

### CORPORATE-LEVEL EVALUATION ON THE IFAD POLICY FOR GRANT FINANCING

## Grants in other international financial institutions: lessons for IFAD

During the period covered by the corporate-level evaluation on the IFAD Policy for Grant Financing (2004-2013), IFAD approved 784 grants for a total of US\$449 million. This Policy stated two objectives: (i) promoting pro-poor research on innovative approaches and technological options to enhance field-level impact; and (ii) building pro-poor capacities of partner institutions, including community-based and non-governmental organizations. Other international financial institutions also have instruments similar to IFAD's grants programme. Therefore, the purpose of this Insight is to summarize some key lessons and good practices based on their experience that might be of relevance to IFAD's grant activities. In particular, this Insight has reviewed the experiences in the World Bank and the Inter-American Development Bank (IDB).

The **World Bank** currently has five main grant programmes. Bank allocation for these programmes has been around US\$175 million annually since fiscal year 1998 (about 1 per cent of its annual lending), but with a decreasing trend since 2010 (see table). Funding of grants comes from the Bank's net income allocated annually by its Executive Directors, based on an annual report that reviews past grant performance and recommends future allocation. Of the five grant facilities, the Institutional Development Fund and the Development Grant Facility have features similar to IFAD regular grants.

#### World Bank trends in grant making facilities (US\$ million)

	FY2010	FY2011	FY2012
Institutional Development Fund	12	17	18
Civil Society Fund	2.8	2.8	2.8
State and Peace Building Fund	33	33	33
Development Grant Facility	73	64	57
Consultative Group on International Agricultural Research (CGIAR)	50	50	50
TOTAL Grant-Making Facilities Budget (rounded)	171	167	161

Source: World Bank 2013.

The **Institutional Development Fund** was established in 1992 in response to the recommendations of a Task Force that reviewed the effectiveness of the Bank's technical assistance activities. The Task Force recommended the establishment of a fund that could

provide quick-disbursing grants for capacity-building "in areas that are closely linked to the World Bank's policy dialogue". The underlying rationale of the Institutional Development Fund is that institutional quality and capacity are critical to the success of development projects and programmes and thus development effectiveness would be enhanced by focusing funding explicitly on capacity-building outside (or often in parallel with) projects.

The **Development Grant Facility** was established in 1998 after an evaluation by the Independent Evaluation Group concluded that "grants have generated positive development results, and can be the way to achieve the Bank's policy objectives". The objective of the Facility is to "encourage innovation, catalyse partnerships, and broaden the scope of Bank services".

The evaluations conducted by the Independent Evaluation Group suggest that the experience with the Institutional Development Fund has been quite positive. The Development Grant Facility has had mixed experiences; the most significant issue it faces is the continued reliance of recipients on Development Grant Facility funding without an exit strategy.

The **Inter-American Development Bank** has a programme financed in part from its general resources (about US\$100 million annually, or about 1 per cent of the annual regular lending programme), supplemented by bilateral contributions (about

US\$375 million available as of end-2012) that are generally tied, and linked to specific programme areas. Grants can be used for:

- 1) *Technical Cooperation – Operational Support* for activities that complement or contribute to the preparation, design or implementation of an IDB-supported project. These could include feasibility studies, sector notes to underpin IDB's country strategies and capacity-building for project implementation.
- 2) *Technical Cooperation – Client Support* for activities that are requested by IDB clients in support of their broader development agenda. These could include sector studies, policy analysis, knowledge-sharing and study tours.
- 3) *Technical Cooperation – Research and Development* for activities originated by IDB as an instrument for creating, capturing and sharing regional or country knowledge.

The IDB grant programme has some useful features and also significant weaknesses. As highlighted by past self-assessments, among its strong points are:

- A strong focus on the member countries as the beneficiaries of a bulk (75 per cent) of the grants. IDB requires a formal request from the governments before proceeding with a grant.
- A clear definition of grants based on the conventional definition of technical assistance.
- A demarcation of research and development grants within a separate envelope, with different processes.

Among the weakness points:

- Division of the grant resources into numerous thematic allocations.
- Multiplicity of donors, each with its own requirements (although IDB is trying to rectify this by encouraging donors to make their contributions to multi-donor funds).
- Because of the above two features, a cumbersome process for grant approval.

## Issues for reflection

The corporate-level evaluation on the IFAD Policy for Grant Financing has highlighted a number of formulation and implementation issues which may be guided by the experiences of other international financial institutions (IFIs). Among other issues, the evaluation highlights four: (i) definition of the grant typology and objectives; (ii) allocation of grants; (iii) distinguishing between grants under the policy and the debt sustainability framework; and (iv) reporting to senior Management and the Executive Board.

**Objectives.** In line with practices of other IFIs, the evaluation recommends establishing two types of grants: country-specific and non-country-specific. The former, following IFAD's country strategy, would promote the development of national policies and strategies for rural development and help test innovative approaches that could be scaled up through IFAD's country programme. They would also support capacity-building of key players in the country, and knowledge management relating to policy dialogue and up-scaling activities. The latter would fund research and policy analysis, and IFAD's priority corporate partnerships to be further defined in a corporate-level strategy. The evaluation also recommends having a higher allocation for country-specific grants to enhance coherence with country programmes and strategies.

**Allocation of grants.** So far, country-specific grants have been allocated through IFAD's performance-based allocation system, which IFAD also uses to determine the lending volume available to each country. This is not the principle adopted in other IFIs. The evaluation recommended that instead of relying on the automatism of this system, IFAD's regional divisions could set more competitive internal processes for allocating grants.

**Grants under the policy vs. debt sustainability framework.** Since the IFAD Executive Board approved the 2007 Policy on the Debt Sustainability Framework, the lending terms for country programmes have been determined by their creditworthiness. Programmes for the poorer and less creditworthy countries receive IFAD funds for investment projects either on a non-reimbursable basis ("red countries") or as a mix of reimbursable and non-reimbursable ("yellow countries"). According to the 2009 grant policy, "red and yellow" countries would be ineligible to receive grants from the grant country window, based on the argument they were already receiving non-reimbursable funds for the main investments. In other IFIs, the concept of lending terms for country programmes and eligibility to receive grants are distinct, with no relationship between them or the opposite relationship (e.g. World Bank): poorer countries are often given more favourable consideration for receiving grants from freestanding facilities.

**Reporting.** The evaluation found that limited information is currently provided to management and the governing bodies on grant portfolio trends, results and lessons learned. Other IFIs have more comprehensive treatment of grants in their documentation. Learning from the reporting systems of other IFIs would help IFAD enhance its reporting practices.

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### Further information:

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