



Lending Policies and Criteria



Lending Policies and Criteria

- ▶ These Lending Policies and Criteria were adopted by the Governing Council at its Second Session on 14 December 1978. They were amended by the Governing Council at its Seventeenth Session on 28 January 1994 (Resolution 83/XVII), its Eighteenth Session on 26 January 1995 (Resolution 89/XVIII), its Nineteenth Session on 18 January 1996 (Resolution 94/XIX), its Twentieth Session on 21 February 1997 (Resolution 101/XX), and its Twenty-First Session on 12 February 1998 (Resolution 106/XXI).

Table of Contents

▶ I.	Introduction	4
▶ II.	Objectives	6
	Increasing Food Production	7
	Poverty and Nutrition	8
▶ III.	Lending Criteria	10
	Country Criteria	10
	Project Criteria	12
▶ IV.	Lending Terms and Conditions	14
	Local Cost Financing	18
	Recurrent Cost Financing	18
▶ V.	Project Preparation, Appraisal and Monitoring	19
	Monitoring Arrangements	20
	Operational Guidelines	21
	Implementation and Review	21
▶ ANNEX		
	A framework for Sector/Sub-sector Allocation: Principles Revisited	22

I. Introduction

1. According to Article 2 of the Agreement Establishing the International Fund for Agricultural Development (“the Agreement”), the “objective of the Fund shall be to mobilize additional resources to be made available on concessional terms for agricultural development in developing Member States. In fulfilling this objective, the Fund shall provide financing primarily for projects and programmes specifically designed to introduce, expand or improve food production systems and to strengthen related policies and institutions within the framework of national priorities and strategies, taking into consideration: the need to increase food production in the poorest food-deficit countries; the potential for increasing food production in other developing countries; and the importance of improving the nutritional level of the poorest populations in developing countries and the conditions of their lives”.
2. Article 7 of the Agreement requires that, “in allocating its resources, the Fund shall be guided by the following priorities:
 - (a) the need to increase food production and to improve the nutritional level of the poorest populations in the poorest food-deficit countries;
 - (b) the potential for increasing food production in other developing countries. Likewise, emphasis shall be placed on improving the nutritional level of the poorest populations in these countries and the conditions of their lives.

Within the framework of the above-mentioned priorities, eligibility for assistance shall be on the basis of objective economic and social criteria with special emphasis on the needs of the low income countries and their potential for increasing food production, as well as due regard to a fair geographic distribution in the use of such resources.”

3. These objectives and priorities provide the basis on which the Fund’s lending policies and criteria will be evolved by the Executive Board and the Governing Council. The policies and criteria outlined in this document reflect only the initial attempt to translate these objectives and policies into concrete criteria and guidelines. These will be reviewed periodically in the light of actual experience.

4. In formulating its lending policies and practices, the Fund must be guided by the objectives contained in the above articles. There is need to call attention to four such provisions:
 - ▶ **First**, financing of projects and programmes specifically designed to introduce, expand or improve food production systems, including marketing, storage and distribution aspects, in developing countries with special emphasis on increasing the output of food in the poorest food-deficit countries;
 - ▶ **Second**, increasing the levels of nutrition among the poorest segments of the population in all developing countries by supporting projects and encouraging appropriate institutional and policy reforms;
 - ▶ **Third**, mobilizing additional resources to be made available for agricultural development in developing Member States; and
 - ▶ **Fourth**, adoption of a generally flexible approach to the question of lending priorities and appraisal techniques.
5. These interrelated aims of IFAD - to increase food production, reduce rural poverty and improve nutrition in developing countries - cannot be achieved unless the countries themselves are prepared to evolve and implement a development strategy geared to these objectives. IFAD will be ready to contribute to the evolution of development strategies for the benefit of the rural poor by providing financial resources for specific development projects and programmes, and by assisting interested governments in identifying and implementing policies and institutional changes that will help to achieve the broader economic and social objectives of rural development. IFAD will concentrate its resources upon activities that promise to achieve in a cost-effective way a reduction of poverty in rural areas, where most poor people live and work. The Fund's major target groups, irrespective of the stage of economic development of the country, will be the small and landless farmers. The rural poor comprise the developing world's great untapped resource of labour skills and enterprise. There is abundant evidence that small farmers, given access to reliable water supplies, purchased farm inputs, credit and extension services, can achieve productivity levels equal to or exceeding that of large farmers. A development strategy, involving low capital intensity should thus generate adequate surpluses to ensure the cost-recovery of such investments. The Fund's aim will thus be to advance, at one and the same time, economic efficiency and the attack on poverty and malnutrition. The promotion of the role of women in food production would also receive attention.

6. IFAD recognizes that it is one of many sources of finance, that its activities are a small part of a much larger total effort and that external finance is only one of the elements in agricultural development. IFAD will, therefore, attempt to play a catalytic role in raising the proportion of national and international funding directed at improving the well-being and self-reliance of the rural poor. That role requires IFAD to take initiatives, and to cooperate with other multilateral and bilateral agencies, in order to promote and finance activities essential to the attainment of IFAD's objectives. The Fund would thus attempt to multiply the impact of its own limited resources by undertaking projects jointly with other multilateral and bilateral agencies, while ensuring the realization of the Fund's own objectives and establishing its own independent identity in the process. In all projects, cofinanced or independently financed, there would be systematic concentration upon the central objective - increased food production and reduction of rural poverty and hunger. While recognizing the difficulties of measurement, the Fund would generally attempt to ensure that its own financing efforts result in an additionality, and not a mere substitution, of resources, both external and domestic channelled towards its central objective.

II. Objectives

7. Implicit in the Fund's objective of concentrating on the food and nutritional problems of developing countries is the assumption that supply shortfalls in these countries cannot be met adequately by increased output in the developed parts of the world. While the developing and developed countries' food systems are interrelated in many ways, the deficits in the developing world can be met only by emphasis on accelerated growth in the production of the low-cost foods (particularly grain and root crops) most demanded and consumed by low income people. Concurrently, there must be larger opportunities for productive employment and higher incomes for low income people so that they may obtain the additional food from their own production or have the income to purchase it. In addition to the growing interrelationships in the food systems of different parts of the world, the objectives of increasing food output and improving nutritional standards in developing countries are thus closely interlinked.

**INCREASING FOOD
PRODUCTION**

8. The production aspect of the Fund's objective will be pursued, initially, by overcoming the specific obstacles that have slowed productivity gains experienced by several countries during the late sixties. These include shortages of inputs, such as fertilizers, pesticides, or reliable water from existing wells and canals; institutional or other barriers to the dissemination of new technologies; and possibly limits to the effectiveness of new high-yielding seed varieties. As the developing countries restore the agricultural growth rates of the late 1960s, activities to maintain and increase these rates in the future must be taken up. Thus, IFAD must rapidly prepare for longer-range projects, programmes and policy initiatives.
9. The attainment of these objectives, both short-run and long-run, will require different approaches. First, it will require efforts to increase productivity and hence output on the lands already cropped. Since many of the poorest developing countries have very little uncropped but potentially cultivable land, this emphasis on the land already in use assumes great importance. This involves additional supporting services to farmers as well as the provision of funds to expand and improve existing irrigation and flood-control systems. In some areas, lending for groundwater development, together with the complementary inputs, will have a high priority. Under rainfed conditions, support for improved varieties and better tillage practices is critically important. IFAD will pay special attention to improving the performance and utilization of existing systems of soil management.
10. The Fund, while initially stressing quick-maturing projects, will also consider cooperation with other agencies to support long-term major investments in land and water development to achieve large increments in agricultural production, possibly bringing into cultivation unexploited lands. Support for such schemes may be justified even though the returns will not be readily realized for some time, provided that they accrue mainly to the rural poor. The Fund will have a special interest in downstream activities, including on-farm development and support services in larger irrigation and water management projects. Projects that seek to bring land under cultivation will be scrutinized with special attention to the social aspects of settlement; to environmental impact; to the reduction of costs per family settled, and per ton of extra food grown; and to the possibilities of replication.

11. The third approach with both short and long-term implications, concerns improvements in institutions such as land tenure, and relevant policies concerning such matters as pricing, credit, marketing, subsidies and cost recovery. Deficiencies here can generate constraints both of a short-term and long-term nature, in realizing the full impact of physical investments. The Fund would encourage governments to review and adjust these policies to strengthen incentive for increased production by the Fund's target groups. There is need to develop a wide variety of basic institutions of agricultural development, supported by a package of economic policies and incentives. The implementation of institutional reforms and policies should take account of probable time-lags between price and production changes, and of the need to cushion transitional difficulties for low-income groups.
12. The Fund will, in its work, examine projects, programmes and policy proposals within the context of the country's own objectives and priorities, so as to ensure the government's commitment to the Fund's operations in the country. The well-being of rural populations, the physical availability of food and other essential goods and services, income and employment factors, and relevant institutional processes are closely interrelated. The Fund will take a broad view of its mandate, so that the projects it supports can be directed to solving the critical problems or bottlenecks that impede rural development.

POVERTY AND NUTRITION

13. The Fund emphasizes reduction in poverty and improvement in nutrition. Adding the poverty and the nutrition dimension to the production objective brings into focus several additional criteria.
14. The improvement of the diet and income of low-income people must be pursued within the overall agricultural production strategy outlined above, by including the very small farmers (identified not only by a quantitative measure such as number of hectares cultivated, but also by their position in the scale of distribution of landholdings) in the process of production and technological change. Such a policy requires the recognition of a vital link. There exist opportunities for some low-income people to earn income by raising their food output, though this requires careful specification of the production processes, with particular regard to the impact on technology and labour utilization. At the same time, the purchasing power of poor people as a whole must rise, so that demand for the basic food sources increases alongside with supply; otherwise, falling food prices will discourage future output, unless the government introduces costly subsidies.
15. Most poor rural households can be treated as target groups by a strategy orientated towards small farmer development. Such a strategy, however, may continue to exclude landless farmers. Since approximately one-third of the agricultural population in developing countries now belongs to this category, the Fund has to formulate programmes and projects for increasing their incomes. This aspect of the Fund's activities may increase in importance as population pressure on cultivable land grows.

- 16.** Including the landless in the target group means adopting programmes that select technologies, products, or methods of management which open up new job opportunities for them and therefore add to their incomes. This objective can be pursued by improving the employment content of agricultural production through the research and development of appropriate technologies and diversifying into a wider range of agriculture-related activities whose benefits largely accrue to the landless workers or the small farmers.
- 17.** Successful application of policies, programmes and projects aimed at increasing the incomes of the rural poor requires complementary programmes of agrarian reform, training for rural leaders and other personnel, and adaptive research of particular relevance to small farmers or the landless. The Fund will support such efforts. It will support, as part of its longer-term operations, land reform programmes primarily through financing the development and utilization of lands to be distributed to smallholders and landless, and through assistance to appropriate new institutions that might be created as part of the agrarian reform policy.
- 18.** There is no single formula or composite criterion that can accomplish all the aims of the Fund as visualized in the Agreement. Distribution and redistribution depend on the total socio-economic system. It may not be possible to affect them seriously and durably by selective projects, programmes, policies and even modest institutional changes, if these run counter to the long-term tendencies of the system. However, even where a certain pattern of income distribution proves difficult to change, the food problem of the poor may be approached from different angles: e.g. by encouraging research and extension specific to the production of foods consumed by them; by taking development programmes to where poor people live; by researching, developing and extending technologies which increase employment while raising the productivity of capital and land; and by favouring policies which guarantee equitable income to food growers and associate them with the overall benefits of development.
- 19.** The Fund will attempt to determine the best combination of objectives that could be sought in lending to a particular country or in supporting a particular activity, taking into account the priorities of the country itself and its pattern of development.

III. Lending Criteria

20. In formulating the Fund's lending criteria, consideration will be given to the following three factors:

- ▶ the principle of flexibility as laid down by the Agreement, so that, as the Fund learns from experience, new meaning or interpretation can be attached to the broad criteria;
- ▶ country requirements, particularly for lending to countries that face a serious aggregate food shortage or have large segments of population that consume food in quantities considered well below the established minimum standards; and
- ▶ project appraisal standards designed to select projects that reduce rural poverty cost-effectively, and that otherwise conform to the broad policy parameters outlined above.

COUNTRY CRITERIA

21. The poorest countries, whose food problems require priority attention, will be the main focus of the Fund's operations, both with respect to volume of lending and terms of concessional lending. The Fund will not seek to develop a pattern of country allocations; it will, instead, designate a number of priority countries for programming purposes. Explicit criteria would be developed for identifying such countries¹. The rationale would not be fixed but would change as the Fund gathers more experience.

22. The largest portion of the Fund's resources will be made available to the poorest developing countries² categorized by the Fund as food priority countries. The Fund will also pay due attention to the need of other developing countries with a potential for food production, with emphasis on projects that are designed to benefit the poorest segments of their populations³.

1 In determining the list of food priority countries, the Fund will take into account the work of other international agencies. For instance, the World Food Council had considered the criteria by which to identify countries whose food situation warranted priority. The criteria, on the basis of which an initial list of 43 countries was formulated, propose the following guidelines: (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.

2 For this purpose, countries with a per capita income of USD 500 or less (in 1975 prices) should be covered by this term, and that the absolute poorest among them should furthermore receive special attention.

3 Country allocations will take account of the distribution of population between countries and particularly of the distribution of the rural poor.

- 23.** No single country, regardless of its income level, nor any single project shall be entitled to a disproportionate share of the Fund's resources. The Executive Board shall review periodically its operations with due regard to a fair geographic distribution of the Fund's total resources within the general framework outlined in this document. The relending terms and conditions of any loans supplied by the recipient country to intermediate and final borrowers would normally be agreed upon by the Fund and the borrowing Member, at the time of loan negotiations.
- 24.** Within the countries considered eligible for financing, the Fund will pay attention to general economy, agricultural and administrative policies and practices. The lending operations of IFAD can be successful only if the recipient country has a strong commitment to a development strategy which is directed towards the rural poor. This commitment should be reflected in appropriate price and fiscal policies, land reforms, credit policies and budgetary allocations to agriculture and rural development. Of equal importance are actions in the institutional area which enable the government to reach the rural poor effectively through coordinated action of its own agencies. Performance criteria will also entail an assessment of the efficiency of utilizing past and present resource flows to agriculture, to identify serious constraints to agricultural progress.
- 24A.** The recommended allocation of IFAD's future lending by region shall be established periodically by the Executive Board, on the understanding that such allocations are indicative figures and shall be applied flexibly, keeping in mind the fluctuations which will be evened out on a cumulative average basis. The allocation to any single recipient country shall not exceed ten per cent (10%) of IFAD's total annual lending, or such other per cent as may be determined by the Executive Board, to be applied flexibly depending on resource availability.

- PROJECT CRITERIA**
- 25.** The impact of IFAD's activities upon rural poverty depends not only on those activities themselves, but also on the economy and social structures. It is, therefore, necessary to understand the dynamics of each society, so that each project or programme can be viewed in a broader perspective, with attention to its negative or positive inter-actions with other parts of the system. Within this broad context, the Fund will pay particular attention to the dissemination of improved and appropriate technologies to small farmers; capital investment programmes that increase output, especially of low-cost calories, per unit of land and labour; and the promotion of labour-intensive rural activities that improve the quality or efficiency of the inputs into the production, storage or processing of farm outputs⁴.
- 26.** The Fund, taking due account of its country criteria and of the principle of economic viability of projects, will give special consideration to the following types of activities:
- (a) those that result in marked increases in output of cereals and other basic foodstuffs, including livestock and fishery products for direct human consumption within the producing country;
 - (b) those that deliver a major portion of benefits to the small farmers and the landless;
 - (c) those that induce larger flows of national resources to agriculture and improve the country's ability to organize the rural sector and mobilize the rural population;
 - (d) those that promote domestic and external trade in food products or other forms of economy cooperation among developing countries in respect of food production.
- 27.** The Fund will not normally finance projects and programmes whose overall impact on income distribution is negative, i.e. those which fail to provide proportionately larger benefits to the poorest segments of the population when compared with other groups.

⁴ The Fund may finance industrial activities related to agriculture and fishery only to the extent that it is thereby likely to achieve substantially greater incomes for small farmers or landless labourers and small fishermen. While concentrating on small-scale processing facilities in rural areas and small towns, the Fund may, in appropriate cases, provide technical assistance and financing (normally in cooperation with other agencies) so that chemical fertilizer plants and related infrastructure, already functioning or proposed, produce or deliver fertilizers suitable for the small farmers. IFAD will also help other agencies in planning and promotional activities, to ensure the adequate availability of fertilizers to developing countries at reasonable prices.

28. When selecting projects in food exporting developing countries or those with a potential for food exports, the Fund will take into account the capacity and the comparative advantage of the country to produce food. Preference will be given to projects enabling such countries to offer increased supplies of food for food-deficit developing countries⁵. In this context, it shall actively encourage cooperation between potentially food-surplus developing countries and food-deficit developing countries which results in making food available on reasonable terms to the populations of the latter.
29. The Fund will accord high priority to activities that strengthen the technical and institutional capacity essential for agricultural and rural development. In this context, the Fund will, mainly as a part of its lending operations, and after taking into account the technical assistance operations of other agencies, finance technical assistance for the following main purposes:
- (a) to assist the country to undertake feasibility studies in agricultural projects related to IFAD's activities and priorities, although the Fund will 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;
 - (b) 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;
 - (c) to assist local institutions in the design and implementation of monitoring systems appropriate to the special objectives of Fund-financed projects;
 - (d) to undertake special studies or pre-investment projects in problem areas, e.g. in rainfed agriculture areas or drought-prone areas that hold prospects for future investment;
 - (e) to assist countries more intensively at the project implementation stage, through special training for project management staff;
 - (f) to provide support to countries for research and extension activities. In particular, the development of technology appropriate to small farms would be supported. Small-scale but innovative projects with a strong exploratory element, leading to future larger scale investment decisions, would receive special attention.

5 A country will be treated as a food-deficit country if, in a climatically typical year, its food output *minus* the value of food exports required to purchase imported inputs for food production, could not meet the minimum Food and Agriculture Organization of the United Nations (FAO)/World Health Organization (WHO) calorie requirements of its population without net food imports.

30. The main objectives of the Fund - to reduce rural poverty, improve nutrition and increase food production - cannot be judged or realized in terms of pure economic indicators, such as food production or agricultural growth rates. Certainly Fund projects must meet reasonable standards of economic viability, but such standards cannot suffice either to select future IFAD activities or to evaluate their results. Even attempts to extend the traditional cost-benefit criteria from economic to social objectives, by assigning weights to certain social objectives like income distribution and employment, fall short of measuring the Fund's broad development objectives - to satisfy the basic needs of the people in developing countries in a self-reliant and positive social environment. The Fund would attempt to evolve, over a period of time and in the light of its own experience and that of other agencies concerned, new indicators and analytical techniques that take account of the objectives of the Fund.

IV. Lending Terms and Conditions

31. The Fund will provide loans to developing Member Countries of IFAD upon highly concessional, intermediate and ordinary terms for approved projects and programmes. The criteria for determining the terms to apply to a specific country shall be as specified in this paragraph.

(a) Those developing Member Countries:

- (i) having a Gross National Product (GNP) per capita of USD 805 or less in 1992 prices or classified as International Development Association (IDA)-only countries, shall normally be eligible to receive loans from IFAD on highly concessional terms. The total amount of the loans provided each year on highly concessional terms shall amount to approximately two thirds of the total amount lent annually by IFAD;
- (ii) having a GNP per capita of between USD 806 and USD 1 305 inclusive in 1992 prices shall normally be eligible to receive loans from IFAD on intermediate terms; and
- (iii) having a GNP per capita of USD 1 306 or above in 1992 prices shall normally be eligible to receive loans on ordinary terms.

(b) For those developing Member Countries in which there is a significant difference between GNP per capita and Gross Domestic Product (GDP) per capita, the GDP per capita shall be used as the criterion for determining the applicable lending terms within the same monetary limits.

- (c) The Executive Board shall take account of the impact of the recent devaluation of the CFA franc in determining which lending terms are applicable to the countries concerned.
 - (d) In allocating resources among countries eligible for loans on the same terms, priority shall be given to those countries characterized by low food security and severe poverty in rural areas.
 - (e) In determining the lending terms to apply to a country, the Executive Board shall also take into account an assessment by the President of IFAD of that country's debt sustainability and its debt-servicing capacity.
- 32.** The conditions for highly concessional, intermediate and ordinary lending terms shall be as follows:
- (a) special loans on highly concessional terms shall be free of interest but bear a service charge of three fourths of one per cent (0.75%) per annum and have a maturity period of forty (40) years, including a grace period of ten (10) years;
 - (b) loans on intermediate terms shall have a rate of interest per annum equivalent to fifty per cent (50%) of the variable reference interest rate, as determined annually by the Executive Board, and a maturity period of twenty (20) years, including a grace period of five (5) years;
 - (c) loans on ordinary terms shall have a rate of interest per annum equivalent to one hundred per cent (100%) of the variable reference interest rate, as determined annually by the Executive Board, and a maturity period of fifteen (15) to eighteen (18) years, including a grace period of three (3) years;
 - (d) no commitment charge shall be levied on any loan;
 - (e) for the purposes of implementing the Heavily-Indebted Poor Countries Debt Initiative, the Executive Board may amend the terms upon which an approved loan is provided to a country. In determining the grace period, the maturity date and the amount of each instalment for the repayment of loans, the Executive Board shall take into account an assessment of a country's debt sustainability produced under the Heavily- Indebted Poor Countries Debt Initiative;

- (f) the Executive Board may vary the grace period and the amount of each instalment for the repayments of loans received on intermediate terms and ordinary terms. In so doing, the Executive Board, on information provided by the President of IFAD, shall take into account a country's debt sustainability and debt-servicing capacity. In submitting a proposal for the lending terms to apply to a country for a loan to the Executive Board, the President of IFAD shall ensure that: (i) the grace period for the loan, which shall be established in relation to the date on which a loan becomes effective and the date upon which disbursement of the loan is to cease, shall not exceed six years; and (ii) the net present value in SDR of the intermediate terms and ordinary terms specified in (b) and (c) above is maintained; and
- (g) for the purposes of resolving arrears that may arise from time to time in the payment of interest/service charges and the repayment of the proceeds of loans, the Executive Board may amend the terms upon which an approved loan is provided to a country, including the grace period, the maturity date and the amount of each instalment for the repayment of loans, while securing the original Net Present Value.

33. The Executive Board shall:

- (a) determine, on the basis of the variable ordinary interest rate of international financial institutions (IFIs) concerned with development, the reference rate of interest for application in IFAD, which shall provide the basis for the review and revision prescribed in sub-paragraph (b) below; and
- (b) decide, annually, the rates of interest to be applied, respectively, to loans on intermediate and ordinary terms. For that purpose, it shall review annually the rates of interest applicable to loans on intermediate and ordinary terms and revise such rates, if necessary, on the basis of the reference rate of interest in effect on 1 July of each year.

34. Notwithstanding anything to the contrary in Resolution 77/2 of the Governing Council on the delegation of power to the Executive Board, the Executive Board is hereby vested with the authority to carry out the responsibilities specified in paragraph 33 above on the basis of the principles laid down in this document.

35. The composition of the Fund's lending operations on various terms of concessionality stated above, shall be related to the economic and financial capacity of the countries to which the Fund would lend. The financial position of the poorest countries makes it imperative that the largest portion of the Fund's resources should be on highly concessional terms and should be concentrated on the poorest food-deficit countries.

- 36.** Loans to countries which are not eligible for loans on highly concessional terms will be on intermediate or ordinary terms. In respect of these countries, justification for the degree of concessionality proposed will be provided in every project submitted to the Executive Board. The dominating criterion shall be the country's economic and financial situation. However, the Board might, in appropriate cases, consider the nature of the project to be financed in determining the degree of concessionality.
- 37.** The Fund's grant assistance, apart from technical assistance, shall be exclusively used for the financing of projects in the absolute poorest food-deficit countries with the most severe development problems. Taking account of the very limited amounts of resources for this type of assistance, the Executive Board will approve grant financing only for high-priority projects in countries with very severe budgetary constraints; these considerations will apply in particular to those cases where the revenue-generating effects of projects are considered unimportant but where the project still constitutes an essential element of the Fund's programmes in the country.
- 38.** Technical assistance, particularly for activities listed in paragraph 29, will normally be provided on a grant basis. However, when technical assistance for feasibility studies leads to a loan provided by the Fund, the Executive Board might include the costs of such technical assistance into the loan. In addition, the Fund may provide, in cooperation with other agencies, grants for suitable activities of international, regional and national research institutions.⁶

⁶ The Executive Board, at its Seventh Session in September 1979, approved an operational policy framework for conducting the Fund's technical assistance activities. This framework was amended by the Executive Board at its Thirty-Seventh Session in September 1989. The Executive Board decided:

- (a) To extend the President's authority to expend funds on preparatory activities directly related to the Fund's lending operations up to USD 400 000 for each proposal and up to a total annual limit of USD 5 000 000. A description of each such proposal will be submitted for the information of the Executive Board at the meeting immediately following the approval of the proposal.
- (b) To confirm that all proposals for technical assistance for project preparation requiring expenditures in excess of USD 400 000 shall be submitted to the Executive Board for consideration and approval;
- (c) To establish the following policy regarding the terms under which technical assistance for project preparation would be provided by IFAD:
 - (i) borrowers normally entitled to highly concessional terms shall have funds for project preparation provided to them as grants.
 - (ii) borrowers which would normally receive loans on intermediate or ordinary terms shall have funds for project preparation advanced to them on a grant basis with any amounts so advanced to be recovered through the loan if the project materializes and the loan is eventually approved.
- (d) To consider proposals for grants to support agricultural or socio-economic research related to IFAD's objectives being carried out by other international, regional or national institutions on a case-by-case basis, the activities of the latter to be funded primarily as a part of IFAD's normal project-related operations.
- (e) To continue to consider proposals for all other non-project-related technical assistance also on a case-by-case basis.

The Executive Board, at its Thirty-Seventh Session, requested the President to: (a) inform it if any project, for which a grant for its preparation has been given to a Borrower entitled to receive ordinary terms, does not materialize; and (b) ensure that the adoption of the amendment to paragraph (c)(ii) above does not lead to a substantial redistribution of resources from low-income to middle-income countries.

**LOCAL COST
FINANCING**

39. Since the Fund's target group is primarily the poorer small farmers, the Fund will generally receive projects for financing which have a relatively large local cost component.
40. As one of the objectives of the Fund is to increase the flow of external resources to agriculture, the Fund will be prepared to provide foreign exchange for the financing of a part of the local cost component. The Fund will, however, in no case finance the entire cost of a project. Decisions as to the share of local project costs it would finance must reflect not only the country's economic situation but also the country's own efforts in support of agriculture. In financing local project costs, the Fund will seek to encourage governments to increase their allocations of budgetary and human resources for agricultural and rural development.

**RECURRENT COST
FINANCING**

41. The Fund will normally consider for inclusion as project costs only the incremental operating costs arising during the project's implementation period. Where, however, such recurrent costs could prove burdensome to the country's budget at the end of the implementation period, the Fund will consider financial assistance for a limited period, in exceptional circumstances and on a case-by-case basis.

V. Project Preparation, Appraisal and Monitoring

- 42.** The Fund will seek to ensure that its lending policies and criteria are applied uniformly and consistently over the project cycle - viz. project identification, preparation, appraisal, supervision, monitoring, follow-up and evaluation⁷. The Fund will also make special efforts to shorten the project cycle so that normally all the stages from project identification to project approval can be completed in less than a year; however, the Fund will ensure that appraisal standards are such as to minimize costs and delays at later stages and possible errors in project design. In particular, projects involving a substantial civil engineering component may require a longer period to ensure that quality is not sacrificed. IFAD's success in its attempts to shorten the project cycle, while keeping rigorous standards, will depend on the cooperation of the recipient countries and the agencies asked to assist in the preparation and supervision of projects.
- 43.** Project identification and preparation are normally the primary responsibility of the government seeking IFAD funds. The Fund will secure, where necessary, the services of other international or regional institutions to assist the countries in the identification and preparation of projects. The Fund, while utilizing the services of international and regional institutions in project appraisal and the supervision of project implementation, will itself actively participate in these activities, in order to ensure the observance of its lending policies and criteria.

⁷ The sense in which the Fund will use these terms is explained below: (i) **identification** means delineating activities that are physically feasible and seem to be in line with the Fund's criteria and rules; (ii) **preparation** means specifying the anticipated size, timing and distribution of physical work and the financial, nutritional and socio-economic costs and benefits of the project or programme, including any feasibility studies that may be required; (iii) **appraisal** means an assessment presented to the Executive Board analysing the expected costs and benefits of the project or programme and a specific recommendation whether or not to proceed with the project; (iv) **supervision** of implementation means overseeing the timely and economical progress of physical work and of corresponding financial outlays and inflows to ensure that funds are spent for the purpose for which they are provided and that there are no delays or bottlenecks in implementation, but also to identify any changes or adjustments that maybe necessary to achieve the objectives of the project; (v) **monitoring** means the assessment and contingency analysis of the actual size and distribution of ongoing project benefits relative to costs during implementation and the feedback to project management of results during project build-up; (vi) **follow-up** means the continuation (normally on a smaller scale) of the assessment and feedback procedures, established during monitoring, after the project is in full operation; (vii) **evaluation** means the assessment, once the project is in full operation, of the size and distribution of achieved benefits and costs, and of the reasons for any differences from the results expected at the appraisal stage.

44. In recognition of the difficulty of pre-determining all details of every activity and the inevitable changes in development conditions, the Fund will emphasize flexibility in project design combined with an improved monitoring system. This approach should not sacrifice the requirements of sound project planning but should enable progressive adaptation and flexibility in implementation and assist governments to develop a capacity to plan and fit projects into a broad economic and institutional framework. At the same time, this approach will help to reduce the time required for project appraisal and loan negotiations, since many unresolved issues can be tackled during project implementation.

MONITORING ARRANGEMENTS

45. Monitoring will be of critical importance to determine the impact of a particular project or activity in securing the main objective of IFAD to reduce rural poverty and hunger. In this sense, the monitoring system is distinct from the supervision procedure, which is focused on the more limited objective of watching timely delivery of project inputs or evaluating physical implementation of a project. The monitoring function would thus be treated as an integral part of the project and would continue until the time of full development, that is sometime after the project benefits have begun to be realized.

46. Monitoring arrangements may differ among projects, but will in general seek:

- (a) to identify key indicators of the impact of the project including changes in: food output; crop-mixes; income, health, caloric intakes and employment of target groups; and institutional arrangements or socio-economic relations affecting the participation of the rural poor in decision making;
- (b) to compare such changing indicators with the project's initial objectives; and
- (c) to make appropriate recommendations to project management, in order to ensure realization of maximum benefits from the project.

Monitoring of projects will usually be done by local institutions, whose experience will increasingly help them to participate in, shorten and indigenize other parts of the project cycle, especially identification, preparation, follow-up and evaluation.

47. All project appraisal reports shall specify the proposed monitoring arrangements, including provision for "base-line" surveys. Data will normally be collected by researchers resident in each sampled community long enough to establish rapport, allow for seasonal variations and assess possibly "sensitive" factors. The monitoring institution shall be independent of project management, but shall submit regular reports, normally quarterly, to project management, cooperating institutions and the Fund.

48. In the initial period the Fund will be ready to make special provision, in its technical assistance programme, to strengthen institutions in developing countries to monitor and later on to identify projects designed to reduce hunger and rural poverty and to bring about greater mass participation. While initially countries with larger and better developed institutional structures might be in a better position to prepare and implement projects supported by the Fund, it is important to initiate or accelerate the process of building these structures in countries with relatively lower absorptive capacity.
49. The Fund will consult regularly with recipient countries and with other multilateral and bilateral donors to exchange and codify the experience gained in project monitoring and evaluation, with a view to setting up a publicly available data bank for the storage and dissemination of the relevant information.
50. IFAD will, from time to time, ask independent agencies to evaluate its completed projects. Such evaluation will normally be the responsibility of an institution in the recipient country.
51. In projects cofinanced with other agencies, the Fund will seek the agreement of such agencies to the application of the monitoring procedures (paragraphs 45-50) to the entire activity and not only to the part financed by the Fund.

OPERATIONAL GUIDELINES

52. The Fund will formulate, in the light of experience, more detailed operational guidelines on various policies and criteria outlined above for the guidance of the Fund's staff.

IMPLEMENTATION AND REVIEW

53. The Executive Board will interpret and implement these policies and criteria with the necessary flexibility provided for in these policies and will review them at a future date in the light of actual experience.
54. The Executive Board shall:
- (a) report periodically to the Governing Council on the exercise of the authority vested in it under paragraph 33(b) above and on the application of the country eligibility criteria specified in paragraph 31 above; and
 - (b) review periodically IFAD's Lending Policies and Criteria in the light of changing circumstances and, if it deems it necessary, recommend to the Governing Council such modifications thereto as may be appropriate.

Annex

A FRAMEWORK FOR SECTOR/SUB-SECTOR ALLOCATION: PRINCIPLES REVISITED ¹

1. The future focus of IFAD's operations, allocations of its lending among the four regions (and among countries within the regions) and between project types and components, will depend on how the regions and countries evolve in terms of the various criteria developed in the context of this lending framework. Given IFAD's mandate and its objectives, the alleviation of rural poverty and the reduction of under-nutrition (primarily through increased food production by the poor themselves and/or increased employment and income, thereby also enhancing household food security) will continue to feature prominently in guiding resource allocation between sectors and sub-sectors. However, the catch-all criteria will have to accommodate the increasing concern being placed on agricultural development and sustainability of operations (of which the most prominent will be environmental sustainability) and on the needs of specific target groups (such as rural women, women-headed households, the landless, tribals and other deprived ethnic groups). The allocation will also depend on the need to develop modules for development which integrate micro-experiments and innovative approaches with macro-adjustment frameworks in respective countries. The appropriateness of sector and sub-sector allocations of IFAD's resources will also be judged by the way these lend themselves to addressing the special problems of the groups of population falling through the cracks of the macro-adjustment problems.
2. Most of the principles guiding sectoral/sub-sectoral allocation of IFAD's resources remain valid even today. An analysis of resource allocation over the 1978-93 period has shown how these principles have been applied by IFAD in practice. It is clear that on the basis of actual experience certain adjustments had been made, e.g., the move from large-scale water development schemes to small-scale irrigation. Experience also suggests that these principles have to be applied flexibly. In the following paragraphs, these principles are reiterated and further elaborated to reflect changing circumstances, past experience and desired future direction, which are both general and specific to regions and sub-regions.

¹ Added by Resolution 89/XVIII of the Governing Council on 26 January 1995. This Annex should be read in conjunction with and additional to the Lending Policies and Criteria.

3. IFAD should continue to focus on well-identified *rural poverty groups*: the landless and the near-landless; the marginal farmers; the small-scale and artisanal fishermen; the indigenous populations (particularly in Latin America); and displaced nomadic groups, and help all of them to increase *domestic food production*, especially *traditional and minor food crops*, and *diversify income sources*. IFAD will continue to ensure that an increasing share of its loan proceeds is channelled directly to these target groups. It is noted with satisfaction that most IFAD-financed projects, particularly those approved by the Executive Board in recent years, satisfy this condition, as more than 70% of total costs accrue to the beneficiaries themselves and are not usurped by avoidable intermediaries. Therefore, the socio-economic conditions of each group, and the constraints under which they produce, need to be analysed carefully in order to identify cost-effective ways for alleviating their poverty and reducing undernutrition.
4. Within IFAD's policy and programmatic focus on poverty targeting, the poverty group deserving more particular attention is *poor rural* women, who are the most significant suppliers of family labour and efficient managers of household food security. IFAD, working closely with other agencies, should pursue its policy dialogue with Member Governments on the issues related to the economic participation of poor rural women, in the light of its field experiences and in accordance with the Declaration for the Economic Advancement of Rural Women, which was adopted by the Geneva Summit on the Economic Advancement of Rural Women. IFAD should strengthen its focus on poor rural women by developing and sharpening specific instruments of intervention through the exchange of experiences with others working in the field, and through further deepening the conceptual understanding of the complex issues involved.
5. IFAD's investment priorities should be guided by the consideration of *sharing know-how with other international financial institutions (IFIs)*, so as to stimulate them to invest in rural development with a view to alleviating mass poverty. IFAD's sectoral/sub-sectoral focus should open the door for the development of modules that can be replicated and applied on a larger scale, if need be, by the recipients themselves or with support from other donors.
6. IFAD's investments and the modules it will develop should, on the one hand, facilitate the *mobilization of cofinancing* and, on the other, be complementary to the activities of the World Bank and the regional banks in social development and poverty reduction. As an illustration, attention has been drawn to the fact that the governing body of the Asian Development Bank (AsDB) has asked it to allocate 40% of resources to social infrastructure. IFAD should collaborate with AsDB, focusing on the productive activities of the rural poor.

7. In general, IFAD should look for cofinancing investments in infrastructure. It is, however, recognized that as increased food and agricultural production is the salient feature of IFAD-financed projects, IFAD should support investments in *supportive infrastructure* related to marketing of surplus produce, e.g., rural link roads, storage, transport and other marketing structures and equipment, especially in Africa and Latin America and the Caribbean, and other remote areas of the developing world. Nonetheless, the allocation for roads should not normally exceed one fifth of the total project cost.
8. As the promotion of household food security and nutrition is a central feature of the activities of the three Rome-based food agencies, the Food and Agriculture Organization of the United Nations (FAO), IFAD and the World Food Programme (WFP), IFAD should *collaborate closely* with these agencies in project design, implementation and financing.
9. Using *agricultural development* primarily through increased food production as its core global objective, and reducing undernutrition and household food insecurity as its specific objectives, IFAD should further build on its evolving participatory conservation-oriented development strategy. The basis of this strategy is to assist people in preserving the intrinsic productive value of the environment. The rapid degradation of the natural resource base of the rural poor is significantly worsening their poverty. While degradation of the environment is a global phenomenon, it is the damage to the natural resources of developing countries that has the most immediate impact on their rural poverty. Unless the soil, water and forestry resources of the poor countries are maintained and enhanced, the number of those who suffer from poverty, malnutrition and hunger will grow.
10. IFAD can build on its experiences gained with respect to resource conservation under the *Special Programme for Sub-Saharan African Countries Affected by Drought and Desertification* in Burkina Faso, Lesotho, Niger and Senegal, and more recently in Zambia and Zimbabwe, to design similar projects and programmes in other countries in Africa and elsewhere. The shift in IFAD's watershed management strategy in India towards tribal community-based development, is an evolution of the same strategy. *The small-scale irrigation strategy* adopted in Asia is the result of a like-minded concern with the sustainability of the productive resource base. Projects in Algeria, Tunisia and Yemen illustrate the particular validity of this strategy for poverty alleviation in the Near East and North Africa Region.
11. IFAD has also had to develop experience in dealing with the income *diversification* requirements of these populations, particularly in land-scarce countries, like Bangladesh, Burundi and Rwanda, and in countries with an emerging appropriate economic environment, such as Ghana. In this context IFAD has strategically increased its allocation for off-farm, income-generation and micro-enterprises, complementing the core of its investments in agriculture. While these off-farm economic activities will stimulate agricultural growth through their back and forward-linkages, this strategy is also likely to reduce pressure on the environment.

12. IFAD's concern with environmental preservation by reversing its negative linkage with rural poverty should find an expression in appropriate support for livestock activities undertaken by the poorest segments of agricultural households, agro-pastoralists, pastoralists and rural women. Support should be provided to improve productivity of livestock, so that the numbers could be contained while increasing feed and fodder supply. Production systems that treat livestock as a source of food, income, saving, investment and employment should be eligible for livestock support. IFAD should also extend support to the sector where it constitutes the only enterprise.
13. IFAD should sustain a dialogue with its borrowers towards strengthening the *orientation of their policies* and institutions in favour of the rural poor, particularly women. In this context, IFAD should work particularly closely with the Bretton Woods' institutions and other IFIs, to ensure that: (i) their policy recommendations take due account of the productive contribution of the rural poor towards growth and stabilization; and (ii) the poor do not become victims of fiscal cut-backs and policy shifts. More importantly, in view of the economic liberalization of the developing countries, IFAD has a key role to play in assisting its Member Governments in policy articulation and institutional reforms aimed at mobilizing domestic - particularly private - resources towards sectors dominated by smallholders and assisting them in taking advantage of new market opportunities. This should be undertaken in the allocation of public resources towards creating the necessary infrastructure and social services in support of the rural poor and especially women. IFAD can carry out this role through its field missions, as well as through its collaboration within the Joint Consultative Group on Policy (JCGP) and other IFIs.
14. In the same context, IFAD has applied and should continue to apply itself to the design and implementation of complementary interventions, in order to mobilize the productivity of the rural poor, particularly women, in the difficult transitional phase of structural adjustment (see Lending Policies and Criteria, paragraph 11). Since the mid-1980s, IFAD has had successful experiences in this regard in countries such as the Central African Republic, The Congo, Ghana, Guinea, Guinea-Bissau, Honduras, Malawi, Mozambique and Uganda. Given the continued imbalances in internal and external accounts of the developing countries, the case for stabilization and adjustment cannot be over-emphasized. Hence, there remains a strong case for IFAD to highlight the role of smallholders as an engine of growth and stabilization through *complementary investments*, financed with both its own resources as well as those mobilized from others, for fertilizer, other agricultural inputs, tools and implements, marketing and operating expenses for extension and adaptive research.

15. IFAD is an institution whose activities are to be centred around people, rather than an infrastructure *per se*. Therefore, continued attention will have to be devoted to the development of *participatory institutions* at the grass roots. This should continue to constitute a particularly strong focus of IFAD's work in Africa, in the absence of efficient service institutions. Through its projects and programmes, IFAD has played an important catalytic role in operationalizing the concept of participation in concrete terms, and it should continue to do so. Over time IFAD has developed an approach, in which producer/service delivery, particularly at the retail level, is being managed by grass root organizations and groups of beneficiaries, especially in cases where established service suppliers had outreach and financial viability problems. IFAD needs to consolidate this approach, and establish sustainable linkages with service suppliers in the private sector.
16. However, in order to bring the rural poor onto the centre stage of development, many actors must be involved in a close *partnership*: involving external development agencies; domestic, central and local governments; non-governmental organizations (NGOs); grass roots institutions; and other private and commercial entities. All these agents of change must move from coexistence to active collaboration and complementary partnership. Particular emphasis should be placed on IFAD's working closely with local authorities and NGOs. These institutions can help, *inter alia*, to administer development funds, within an overall ceiling of 5% of total funding imposed by the Executive Board, and to respond flexibly to grass-roots initiatives for mini-development projects built around the communities' felt needs. Over the years, IFAD has expanded its collaboration with NGOs and, due to IFAD's dialogue, governments have become more willing to work with them. More than 40% of projects involve direct collaboration with NGOs. IFAD has also succeeded in channelling loan funds directly to NGOs. Many NGOs participate willingly in IFAD-funded projects because they find the basic tenets of IFAD's development approach very similar to their own. In Latin America, in particular, efforts to pursue a more *private sector-based agricultural services* strategy is warranted in the medium-term future.
17. Financial intermediation and the provision of rural *financial services*, has evolved into a particular area of expertise for IFAD. IFAD does not just look on the issue of access to financial services as a one-off credit operation to make projects work. Rather, the aim is to build a sustainable system of financial intermediation, matching informal and formal savings and credit systems into an integrated rural financial sector, which allows the rural poor to develop a sustainable clientele relationship with institutions in which they have their own stake. IFAD should continue to expand still new approaches for sustainable delivery of rural financial services and build on its acquired experience, including: (i) the minimalistic, group-based credit approach, like that used by the *Grameen Bank* in Bangladesh; (ii) the more comprehensive *village development fund* approach, based on collective and community development activities in response to demand from the client member-group; (iii) the '*crédit mutuel*' approach based on local thrift and credit initiatives, particularly in West Africa; (iv) rotating *capitalization* funds for savings mobilization and credit delivery in Latin America; and (v) *re-orienting formal credit institutions* towards the provision of financial services to the rural poor in a cost-effective manner, a strategy particularly recommended in Asian countries with profoundly reformed financial sectors, such as India and Indonesia, and in African countries like Ghana and Nigeria. In Ghana, with IFAD support, *regional and rural banks* are emerging as important conduits for credit delivery to the rural poor.

18. IFAD has come a long way in evolving a cost-efficient and innovative approach to *research and extension*, which draws on the 'lab-to-land and land-to-lab' premise. The approach is to make the smallholders the initiating partners with researchers and extension agents in the process of identification of technology issues, and in the development and diffusion of new technology. This model is being applied in countries, such as Bangladesh, Lesotho, Madagascar and Peru, and should remain a major area of focus for IFAD. The specific elements are demand-driven extension and client-oriented research. The latter has been, and will continue to be, IFAD's research approach, with IFAD's support for international, regional and national research on: (i) traditional food crops, with emphasis on dryland farming; (ii) farming systems, particularly in highly vulnerable environments where people's strategies for survival are reaching their limits; (iii) environmentally-sustainable agricultural technology, including biological control of pests and diseases; (iv) technology to reduce the drudgery of women's work and raise their productivity; and (v) the decentralization and refocusing of agricultural research to address the needs of both women and men within its target group. IFAD's effort to promote inter and intra-regional cooperation in research and training should be endorsed.
19. Past priorities on sub-sectors have, in fact, evolved over time, depending on changing economic or environmental circumstances, and on IFAD's own experience and adaptation to broader principles. Future sub-sectoral priorities should likewise be permitted to evolve as required, depending on unfolding circumstances. What is essential, however, is that the evolution of sectoral/sub-sectoral focus should be based on the key principles covered in paragraphs 1 to 18 above.

► July 2009



Enabling poor rural people
to overcome poverty

International Fund for
Agricultural Development
Via Paolo di Dono, 44
00142 Rome, Italy
Tel.: +39 06 54591
Fax: +39 06 5043463
E-mail: ifad@ifad.org
www.ifad.org
www.ruralpovertyportal.org

