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Additional Results from the Analysis on IFAD Cofinancing and Main Elements of the Cofinancing Strategy

Note to Transition Framework Working Group members

For ease of reference, new text added to the version presented at the first meeting of the Working Group is underlined.

Focal points:

Technical questions:

Lisandro Martin
Director
Operational Policy and Results Division, a.i.
Tel.: +39 06 5459 2388
e-mail: lisandro.martin@ifad.org

Ruth Farrant
Director
Financial Management Services Division
Tel.: +39 06 5459 2281
e-mail: r.farrant@ifad.org

Dispatch of documentation:

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

Working Group on the Transition Framework — Second Meeting
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For: Review

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Abbreviations and acronyms

AfDB	African Development Bank
AsDB	Asian Development Bank
APR	Asia and the Pacific
CPM	country programme manager
ESA	East and Southern Africa
GEF	Global Environment Facility
GRIPS	Grant and Investment Projects System
ICO	IFAD Country Office
IVI	IFAD Vulnerability Index
LAC	Latin America and the Caribbean
LIC	low-income country
NEN	Near East, North Africa and Europe
NS	not significant
OECD	Organisation for Economic Co-operation and Development
RSP	rural sector performance
Spanish Trust Fund	Spanish Food Security Cofinancing Facility Trust Fund
UMIC	upper-middle-income country
WCA	West and Central Africa

Recommendation

1. The Working Group on the Transition Framework is invited to take note of the additional information provided in section VI of the present document.
2. Furthermore, the Working Group is asked to analyse and endorse the main elements that the cofinancing strategy will address, as presented in section VII and summarized here below. Management proposes that the strategy:
 - Build on lessons learned from the experience of IFAD and other multilateral development banks (MDBs) and also be informed by evaluations related to cofinancing conducted by IFAD and other MDBs.
 - Draw on the results of the quantitative analysis, the qualitative feedback from focus groups, an internal survey and interviews with operational staff in Rome and in the field.
 - Focus on the different sources of cofinancing driven by different factors, as shown by both the quantitative and the qualitative analyses. These drivers include: country conditions, government priorities, alignment with donor and partner processes and procedures, IFAD-specific complementarities and synergies with other donors, amount of IFAD financing, and investment in relationships with key partners.
 - Assess different modalities of cofinancing and make recommendations on those most suitable for IFAD.
 - Recommend steps to enhance measurement of in-kind and private sector cofinancing.
 - Consider country factors and regional differences in guiding the cascading of the corporate cofinancing targets to regional level and, through country strategic opportunities programmes, to country level.
 - Take account of cofinancing as a means not only of bringing additional funding but also, importantly, of leveraging the complementary knowledge and expertise of partners.
 - Identify changes in IFAD's processes that may be required for successful implementation of the strategy.
 - Emphasize implementation and include an action plan that clearly defines the roles and responsibilities within IFAD to support the strategy, as well as plans for monitoring results.

Executive summary

A. Key messages

1. IFAD's overall cofinancing during the 20-year period from 1995 to 2014 shows a decreasing trend from the period covered by the Eighth Replenishment of IFAD's Resources (IFAD8). The highest cofinancing ratio was achieved during IFAD8, while IFAD10 appears to be the most challenging replenishment cycle thus far. The international development context between 2010 and 2012, together with the food crisis, may have driven the exceptional cofinancing recorded in IFAD8. Contributions from the Spanish Food Security Cofinancing Facility Trust Fund were also a significant source of cofinancing during IFAD8 (see section I.A).
2. Significant differences in levels of cofinancing exist between regions and within each region, and a few key countries drive the cofinancing ratio (see section I.B).

3. A quantitative analysis was undertaken to determine the drivers of IFAD's domestic and international cofinancing. The results of the analysis will help provide the basis for the development of IFAD's cofinancing strategy and action plan in line with the relevant IFAD11 commitment.¹
4. The results of the analysis identified several statistically significant variables related to country, project and specific IFAD-defined characteristics (see section II) as follows:
 - Most notably, income level, rural institutional performance, fragility and vulnerability matter, as does rural population size;
 - Large projects with extended partnerships are found to be key to resource mobilization; and
 - IFAD's relationship with the country, using the number of projects managed by a country programme manager and in the portfolio as a proxy, also has a significant impact.
5. Furthermore, a strong correlation was found between a country's rural sector performance and IFAD Vulnerability Index (IVI) scores and cofinancing (see section III).
6. Preliminary findings, therefore, call for a differentiated approach at region and country level, as the same requirements cannot be applied across the board within a single income category.
7. The criticality of recognizing and reporting in-kind domestic contributions from governments, beneficiaries and implementing partners has not been emphasized to date in IFAD. This has led to a historical underestimation of such contributions, which can be significant in certain projects.
8. A technical note on in-kind domestic cofinancing has been prepared. It provides clear guidance at the design, implementation and auditing stages of a project life cycle on the systematic recognition, measurement and reporting of in-kind contributions. The note will be included in the strategy for IFAD cofinancing and the action plan.
9. IFAD's engagement with the private sector is multifold. While IFAD deploys considerable efforts to record data on private contributions leveraged by its projects, the potential for underestimation must still be addressed and an effort made to capture the catalytic effects (see section VI).
10. Management proposes that the main elements to be addressed by the cofinancing strategy draw on the findings of the quantitative and qualitative analyses and are presented in section VII.

B. Next steps

11. Drawing on the studies and analytics, including the technical note on in-kind contributions, the next step will be to finalize the strategy and action plan – which were called for as an IFAD11 commitment – including inputs for new design and implementation procedures.

¹ See GC 41/L.3/Rev.1, Report of the Consultation on the Eleventh Replenishment of IFAD's Resources, annex I: IFAD11 matrix of commitments, monitorable actions and timeline.

Additional Results from the Analysis on IFAD Cofinancing and Main Elements of the Cofinancing Strategy

Background

1. To address the development challenges facing the world as articulated in the 17 Sustainable Development Goals (SDGs) under the 2030 Agenda for Sustainable Development, investments of all kinds from multiple sources need to be assembled and maximized at both the national and international level and involving both public and private resources.
2. One of the main directions in the business model for IFAD11 is that IFAD must become a catalyst of development finance, to enhance its impact over and above the ambitious target of an IFAD11 programme of loans and grants of US\$3.5 billion. Therefore a cofinancing target ratio of 1:1.4 has been set, up from the IFAD10 target of 1:1.2.
3. To support reaching this target, IFAD committed to undertake a cofinancing analysis and develop a strategy and accompanying action plan "to reach a cofinancing ratio of 1:1.4 (international 1:0.6 and domestic 1:0.8), define different forms of cofinancing and methodologies for their calculation, including quantification of in-kind contributions, improve monitoring and reporting on cofinancing by source and country category, and better measure IFAD's crowding in of private investment".²
4. Cofinancing is discussed in the context of IFAD's Transition Framework, where IFAD not only wants to identify how to best support countries to tackle their specific development challenges, but also to identify what a country's fair contribution should be, and how other development partners should collaborate in a coherent manner.
5. This document presents the results of the cofinancing analysis, complemented by qualitative information gathered through a wide-ranging consultation with staff. It presents, as requested at the first meeting of the Working Group on the Transition Framework, the main elements to be addressed by the cofinancing strategy and associated action plan.

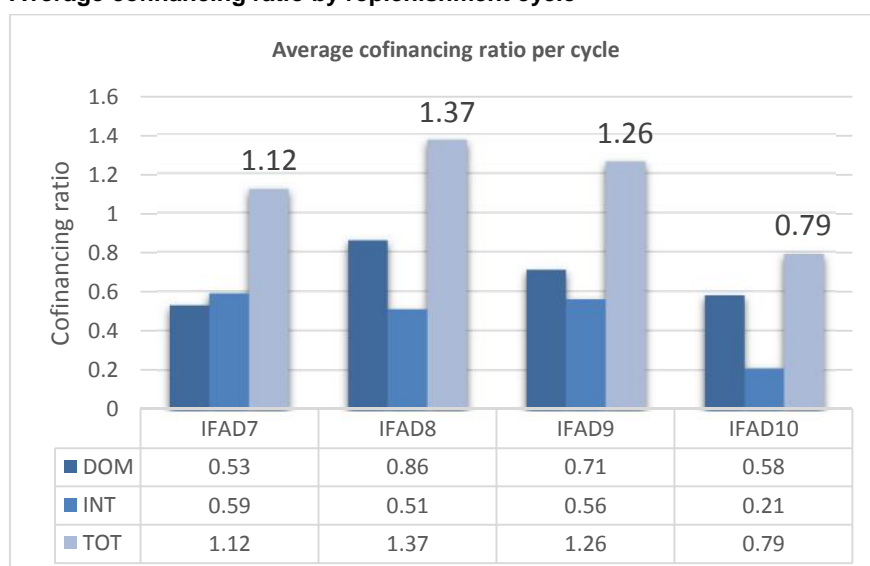
I. Historical patterns in IFAD cofinancing data

A. Cofinancing by replenishment cycle

6. Figure 1 shows the evolution of IFAD's average domestic and international cofinancing ratio achieved during the past four replenishment cycles. The highest total cofinancing ratio was recorded in IFAD8, driven by domestic cofinancing. The highest international cofinancing ratio was achieved during IFAD7. The peak in IFAD8 may be attributable to an exceptional cofinancing amount in the East and Southern Africa (ESA) region, triggered by the 2010-2012 international food crisis. In addition, the Spanish Food Security Cofinancing Facility Trust Fund (Spanish Trust Fund), mobilized in 2011, provided significant international cofinancing during this period.

² See footnote 1.

Figure 1
Average cofinancing ratio by replenishment cycle



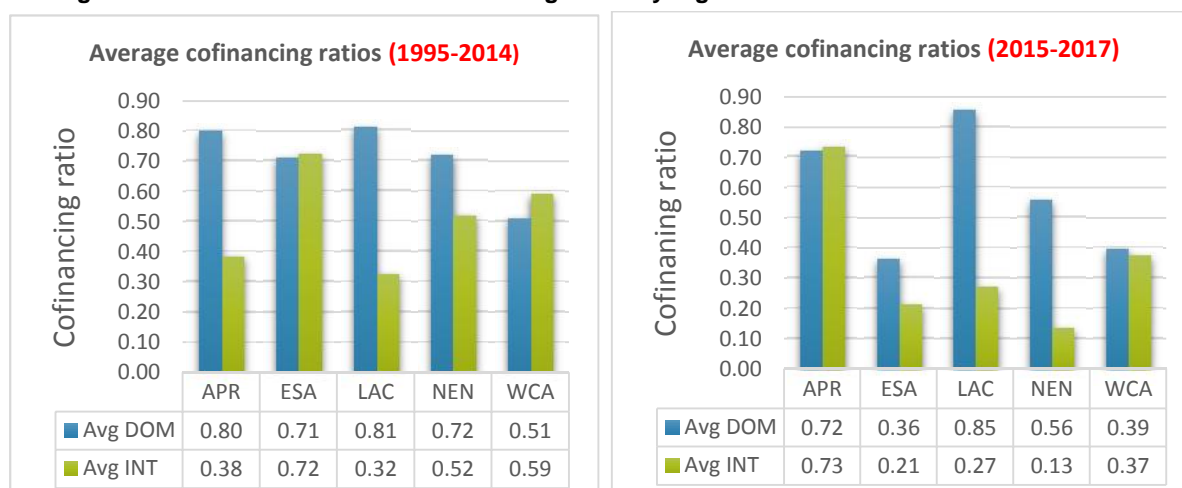
Source: Grant and Investment Projects System (GRIPS), investment projects financing data as of March 21, 2018.

B. Regional differences in cofinancing

7. Figure 2 below compares the average domestic and international cofinancing ratios of IFAD's five regional divisions. On average, considering the period between 1995-2017, the Asia and the Pacific (APR) and Latin America and the Caribbean (LAC) divisions recorded the highest domestic cofinancing ratio. The top countries driving domestic cofinancing in APR are middle-income countries: India (1:1.54), China (1:1.46), Maldives (1:0.88), Philippines (1:0.82) and Bangladesh (1:0.67). In LAC, domestic cofinancing is driven by Brazil (1:1.88), Argentina (1:1.79), Bolivarian Republic of Venezuela (1:0.91), Ecuador (1:0.91) and Paraguay (1:0.76).
8. The highest international cofinancing ratios between 1995 and 2014 were recorded in ESA and West and Central Africa (WCA). However, the past three years have been challenging for ESA, which posted a significant decrease, while WCA maintained its performance. APR, on the other hand, has seen a significant improvement.
9. The top five countries in ESA are Eswatini³ (1:3.88), Angola (1:1.34), Madagascar (1:1.33), United Republic of Tanzania (1:0.99) and Burundi (1:0.97). In WCA, international cofinancing is the highest in Togo (1:1.51), Ghana (1:1.13), The Gambia (1:1.06), Niger (1:1.02) and Mali (1:0.85). LAC recorded the lowest international cofinancing ratio on average over the period. This was attributable in part to the high volatility of donors' contributions in the region. Another major constraint to resource mobilization in LAC is the shift in national priorities from rural to urban development issues as the region experiences increasing urbanization.

³ Effective 19 April 2018, the Kingdom of Swaziland has been renamed to the Kingdom of Eswatini.

Figure 2
Average domestic and international cofinancing ratios by region 1995-2014 and 2015-2017

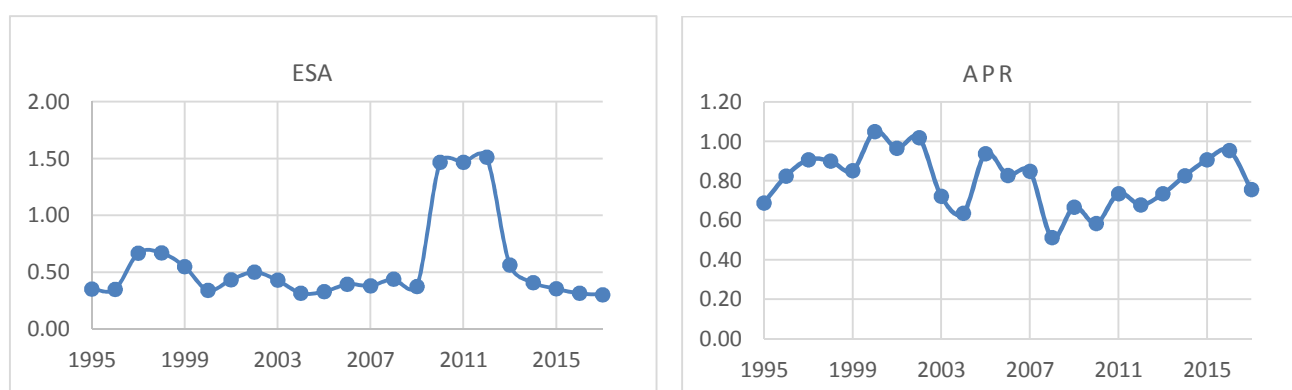


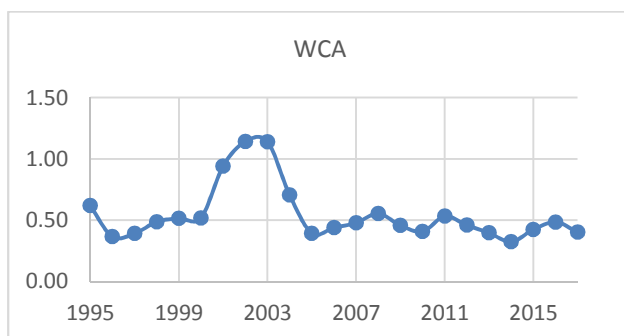
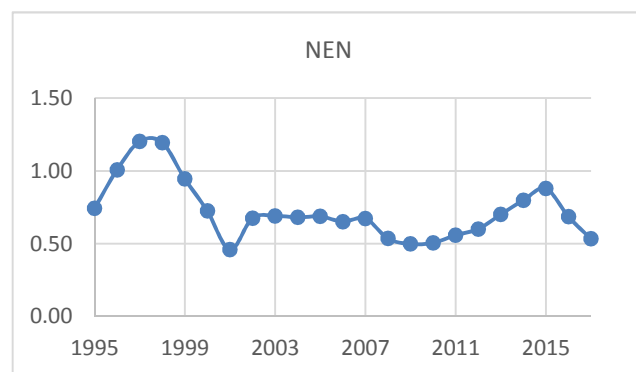
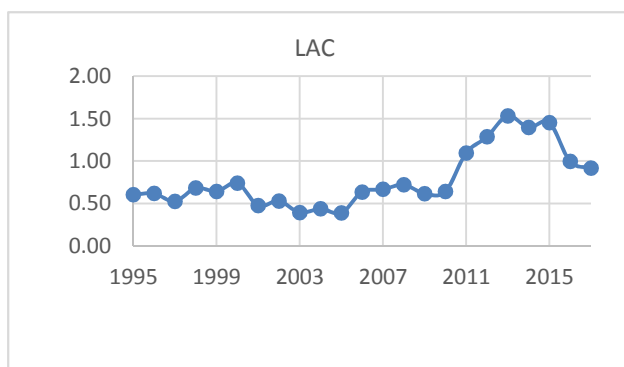
Source: GRIPS, investment projects financing data as of March 21, 2018.

C. Regional trends in cofinancing

10. Figure 3 below displays trends in domestic cofinancing ratios within the five regional divisions. Domestic cofinancing between 1995 and 2017 shows a downward trend in all regions except LAC. It is the highest in APR on average; however, this masks a declining trend over time. ESA has experienced the most stable domestic cofinancing over time although the average absolute value remained low.
11. As seen in figure 3, WCA has experienced difficulty in maintaining substantial domestic resources over time. On one hand, highly constrained economic conditions and high country fragility may explain this trend. On the other hand, the region can be considered as having the greatest development challenges as most of the countries are low-income countries with a considerable number of development projects and initiatives competing for limited public budgets.

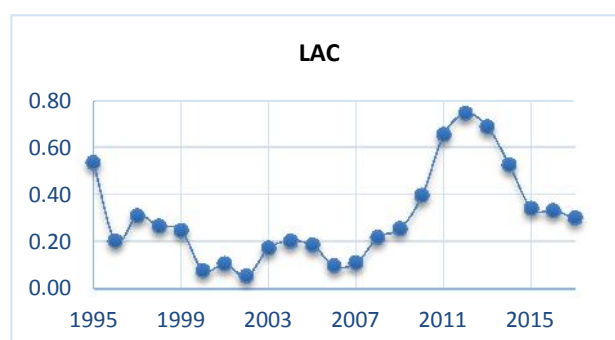
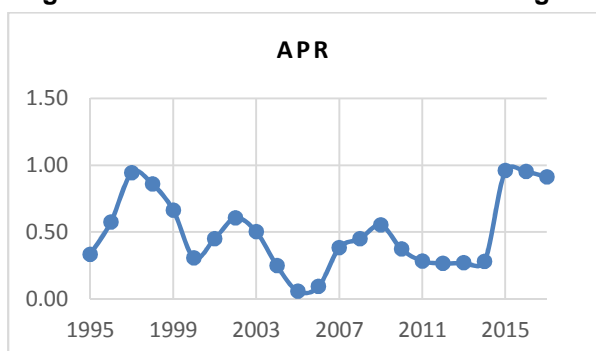
Figure 3
Regional trends in domestic cofinancing ratios 1995-2017

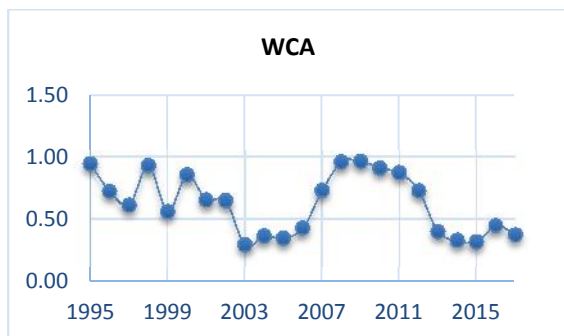
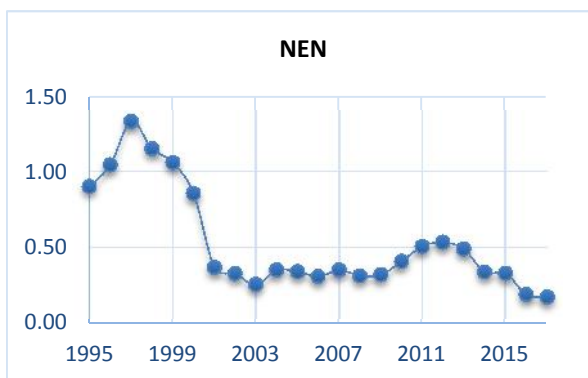
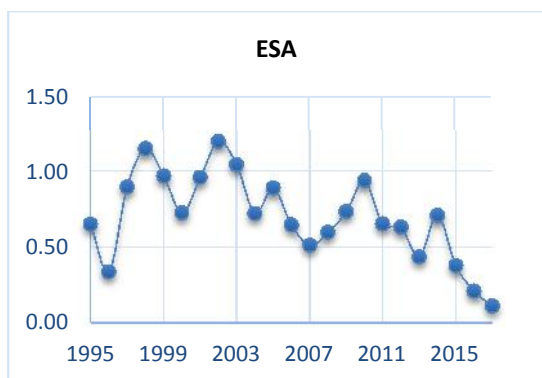




12. High variability can be observed in international cofinancing across years. This lack of stability needs to be addressed, but also offers historic learning opportunities – in terms of project characteristics, donor types and institutional changes – where cofinancing ratios have significantly improved.
13. International cofinancing ratios during the period 1995-2017 follow a declining trend in all regions except for LAC between 2007-2014 (see figure 4). Nevertheless, the level of international cofinancing is the lowest in LAC on average.

Figure 4

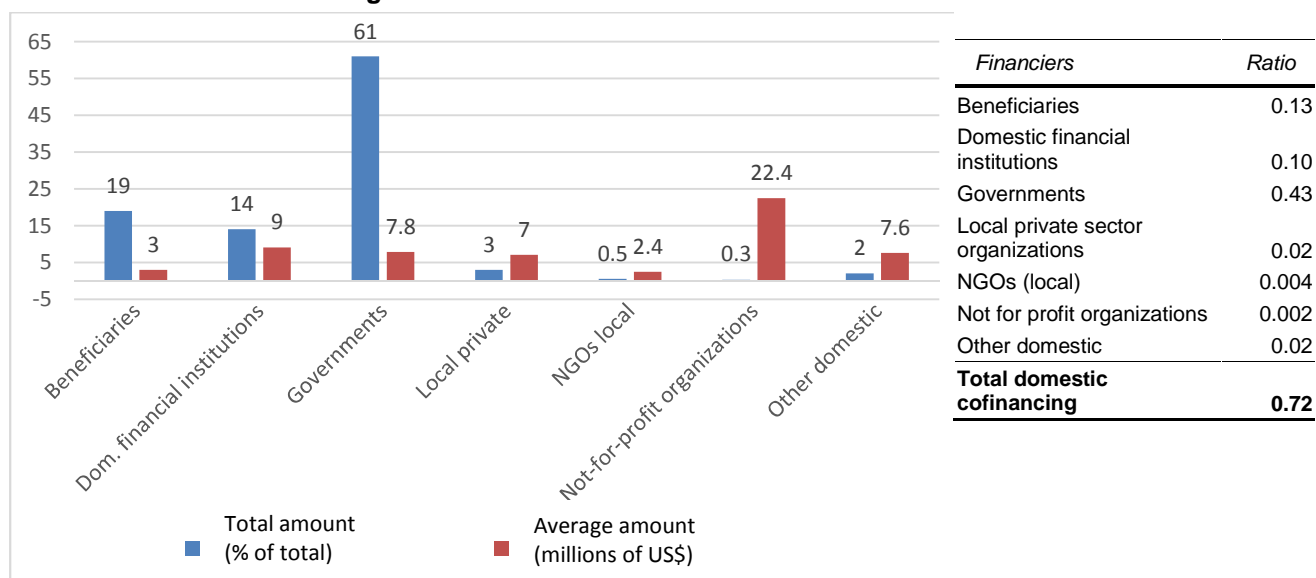
Regional trend in international cofinancing ratios 1995-2017



D. Types of cofinanciers in IFAD projects

14. Over the last 20 years, 94 per cent of total domestic cofinancing came from governments, beneficiaries and domestic financial institutions. The overall domestic cofinancing ratio for the 20-year period was 0.72.
15. The breakdown of domestic and international cofinancing by type of financier as presented below supports the development of mapping donors with key areas of interest, thereby helping IFAD to adopt a more informed selective approach to resource mobilization.

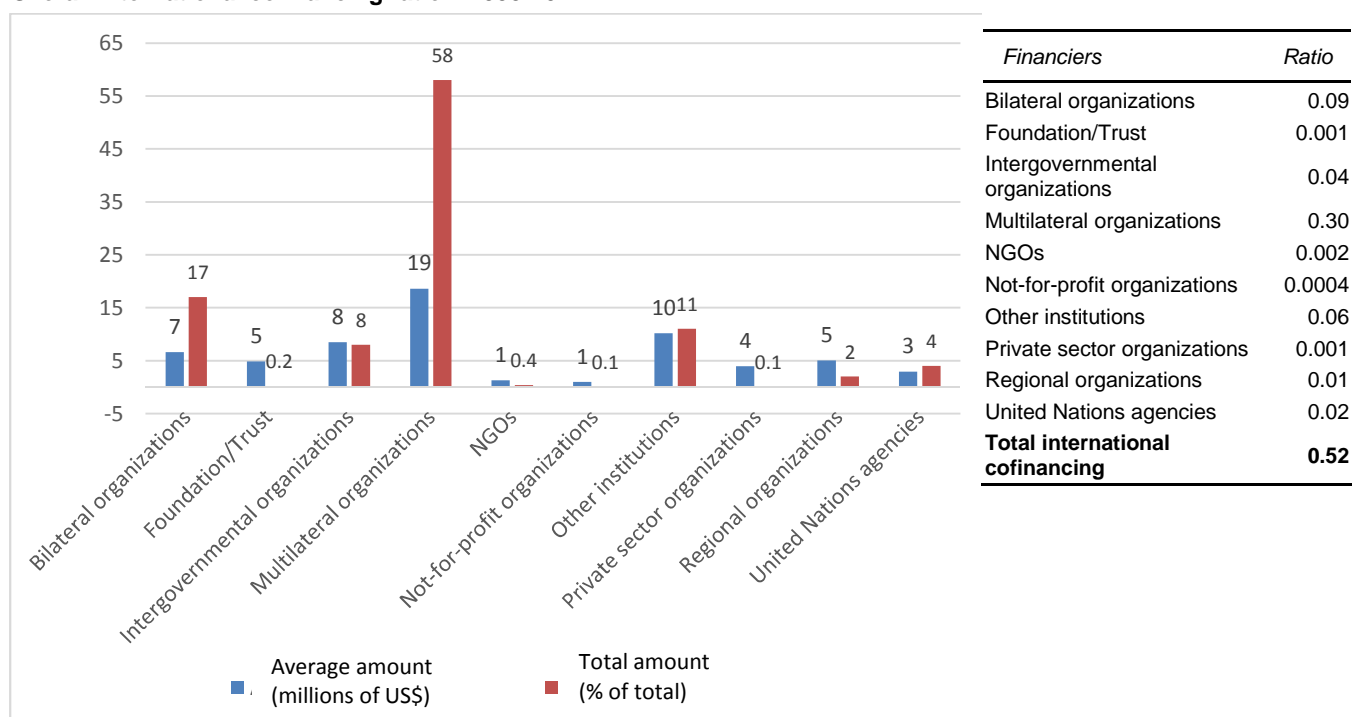
Figure 5
Overall domestic cofinancing ratio – 1995-2014



Source: GRIPS, investment projects financing data as of October 10, 2017.

16. International cofinancing has been driven mainly by multilateral, bilateral and intergovernmental organizations, which provide about 83 per cent of the total international contributions.
17. As expected, over the period analysed, 58 per cent of contributions came from multilateral organizations. Regionally, the main multilateral contributions came from the International Development Association, the Global Environment Facility (GEF), the African Development Bank (AfDB) and the Global Agriculture and Food Security Program.
18. Bilateral donor organizations contributed 17 per cent of the cofinancing, mainly from the Agence Française de Développement, the Spanish Trust Fund and the SNV Netherlands Development Organisation.
19. Preliminary discussions within IFAD also confirmed that leveraging pooled cofinancing, as in the case of the Spanish Trust Fund and GEF, rather than single-project cofinancing, provides a better and more stable source of resources.

Figure 6
Overall international cofinancing ratio – 1995-2014



II. Analysis of the drivers of cofinancing: Method and results

A. Methodology

20. The aim of this analysis is to identify the factors that influence IFAD's cofinancing performance. The first part of the analysis focuses on data on the approved cofinancing committed by the project partners at design phase. In a second part, the analysis focuses on investigating differences between the amount of cofinancing committed at approval and the actual amount disbursed during the lifetime of the projects. This second aspect will be included in the next iteration of the report.
21. For each of these two parts of the analysis, a two-step approach has been adopted. The first step is a quantitative analysis performed using regression models, trend analysis and descriptive statistics. The second step complements the quantitative

analysis with qualitative information from discussions with key internal informants such as regional economists and portfolio advisors.

22. Cofinancing data is disaggregated into domestic and international contributions to align with Management's approach in setting separate targets for these two aspects. Cofinancing ratios are computed yearly based on a three-year moving average. This method has the advantage of smoothing outlier values in the ratios compared to current practices at other multilateral development banks.

23. Details on the regression model and the source of data are found in appendix I.

B. Selection of key variables of interest and results

24. While most studies on aid allocation rely on country-related macroeconomic variables and to some extent project-related variables to capture these three dimensions of the aid allocation framework, this study extends the common framework by including variables under IFAD's direct control. This distinctive feature will be a key source of information for the cofinancing strategy.

C. Country-related variables

Income level

25. Two aspects of the countries' income level are considered. The first aspect pertains to the poverty status and is captured by; (i) gross national income per capita (GNIpc); (ii) income status: low-income country (LIC), lower-middle-income country (LMIC) or upper-middle-income country (UMIC). As expected, the results of the panel regression confirm that income, expressed both as GNIpc and as income category, has a positive correlation with domestic cofinancing.
26. The second aspect of income level is growth in GDP as an indicator of a country's economic performance. The data show that the higher the GDP growth, the higher the level of international cofinancing. The opposite effect is recorded on domestic financing. One explanation of this result may be that countries with growing GDP attract more foreign direct investment, thus reducing the need for financing from the national budget.
27. The results of the effect of income on cofinancing are presented in table 1. The coefficients represent the size of the estimated effect of each variable. For example, being in the LIC category lowers a country's domestic cofinancing ratio by an estimated 29 per cent.

Table 1
Income variables

Variables	Country factors			
	Domestic ratio		International ratio	
	Impact	Coefficient ^a (%)	Impact	Coefficient ^a
Income effect				
GNIpc growth	+	2**	Not significant (NS)	(0.012)
LIC	-	(29)***	NS	0.02
UMIC	+	34***	-	(0.35)*
GDP growth	-	(3)***	+	0.03**

^a International ratio is specified in level form, hence the coefficients are in absolute incremental value of the ratio. Domestic ratio is specified in a logarithmic form, hence the coefficients are in percentages.

Note: The star (*) indicates the statistical significance level of the coefficient (*** p<0.01, ** p<0.05, * p<0.1).

Population

28. Population density (measured as the number of inhabitants per km²) and rural population size (measured as a percentage of total population) are used to capture the population effect on domestic and international cofinancing.

29. Population density. Since need increases with population size, the analysis shows that population density has a statistically significant effect on international cofinancing, in line with past studies.
30. Rural population. As most of the poor in developing countries live in rural areas, the size of the rural population is correlated with poverty status. Data confirm the expectation of a negative effect of rural population size on domestic cofinancing.

Table 2
Population variables

Variables	Country factors			
	Domestic ratio		International ratio	
	Impact	Coefficient (%)	Impact	Coefficient
Population effect				
Population density	NS	0.022	+	0.00084***
Population growth	NS	5.1	NS	0.008
Rural population (% total pop.)	-	(0.7)**	NS	(0.00132)

Note: The star (*) indicates the statistical significance level of the coefficient (*** p<0.01, ** p<0.05, * p<0.1).

Fragility status

31. The effect of country fragility on cofinancing is estimated through three predictors included in the model, namely the country's classification as "in a fragile situation",⁴ the occurrence of natural disasters in the country (number of times) and the total population affected by the natural disaster.
32. The regression analysis confirms the assumption that fragility is negatively correlated with domestic cofinancing, which is 30 per cent lower in countries with fragile situations than in non-fragile situation countries. On the other hand, fragility is positively correlated with international cofinancing.
33. International cofinancing is also positively correlated with the total number of people affected by natural disasters, but the relationship is not significant.
34. The data show that international cofinancing is significantly less when a country experiences conflicts or experiences high exposure to natural disasters. This result points to the conclusion that fragility embeds both a risk and a humanitarian need dimension that affects foreign aid allocation differently. While the humanitarian dimension has a positive effect on international cofinancing, fragility and the associated risks have a negative impact.

Table 3
Fragility variables

Variables	Country factors			
	Domestic ratio		International ratio	
	Impact	Coefficient (%)	Impact	Coefficient
Fragility effect				
If country with fragile situation	-	(30.4)***	NS	0.169
People affected by natural disaster	+	3.12e-07**	NS	1.81e-09
Occurrence of natural disaster	+	2.30***	-	(0.0221)*
State conflict	NS	(0.105)	-	(0.287)**

Note: The star (*) indicates the statistical significance level of the coefficient (*** p<0.01, ** p<0.05, * p<0.1).

⁴ As per the Harmonized List of Fragile Situations used by the Organisation for Economic Co-operation and Development (OECD).

III. Project-related factors

35. Project characteristics such as size and sector are of strategic importance when it comes to mobilizing development funds.
36. Findings on the effect of project size are presented below. Insights on the distribution of domestic and international cofinancing amounts across the project sector are presented in appendix II.

Project size

37. The project size variable is included by clustering projects into small (total budget \leq US\$18.8 million), medium (US\$18.8 million $<$ total budget $<$ US\$49.12 million) and large projects (total budget \geq US\$49.12 million). This categorization is based on the following distribution:

Small project = total budget \leq US\$18.8 million (25th percentile)

Medium project = US\$18.8 million $<$ total budget $<$ US\$49.12 million

Large project = total budget \geq US\$49.12 million (75th percentile)

38. The analysis clearly shows that small projects tend to attract significantly less domestic cofinancing than do larger ones. This result is in line with what internal consultations have revealed on the effect of a larger portfolio and calls for a more programmatic approach in IFAD engagement with developing countries.

Table 4

Selected project variables

Variables	Project-related factors			
	Domestic ratio		International ratio	
	Impact	Coefficient (%)	Impact	Coefficient
Project size				
Small project size	-	(0.3)***	-	(0.22)**

Note: The star (*) indicates the statistical significance level of the coefficient (*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$).

A. IFAD-related factors

39. IFAD-related variables are potential organizational factors that place the institution in a distinctive position, either positive or negative, to leverage resources for the development projects or programmes supported.
40. Among the factors considered are lending terms, the country programme manager (CPM) profile, the presence of IFAD Country Offices (ICOs) and the number of partnerships mobilized for a specific project.
41. The data shows that the higher the value of the portfolio managed by one CPM, the higher the domestic cofinancing. One way to interpret this is that IFAD's presence in the country is more relevant, and more in line with the Government's priorities, therefore more likely to attract domestic cofinancing. The more experienced the CPM in a country, the higher the domestic cofinancing ratio. In fact, every additional year of experience acquired in a country cause the domestic ratio to increase by about 4 per cent on average – and this marginal effect is significant.
42. Regarding international cofinancing, results show that countries where CPMs manage large portfolios mobilize less international cofinancing. This seems to imply that large portfolios, while they attract more domestic resources, reduce the need for additional international actors. In contrast, the number of projects managed by CPMs is positively correlated with international cofinancing. Each additional project added to a CPM's portfolio results in an increase in the international cofinancing ratio of 0.045 points.
43. The presence of ICOs also seems to positively drive the cofinancing ratio, especially international cofinancing.

Table 5
Selected IFAD-related variables

Variables	IFAD-related factors			
	Domestic ratio		International ratio	
	Impact	Coefficient (%)	Impact	Coefficient
CPM's profile				
CPM's experience	+	0.0378**	NS	(0.0128)
Number of projects managed	NS	(0.0246)	+	0.0448*
Value of portfolio managed	+	1.14e-09**	-	(2.98e-09)***
ICO presence	NS	0.0903	+	0.242*

Note: The star (*) indicates the statistical significance level of the coefficient (*** p<0.01, ** p<0.05, * p<0.1).

44. A high domestic cofinancing ratio translates into a high international ratio and vice versa. A large domestic contribution in a project translates into strong ownership from the recipient and therefore supports foreign donors' willingness to collaborate in such a project.
45. As expected, countries that succeed in building an extended partnership for IFAD's projects mobilize more domestic and international cofinancing. On average, the marginal effect on domestic cofinancing of every additional financing partner (domestic or international) in a project is about 4.4 per cent. For the international ratio, the marginal effect of an additional financing partner is an increase of 0.15 points. These effects are strongly significant.

Table 6
Other significant IFAD variables

Variables	IFAD-related factors			
	Domestic ratio		International ratio	
	Impact	Coefficient (%)	Impact	Coefficient
Project financing terms				
Non-concessional loans	NS	(0.291)	NS	0.101
Number of financiers	+	4.38**	+	0.153***
International ratio	+	25***	na	-
Domestic ratio	na	-	+	0.536***

Note: The star (*) indicates the statistical significance level of the coefficient (*** p<0.01, ** p<0.05, * p<0.1).

IV. Correlation between cofinancing and country characteristics as reflected in rural sector performance and IFAD Vulnerability Index

- A. Rural sector performance
46. Further dimensions that IFAD will be focusing on to enhance its ability to evaluate country characteristics, in line with the Approach to a Transition Framework, are the country performance variables included in the performance-based allocation system formula, specifically rural sector performance (RSP)⁵ and the IVI. The link between these variables and cofinancing was investigated using correlation tests.
47. Results show that domestic cofinancing is positively correlated with a country's RSP score, whereas international cofinancing is negatively correlated with the RSP score, meaning that countries with weak rural institutional capacity (RSP score class 1)⁶ attract more international cofinancing while countries with higher RSP scores attract less.

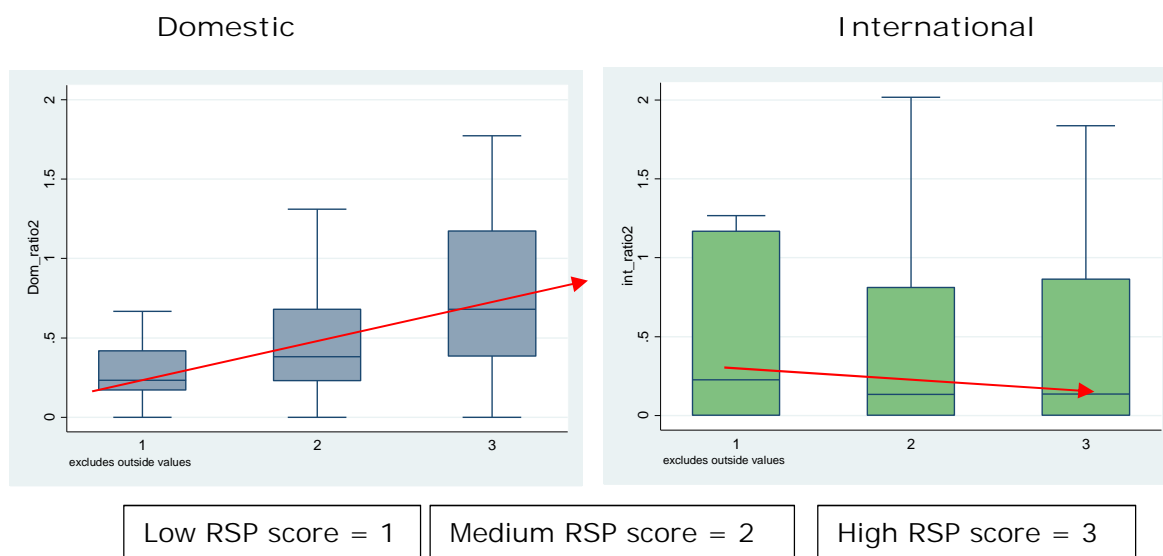
⁵ The RSP score, compiled by IFAD every three years in countries where it intervenes, is used as a measure of the quality of policies and institutions in areas related to rural development and rural transformation.

⁶ The categorization is done based on the distribution below:

- Low RSP (class 1) = RSP score \leq 3.165 (10th percentile).
- Medium RSP (class 2) = 3.165 < RSP score < 4.32.
- High RSP (class 3) = RSP score \geq 4.32 (75th percentile).

48. The figure below shows the distribution of domestic and international cofinancing ratios during the period 2007-2015 for countries with a low, medium and high RSP score.

Figure 7

Correlation between cofinancing and rural sector performance

49. The results of the univariate panel regressions reveal a strong positive correlation between domestic cofinancing ratios and rural sector institutional performance (column 1 of table 7), meaning that on average countries with a high RSP score also record a significantly higher domestic ratio.

Table 7

Univariate regression between RSP and cofinancing

<i>Variables</i>	<i>Domestic ratio</i>	<i>International ratio</i>
RSP score	0.492***	(0.237)
Constant	(1.188)**	1.692**
Observations	583	583
Number of countries	93	93

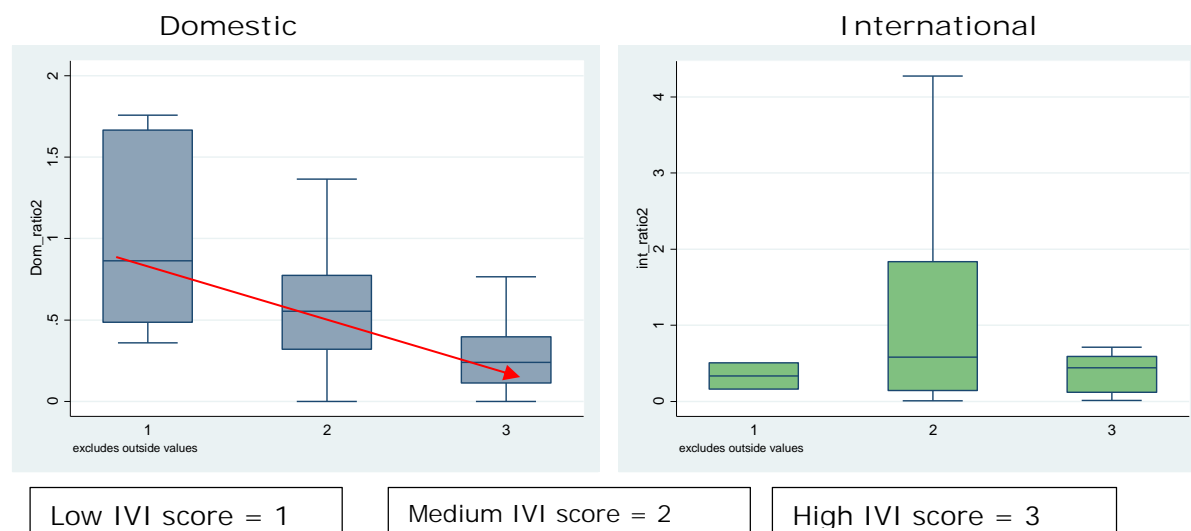
Note: The star (*) indicates the statistical significance level of the coefficient *** p<0.01, ** p<0.05, * p<0.1.

B. IFAD Vulnerability Index

50. The same test was performed on the link between cofinancing and the IVI, which is used as a measure of a country's overall vulnerability.⁷ This showed that the domestic cofinancing ratio is negatively correlated to the country's IVI score⁸ (see figure below). On the other hand, there is a positive correlation between the international cofinancing ratio and the IVI score. However, this pattern seems to be true only when comparing low IVI and medium IVI score countries.

Figure 8

Correlation between cofinancing and IFAD Vulnerability Index scores



51. The result of the univariate regression model⁹ corroborates the negative correlation detected between domestic cofinancing and the IVI. Regarding international cofinancing, the correlation test shows that, as mentioned above, very high vulnerability may be negatively correlated with international cofinancing due to the risk factor.

Table 8

Univariate regression between IVI and cofinancing

Variables	Domestic ratio	International ratio
IVI score	(0.437)*	(0.117)
Constant	1.644***	0.612
Observations	61	61
R-squared	0.047	0.000

Note: The star (*) indicates the statistical significance level of the coefficient *** p<0.01, ** p<0.05, * p<0.1.

V. In-kind cofinancing

52. According to the OECD definition, an in-kind contribution from project stakeholders is the transfer of ownership of a good or asset, other than cash, or the provision of a service, without any counterpart. As such, in-kind contributions can be either tangible or intangible goods transferred to an entity in a non-exchange transaction, without charge but which may be subject to stipulations, as well as services provided by individuals to an entity in a non-exchange transaction

⁷ The IVI was created to capture the multidimensionality of rural poverty. It is an index of 12 equally weighted indicators that measures rural vulnerability in terms of exposure, sensitivity and lack of adaptive capacity to endogenous and exogenous causes and/or events. Each of these sub-indicators can be associated with one or more of the IVI focus areas, namely food security, nutrition, inequality and climate vulnerability.

⁸ This categorization is done based on the below distribution:

- Low IVI = IVI score \leq 0.33 (10th percentile)
- Medium IVI = 0.33 < IVI score < 0.58
- High IVI = IVI score \geq 0.58 (75th percentile)

⁹ Here ordinary least squares are considered since only the year 2017 is used.

(i.e. salaries; labour – both professional and volunteer; partner remuneration; faculty remunerations and tax exemption). In-kind contributions represent a source of revenue, and although they are not monetary, may represent a significant portion of the project's revenue.

53. It is fundamental that in-kind contributions to projects are reported in addition to cash contributions for various reasons:
 - They are part of the effective cost of a project when factored into the project budget;
 - They may be the only or main contribution made by a borrower or recipient to a project;
 - They demonstrate to donors that borrowers and recipients of IFAD financing are significant contributors to projects and have buy-in; and
 - They will be included in the cofinancing ratio and supplement the real contributions of borrowers and recipients to projects, in addition to contributions in cash and tax exemptions.
54. Over the years 1995-2014 the overall contribution from beneficiaries was 19 per cent. From about 10 project case studies undertaken, beneficiaries' in-kind contribution is roughly estimated to be on average 13 per cent of the project total costs. In-kind contributions can also come from governments, mainly in the form of tax exemptions, services and supplies from governments and implementing partners. This part must be tracked in a more effective, consistent and analytical way.
55. Currently, in-kind contributions are not systematically recognized as part of the overall financing of a project for various reasons: (i) technical complexities in valuation and reliable measurement, including inconsistent use of accounting systems to monitor and report; (ii) a lack of understanding about the importance of providing this data; (iii) uncertainty as to the effective implementation of this type of contribution; and (iv) reluctance by auditors to provide assurances on amounts included in the financial statements. Without reliable and timely reporting of these assets, it is not possible to ascertain fully a project's economic resources and activities, making financial statements imperfect and reporting of cofinancing incomplete.
56. An internal technical note on in-kind domestic cofinancing has been prepared in order to provide clear guidance at the design, implementation and auditing stages of a project life cycle on the recognition, measurement and reporting of in-kind contributions as part of cofinancing. The note is being presented to the Working Group and will form part of the strategy. This will allow for systematic monitoring of in-kind contributions and enhance IFAD's ability to fully report on the mobilization of these resources.

VI. Cofinancing from the private sector (expanded)

A. Definitions

57. Private sector engagement in development projects can be incentivized through either financial (e.g. loans, grants, guarantees and equity) or non-financial means (e.g. policy dialogue, technical assistance and capacity-building). This distinction is important because it affects the way private sector contributions are measured and reported, i.e. as a mobilization effect or catalytic effect. The MDBs and the OECD have conceived new definitions and methodologies to measure the total amount of private cofinancing mobilized. However, additional work is still needed to explore ways to measure and report on the larger-scale private investment that has been catalysed by MDB interventions.
58. According to the OECD-DAC,¹⁰ the term "mobilization" qualifies the direct causal link between private finance made available for a specific project and an official intervention. The term "leverage" is usually associated with a ratio. "Catalytic effect" generally refers to the results of actions aimed at stimulating positive change, which may be financial (amounts mobilized) or non-monetary (knowledge transfer, sharing of new practices, introduction of a policy, etc.). It is generally recognized that the measurement of catalytic effect requires collective efforts from the MDBs to overcome the inherent challenges to its estimation and attribution.
59. The MDB definition goes a step further in distinguishing between types of private sector contributions. Under the MDB definition, private cofinancing can be split into two key elements: private direct mobilization (PDM) and private indirect mobilization (PIM). PIM is the mobilization type most commonly reported by MDBs. It refers to financing from private entities that is provided in connection with a specific activity being financed by an MDB – a project for instance – but there is no legally binding financial agreement between the MDB and the private entity. PDM has a more stringent definition, i.e. it is a subset of private mobilization and refers to a situation in which financing from a private entity is provided on commercial terms and has a stronger, more binding commitment that evidences the role of the MDB to secure that contribution. Examples are guarantees provided by the MDB to the private sector to become involved in a project or fees paid by governments to an MDB to tender private sector participation. Total private sector mobilization is the sum of private direct mobilization and private indirect mobilization.¹¹
60. While these definitions are very clear in theory, in practice it can be challenging to differentiate and apply them in a rigorous way. It should also be noted that efforts by MDBs are geared, in the first instance, towards capturing the contribution. The distinction between PDM and PIM is perceived as being of secondary importance.
61. Consultations with IFAD experts revealed that private-sector investments targeted at government-led projects and provided through a pooling of resources in support of project activities are tied to an expected return. Private organizations are willing to cofinance a specific project activity as long as the activity itself or the target beneficiaries contribute to the business goals of the organization. Therefore such cofinancing falls under PIM.

B. IFAD's engagement with the private sector

62. IFAD-funded projects mainly engage with the domestic private sector (i.e. input providers, commodity traders, agroprocessors, agents of large commodity-trading or exporting companies, supermarkets, or local or national financial institutions). Only in very few cases do they work directly with international companies (e.g. Nestle in Ghana, or Mars in Indonesia). Therefore, private sector contributions are typically combined with IFAD funds to support the following activities: (i) provision

¹⁰ OECD, Private finance mobilization by official development finance interventions, February 2016.

¹¹ See MDB Methodology for Private Investment Mobilization. – Reference Guide – April 2017.

of training, extension services and technical assistance to producers; (ii) provision of agricultural inputs and other production factors (labour); and (iii) investment in production and post-production assets (buildings, facilities, equipment, materials). The rule of thumb is that project funds should never be used to replace private funds but rather be a tool to reduce risks and transactions costs for the private and financial sector in dealing with the IFAD target group, hence leveraging their contributions.

63. In the case of a public-private partnership (PPP) or a public-private-producer partnership (4P) scheme, if projects require the private sector to submit a business plan as an instrument to engage in such a scheme under a cost-sharing arrangement, then information about the private sector contribution in the business plan is available as it is part of the project's budget. This approach is currently adopted only in a number of projects in IFAD's portfolio.
64. Consultations further revealed that contributions from the private sector materialize during implementation, meaning that they are sometimes only partly captured in the initial design document and project costing. Data on private-sector cofinancing currently recorded in IFAD's systems therefore refers only to such cases where it was possible to estimate, at design, the participation by private sector entities in terms of their capital investments and services (in cash and/or in-kind), which would fall under the MDB definition of PDM or PIM. IFAD is committed to taking steps to enhance such measurement by: (i) ensuring that at project design at least an estimate of the cofinancing amount is provided; (ii) leveraging project monitoring and evaluation systems in order to ensure constant tracking of the materialization of such contributions; and (iii) including specific guidance in the terms of reference of supervision missions to this end.
65. Between 1995 and 2014, about 37 IFAD projects received private contributions. Average private cofinancing as officially recorded at design represented about 12 per cent of the total project costs. This share of private cofinancing is also reflected in case studies undertaken on five projects. Boxes 1 to 4 below provide examples of private sector participation in IFAD projects that falls under private domestic mobilization or international direct and indirect mobilization and is captured by IFAD systems.

Box 1

Example of private indirect mobilization – domestic cofinancing

Liberia: Tree Crops Extension Project (TCEP)

The overall development goal of the TCEP is "to improve the livelihoods and climate change resilience of rural households in Nimba County". The development objective is to improve the incomes and climate change resilience of smallholder cocoa producers in the county. The project was approved in 2015 with a total cost of approximately US\$30.7 million.

The project has four components:

- (i) Revitalization of cocoa plantations;
- (ii) Rehabilitation and maintenance of roads;
- (iii) Service provision for value chain development; and
- (iv) Project coordination, monitoring and evaluation.

Private sector partners were expected to contribute with US\$0.9 million to the first component. Their contribution took the form of: (a) cofinancing for upstream investments; (b) technical assistance for rehabilitation and training in production and post-harvest handling; (c) market access through contractual arrangements with the project-supported cooperatives for commercialization and exportation of their cocoa and coffee; and (d) working capital for the cooperatives to buy products.

Box 2**Example of private indirect mobilization – domestic cofinancing****Myanmar: Fostering Agricultural Revitalization in Myanmar Project**

The project is focused on introducing regional and global best practices to develop a sustainable and scalable model for smallholder agriculture and rural development across Myanmar's central dry zone. It supports land consolidation and development, productive infrastructure, agricultural and business services, flow of knowledge and capacity-building to promote an inclusive development model. The project goal is to improve the economic status of poor rural women and men in the target area and increase the incomes of smallholder and landless households.

The project was approved in 2014 with an estimated total cost of US\$27.8 million.

The project has two components:

- (i) Agricultural infrastructure
- (ii) Agricultural and business services

The private sector partners contributed US\$2.4 million (9 per cent of total costs) towards the second component. These resources were used towards materials for farm demonstration plots and market promotion related to value chain development. They also accounted for 60 per cent of the funding for agribusiness investments, with the remainder supported by 40 per cent in matching grants.

Box 3**Example of private indirect mobilization – international cofinancing****Indonesia: Rural Empowerment and Agricultural Development Scaling-up Initiative**

The programme goal is to support the growing prosperity of Indonesian smallholder farming families, and empower rural households in the programme area with the skills, confidence and resources to sustainably improve their farm and non-farm incomes and livelihoods through a scalable programmatic approach.

The programme was approved in 2017 with an estimated cost of US\$55.3 million.

The programme has four components:

- (i) Village agriculture and livelihoods development
- (ii) Services, inputs and market linkages
- (iii) Policy and strategy development support
- (iv) Programme management

The private sector partners involved in the programme are international companies. Cofinancing is mainly expected from Mondalez and Mars in an amount of US\$2.2 million (4 per cent of the total costs). The private sector contribution will support – together with the IFAD loan – cocoa production and marketing support activities under component 1.2 and component 2.

Box 4Example of private direct mobilization – domestic cofinancing from private sector partners through a 4P schemeSri Lanka: Smallholder Agribusiness Partnerships Programme

The programme development objective is to sustainably increase the incomes and quality of diet of 57,500 smallholder households (initially) who are involved in commercially oriented production and marketing systems.

The programme is demand-driven and the willingness and commitment of stakeholders (agribusiness and value chain actors, including the private sector and farmers'/producers' organizations) is critical. Joint financing (i.e. cost-sharing), risk-sharing, competitive selection of partners and viable business plans are among the overarching principles of the programme. These principles will be pursued through the promotion of mutually beneficial 4Ps between private companies and smallholder farmers, which will be detailed in 4P business plans. Financing of the 4P business plan will be through a cofinancing/cost-sharing arrangement that includes: (i) matching grants provided by the programme; (ii) credit from participating financial institutions (facilitated by the programme-supported line of credit) as part of the beneficiary contribution; and (iii) private-sector (agribusiness) contributions.

The lead programme agency is the Presidential Secretariat, which is well placed to ensure effective mobilization and coordination among the various public agencies and with private sector partners (including financial institutions, companies and associations) that have either direct implementation responsibilities or a supporting role (e.g. research, training, mobilization or complementary extension services).

The programme was approved in 2017 and has an estimated total cost of US\$105 million.

The programme has three components:

- (i) Access to commercial partnerships
- (ii) Access to rural finance
- (iii) Programme management and policy dialogue

The contribution from private-sector partners is US\$17 million, and the participating financial institutions, both private and government-owned, will contribute US\$9.8 million in support of activities under components 1 and 2.

66. There are frequent examples where private sector actors contribute to the development objectives of IFAD-supported projects through parallel financing; these examples constitute what the OECD defines as a financial catalytic effect of IFAD's investments. As mentioned earlier, this type of involvement requires joint efforts by the contributing partners to better estimate cofinancing amounts at design, and – perhaps even more importantly – to track if the contributions actually materialize. The quantification of the contributions ex ante (i.e. at project design) depends on a dynamic and demand-driven process that takes place during project implementation. In addition, since some of these contributions are in-kind and not known a priori (e.g. the availability to utilize for a the project a pre-existing asset whose value must be quantified), private sector actors tend to be reluctant to share precise information about the capital and services they will invest.
67. As all MDBs face similar challenges in estimating the amount of private sector investments catalysed by their projects, there is an active MDB working group on the topic. The working group is reviewing several case studies (among them IFAD). A preliminary report issued by the working group on 20 April indicated that the MDBs have not identified a universal standardized method to estimate these

catalytic effects. Consultations are ongoing to develop a joint framework and methodology to measure the private investment catalysed by the MDBs' financing and advisory activities.

VII. Main elements that the cofinancing strategy will address

A. Rationale and context

68. The cofinancing strategy will respond specifically to IFAD11 commitment 1.2, monitorable action 5, to: "Undertake a cofinancing analysis and develop an action plan to reach a cofinancing ratio of 1:1.4 (international 1:0.6 and domestic 1:0.8), define different forms of cofinancing and methodologies for their calculation, including quantification of in-kind contributions, improve monitoring and reporting on cofinancing by source and country category, and better measure IFAD's crowding in of private investment."
69. The strategy will be framed within the overall global development context and the efforts of the global community to move from "billions" to "trillions"¹² in investments of all kinds (public and private, national and international) to meet the SDGs. The strategy will be an important plank in the Fund's progress toward becoming an assembler of development finance in line with the business model for IFAD11, and its broader approach to partnership and resource mobilization to help meet the SDGs.
70. As part of the enhancements introduced in all dimensions of the IFAD11 business model, the cofinancing strategy will be synergistic with, and inform other, IFAD11 commitments aimed at: (i) developing a framework to strategically monitor IFAD's partnerships at country, regional, global and institutional level;¹³ and (ii) updating the IFAD Private-Sector Strategy.¹⁴ In addition, the revised country strategic opportunities programme (COSOP) procedures – another IFAD11 commitment¹⁵ – will include guidance on discussing cofinancing for country-specific cofinancing efforts, taking account of corporate and regional-level targets.

B. Lessons from experience

71. Management proposes that the cofinancing strategy draw on lessons from IFAD's own experience, including its extensive work on partnerships. The analysis of cofinancing presented in the first part of this paper (sections I to IV) is an important part of this learning, as are the ongoing consultations within IFAD.
72. A key finding emerging from the analysis of IFAD's cofinancing experience is the dominance of certain sources of cofinancing. On the domestic front, these include the Member State governments, project beneficiaries and domestic development finance institutions. On the international front, these include multilateral and bilateral sources. In addition to emphasizing these sources, the strategy will target the mobilization of private investment, which is now widely recognized as an imperative to meet the global ambitions of the SDGs. The analysis and internal consultations also show that the drivers of cofinancing levels are very different for these different sources.
73. The results of the staff survey confirmed this finding. When asked about the importance of different sources of domestic cofinancing in achieving better results in Member States, respondents ranked government and beneficiary contributions (cash and in-kind) as the highest, followed by domestic financial institutions and

¹² See "From Billions to Trillions: Transforming Development Finance – Post-2015 Financing for Development: Multilateral Development Finance" prepared jointly by the AfDB, Asian Development Bank (AsDB), European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank (IDB), International Monetary Fund and World Bank Group for the Development Committee meeting held on 18 April 2015.

¹³ IFAD11 commitment 3.4, monitorable action 32.

¹⁴ IFAD11 commitment 1.2, monitorable action 6.

¹⁵ IFAD11 commitment 3.4, monitorable action 31.

the private sector. When asked about international cofinancing, respondents ranked the multilateral development banks highest, followed by bilateral institutions and facilities/trust funds.

74. Five key messages that emerge from the internal consultations are worth highlighting in the context of formulating the strategy. First, effective, early consultations with cofinancing partners – domestic and international – can promote higher levels of cofinancing. Such consultations are likely to require time and effort. Second, country conditions such as fiscal space have a significant bearing on the levels of government cofinancing. Government preferences and practices drive the potential levels of multilateral and bilateral financing. Third, the difference between IFAD’s policies and practices (e.g. for procurement) and those of other development partners can be a significant bottleneck in attracting cofinancing from these partners. “Pooled arrangements” such as with the Spanish Trust Fund and GEF avoid such constraints. Fourth, strong, active relationships with partners at the institutional level can facilitate cofinancing discussions at country/project level. IFAD has likely been underestimating in-kind contributions from governments and from beneficiaries in light of the challenges of measuring such contributions. Finally, CPMs highlight the absence in the past of clear and consistent signals from IFAD leadership about the importance of attracting cofinancing.
75. While there has been no Independent Office of Evaluation of IFAD (IOE) evaluation of cofinancing specifically, the formulation of the strategy will learn from other related evaluations, such as IOE’s 2018 Corporate–Level Evaluation (CLE) on IFAD’s Financial Architecture, and two recent evaluation synthesis reports (ESRs), on the partnerships and scaling up of results, both of which address cofinancing as a significant form of partnership.¹⁶ The ESR on partnerships notes that cofinanced projects often perform better despite trade-offs in the form of slower disbursements. However, cofinancing has been less effective in leveraging resources. The report emphasizes that IFAD should refine its cofinancing strategy beyond the global level and move more strongly to the country level, providing relevant support for country teams.
76. The recent CLE on IFAD’s financial architecture also provides insights into IFAD’s performance in mobilizing cofinancing. It concludes that cofinancing and national counterpart funding add important resources from international organizations and national partners. It further states that the level of funding of MDBs in agriculture and the amounts committed by bilateral and multilateral sources for climate change-related projects suggest that there are further opportunities for scaling up the results of IFAD-funded interventions.
77. The formulation of the strategy will draw on the experience of the MDBs in this field.¹⁷ For instance, an evaluation of cofinancing at AsDB found that leveraging through cofinancing in projects was more ad hoc than driven by strategic goals set forth in country strategies.¹⁸ An evaluation by the AfDB, focused on trust funds,¹⁹ cautions about high transaction costs for trust fund management that are sometimes not covered by additional administrative resources.

C. Principles and main elements

78. The cofinancing strategy will be framed by the commitment to reach the established cofinancing targets for the IFAD11 period and will be coherent with the

¹⁶ See IOE ESRs: Building partnerships for enhanced development effectiveness – a review of country-level experiences and results; and IFAD’s Support to Scaling Up of Results.

¹⁷ It should be noted that there is no common understanding of the term “cofinancing” across different organizations. While IFAD and AfDB include government financing associated with IFAD projects under domestic cofinancing, AsDB, IDB and the World Bank do not consider government funding as cofinancing. In the past, the World Bank concerned itself with “counterpart government funding” but no longer monitors it. As a result, cofinancing as defined in IFAD is monitored only at IFAD and AfDB.

¹⁸ See AsDB Independent Evaluation, “Effectiveness of Asian Development Bank Partnerships” (2016).

¹⁹ See AfDB Operations Evaluation Department, “Trust Fund Management at the African Development Bank – An Independent Evaluation” (2013).

larger IFAD mandate and objective of delivering scaled up impact for rural people in Member States, with cofinancing seen as a means to that greater end. The strategy will also take account of opportunities to go beyond the direct impact of IFAD projects in order to expand the resources (domestic and international, public and private) dedicated to agriculture and rural development.

79. Cofinancing can create synergies and complementarities. The cofinancing strategy, much like IFAD's Partnership Strategy, will emphasize complementarity as a key principle. The strategy will approach cofinancing not only as a means of bringing additional funding but also, importantly, as a way to leverage the complementary knowledge and expertise of partners. Similarly the strategy will consider the impact of cofinancing on the sustainability of IFAD-funded projects.
80. The strategy will propose using diverse modalities for cofinancing, based on the principles discussed above. IFAD would build on successful examples of joint financing, parallel financing, supplementary funds, single and multi-donor facilities/trust funds, and funding at the institutional, programme and project levels. In particular, supplementary funds are a proven instrument to attract cofinancing for IFAD's lending programme and to deliver it to recipients through a single channel, simplifying administration and reducing the burden on recipients. They are a particularly important means of scaling up interventions in LICs and LMICs, of supporting IFAD's engagement in fragile situations and of enhancing engagement with civil society, for example farmers' organizations.
81. The strategy is proposed to be differentiated by cofinancing source since evidence gathered for the analysis showed different drivers for different sources. Within this differentiated framework, the strategy will take account of the specific opportunities and challenges associated with different country groupings. This will also help to guide the broad directions for cascading the overall cofinancing targets to the regional level and, through results-based COSOPs, to the country level.
82. For each cofinancing source, the strategy will seek to answer the following broad questions: (i) what are the main drivers under IFAD's influence and how can IFAD ensure that these are leveraged in the most effective way; (ii) what are the main constraints to higher levels of cofinancing and how can these be alleviated; (iii) what are the modalities that IFAD should focus on; and (iv) what institutional support can the Fund provide to enable the cofinancing agenda for IFAD11 to be successful.

Governments

83. Government contributions represent about 60 per cent of the total domestic cofinancing leveraged per project. Both the quantitative and the qualitative analysis found this to be the most important source of domestic cofinancing.
84. Contributions from governments depend on the country-specific conditions that drive domestic cofinancing.
85. Government financing is vital as a demonstration of ownership and engagement through implementation. It is also critical for sustainability after project completion and, potentially, for promoting policy dialogue and scaling up beyond the original project scope. Drawing on the results of the quantitative analysis, which show a clear link between domestic cofinancing and country factors, the strategy will take account of: country-specific characteristics such as income level; fiscal space; vulnerability to fragility and conflict; project size; alignment with national priorities; and the stable presence of IFAD as a partner in the country. It will highlight the importance of discussions with governments at appropriate levels, beginning with the dialogue around COSOP formulation.
86. The quantitative analysis highlighted regional differences that need to be accounted for. For instance, given that APR and LAC are the top regions in terms of domestic resource mobilization over several years, the strategy will learn from the best

practices that have supported the positive trend observed in these regions. Attention will be paid to these country factors and regional differences in guiding the cascading of the overall cofinancing targets to regional and country level.

Beneficiaries

87. Beneficiaries are the second largest source (19 per cent) of domestic cofinancing and arguably the most important partner for successful impact on the ground. Participation of beneficiaries and beneficiary organizations in the financing of IFAD-funded projects also promotes buy-in and, potentially, sustainability of project outcomes.
88. In this area, particular attention will be paid to the measurement and reporting of beneficiary contributions. The issue of in-kind contributions to IFAD-funded projects from different sources, notably government and beneficiaries, will also be addressed. A standardized methodology for measurement and reporting of these contributions will be included as part of the strategy and action plan.

Domestic development finance institutions

89. Such institutions account for some 14 per cent of domestic cofinancing linked to IFAD's rural finance operations. Based on a further review of these operations, the cofinancing strategy will explore options for increasing the level of cofinancing from this source by exploring incentive mechanisms for these institutions to contribute to IFAD's projects, for instance through the provision of guarantees or 4P mechanisms.

Multilateral partners (including cofinancing from MDBs and United Nations agencies)

90. Cofinancing from multilateral organizations – typically other MDBs and other intergovernmental organizations – accounts for about 70 per cent of international cofinancing. The analysis of experience to date indicates that the AsDB, AsDB and World Bank account for 75 per cent of the cofinancing from multilateral organizations. Other organizations such as the European Union and the Islamic Development Bank have provided limited intermittent support. The IDB and the Andean Development Corporation (CAF) are notably absent.
91. Overall, the analysis suggests that the approach to multilateral partners and to cofinancing has been ad hoc. The strategy will propose a systematic approach based on strong relationships and ongoing interaction on project pipelines, etc. This will entail consolidating relationships that are relatively strong and reinvigorating others. It will also give specific attention to tapping global facilities such as GEF and, for climate-vulnerable countries, different climate-related funds. More flexibility to align IFAD procedures with those of multilateral donors to facilitate joint financing, as stressed during internal consultations, will also be considered.
92. The strategy will recognize the main levers that IFAD has for successful partnerships and complementarities with each of these categories. Importantly, the complementarity of IFAD financing with that of other MDBs for maximizing synergy and combined impact will also be taken into account. In APR, for example, the elaboration of a memorandum of understanding with AsDB was the foundation for successful international cofinancing.

Bilateral partners

93. Bilateral partners account for 17 per cent of international cofinancing in IFAD projects. Evidence points to the success and efficiency of bilateral arrangements such as with the Spanish Trust Fund, which represents by far the most successful bilateral partnership in IFAD's projects. The Spanish Trust Fund alone accounted for about 64 per cent of contributions received from bilateral partners over the last decade. Attention will be paid also to long-standing successful bilateral partnerships.

94. The strategy will address the requirements for entering into such arrangements. Internal consultations point to the challenges of working with bilateral partners only at the country level. The strategy will propose measures to supplement these interactions with agreements and understandings reached at the level of the partner capitals.

Private sector

95. Both domestic and international private-sector organizations provide joint and parallel financing to IFAD's projects, albeit in limited amounts. Mobilizing private investment – at both the domestic and the international levels – at a much larger scale is vital to meet the global ambitions of the SDGs and can be a source of expertise. This would include investments from commercial enterprises, private financial institutions, microfinance institutions and corporate foundations committed to the SDGs.
96. The strategy will also focus on improving the measurement and reporting of such cofinancing, which has been a challenge to date especially with regard to parallel financing of IFAD-funded projects. Parallel financing should be included in the measurement of IFAD's broad mobilization efforts in instances where there is clear complementarity of interventions, the scope or the programmes are aligned, the framework for collaboration is defined (e.g. through a memorandum of understanding) and there are clear synergies.

IFAD's processes and culture

97. The strategy will also address the processes that IFAD requires for successful implementation. As evidenced throughout the consultations, more attention should be paid to cofinancing at design stage so as to identify potential partners through a participatory process.
98. Better dissemination of the economic benefits, impact and results of successful projects should be emphasized as a means to attract cofinancing.
99. IFAD's enhanced decentralization model should be analysed to identify how ICOs (known to be positively correlated with cofinancing) can best be leveraged to build longstanding partnerships.

D. Action Plan

100. The strategy will emphasize effective implementation. To this end, an action plan will be formulated that clearly defines the:
- Role of IFAD leadership;
 - Roles and responsibilities of the Programme Management Department in building and sustaining institutional partnerships that can lead to greater cofinancing;
 - Role of country directors and CPMs in identifying opportunities for and realizing cofinancing at the country and project level, facilitated by their country presence under the new model;
 - Support to be provided by central units such as Partnership and Resource Mobilization Office in brokering and sustaining institutional partnerships and supporting country- and project-level efforts where needed; and
 - Enabling actions to align IFAD processes and procedures with those of partners to facilitate cofinancing.

E. Monitoring

101. The strategy will pay specific attention to monitoring results in terms of mobilizing cofinancing, both domestic and international, including from the private sector. Measurement of cofinancing, particularly with respect to in-kind contributions, poses some challenges; these

are being addressed in parallel with the formulation of the cofinancing strategy and specific guidance will be included in the strategy paper and action plan.

Data sample

1. Using Panel regression model, an econometric estimation of the determinants of domestic and international cofinancing ratios is conducted.²⁰ This analysis has been complemented by distributional trend analysis that highlights the main historical patterns in the cofinancing data. The data sample used for this analysis is described below.

Source of data

2. Investment Projects approved before 1995 and beyond 2014 have been excluded from the sample, restricting the analysis timeframe to a 20 year period from 1995 to 2014.²¹
3. Other external databases have been consulted to complement the project data with country-level socioeconomic information. These sources include the World Bank's development indicators and governance indicators databases, IDEA²²'s Global State of Democracy Indices, etc. Table 1 presents the structure and distribution of the sample.

Table 1

Panel Sample data

<i>Data description</i>	
Source	GRIPS data + external databases
Period	Projects approved between 1995-2014
Number of Projects	APR: 141 ESA: 103 LAC: 90 NEN: 103 WCA: 122
Number of Countries	109
Total Observations	Country x Year: 543

²⁰ A panel regression model is applied to identify the most significant factors that impact domestic and international cofinancing in IFAD supported projects. The model allows the estimation of the magnitude and direction of impact of each explanatory factor. A challenge worth noting when conducting such analysis is the restricted number of studies in the literature addressing domestic cofinancing. The literature on aid allocation, albeit relatively old, is well documented on the factors explaining foreign donors' aid giving behavior, but lack substantially, empirically tested information on the incentives behind counterpart contributions. The (Word Bank, 2013) is at our knowledge the only study that had investigated determinants of counterpart funds in development projects using empirical estimation.

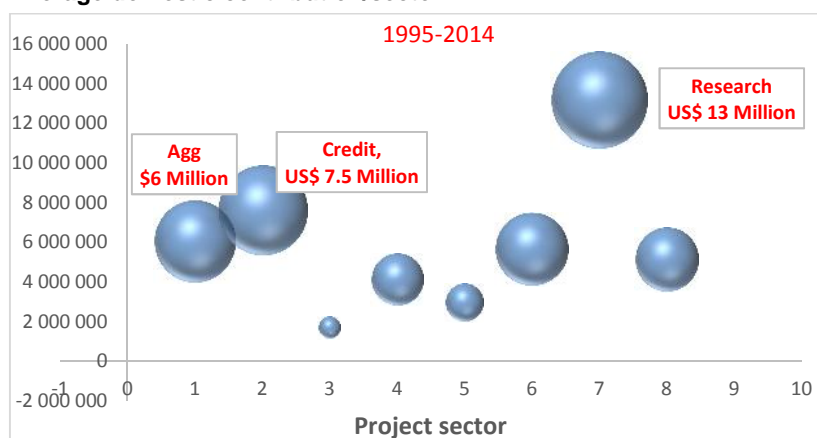
²¹ Multiple reasons motivate this sampling decision, worth mentioning is the poor quality of the data reporting prior to early 90's when IFAD has no Corporate Databases put in place to systematize and automate the reporting of the financing and results data. Another reason is that most of the notable institutional changes or operational procedures that reinforce IFAD's role as assembler of development Funds (Business Model, IFAD partnership Strategy, General Conditions for Agricultural Development Financing etc.) occurred within the period of the last 10 years.

²² IDEA : (International) Institute for Democracy and Electoral Assistance

Project sectors

1. The integration of donors' interests and compliance with their funding eligibility criteria is of crucial importance for an effective resource mobilization strategy. Projects 'partners adopt a selective approach in cofinancing, favoring programs whose development objectives align with their own priority areas or contribute significantly to the national strategic frameworks for poverty reduction and sustainable development. Therefore, identifying projects characteristics that incentivize most domestic and international cofinancing can support the elaboration of a more tailored approach to resource mobilization.
2. Figure 1 displays average domestic cofinancing invested per project priority sector.²³ The data show that on average, between 1995 and 2014, projects implementing research activities have attracted more domestic cofinancing than others. Following the research sector, projects providing financial services and projects promoting agricultural development are respectively the second and third top projects to attract more domestic counterpart funding. In recent years (2015-2017), domestic cofinancing priority areas have shifted with more focus on Irrigation projects, Rural development projects and projects promoting marketing activities respectively.

Figure 1
Average domestic contribution/sector*

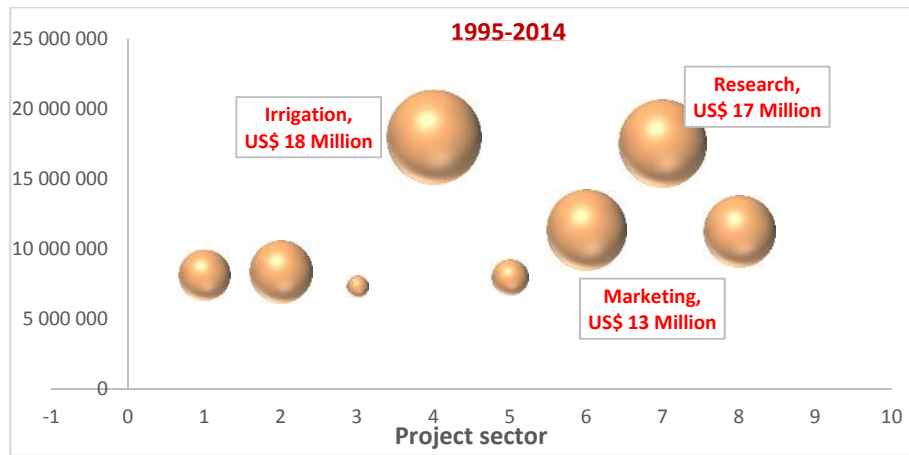


* See footnote 13 below.

3. The top three project sectors to attract most international cofinancing are respectively in irrigation, research and marketing sectors. Over the past three years, this pattern has not changed for the distribution of international cofinancing per project sector with still Irrigation projects, research projects and marketing projects driving on average more funding.

²³ The categorization used is: 1 Agriculture, 2 Credit, 3 Fishery, 4 Irrigation, 5 Livestock, 6 Marketing, 7 Research, 8 Rural development. This categorization is currently under review.

Figure 2
Average International contribution/sector*



* See footnote 13 above.