

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)

1) QUANTITY OF AID

1.1. Current/Recent Quantity Performance:

Net ODA (US\$ mn)	322
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Source: OECD/DAC, 2007 data.

2007 loan and grant approvals

Type	\$US mn
Loan	536.1
Grant	35.7
Total	598.8

Source: IFAD (2008a, p5)

IFAD's loan and grant approvals, as well as net ODA have increased over the past 5 years. In 2001, US\$ 391.6 million in loans and US\$ 30.8 million in grants were approved by IFAD. The corresponding figures for 2007 are 37% and 16% higher respectively (see table above).

1.2. Future Quantity Intent

In 2008, total investments are expected to reach US\$ 650 million, a 9% increase on the previous year (IFAD, 2008a).

Under the Eighth Replenishment, IFAD commits US\$ 7.5 billion in total investments funded for the period 2010-2012 of which US\$ 3 billion will be directly financed by IFAD. This will require an additional US\$ 1.2 billion in ODA to be raised through member contributions, representing a 67% increase relative to the Seventh Replenishment. US\$ 4.5 will be co-financed by bilateral, multilateral and NGO partners. Approximately 40% of funds are to be allocated to sub-Saharan Africa (IFAD, 2008b).

2) KEY AGENCIES/MECHANISMS

2.1 Agencies and Structures (IFAD, 2007b)

IFAD was established as a specialised agency of the UN, and an international financial institution, in 1977, largely as an outcome of the 1974 World Food Conference. IFAD's mission is to enable the rural poor to overcome poverty. The Fund's specific mandate is *"to combat hunger and rural poverty in developing countries, especially low-income, food-deficit countries, and to improve the livelihoods of poor rural people on a sustainable basis"*. This defines hunger not just as a food production and supply issue, but also as a livelihood issue. IFAD is based in Rome. Its in-country coordination has until recently been somewhat hamstrung by

lack of in-country presence, but it is trying to overcome this with a programme of field presence covering 18 countries.

2.2 Key Policies and Documents

IFAD's Strategic Framework 2007-2010 (IFAD, 2007c)

The overarching goal of the 2007-2010 Strategic Framework is that “*Poor rural women and men in developing countries are empowered to achieve higher incomes and improved food security*”. Poor rural people need to have better access to and develop the skills and organization to take advantage of 6 areas around which the strategy is built:

1. Natural resources, especially secure access to land and water, and improved natural resource management and conservation practices;
2. Improved agricultural technologies and effective production services;
3. A broad range of financial services;
4. Transparent and competitive markets for agricultural inputs and produce;
5. Opportunities for rural off-farm employment and enterprise development; and
6. Local and national policy and programming processes

IFAD's Action Plan for Improving its Development Effectiveness

3) RECIPIENT COUNTRIES AND ALLOCATION CRITERIA

3.1. Recipient Countries

Top ten countries	% of total net ODA (disbursements)	US\$ million
1. Ethiopia	9.2%	29.6
2. China	8.3%	26.8
3. Burundi	5.1%	16.4
4. Tanzania	4.4%	14.3
5. Cambodia	4.3%	13.7
6. Guinea	3.3%	10.7
7. Vietnam	3.1%	10.1
8. Malawi	3.0%	9.8
9. Uganda	2.9%	9.4
10. Pakistan	2.6%	8.5
Total	46.2%	148.8

Source: OECD/DAC, 2007 data.

The top ten recipients listed above received 46.2% of total net ODA in 2007. 80 countries and one territory (Gaza and the West Bank) received some form of ODA from IFAD in 2007.

Distribution among different groups of recipients (% total net ODA):

Least Developed Countries	62.3%
Other Low Income Countries	19.0%
Sub-Saharan Africa	59.0%

Source: OECD/DAC, 2007 data.

3.2. Allocation Criteria

3.2.1. *Pre-selection criteria* (IFAD, 1998a)

The following criteria have been used to select 43 countries

- (a) low per capita income of under USD 500 a year (in 1975 prices) with special emphasis on even lower income countries;
- (b) a projected cereal deficit by 1985 of 500 000 tons or more and/or a cereal deficit of 20% or more as a proportion of estimated cereal consumption;
- (c) the degree of protein-calorie malnutrition in terms of the proportion of population which is malnourished or in terms of the average availability of calories in relation to minimum requirements;
- (d) an insufficient average increase in food production, total and per capita, during the last decade;
- (e) the potential for rapid, efficient and socio-economically well-distributed increase in food production, including the availability of underutilized resources to produce food;
- (f) serious balance-of-payments constraints.

3.2.2. *Allocation criteria:*

Performance Based Allocation

The allocation of IFAD funds among active countries is based upon a performance-based allocation system (PBAS). The system assigns a score to each country assessing its performance against a number of factors including the IDA Resource Allocation Index (IRAI) and, generally, the performance of the rural sector (IFAD, 1998a, p10-17 and IFAD, 2005, p2). Additionally, no one country should be allocated more than 10% of IFAD's funds in a given year. (See also eligibility criteria for grants in 4.1 below).

4) AID POLICIES

4.1. Concessionalities

In 2007, 94% of IFAD's new approvals and 82.4% of total investments were provided as loans whereas only 6% of new approvals and 17.6% of total investments were grants (IFAD, 2008a). Taking account of the very limited amounts of resources for grants, the Executive Board approves them only for high-priority projects in countries with severe budgetary constraints, especially where the revenue-generating effects of projects are considered unimportant but where the project still constitutes an essential element of IFAD's programmes in the country. Since 2007, to align country-specific grant provision with the Low-Income Country Debt Sustainability Framework, it has been decided that two-fifths of these grants will go to countries at medium-to-high risk of debt-distress, and three-fifths to countries with low risk of debt distress (IFAD 2007d).

A further 25% of grants are available for country technical assistance for the following purposes (IFAD, 2007e):

- to assist the country to undertake feasibility studies for agricultural projects related to IFAD's activities and priorities,
- to assist countries in expanding the supply of trained personnel and their integration into sound institutional structures that permit effective response to local conditions and problems;

- to assist local institutions in the design and implementation of monitoring systems appropriate to the special objectives of Fund-financed projects;
- to undertake special studies or pre-investment projects in problem areas, e.g. in rain-fed agriculture areas or drought-prone areas that hold prospects for future investment;
- to assist countries more intensively at the project implementation stage, through special training for project management staff;
- to provide support to countries for research and extension activities.

However, when TA for feasibility studies leads to a loan provided by the Fund, the Executive Board might include the costs of such TA in the loan.

The rest of IFAD's grants are allocated as "global and regional grants" for knowledge promotion and information exchange, essentially for research and capacity-building programmes.

67% of all loans have to be allocated on highly concessional terms. Highly concessional terms are available to countries with a GNP per capita of US \$805 or less at 1992 prices. Intermediate terms are available to countries with a GNP per capita between US\$ 806 and US\$ 1305. Ordinary terms apply for all other countries (IFAD, 2003, section 8.1). In 2007, 73.0% of total investments were highly concessional (with a cumulative 91.9% for Sub-Saharan Africa); 3.2% intermediate; and 6.2% on ordinary terms, totalling 82.4% of total investment (IFAD, 2008a, p84).

Terms of IFAD Loans

	Highly Concessional	Intermediate	Ordinary
Grant Element	80.5	80.9	49.4 – 53.6
Maturity	40 years	50 years	15-18 years
Grace Period	10 years	10 years	3 years
Service Charge	0.75% pa	1.00% pa	1.00% pa

Source: IFAD (2003).

4.2. Types of Assistance

IFAD does not provide budget support. It gives loans for projects considered to be government priority, and grants to countries with severe budgetary problems. It also offers debt relief under the HIPC Initiative. However, after introducing a SWAPs policy in 2005, it has participated in agriculture or rural development SWAPs in Honduras, Mozambique, Nicaragua, Tanzania and Uganda (see IFAD 2006b and 2007f), so that around 25% of its aid is allocated in this way. Interestingly, both the Paris Declaration survey (indicator 9) and evaluations by HIPCs suggest highest percentages of programme based arrangements (PBA's) in other countries (Ethiopia, Rwanda and Ghana 100% in the Paris Survey; Comoros and Sierra Leone more than 75% among HIPCs).

IFAD was one of the first multilaterals to move towards greater flexibility in its project design and implementation with the launch of the Flexible Lending Mechanism in 1998 (IFAD, 1998). The FLM provides longer loan periods; clearly articulates long-term development objectives; provides an iterative, phased design process over the extended period of the loan to allow for greater flexibility and

predictability; and is derived from a detailed design process, with a set of clearly-defined pre-conditions for proceeding on to subsequent cycles.

IFAD has some specific arrangements to provide grant funding for Technical Cooperation (see section 4.1). In general, the Fund aims “*to encourage the development of local capabilities and skills in respect of project and programme design and planning for agricultural development, so as to progressively reduce dependence on foreign assistance and expertise*” (IFAD, 2007b). According to the Paris Survey (indicator 4), an average 78% of IFAD TA is aligned to local strategies/plans, with best practice in Bangladesh, Cape Verde, Ghana, Haiti, Malawi, Mongolia, Peru and Philippines (100%).

4.3. Channels of Assistance

The bulk of IFAD resources passes through the budget of the recipient government. Furthermore, when IFAD gives a loan directly to an entity other than a government, it also signs a guarantee agreement with the relevant government (the surety). By this agreement, the member country pledges its readiness to take any necessary measure for the success of the project, and guarantees repayment of the loan. IFAD (2005) restates IFAD’s commitments to the Paris principle of delivering aid on-budget. According to the HIPC-CBP survey, it succeeds in doing so most of the time, with almost all loans/grants being provided through the budget in Bolivia, Ethiopia, Gambia, Guyana, Malawi, Mali, Mauritania, Rwanda, Sierra Leone and Zambia.

4.4. Sectors and Projects

IFAD loans are for the following sectors and sub-sectors: agricultural development; rural infrastructure; financial services; irrigation; livestock; fishing; capacity-building and institutions; storage, processing and marketing of food; research, outreach and training; and resettlement of displaced persons. Within these broad project categories, emphasis is placed on the following aspects: women and development; sustainable community development; environmental conservation; income-generating activities in trading and otherwise. IFAD represents around 12% of global aid to the agricultural sector (IFAD 2007f).

According to HIPCs, sectoral alignment with development strategies is quite high, because rural and agricultural development is a key priority in most strategies. Ethiopia, the Gambia, Guyana, Malawi and Sierra Leone indicate 100% alignment. However, because its funding is restricted to only a few sectors, HIPCs give it lower assessments for sectoral coverage.

4.5. Flexibility

IFAD does not finance budget or balance of payment deficits. However, its country programming system is highly flexible, allowing for changes to reflect new country priorities or to replace poor-performing projects with new ones (IFAD 2007f). As a result, HIPCs evaluate IFAD assistance as inflexible on gap-filling but flexible on reprogramming.

4.6. Predictability

IFAD’s newly developed country programming approach, the Results Based Country Strategic Opportunities Programme or COSOP (see also section 5.1) has a 5-year time frame, “*with a clear stipulation of allocations for year 1 of the COSOP but*

subsequent yearly allocations dependent upon the annual PBAS calculation” (IFAD, 2006c). HIPCs confirm that IFAD has a high level of multi-year planning, with best practice indicated in Guyana, Mali, Rwanda and Uganda.

In terms of the ratio of disbursements recorded by Government compared to aid scheduled by donors (Paris indicator 7), IFAD records an average level of 29%, lower than other donors. The most predictable flows are to Senegal (100%), Ethiopia (99%) and Kyrgyz Republic (97%). HIPCs evaluate disbursements as most reliable (75-100%) in Ethiopia, Guyana, Mali and Rwanda.

4.7. Conditionality

IFAD does not impose any economic policy conditionality for its operations, but limits itself to aspects that are necessary for the success of the project. Conditionality is now mostly of two forms: ex ante assessment through the performance based allocation system (PBAS), and ex-post assessment of results based on the results based COSOP. However, in the case of SWAPs, it does set sectoral policy conditions in coordination with other donors. As a result, policy conditions are felt by HIPCs to cause only very limited delays (under 3 months) to disbursements.

4.8. Policy Dialogue

IFAD does not engage in macro-economic policy dialogue and does not condition any of its disbursements on continuation of a programme with the IMF. However, IFAD does engage in sectoral policy dialogue with a wide range of stakeholders in countries, through the COSOP programming framework and in the countries in which it takes part in SWAp-type arrangements, ensuring alignment with national development strategies.

HIPCs evaluate IFAD as being relatively engaged in support of government policies and programmes in this dialogue, especially in the Gambia, Guyana, Mali, Mauritania, Rwanda and Uganda. They also confirm that IFAD does not have disbursement links with the BWIs, and takes completely independent decisions.

5) AID PROCEDURES

5.1 Conditions Precedent

In September 2006, IFAD approved a new approach for country programmes, called the Results-Based Countries Strategic Orientations Programme or COSOP (IFAD 2006c). Compared to the previous country programming framework, this new format will:

- (a) Focus more on the rural poor, providing more detail on intended beneficiary groups and targeting approaches;
- (b) Provide a clearer picture of IFAD’s comparative advantage;
- (c) Have a clear innovation agenda and mechanisms for scaling up activities via strategic partnerships;
- (d) Provide a performance management framework;
- (e) Include a risk management strategy and alternative programme financing scenarios; and
- (f) Be harmonized with national PRSPs and other national strategies and identify areas of synergy between IFAD activities and those of other donors.

IFAD's main conditions precedents are:

- Counterpart funds. These vary depending on the project, and IFAD is flexible to avoid project implementation delays, but insists on at least taxes and/or salaries of local staff being paid (around 5-10% of the project cost), with the lowest levels of CPF among HIPCs recorded in Malawi and Sao Tome.
- A special account be opened and maintained by the executing body in a commercial bank acceptable to IFAD to finance IFAD's share of eligible expenditures.
- Where necessary, a project implementation unit. IFAD is making efforts to end these, and argues that the remaining ones are integrated or embedded in partner country management systems (IFAD 2007f, p14). In the Paris Survey (indicator 6), 13 of 19 countries reported PIUs, but none were reported in Bangladesh, Tanzania or Vietnam.

The agreement fixes a deadline of 90 days after signature for effectiveness of the loan in order to encourage rapid compliance with the conditions precedent.

HIPCs indicate that IFAD's number & type of conditions precedent are slightly cumbersome, though less so in the Gambia, Malawi, Sao Tome and Zambia. However, they do not cause significant delays in Ethiopia, the Gambia, Honduras, Malawi, Mauritania, Nicaragua, Rwanda or Zambia.

5.2 Disbursement Methods

The generally authorized fund withdrawal procedures are as follows:

- Reimbursement paid into the borrower's account, to cover expenses already incurred;
- Direct payment made to a third party at the request of the borrower for goods and services supplied by such third party;
- Early payment into a special account opened by the borrower in pursuance of the provisions of the loan agreement.

According to HIPC evaluations, the bulk of IFAD resources are disbursed cash-in-advance in the Gambia, Honduras, Malawi, Nicaragua and Zambia. Delays caused by disbursement procedures are almost always kept below 3 months, notably in Burundi.

5.3 Disbursement Procedures

IFAD requires partner countries to establish strong monitoring and reporting systems. The borrower must make sure the project unit has the operational and financial capacity to manage the project, devise a steering and control system that meets generally accepted standards, and submit periodically to IFAD progress reports on the project. IFAD also demands two monthly reports: one on the "Summary of progress by category" and the other on "Loans administered by each cooperating institution". IFAD then assesses these reports regularly, and conducts regular supervisory missions. It may modify the terms of the agreement to tailor them to new circumstances. An in-depth mid-term review sometimes becomes necessary if serious difficulties are noticed.

A set of guidelines on project audits has been issued in 2004, with a focus on using country systems wherever possible (IFAD, 2005).

IFAD makes strong efforts to use recipient country Public Financial Management Systems (Paris indicator 5a), averaging 55% compared to an all-donor average of 45% according to the Paris Survey. In Cameroon, Cape Verde, Ethiopia, Ghana, Kenya, Mali, Mozambique, Nepal and Rwanda, it uses government systems for 100% of its aid. According to HIPC, there are no additional (to Government's own) disbursement procedures in Malawi and Nicaragua.

5.4 Procurement Procedures (IFAD, 2004)

IFAD's procurement guidelines were reviewed in 2004 (IFAD, 2004), in close consultation with the MDBs, bilateral agencies and other partners. The guidelines emphasize the use of national procedures wherever these have been considered adequate (IFAD, 2005).

IFAD loan proceeds are disbursed exclusively for expenditures for goods, works and consulting services provided by nationals of and produced in or supplied from IFAD member countries (unless an exception is made by the President of IFAD on a case-by-case basis). However, as 165 countries are members, IFAD aid is virtually untied.

While international competitive bidding is preferred, procurement thresholds may vary depending on size of the project and the nature of the market in the country. For Sao Tome, the minimum level for international shopping is USD 10,000 (smaller amounts need local shopping procedures with at least three quotations). For Niger, international competitive bidding is needed over USD 50,000, local competitive bidding over USD 10,000, and local shopping below USD 10,000 (IFAD, 2000 and 2001).

IFAD has been relatively successful in channeling its resources through recipient country procurement systems (Paris indicator 5b). Its overall average is 80%, well above the all-donor average of 43%, and reaches 100% in 12 out of 25 countries surveyed including Bangladesh, Cameroon, Ethiopia, Ghana and Rwanda. HIPC evaluations confirm this but indicate that there are still 3-6 months delays in procurement in most countries.

5.5 Coordination

IFAD maintains partnerships and co-financing arrangements with numerous bilateral, multilateral, and non-governmental organizations, such as its coordination and co-financing with the Global Environment Facility (IFAD, 2007g). In 2006, it funded around 55% of the costs of its projects, with the remaining 45% coming from co-financing and partner country contributions. Almost all of its analytical work is done jointly (on Paris indicator 10b only 4 countries report non-joint analytical work), and an average 77% of missions are undertaken jointly with other donors, including 100% in Ghana, Ethiopia and Senegal (Paris indicator 10a).

Key Sources (*All internet sources were accessed in February 2009*)

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