service HQ (FTE)[b]	278	298	298
Consultants (FTE)	199	247	257
Others (interns, volunteers, etc.)	37	24	15
Total	**772**	**858**[c]	**879**[d]

Note: FTE = full-time equivalent.

[a] PMD accounts for 50% of IFAD Professionals (excluding hosted agencies, including field staff).

[b] PMD accounts for 38% of IFAD General Service staff (excluding hosted agencies, including field staff).

[c] Of this total, 59 (headcount) were based in field offices at end 2010, in some combination of IFAD staff, United Nations Development Programme-contracted, or consultant contracts – both General Service and Professional categories.

[d] Projection to end 2011: Professional staff growing per annum at 7 per cent, General Service at 0 per cent and consultants at 4 per cent; “others” declining by 40 per cent. Field office staff would increase from 59 to 80 (headcount), included in this number.