



**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Governing Council – Twenty-Third Session**  
Rome, 16-17 February 2000

**PARTNERSHIPS FOR ERADICATING RURAL POVERTY**

**DRAFT REPORT OF THE CONSULTATION TO REVIEW THE ADEQUACY OF  
THE RESOURCES AVAILABLE TO IFAD**

**2000-2002**

1. In accordance with Article 4.3 of the Agreement Establishing IFAD that provides for the periodic review by the Governing Council of the adequacy of IFAD's resources, the Twenty-Second Session of the Governing Council adopted Resolution 112/XXII on the Establishment of the Consultation to Review the Adequacy of the Resources Available to IFAD.
2. The Consultation held six sessions since its establishment at the Twenty-Second Session of the Governing Council.
3. The text enclosed represents the draft of the Consultation Report as at 15 February 2000.
4. The Consultation presents this draft report for the Council's information. As the work of the Consultation is not complete, a draft resolution on the continuing work of the Consultation will be presented to the Governing Council for its consideration and adoption in GC 23/L.3/Rev.1/Add.1.

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## ABBREVIATIONS AND ACRONYMS

CCPOQ	United Nations Consultative Committee on Programme and Operational Questions
CDF	Comprehensive Development Framework
CGAP	Consultative Group to Assist the Poorest
CGIAR	Consultative Group on International Agricultural Research
COSOP	Country Strategic Opportunities Paper
DAC	Development Assistance Committee
FLM	Flexible Lending Mechanism
GNP	Gross National Product
HFS	Household Food Security
HIPC DI	Heavily-Indebted Poor Countries Debt Initiative
NGO	Non-Governmental Organization
NVP	Net Present Value
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OSC	Operational Strategy Committee
PDT	Project Development Team
PSR	Project Status Report
REA	Rapid External Assessment
TRC	Technical Review Committee
UNDAF	United Nations Development Assistance Framework
WFP	World Food Programme





## PARTNERSHIPS FOR ERADICATING RURAL POVERTY

### EXECUTIVE SUMMARY

*This is the final report of the Consultation to Review the Adequacy of the Resources Available to IFAD over the coming years. It is based on the deliberations of the Members and Observers of the Consultation, chaired by IFAD's President. The report reflects the consensus achieved on IFAD's strength, and the actions needed by the Fund to enhance its ability to address the challenge it faces in fulfilling its unique mission in the new millennium.*

*The Consultation recommended that the Fund strengthen its role as a leading source of knowledge on the eradication of rural poverty, drawing on lessons from experience, both positive and negative, and constantly applying them to the design and implementation of projects. IFAD's comparative advantage and core competency as an international financial institution are based on its ability and creativity in field-testing investment options. These options are directed at specific target groups of the rural poor, living on the margins of viable livelihoods, who are largely bypassed by mainstream development programmes.*

*The Consultation emphasized the overriding importance of developing strategic partnerships with other stakeholders: recipient member governments, multilateral and bilateral donor agencies, the private sector, non-governmental and community-based organizations, and other civil-society actors working closely with the rural poor. Given the dimensions and complexity of the challenge of poverty eradication, and given the Fund's small size and resource base, IFAD would not attempt to go it alone.*

*Against the backdrop of persistent and growing poverty and declining levels of official development assistance, IFAD's catalytic role in deploying its scarce resources through partnerships assumes major importance. This is particularly true within the framework of internationally agreed development targets and institutional arrangements, such as the United Nations Development Assistance Framework and the pilot Comprehensive Development Framework. To continue playing this role, the Fund should maintain its multilateral character.*

*Meanwhile, the resurgence of poverty in a number of traditional borrowing countries and the need for new, eligible Member States to tackle rural poverty while pursuing overall economic growth are posing additional challenges to the Fund. Furthermore, the widened scope of the Heavily-Indebted Poor Countries Debt Initiative requires IFAD to participate in the initiative through a combination of means, including IFAD resources, the HIPC Trust Fund administered by the World Bank and the IFAD Trust Fund for the HIPC DI.*

*The Consultation underscored the imperative of an enabling policy environment and the commitment of borrowers to pro-poor policy reform in order to ensure the desired impact of poverty-alleviation projects. In this context, IFAD's role and potential were examined, and specific recommendations to guide its future operations were forwarded.*

*Drawing on lessons learned from the grass-roots realities of and solutions to rural poverty, IFAD is well placed to join forces with other interested partners in scaling up and replicating its most successful strategies, approaches, best practices and models of local-level intervention. It should also interact with the policy and institutional set-ups that underpin grass-roots microprojects and programmes. It is important to recognize the priorities and needs identified by local populations, themselves, since they are often the main source of problem identification and innovation within their environment. Their indigenous knowledge, enhanced by new technologies, can be the stepping stone towards sustainable solutions for local problems.*



## **IFAD'S VISION, MISSION AND VALUES**

### ***Vision***

IFAD should be the leader in showing the way and galvanizing energies to eradicate rural poverty and hunger, and to unleash, through their own participation, the capacities of our clients: poor rural people.

Together with our partners, we shall ensure the design and implementation of innovative, cost effective and replicable programmes with sustainable impact, responding to the expectations of poor rural people and our Member States.

We want IFAD to be the catalytic institution of a mutual enrichment process which mobilizes resources and knowledge in a strategic, complementary and dynamic coalition of clients, governments, financial and development institutions, NGOs, and the private sector.

Our leadership role depends on the teamwork of highly motivated, well-trained and efficient staff, committed to the cause of the rural poor.

We want to become a knowledge organization about rural poverty by sharing the lessons learned from our own experience, by capturing and using the insights and knowledge of others, and by constantly reinventing ourselves in the light of evolving circumstances.

### ***Mission***

IFAD's mission is to work with the poorest populations in the rural areas of developing countries to eliminate hunger and poverty, enhance food security, raise productivity and incomes, and to improve the quality of their lives through improved access to productive resources and empowerment.

### ***Values***

Underlying all of IFAD's activities are what have become the core values of the institution, which define its corporate culture. They are: client satisfaction; valuing innovation; creating and sharing knowledge; working with others; and aiming for efficiency, effectiveness and impact in a transparent and accountable fashion.

**IFAD's Vision Statement  
discussed and adopted through an  
institution-wide participatory process  
17 May 1995**



## I. THE GLOBAL CHALLENGE OF POVERTY ERADICATION AND IFAD'S ROLE

### A. The Global Dimension of Poverty

1. The global dimension of poverty presents a grim picture. According to the World Bank estimate, three billion people live on less than two dollars a day<sup>1</sup>, and the gap between rich and poor is widening, leading to increased social tension. Among the poor, 1.2 billion human beings, over one fifth of the world's population, are estimated to live in abject poverty on one dollar a day. Their number is projected to swell to almost two billion by the year 2015. In terms of the regional profile of poverty, 40% of the population in South Asia, 15.3% in East Asia, 46.3% in sub-Saharan Africa, 15.6% in Latin America and the Caribbean, 7.3% in the Middle East and North Africa, and 5.1% in Eastern Europe and Central Asia live on less than one dollar a day. With 80-90 million people being added annually to our planet, mainly in the developing world, the global dimension of poverty has become a major cause for international concern.

#### The Dimensions of Rural Poverty

2. Nearly 75% of the world's 1.2 billion absolute poor live in rural areas. They are small-scale producers, subsistence farmers, indigenous populations, the landless and women. Women constitute more than half of the rural poor and frequently head households. The rural poor often reside in remote areas with little market access and underdeveloped infrastructure, which in turn limits their ability to benefit from the overall growth of the national economy. Furthermore, while these people play a major role in food production, they are very often victims of food insecurity and malnutrition.

3. Rural poverty is a complex phenomenon that emerges from the interaction among policy, structural and environmental factors: these include urban-biased policies, negative terms of trade, skewed distribution of access to productive assets (land, water and forests) and an inadequate opportunity for people to participate effectively in decision-making processes. These factors are aggravated by environmental degradation, which is both a cause and a result of poverty. Technological constraints are another factor inhibiting the growth of the agricultural sector, the main source of livelihood. These are more intense in dry, rainfed zones, where a major segment of the rural population resides. Slow, stagnant or even negative growth of the agricultural sector has hindered the development of other sectors of the rural economy, with the consequence that employment opportunities in rural areas are limited. Low productivity is the main source of rural poverty, which in turn contributes to massive, ever-increasing urban poverty. Moreover, the rural population must provide food for an urban population that will outnumber it in less than two decades.

4. Effective strategies for meeting the challenge of rural poverty should address the above constraints, with an emphasis on increasing the productivity of smallholders, who constitute the bulk of the rural poor. Since another significant share of the rural population in developing countries is made up of landless or almost-landless farmers, strategies should include policies and programmes to increase job opportunities in rural areas. In many cases, backward and forward linkages with the agricultural sector provide the greatest opportunities to respond to this objective. Rural poverty also has its own dynamic within the local context. For poverty-eradication strategies to be effective, tailor-made solutions need to be crafted with the active participation of the poor, building on their knowledge, traditions and potential. This diversity of approaches offers a considerable field of complementarity through which strategic partnerships – among IFAD, bilateral and multilateral institutions, developing countries and other stakeholders – may meet global targets.

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<sup>1</sup> Unless otherwise stated, all dollar figures refer to the United States dollar.





## **International Goals for Poverty Eradication**

5. The international community has set itself certain goals and targets for concerted action to meet the growing challenge of global poverty. During the decade of the 1990s, a number of UN conferences, including the World Food Summit, set the target of reducing the number of poor and undernourished people living in extreme poverty to half their present level (over 800 million) by 2015. Similarly, the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) also adopted the target of halving the proportion of people living in extreme poverty by 2015 in its policy document entitled “Shaping the 21<sup>st</sup> Century: the Contribution of Development Cooperation”, based on UN conferences and resolutions reflecting broad agreement by the international community as a whole. It is expected that the conference planned in the year 2000 on the follow-up to the 1995 United Nations Summit for Social Development will consider the means for pursuing this poverty-eradication objective.

6. Commensurate means are needed to achieve the above goal. National policies in poverty-stricken countries are the most effective means. International cooperation has an important role to play as well. But since the early 1990s, official development assistance (ODA) has been on a downward slide. By 1996, it reached its lowest share of gross national product (GNP) in 45 years. Furthermore, the resource flow to the agriculture sector has continued the declining pattern of the past two decades. The dramatic increase in private net capital flow has benefited primarily 10-12 countries, only two or three of them low-income countries. The share to sub-Saharan African countries from private resource flow has been a small fraction: in 1996, for example, the region received only 5% of the total, and most of it went to South Africa. In 1998, the decline in ODA was arrested. It reached the level of USD 51.5 billion, representing an 8.9% increase as compared to 1997. The recovery in aid partly reflects short-term measures in response to the Asian crisis and replenishment of resources of some international financial institutions (IFIs), but also firm commitments by some OECD countries to increase aid flows. Moreover, the recent policy proclamations by a number of bilateral agencies give increased priority to the agricultural sector. The pattern of resource allocation from IFIs is also changing in favour of the agricultural sector and rural development.

## **Global Partnership Frameworks**

7. The immense scale and complexity of poverty have led the international community to recognize the urgency of establishing concrete and reliable mechanisms for cooperation and coordination with national governments. DAC has proposed the formation of a global development partnership around a limited set of quantifiable goals through which the development community can measure its effectiveness. For the United Nations system, in September 1998, the United Nations Consultative Committee on Programme and Operational Questions (CCPOQ) adopted a document entitled “Freedom from Poverty: Actions and Partnerships”, which identified ten core policy measures for cooperation. The United Nations Development Assistance Framework (UNDAF) provides the operational framework for donor coordination, within the resident coordinator system, and a pilot phase has been launched in 19 countries. IFAD has joined the framework and has agreed to participate in a few strategically important countries<sup>2</sup>. The World Bank has also put forward the concept of a Comprehensive Development Framework (CDF) as a management tool for partnerships of all stakeholders in key sectors of development activity at the country level. It is still at the experimental stage but, once operational, will offer another global partnership framework for selective IFAD participation at the country level within the ambit of its central mandate and strategic framework.

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<sup>2</sup> IFAD’s association with UNDAF and other United Nations coordination mechanisms is set out in a paper presented at the Sixty-Sixth Session of the Executive Board in April 1999 (EB 99/66/INF.8), “Working within a Common Development Agenda: Global Development Partnership Frameworks and IFAD’s Relationship to the United Nations Reform Process”.



8. *The Consultation took note of the positive approach of IFAD towards these initiatives. It strongly recommends that the Fund contribute actively to the development of major partnerships, including CDF during its pilot phase. The latter contribution could be focused on the integration into the framework of rural institutions and community-based approaches. This would also allow the Fund to explore areas of complementarity with other donors within the host country's own development objectives.*

## **B. IFAD's Role in Rural Poverty Eradication**

### **IFAD's Mandate**

9. IFAD has a specific mandate: to help the poorest populations in rural areas of developing countries increase their productivity and incomes and improve their nutritional levels, thus enhancing the quality of their lives. The Fund's focus on rural poverty was reconfirmed in 1994 by the Rapid External Assessment (REA). Commenting on the "Fund in the Future", the REA observed:

"The concerns which led the international community to create the Fund in 1976 – rural poverty and food security – remain today and will continue into the foreseeable future. An institution dedicated exclusively to these concerns appeals to the team as being of immense value and it endorses without qualification the basic mission of the Fund."

### **IFAD's Comparative Advantage**

10. IFAD's basic approach to rural poverty alleviation is to work closely with the rural poor in local socio-economic settings. Over the years, implementation of the Fund's projects and on-the-ground results have demonstrated the most effective approaches and best practices for addressing their needs. The major outcome has been the acquisition of considerable institutional knowledge and expertise in rural poverty eradication on the basis of results at the grass-roots level. IFAD's strength and potential in some specific approaches aimed at rural poverty eradication (section II (B) below) are well recognized. In particular, the participatory approach has helped the Fund learn ways and means of identifying, stimulating and building on local innovations that emerge from the rural poor, themselves, through a process of mutual learning and lesson-sharing with other stakeholders. IFAD's main comparative advantage thus lies in identifying, testing and promoting more effective approaches to rural poverty eradication, including the transfer of a particularly high level of resources to the poor. The Fund's institutional capacity, and its policy and strategy focus, should be devoted primarily to these tasks.

### **IFAD's Role**

11. The multilateral character of IFAD also reinforces its role in rural poverty eradication. Its lending resources, even though modest compared to the needs of the rural poor, allow it to stimulate other donors and developing-country governments to provide more effective policies and larger amounts of financial resources for rural poverty eradication.

12. IFAD has four major roles in catalysing and transferring resources, based on its comparative advantage:

- *As an innovator* in the development of effective rural poverty-eradication instruments, models and know-how at the grass-roots level, IFAD seeks new and effective ways to address the constraints faced by its beneficiaries in a diversity of local contexts. In so doing, it consolidates, refines and enhances its "intellectual capital".



- *As a knowledge institution*, IFAD builds on its role as an innovator through a process of mutual learning and lesson-sharing with other stakeholders active in this field.
- *As a catalyst*, IFAD extends the outreach of its poverty-eradication efforts through strategic partnerships with other donors, governments, non-governmental organizations (NGOs) and civil-society organizations working with the poor at the grass-roots level. Such partnerships also build on cross-fertilization of ideas and approaches, taking into account the programmes and efforts of other donors. The Fund's catalytic role also implies facilitating the replication and scaling up of national and local initiatives, as well as influencing policy and practices in favour of the poor.
- *As a leader* in effective, sustainable poverty-alleviation strategies, IFAD demonstrates its achievements qualitatively and quantitatively.

13. *The Consultation urged IFAD to strengthen its comparative advantage. It recognized that the Fund has both the potential and the foundation to do so, therefore IFAD's future policies and strategies should evolve around this central objective. Specifically, IFAD should:*

- *enhance its participation in policy dialogue and analysis in relevant areas (such as decentralization and local governance, farmers' rights, gender sensitivity, improved access to productive assets and effective linkage of small-scale producers to the market);*
- *take a more structured approach to documentation and evaluation of its field-based innovations to facilitate their adoption by other partners; and*
- *step up its efforts towards building strategic partnerships that have the potential for the replication and scaling up of best practices in poverty alleviation.*

### **C. Strategic Partnerships**

14. From the perspective of its corporate strategic thrusts, IFAD's regional and country strategies constitute crucial entry points in consolidating existing partnerships or constructing new ones, bearing in mind that: (a) countries are the key to defining strategy; (b) donor contributions add value to the way in which countries meet their development and poverty-eradication goals; and (c) donors need to coordinate and align their strategies for their collective contribution. This implies that IFAD's main instrument for defining its country strategies (i.e., country strategic opportunities papers (COSOPs)) should be strengthened through broader interaction with both bilateral and multilateral donors, many of which operate in complementary sectors and with far greater resources. This process can lead to many partnerships at the level of strategy and operations, some of which could be of a cross-country or regional nature (paragraphs 50-51).

15. Through partnership, the Fund would enhance its role in poverty eradication (paragraphs 11-12). Within this context, it would pursue the following objectives:

- ***Replicate and scale up through cofinancing***

Over the years, IFAD's performance in attracting cofinancing has increased. For example, nearly 20% of the total cost of IFAD-initiated projects is financed by cofinanciers, while a 30% contribution from domestic resources has been secured. Cofinancing is one of the performance indicators within the Fund's corporate strategy framework. It is regarded by the Fund as an important instrument for two reasons. First, it means mobilization of additional resources to broaden the outreach of a rural poverty-alleviation project. Second, it offers a concrete



framework for the exchange of ideas, expertise and long-term dialogue among IFAD, cofinancing partners and the host country on policies and strategies for poverty alleviation. The policy focus of a number of bilateral donors has in fact evolved, giving a higher priority to the agricultural sector. *The Consultation urged IFAD to increase the level of its cofinancing and the building of partnerships with bilateral donors.*

- ***Complement or underpin macroeconomic reform programmes***

To ensure that the benefits of these macro programmes reach small-scale producers and the rural poor, IFAD's interventions aim to build capacity at the grass-roots level, mobilize the participation of the poor, analyse and influence the structure and orientation of services (such as extension services or financial organizations) and promote the construction of infrastructure relevant to the needs of the rural population. In brief, it helps link the micro decisions of small-scale producers to the macro programmes of governments. Cofinancing with the World Bank and other IFIs is one way to pursue this objective. CDF could be considered a possible framework for this purpose.

- ***Share institutional capacity and comparative advantages***

Implementation of coherent programmes under complex conditions requires a range of institutional capacity and expertise wider than that available within any one organization. A successful example is IFAD's joint programme – with the World Health Organization (WHO), the United Nations Children's Fund (UNICEF) and the United Nations Development Programme (UNDP) – for the Belgian Survival Fund (BSF). Similar arrangements could be replicated by the Fund in collaboration with other bilateral donors. Moreover, as the promotion of household food security and nutrition is a central feature of the activities of the three Rome-based food agencies (FAO, IFAD and WFP), the Fund should further its collaboration with these agencies. It should also consider UNDAF as a potential framework for sharing institutional capacities with other relevant agencies in a synergetic manner.

- ***Exchange knowledge on policy and practices***

On a selective basis, IFAD has joined forces with other United Nations agencies, NGOs and civil-society organizations to establish networks focused on collecting, analysing and exchanging experiences and practices on major cross-cutting factors affecting rural poverty. In this context, IFAD has given priority to market-assisted agrarian reform (with the active involvement of civil-society organizations), decentralization policies and practices, combating of desertification, agricultural research and rural financing services. The same objectives are also pursued through networking or consultations among countries with different experiences, thus promoting the mainstreaming of best policy practices. Since accumulation and dissemination of knowledge constitute the core value of IFAD, these activities deserve more attention by the organization.

16. *The Consultation noted that there are transaction costs involved in constructing and implementing partnership arrangements. IFAD needs to carefully examine the implication of each arrangement in terms of staff time and financial resources, to ensure that all partnerships advance its goals of resource mobilization, knowledge-sharing and operational cooperation.*



## II. IFAD'S POLICY FRAMEWORK FOR RURAL POVERTY ERADICATION

### A. Enabling Policy Environment

17. An enabling policy environment is crucial to unlocking the potential of IFAD's target group, and the macroeconomic policies of governments should provide the necessary framework. In this context, an appropriate market-driven policy environment is needed to revitalize agricultural and rural development. This does not mean accepting the market as an unqualified medium for economic success in general or poverty eradication in particular. Developments related to market-oriented economies are expected to offer new opportunities and challenges to the agricultural and rural sectors in developing countries, provided that terms of trade are not tipped against these sectors and that the overall policy framework empowers the poor to seize new opportunities. The latter calls for policies and programmes to facilitate effective linkage of the rural economy and the poor population with the market. Increasing technical, financial and institutional capacities in this sector will help spread the benefits of economic liberalization and help the rural poor take advantage of a more favourable policy environment.

18. There are also inherent risks in the liberalization process, for the poor in particular. This implies providing safety nets during the transitional period of policy shifts, when individual and local capacities are not yet harnessed to allow small-scale producers, and the poor in general, to cope with the uncertainties and institutional vacuum associated with change. In this context, the essential role of institutional capacities at all levels, national, local, public, private, community and grass-roots, should be underscored. However, the process of institution-building during adjustment and reform is often focused on the public sector, thus bypassing civil-society organizations, particularly at the local and grass-roots level.

19. IFAD's objective in every country in which it supports operations is to contribute to increasing food security among vulnerable rural households and improving the living conditions of the poor through project development, financing and policy dialogue. In making decisions on its loan proposals, IFAD pays careful attention to the prevailing policy climate at the national level in prospective recipient countries. In development terms, national policies – relating to overall resource allocation, accountability and transparency, combating corruption and institutional efficiency – affect what happens sector by sector or at the local level, with clear implications for effectiveness in the use of resources and for the prospective impact of IFAD projects. This interconnection is a major factor in determining the impact of IFAD's operations in terms of achieving their objectives. In this sense IFAD's approach should harmonize with other IFIs and with the Comprehensive Development Framework and the UNDAF. The major IFIs, notably the World Bank and IMF, and more recently the African Development Bank and the Asian Development Bank, have introduced operational guidelines aimed at strengthening the enabling environment for development. IFAD policies and investment decisions reflect these orientations, and the Fund supports the policy dialogue of the major IFIs implicitly through the strategic partnerships that exist with the IFIs in specific countries. IFAD's mandate is to help the rural poor, with action principally at the local level. IFAD's specific role in this regard relates to building the institutional capacity of local government institutions. IFAD's investments in empowering rural people and their organizations to express their voice in local governance matters represent a cornerstone in the effort to develop accountability to rural people. The emphasis in the Fund's loan agreements on compliance with procurement procedures, transparent annual workplans and budgets, satisfactory project accounts and audits are core contributions to developing sound public finance.

20. The following policy and governance factors have a clear bearing upon the possibility of sustained poverty alleviation and on the effective use of IFAD resources. They are thus addressed by IFAD when making decisions on whether to provide loans and on the level and form of its programme



of assistance taking into account, of course, the overall economic situation and requirements of recipient countries:

- existence of a coherent and accurate national rural poverty-alleviation strategy and programme, including provisions to address gender issues affecting the conditions of poor women and their dependants;
- national and sectoral economic policies that guarantee fair, market-based transactions to the poor for the sale of their output and procurement of goods and services;
- transparency and efficiency in public resource allocation and use (including external assistance channelled through the public sector); accountability and efficiency of public institutions and administration;
- allocation of appropriate levels of national public resources in support of the national rural poverty-alleviation strategy and programme;
- encouragement of civil-society institutions and recognition of their role in the development process (including a favourable legal and regulatory framework);
- development and functioning of mechanisms involving significant participation by all groups of the poor (including women and minorities) in local processes of development planning, public resource allocation and functioning of public services;
- respect for traditional mechanisms through which the poor maintain access to and manage natural resources at the community level; and
- efforts by member governments to strengthen governance will be supported by IFAD, in principle, through augmented and sustained flow of IFAD's resources for their ongoing programmes.

21. In any given country, the status of any of these policy and governance factors will be unequal, with some more strongly developed than others. Moreover, the "pattern" of each will vary considerably from country to country. This inevitably affects the nature and extent of IFAD's own operations. The aims of IFAD – to increase food production, reduce rural poverty and improve nutrition in developing countries – cannot be achieved unless borrowing countries 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, 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. In some circumstances, the policy and institutional environment at the national level will be such that there is little prospect of resources being used effectively. In these circumstances IFAD will decline to make its scarce resources available.

22. In formulating the Fund's lending programme, the opportunity should be taken to improve policy on rural poverty alleviation and related governance issues through policy dialogue and through the effects of IFAD's programme and project-based assistance for increased participation of the poor. For IFAD, the issue is not only the current state of governance as it relates to sustainable poverty alleviation, but how the environment for poverty alleviation can be improved through engagement in policy dialogue and institutional development in and around project development and implementation. It is also important to ensure that programme and project activities contribute to a stronger local basis for good governance in terms of decentralization and participation by poor groups in local institutions within the parameters of the strategic approach agreed with governments and IFAD's target group.



The policy and institutional improvements that IFAD can most directly effect are at the local level and involve the empowerment of the poor in public, economic and social spheres. Concrete prospects for such empowerment are the sine qua non of IFAD's engagement of resources at the country level.

23. *The Consultation noted with satisfaction IFAD's clear recognition of the relevance of the national policy and institutional environment to achieving a positive impact with its poverty-alleviation projects and to deciding the level and form of its programme of assistance (paragraphs 86, (v) and 87). Moreover, the Consultation welcomed IFAD's determination to adopt an approach that harmonizes with the Comprehensive Development Framework and the UNDAF, bearing in mind IFAD's specific mandate as well as the particular socio-economic circumstances of target communities. Beyond that, it also approved IFAD's intention to ensure, in its collaboration with the relevant government agencies in borrowing countries, the fullest participation by prospective beneficiaries and other stakeholders in project design and implementation. In this context, the Consultation underlined the importance in this process of country strategic opportunities papers (COSOPs), reflecting the socio-economic conditions of the countries concerned. It considered that they should clearly bring out the national and sectoral policy issues relevant to programme success, with conclusions on new project proposals reflecting such analysis.*

24. *The Consultation also agreed that IFAD should take fully into account the factors set out in paragraph 20 above and encouraged the Executive Board to pay attention to these factors in considering loans for projects. It also requested the President to ensure that project documents submitted to the Executive Board fully reflect the attention given by IFAD to those factors (paragraphs 57-58).*

25. Given this, the COSOP should ensure that: (a) lending operations have a strategic focus and are not the result of ad hoc decisions on project entry into the pipeline; (b) corporate and regional strategic priorities are adapted to the country policy context, and a synergy is established between the organization's strategic thrusts and the government's policy and planning framework for rural poverty eradication; and (c) opportunities for IFAD's future operations over the medium term are in keeping with its suggested framework. Consequently, in the drafting of each COSOP, IFAD will carefully analyse country performance and the policy framework and assesses the effectiveness and potential capacity for poverty alleviation of the institutions involved. In this process, the Fund should benefit from consultation with recipient countries, other IFIs, and agencies such as UNDP. The COSOP exercise thus provides the Fund with a framework for consultation with other partners, allowing the organization to place its planned operations within the broader context of the plans of other multilateral and bilateral donors.

26. *The Consultation considered that the Executive Board should have a full role in reviewing and commenting on COSOPs, which would however remain as management documents. In this regard, the Executive Board will have to develop appropriate procedures for undertaking such tasks to ensure balance in the time it allocates to project discussions on the one hand and strategy and policy issues on the other.*



## **B. Specific Approaches and Cross-Cutting Concerns**

27. Throughout its history, IFAD has provided assistance for rural poverty alleviation. In this process, it has used and gradually refined a number of specific instruments and methodologies. It has also acquired an in-depth understanding of the major priorities that ensure the effectiveness of poverty-focused rural development strategies. These are the main pillars of the Fund's operations and the elements that give the organization its comparative advantage in rural poverty alleviation (paragraph 10). They are discussed below. The recurring message from IFAD's own evaluations, however, is that there is room for improvement in the effective utilization of these approaches within the context of the complexity of rural life. The diversity of rural poverty and local conditions calls for new and innovative solutions. Therefore, the Consultation reiterated the view that the process of investigating, learning, testing and promoting effective strategies and approaches for rural poverty eradication will remain a corporate objective of the Fund.

### **Poverty and Environment**

28. Poverty has its own ecological confines: for example, almost all countries under the Heavily-Indebted Poor Countries Debt Initiative (HIPC DI) are located in ecologically fragile areas, i.e., tropical or dry zones. It is estimated that nearly 65% of the poor reside in areas subject to drought and desertification. Rapid land degradation damages the natural resources of such countries and intensifies rural poverty. This process is also affecting the fragile resource base of uplands and mountainous areas. The challenge is to help the rural poor preserve the intrinsic productive value of the environment. IFAD projects and programmes support conservation-oriented strategies, building on the experience gained in resource conservation under the Special Programme for Sub-Saharan African Countries Affected by Drought and Desertification. Policy emphasis has shifted to acquiring a better understanding of the approaches to participatory management of common-property resources and people-based strategies for land-use management, soil erosion control and water harvesting. Concerns for sustainability have therefore led to modifications of earlier approaches to the optimization of productivity. Consequently, strategies to assist resource users in improved natural resource management have been mainstreamed into IFAD's work.

29. *The Consultation recalled the important role that the Fund has assumed as the institution housing the Global Mechanism of the Convention to Combat Desertification and as the lead agency in the institutional partnership established to assist the Global Mechanism. It stressed that IFAD should adopt an active role in promoting and financing projects and programmes focused on arresting land degradation and water depletion, and fully utilize its institutional knowledge and comparative advantage to address the intrinsic problem of poverty in dry zones. Such emphasis is central to the core objective of the Fund: improving the living conditions and the food security of the poor.*

### **Household Food Security**

30. Household food security (HFS) is the prime concern of poor families and it determines their production and investment choices. As such, it is at the heart of the Fund's mission. It is also a criterion against which all project components and proposed technologies are assessed. No development option would be included in any project if its impact on household food security were not positive. The concept of HFS implies "the capacity of a household to procure a stable and sustainable basket of adequate food". In operational terms, this involves: (a) measures to enhance and stabilize household access to and availability of food across seasons; (b) activities to sustain food supply over the longer term; and (c) continuous attention to the adequacy of food, while complying with nutrient and safety requirements and cultural preferences.

31. From a policy perspective, the lasting solution to problems of chronic food insecurity and rural poverty lies in an institutional and policy framework that facilitates access of the poor – particularly





women – to productive assets, resources and support services. These are the major policy issues that the Fund should actively pursue in partnership with other organizations, including NGOs, through dialogue with borrowing countries, and within the framework of its projects and programmes targeted at resource-poor families.

### **Targeting the Poor**

32. The objective of targeting is to ensure that project outputs and benefits reach specific groups of particularly disadvantaged rural people. In this process, four basic considerations are taken into account: (a) targeting should be combined with an active participatory process, involving the entire community in identifying members of the target group and selecting the associated processes to reach them; (b) targeting should be flexible and not so excessively exclusive that it alienates target groups from the rest of the rural community; (c) targeting should not lead to unwarranted distortions in providing services and inputs; and (d) targeting needs to have a capacity-building component, particularly for rural women.

33. It is more effective to also target the policies, procedures or institutions affecting the rural poor, since these often hinder designated target groups from benefiting from project interventions. In this context, institutions also comprise the people who run them, and their lack of sensitivity can often negate the objectives of targeting. A participatory approach would ensure full mobilization of the capacity of such institutions.

### **Beneficiary Participation, with Stronger Grass-Roots Organizations and Capacity-Building**

34. *Beneficiary participation* ensures that projects respond to clients' perceived needs and priorities, and includes them as important actors and not as mere objects of investment decisions – it puts the client at the centre of development efforts. It ensures that the project objectives and strategy are in harmony with culture, customs, law and local traditions. The success of participatory projects has shown that participation serves as an instrument of empowerment, the main elements of which are social mobilization of target groups and the formation of interest groups. Traditional organizations often provide an effective basis for the formation of such groups. In formulating its corporate strategy, IFAD has adopted beneficiary participation as its first strategic thrust, with key indicators for monitoring the selected objectives. IFAD experience with participation shows that the beneficiaries should play a proactive role in the implementation process, going beyond passive forms of participation confined to consultative mechanisms, which inform but neither motivate nor empower clients. The quality not the fact of participation is the objective.

35. *Stronger grass-roots organizations.* IFAD-financed projects are expected to provide the instruments for deeper forms of participation by the rural poor in a wider spectrum of decision-making processes, through “bottom-up” linkages between clients and community-based organizations at the grass-roots level. Producers associations and community organizations play an important role in the rural economy and, if given appropriate assistance, can replace or effectively complement public delivery systems. Capacity-building of community-based organizations constitutes an integral part of almost all IFAD projects. IFAD is also increasing its efforts to help governments implement decentralization policies beyond district levels to village and community organizations. The World Bank has joined IFAD in this direction. The approach would contribute to a more efficient and transparent public service at the local level.

36. *Capacity-building of institutions that serve the poor.* Capacity-building has three basic elements: (a) institutional development towards a more efficient set of functions and rules; (b) organizational development from informal functioning to a more structured organizational form, better equipped to discharge new functions; and (c) human resource development and training. Participatory institutions at the grass-roots level require capacity-building support to play a



meaningful role, on behalf of beneficiaries, in the implementation process, in project consultative or steering mechanisms and in direct management of components such as “village development funds”. In certain middle-income countries, there are strong institutional capacities serving the agricultural sector. However, the quality and orientation of their services is not geared towards the needs of smallholders and the rural poor. IFAD has been successful in inducing poverty-oriented change in these types of institutions. This capability is regarded as an important strategic focus of the Fund.

### **Mainstreaming Gender Perspectives**

37. Gender perspective implies an inquiry into, and response to, the different ways in which men and women experience poverty; the different processes through which they become poor; and, in turn, how rural development presents different opportunities and risks for women and men. Gender-specific data, though hard to collect and uneven, indicate that more women than men are poor. Nine basic objectives make up IFAD’s current gender strategy in project design: (i) improve availability and quality of gender data and analysis; (ii) protect and enhance women’s access to land and other natural resources; (iii) address constraints affecting women’s time and labour; (iv) improve women’s access to rural financial services; (v) address gender issues in agricultural technology systems; (vi) provide new skills and information to rural women to enhance their income-generating potential; (vii) facilitate communication and information-exchange among rural poor women and between them and other agents of economic change; (viii) make increasing use of community-based strategies for participation and involvement of rural poor women in decision-making processes; and (ix) enhance the effectiveness with which women in resource-poor households contribute to health and household food security.

38. While mainstreaming gender is one of the basic pillars of IFAD’s overall approach to project design, it is not enough to ensure that women have “equal access” to and can derive equal benefit from opportunities created by a project. The participation of women needs to be actively encouraged. This would require a process for the empowerment of women through specific activities, appropriate instruments, and reform in the organizational set-up and policy arena in harmony with local realities. In this context, gender mainstreaming (and women’s participation) is a “work-in-progress” in IFAD. A number of bilateral donors have provided support in the form of supplementary funds to assist IFAD in deepening its understanding of gender perspectives as a cross-cutting concern. For instance, Italy, Japan, The Netherlands and Norway have assisted the Fund in women-in-development activities.

### **Effective and Adaptable Technology**

39. The Fund draws on the “lab-to-land and land-to-lab” premise in assisting technology development and dissemination. In this approach, smallholders are initiating partners with researchers and extension agents in identifying technology issues and in developing and distributing appropriate and adaptable technology.

40. IFAD-financed research has focused on major production constraints facing resource-poor farmers in fragile, low-potential areas. Assistance has been targeted at food crops and livestock commodities that are traditionally produced and consumed by the rural poor. Emphasis is on applied/adaptive research of new varieties and technical packages for development and testing by farming communities, thus allowing poor farmers to select those most suitable to their environment. IFAD also has been able to reorient research priorities of the CGIAR and other research centres to address issues concerning sustainable agricultural development in low-potential areas. Over 80% of IFAD-financed CGIAR programmes have developed outputs of direct relevance to the rural poor through technology change. Some of these are striking in their widespread impact on small-scale agriculture throughout the developing world.



41. *In this context, the following issues merit greater attention by the Fund:*

- *There is evidence of a trend towards increased loss of soil fertility and declining yields in the developing world, which, coupled with persistent population growth, could well cause a food crisis unless breakthroughs in research can reverse the situation. For example, biotechnology – which is currently targeting commercial crops, mainly through research in private-sector centres in the industrialized countries – holds out possibilities for genetically improving food-crop varieties that are relevant to small-scale producers.*
- *There should be an increased emphasis on linkages between researchers, extension services and farmers' needs, ensuring that poor farmers are given a greater say in defining priorities for research.*
- *Local know-how and traditional technology should be taken into account in deciding on research programmes.*
- *Technology should be adapted and developed to better meet different gender roles.*
- *Technology must aim to enhance and diversify the productive potential of resource-poor farming systems.*
- *There has been inadequate research into socio-economic factors that inhibit the adoption of various technologies developed as a result of research efforts. IFAD's technical assistance programme (paragraph 66) should pay more attention to this area.*

### **Access to Productive Assets and Security of Land and Water Rights**

42. An overarching concern in approaches to sustainable rural poverty eradication is to ensure that IFAD interventions facilitate access of the rural poor – particularly of women – to productive assets (land and water). The quality of that access requires improving the negotiating ability of the rural poor to ensure security of tenancy relationships. This involves appropriate agrarian legislation and protection of traditional rights to public land and water sources. Benefiting from government moves towards agrarian reform, as well as civil-society efforts in this direction, IFAD has carried out a number of successful initiatives in all regions. The Programme Management Department should document and assess the Fund's experiences in order to build firm foundations for increased involvement in this area.

43. Landlessness and near landlessness are rising, as is the growing problem of disguised and open unemployment in rural areas. The landless depend primarily on off-farm and non-farm wage employment for their livelihoods. IFAD's projects pay particular attention to enhancing employment opportunities for this sector of the population and increasing their incomes through small-scale enterprises, which can also strengthen backward and forward linkages with the agricultural sector. IFAD's microcredit projects play an important role in providing working capital so that the rural poor, particularly woman, may find gainful employment. However, credit support needs to be complemented by capacity-building and strengthening of delivery mechanisms at the grass-roots level.

### **Rural Financial Services**

44. Financial mediation and the provision of rural financial services have evolved into particular areas of expertise for IFAD. Credit has been an important instrument for channelling IFAD loan funds directly to clients to increase agricultural productivity and income-generating activities. It has also assisted the Fund in inducing policy and institutional reform to ensure access of the poor, particularly



women, to credit. IFAD-supported activities in this field have been replicated or scaled up by beneficiary countries and other donors. Over time, however, IFAD's vision for supporting the development of rural finance has graduated from a concern with outreach towards the poor to one of development of sustainable rural finance systems. Access for the poor is supported through a range of financial service organizations – formal and informal, existing and newly created – with a variety of governance systems. The ultimate objective is the establishment of an integrated, sustainable rural finance system. IFAD's emphasis, therefore, is directed to financial mediation, promotion of enabling policies and appropriate institutional frameworks, dissemination of best practices, and capacity-building for a client-driven rural finance system. Once these elements are in place, the system is considered ready for the departure of IFAD and other donors. To this end, there is a close partnership between IFAD and the Consultative Group to Assist the Poorest (CGAP), and an active collaboration with some bilateral agencies.

### **Private Service Providers and Market Linkages**

45. Linkages to markets are crucial to successful project outcomes in terms of better prices for outputs or assured supply of inputs. Strengthening market linkages in a market-driven environment involves reliable market intelligence, timely and assured input supply, post-harvest storage, feeder roads and transport infrastructure, and access to traders in a competitive market environment. Strengthening linkages for small-scale producers is also critical in the context of international trade liberalization. The bottom line for small-scale producers is having a comparative advantage in offering quality products at competitive prices. Liberalization may create new opportunities for these producers to interface with the private sector through upstream and downstream linkages. Upstream linkages involve collaboration with agribusiness companies; downstream linkages involve partnerships with processing and trading companies.

46. In many countries, particularly in Africa, the dismantling of parastatals has led to the virtual withdrawal of public services from rural areas. IFAD projects have sought to bridge this gap by: (a) promoting the provision of such services by grass-roots participatory organizations; (b) facilitating the entry of private service providers and small-scale traders; and (c) strengthening market linkages with private trade. For example, the capacity of village associations or associations of producers has been harnessed to provide basic extension services, take up distribution of drugs or provide veterinary and other services. In Latin America, direct contracting of private extension services is encouraged.

### **C. Meeting Challenges in a Dynamic Context**

47. IFAD's comparative advantage depends on its ability to identify the concerns of the poor and use its leverage in the global fight to eradicate rural poverty. In order to take advantage of its unique strength, IFAD must monitor critical indicators of rural poverty, synthesize its rich body of internal knowledge with outside knowledge, focus on emerging constraints on the poor, understand the complementarity of poverty-eradication activities of other actors in the rural development scenario, and develop sharper instruments to help the poor achieve sustainable rural livelihood patterns above the poverty line.

48. Through detailed stocktaking of its operational experience, and in consultation with external partners and stakeholders, IFAD is expected to publish its first Rural Poverty Report in almost a decade at the end of the year 2000. To sustain dynamism and add value to its activities in the field, this major effort will be followed by regular updating of emerging options and opportunities for rural poverty eradication.



### **III. TRANSLATING RURAL POVERTY-ERADICATION OBJECTIVES INTO OPERATIONS**

#### **A. Regional and Country Strategies**

49. IFAD's corporate-level strategic thrusts are translated annually into regional strategies that underpin the annual lending programme framework. An overview of regional strategies for 2000 is attached as an annex to the "Preview of the Programme of Work and Budget of IFAD for 2000" (EB 99/67/R.8).

50. The regional strategies have their own focus and regional specificity, taking into account the recent trends in each region. Thus regional needs and emerging opportunities are given due consideration, in harmony with the overall operational focus of IFAD. In addition, the strategies are influenced by the comparative advantage and the experience that the Fund has acquired during its two decades of operations in each region. In other words, the Fund's operations take account of what it can do best in each region.

51. Preparation of the country strategic framework has also become a crucial step in the Fund's operations. (sentences transferred to paragraph 25) Such frameworks are a useful entry point for identifying possible strategic partnerships with a wide spectrum of stakeholders on the basis of complementarity and convergence, and it links up with country coordination mechanisms such as UNDAF and CDF (paragraph 7 and 25).

#### **B. Regional and Country Allocations**

##### **Regional Allocations**

52. The distribution of annual lending by region follows the framework set out in the annual Programme of Work and Budget of IFAD. In the period 1985-98, sub-Saharan Africa received 38% of total lending, Asia and the Pacific 30%, Latin America and the Caribbean 16%, and the Near East and North Africa 18%. At its Sixty-Sixth Session in April 1999, the Executive Board established a nine-member Ad Hoc Committee on Regional Allocations to review and recommend to the Board the benchmark share of annual lending to be allocated by region. The Consultation has already reviewed an interim report by the chairman of the committee, and it has noted that the recommendations are broadly in line with the allocations originally approved by the Executive Board. The final report was submitted to the Sixty-Seventh Session of the Executive Board for its consideration (EB 99/67/R.10), at which time the Board noted the recommendations to the Consultation, and agreed to return to the matter after adoption of the Consultation Report by the Governing Council.

##### **Country Lending and Performance Criteria**

53. The Fund provides loans to its developing Member States upon highly concessional, intermediate and ordinary terms. Unlike other IFIs, the Fund's resources are entirely directed to agriculture and rural development. The criteria for determining the terms and conditions are clearly spelled out in the Lending Policies and Criteria (LPC) (section IV) as last amended by the Governing Council at its Twenty-First Session in 1998. Accordingly, a borrowing Member States' GNP per capita in 1992 prices (or GDP per capita as appropriate) is viewed as the main criteria for deciding on the terms of a loan.



54. IFAD should concentrate its resources in poor countries and ensure that their share, on highly concessional terms, should be no less than 67%. The Consultation requested the Fund to draw up criteria to determine the circumstances under which loans on highly concessional terms might go to other countries, with a proposed ceiling on the proportion of such funds. Countries that borrow on ordinary terms contribute significantly to the Fund's reflows, allowing IFAD to enhance its overall lending levels.

55. Lending to Member States is determined through the preparation of the annual lending programme framework. The programme takes into account such considerations as: (a) consistency with regional and country strategic frameworks; (b) implementation performance of the active country portfolio; (c) country status of principal and interest payments; (d) frequency of lending in recent years and date of receipt of the most recent loan; and (e) project opportunities and incidence of poverty.

56. *Country performance in project implementation* is one of the factors determining the frequency of IFAD's loans and the level of resource allocation. The supervision reports by the cooperating institution, IFAD's own evaluation and portfolio review reports, combined with the outcome of field visits by country portfolio managers, form the basis for such assessment. The process is overseen by the Assistant President for the Programme Management Department. Severe implementation constraints, or continuous demonstration of lack of commitment on the part of the borrower are expected to affect the level of lending. *The Consultation noted, however, that in a number of cases performance problems are associated with external factors or institutional weaknesses that could best be addressed by IFAD-type projects. Nevertheless, it recommended that IFAD, in considering its criteria for resource allocation:*

- *give appropriate weight to country performance in project implementation;*
- *refine the set of common indicators presently used for this purpose, in consultation with managers of its financed projects and the Fund's cooperating institutions; and,*
- *to this end, adopt a rolling programme of three years as a flexible framework.*

57. The significance of an *enabling policy environment* for the success of IFAD-financed projects and the range of policy issues that could be of direct operational concern to IFAD have been discussed in section II (A) above. Of particular importance is the Fund's emphasis on improved local governance and on promoting participatory processes and institutions, which would enhance the decision-making opportunities of the poor and thus their empowerment. In brief, as a multilateral institution, the Fund's decisions are based on an objective determination as to whether it can effectively reach the rural poor through its financial assistance, even when the Government's policy framework may not be fully accommodating in its current form. However, the Fund has not always managed to assess the policy environment adequately or influence it through its operations and dialogue with the borrowers. IFAD's own evaluations, portfolio reviews and supervision reports have demonstrated cases in which the negative impact of the policy environment and institutional factors have compromised the progress and impact of projects. The Fund wishes to seize the opportunity of working closely with the Government and thus becoming a catalyst in policy reform. In some cases, this may mean sustained dialogue to build a relationship of mutual trust. However, the Fund may desist from lending if severe constraints in policy environment were to hinder the achievements of the objectives of its projects. For example, the Fund has withheld further processing of a project or the signing of the loan agreement until it has obtained assurances from the Government that certain constraints would be removed, e.g., relaxing rigid marketing policies to permit effective participation of the private sector; ensuring land-tenure security for project beneficiaries; and facilitating participation of NGOs and grass-roots organizations in project implementation (paragraphs 17-26).



58. *The Consultation, taking into account the results of IFAD's own evaluations, underscored the need for continuous improvements by the Fund and the establishment of a process that would assist the monitoring of its performance in this area (section VI).*

### **Lending to Middle-Income Countries**

59. *Poverty in middle-income countries in Latin America.* In many middle-income countries in the region, skewed income distribution paired with strong economic growth poses a serious social and economic challenge to efforts to correct a deteriorating poverty situation in rural areas. The largest concentration of the rural poor in the Latin American region – nearly 60% – is located in two of the largest middle-income countries, Brazil and Mexico. The accelerated processes of privatization and increased exposure of small-scale producers and indigenous populations to markets have been accompanied by major inequities in land distribution and income disparities, which are causing social tension. As a result, many governments in the region look to IFAD's assistance in working with the rural poor. Innovative programmes contribute to stabilizing and improving their productivity and incomes in a volatile period of economic and social transition. Moreover, a large number of countries in the region have implemented successful programmes for privatization of rural services. These experiences are of great value to IFAD for replication in other countries.

60. *Problems associated with a degraded resource base in middle-income countries in the Near East and North Africa.* The major problems in this region relate to rangeland management in marginal, low-rainfall areas in which high stocking pressure is rapidly degrading the environment and reducing productivity. Through operations in Jordan, Morocco, Syria and Tunisia, IFAD has tested a number of innovative and participatory approaches to tackling the chronic conditions of rural poverty. Its experience has enriched its knowledge, which is of great relevance to sub-Saharan African countries facing similar problems of land degradation and poverty. It is important that IFAD maintain active lending operations in these countries.

61. *Enhancing the leverage of IFAD's lending.* Governments of many middle-income countries in various regions are willing to pay ordinary terms to address their poverty problems on the basis of IFAD's special experience and knowledge. It is important to stress that, in such countries, it has been possible to mobilize a much larger proportion of project costs from domestic resources, in proportion to the size of IFAD loans. An overall assessment of IFAD's loan portfolio shows that against a 26% contribution from the Fund, and 31% cofinancing, this category of countries has borne, on average, 43% of the total cost of the projects. Moreover, stronger institutional capacity in these countries has generally ensured greater project impact and subsequent scaling up. Thus, IFAD's investments acquire significant levels of financial and policy leverage.

### **Other Demands on IFAD's Lending Resources**

62. *New borrowing Member States.* The Fund's membership has expanded, with 14 new Member States since 1992, largely from Eastern Europe and Central Asia. Many of them have significant poverty levels in rural areas, aggravated by the erosion of state agricultural services. IFAD's experience in poverty-focused rural development and its knowledge of specific approaches and cross-cutting issues (section II (B) above) are highly relevant to these countries. As they benefit from international assistance in introducing major macroeconomic reform and construction of basic infrastructure, these countries look to IFAD to assist them with the fundamental task of building their rural economy. IFAD resources would not be sufficient to bridge this financing gap. But building upon its experiences in other countries, the Fund can help new Member States in the adoption of pragmatic approaches to the solution of structural problems that inhibit the growth of their rural economies. *In recognition of such capacity on the part of IFAD, the Ad Hoc Committee on Regional Allocations has recommended that a specific share of the Fund's annual lending programme be allocated to this group of countries.*



63. *Bridging post-crisis recovery and long-term development.* A number of countries in eastern Asia saw their gains in rural poverty reduction swept away by the financial crisis that hit them in mid-1997. Asian countries were also affected by *El Niño*. Moreover, the resource base of rural poor and indigenous people in the uplands and mountainous areas of Asia is also subject to heavy degradation. Hurricane Mitch in Central America, civil strife, natural calamities and the scourge of AIDS in African and other developing countries also threaten to wipe out progress achieved over the years. These countries look to IFAD for assistance to ensure that hard-won benefits do not slip away. IFAD's focus will not be on relief operations but on assisting the economic recovery of the poor by restoring their productive capacity. The Fund has also examined options for increasing its focus on indigenous people and other marginalized groups of rural poor in upland and mountainous areas of Asia through development of regenerative agriculture and forestry. In all these cases, assistance may be provided through restructuring of ongoing projects or through new loans, with a judicious use of grants in special cases. It is expected that the Fund's comparative advantage, in terms of knowledge, expertise and partnership, will bring benefits beyond its direct financial assistance. Thus IFAD's Executive Board has considered and adopted a policy framework for IFAD's operations that reflects this expectation. *Nevertheless, the Consultation recommends that the Fund, to the extent possible, avail itself of supplementary resources for providing a commensurate response to the needs of these countries.*

### C. Grant Programme Management

64. As with other IFIs, IFAD's programme of assistance includes a limited amount of grant financing. The Executive Board has established a ceiling of 7.5% of the approved programme of work (loans plus grants) for this purpose. Grant financing should be used where loans cannot easily be provided, such as activities at the international or regional level in which the participation of a number of countries or diverse types of stakeholders is involved. At the same time, it should reinforce the lending programme and enhance its eventual impact. The limited amount calls for judicious and strategic use of grant resources. Since the initial years of IFAD activities, the Executive Board has directed the Fund to use these resources in four major activities: (a) assist Member States in project development and implementation; (b) support agricultural research and training at international and regional levels; (c) on a selective basis, support loans to countries stricken by natural or man-made calamities; and (d) extend IFAD's cooperation with NGOs in institution-building or pilot-testing of innovative approaches relevant to IFAD's operations.

65. In recent years, a number of steps have been taken to improve the management of grants in terms of process and substance. The process of screening and selection has been streamlined, with grant proposals being screened at the concept stage. Those cleared for inclusion in the pipeline are reviewed by an inter-departmental task force at the design stage. The whole process focuses on the observance of objective criteria: (a) relating a grant proposal to specific strategic objectives; (b) establishing a clear link between grant-financed inputs and expected outputs; and (c) setting a clear plan for monitoring outputs and results.

66. IFAD has undertaken a number of reviews of the direction and outcome of some categories of grant financing, in particular agricultural research and training at the international and regional level. With the exception of a major regional agricultural training programme in Africa (Agricultural Management Training Programme for Africa – AMTA), it has not yet undertaken a systematic evaluation or full assessment of its grant programmes. However, in collaboration with the World Bank, it recently launched an evaluation of major agricultural technologies it has supported through the Consultative Group on International Agricultural Research (CGIAR). Furthermore, the Fund is formulating its future policy and strategy for grant financing on the basis of extensive consultation with the Executive Board. In this connection, a draft paper entitled "IFAD Policy and Strategy for





Grant Financing” was submitted to the Executive Board at its April 1998 Session, followed by a seminar with the Executive Board on the same subject. A revised paper will be submitted to the Executive Board for its May 2000 Session. The paper will reflect, *inter alia*, the views expressed by the Executive Board, a comprehensive audit of the IFAD/NGO Extended Cooperation Programme, a system review of its grant programme by the Office of Internal Audit, and a new examination of the adequacy of resources allocated to project and programme development in terms of amount and scope. It will also propose a strategic focus for the utilization of grant resources.

#### **IV. STRENGTHENING IFAD’S OPERATIONAL EFFECTIVENESS IN ERADICATING RURAL POVERTY**

##### **A. Implementing IFAD’s Vision, Mission and Corporate Strategy**

67. IFAD’s re-engineering process aimed to improve institutional capability for managing change. At the heart of this process was a clear statement of “IFAD’s Vision” to sharpen its future direction and goals. This was followed by the adoption of a corporate strategy, which identified five major corporate thrusts. These thrusts have been translated into detailed objectives, action plans and targets by each organizational unit, according to functional area. The action plans are based on quantifiable targets within a specified time frame. Score cards are used to monitor performance against the targets as the basis for transparency, focused action and accountability. A system for assessing performance efficiency and establishing timely corrective action in case of slippage has thus been put in place. Moreover, to allow for changes and adjustments, the corporate thrusts and objectives are periodically reviewed and assessed through a participatory process within the organization.

##### **B. Streamlined Project Cycle**

68. An essential thrust in streamlining the project cycle was to make project design beneficiary-driven and the Fund’s interventions results-driven. A link – the sense of beneficiary ownership – must be established between design, performance and supervision. Project designers must provide instruments that ensure flexibility, coherence and checkpoints for controlling and correcting performance. One of the tools to ensure internal consistency between project inputs and outputs in relation to programme objectives is the increased use of logical frameworks in various phases of the project cycle. Project staff are being trained in this and related techniques.

##### **C. Improved Budgetary Process and Increased Efficiency**

69. The cornerstone of IFAD’s re-engineering was a strategic management system to develop consistent performance measures and link them to four basic business processes: planning, budget formulation, budget implementation and performance evaluation in terms of targets actually realized, both quantitatively and qualitatively.

70. The most critical element in the strategic management system is performance measurement, which ties the entire system together. Corporate strategy is closely linked to the preparation of the annual Programme of Work and Budget of IFAD. The objective is to ensure that IFAD’s strategic objectives determine budgetary allocations while continuing to emphasize cost-effectiveness.

71. Cost-effectiveness is an important indicator of the achievement of process efficiency. IFAD’s performance in this regard has been demonstrated by the 1999 administrative budget, which is again



based on zero real growth. After four years of significant reductions in the budget (1993-96), there have been three years of zero real growth. As a result, the Fund's budget and project development costs are actually 17% lower in dollar terms than they were in 1993. Over the same period, IFAD's programme of work (that is, the projects it delivers to the rural poor) has been raised by 35%, from USD 350 to 473 million.

#### **D. Strengthened Portfolio Management and Supervision**

72. A systematic approach has been put in place to review the performance of IFAD's portfolio at various levels of management. A compressed project status report (PSR) was introduced on an experimental basis in 1997 and extended to all regions in 1998. It is characterized by quantitative indicators, which will be complemented in future years by qualitative indicators. It is a tool for more methodical assessment of project performance, highlighting key implementation issues and proposed remedial actions, and thus facilitating a dynamic approach to portfolio review. PSRs are now integrated into the corporate database, for the Fund's project portfolio review. This new approach has made it possible to identify underperforming projects as well as to detect potential problem areas in those projects apparently performing satisfactorily. For all such projects the Fund is pursuing various approaches to addressing implementation problems through better coordination with the cooperating institutions, provision of implementation support and improving project design at mid-term or other periodic reviews.

73. Overall, portfolio performance has registered encouraging improvements. It should be noted that annual disbursements on IFAD's regular programme loans have risen by 85% from 1995 to 1998. Of the 211 ongoing projects in the portfolio, some 55 projects were categorized as having major problems, but improving, and another 10 projects as having major problems and not improving. The latter category of projects are generally those severely hit by factors beyond the control of project management, such as natural disasters or civil unrest. The extent of physical damage in such cases makes achievement of project objectives extremely difficult over the envisaged implementation period. Conversely, projects rated as having major problems, but improving, display a wide spectrum of implementation problems that are by and large under control. The relative proportion of underperforming projects compares favourably with other IFIs, bearing in mind that IFAD projects have unique characteristics that significantly influence their implementation performance. These include the relatively weaker institutional capacity of implementing agencies that deal with the rural poor, the time required to mobilize the support of implementing agencies and participation of beneficiaries, and the remoteness of IFAD project areas from mainstream project activities.



### **E. Flexible Lending Mechanism**

74. The primary objective of the Flexible Lending Mechanism (FLM) is to introduce a greater degree of flexibility into project design and implementation in order to: (a) match project time frames with the pursuit of long-term development objectives, when it is judged that a longer implementation period (10-12 years) is required to meet them; (b) maximize demand-driven beneficiary participation; (c) reinforce grass-roots capacity development; and (d) ensure that critical financial and programming control mechanisms are in place so that funds are managed judiciously and development objectives achieved. The introduction of FLM is also intended to enable IFAD to be more responsive to calls from Member States for a longer-term commitment in the pursuit of mutually agreed development objectives. It will demonstrate the Fund's interest in developing a greater variety of lending instruments to cater more effectively to the diverse financing needs of beneficiary countries. FLM involves a detailed design process for the initial cycle of project activities, with a set of clearly specified "trigger" conditions for proceeding to subsequent cycles, and an enhanced role for monitoring and evaluation to ensure that projects are on track in terms of immediate and long-term objectives.

### **F. Stronger Evaluation**

75. Over the past ten years, IFAD has been developing a set of instruments for project evaluation at mid-term and completion, as well as evaluation of country portfolios and thematic assessments. In recent years, the evaluation function has also taken another direction: while retaining accountability as one of their main traits, IFAD's evaluations have increasingly focused on lessons learned. Lessons are stored in an electronic knowledge network, where the information can be managed and shared in-house as well as with other development agencies and partners.

76. In order to foster learning at IFAD, the evaluation process is being reorganized around learning teams, or "communities of practice", consisting of the most important stakeholders within and outside IFAD. It is they, more than evaluation consultants, who are now being asked to jointly develop useful recommendations and identify lessons learned. Moreover, these learning teams are expected to agree on the follow-up required to ensure that evaluation results are used to improve the quality and effectiveness of IFAD operations. Evaluations must be used systematically to generate the type of knowledge needed to pursue IFAD's vision, mission and values. This will be the task of "thematic evaluation groups", which will focus on such themes as sustainability, the cost-effectiveness of impact and IFAD's capacity to innovate as well as to replicate and scale up successful projects. Their task will also include assessment of alternative methodological approaches for participatory evaluations and for the analysis of project effectiveness. These new approaches will require that IFAD's evaluation culture become value-driven, and that it promote teamwork, learning and sharing of knowledge with others.



## G. Corporate Approach to Knowledge Management

77. The Fund's project and portfolio operations and associated work processes – the project development cycle, project development teams (PDTs), the Technical Review Committee (TRC) and the Operational Strategy Committee (OSC) – represent key sources of knowledge. However, the learning potential of these processes is not systematically realized, partly because knowledge management is structured primarily on a country and regional basis. It is now proposed that operational knowledge be captured and managed through the cross-country and cross-regional thematic groups. This will complement the approach to learning and sharing evaluation knowledge discussed in the previous section, and permit close mutual cooperation between the Programme Management Department and the Office of Evaluation in the area of knowledge management. At the corporate level, there is a need for an integrated overview of the knowledge function, involving internal generators of knowledge as well as other partners. The focus will be on deepening and conceptualizing knowledge gained in the field, as well as the outcomes of thematic work in the context of lessons from evaluations and operations.

## H. Assessment of Project/Programme Results and Impact

78. The Consultation considered a study on the “Effectiveness of Selected IFAD Projects”. Based on a sample of 38 projects, the study concluded that 35 of the projects had considerably improved the income and living standards of beneficiaries. Elements of 21 projects have been replicated by the Fund, and many of these projects are also being replicated and scaled up by other development organizations. The Consultation also considered a study undertaken by the international consulting firm Deloitte & Touche on the Fund's future resource needs. The summary and conclusions of the study are attached as Annex II.

## I. Global Initiatives in which IFAD Plays a Prominent Role

79. In the mid-1990s, IFAD played an active role in initiating and establishing two major global partnerships: the Popular Coalition to Eradicate Hunger and Poverty and the Global Mechanism of the Convention to Combat Desertification:

- **The Popular Coalition to Eradicate Hunger and Poverty** is a consortium of multilateral agencies (IFAD, the World Bank, FAO, the World Food Programme (WFP) and the European Commission) and civil-society organizations that was set up in 1995 to mobilize and reinforce the rural poverty-reduction capacity of civil-society organizations. Facilitating access of the rural poor to productive assets – land and water – is its major priority. To this end, the coalition has established a Knowledge Network on Agrarian Reform, which collects, assesses and disseminates information on the most promising practices in market-assisted agrarian reform and civil-society initiatives.
- **The Global Mechanism of the Convention to Combat Desertification** is a mechanism established to facilitate the mobilization and channelling of substantial resources in support of implementation of the Convention. In recognition of the Fund's institutional knowledge and expertise in responding to the challenges inherent in implementation of the convention, it has been selected as the institution housing the Global Mechanism (GM), which is now fully established and operating as an organic part of IFAD but with a separate identity. The managing director of GM reports directly to the President of IFAD. A partnership of IFAD, the World Bank, UNDP, FAO, UNEP, the Secretariat of CCD and regional development banks is supporting the operations of the Global Mechanism.



80. *The Consultation underscored the importance of strong operational linkages between these two initiatives and IFAD's own operations. In particular, it emphasized the need for the Fund to ensure the effectiveness and efficiency of the activities of the Global Mechanism of CCD.*

## **V. MANAGEMENT OF IFAD'S RESOURCE BASE: RESOURCES REQUIRED TO MEET DEVELOPMENT OBJECTIVES**

### **A. Managing Reflows: Arrears and the Heavily-Indebted Poor Countries Debt Initiative**

81. Total loan principal and interest/service charges in arrears as of 31 December 1999 stood at USD 55.9 million. Since IFAD's inception, total arrears compared to total reflows stand at 3.5%. The Fund is taking vigorous steps to address the arrears situation. As countries settle their arrears, they will become eligible for new loans – a factor that must be taken into account in terms of the Fund's future resource needs.

82. HIPC DI was launched in 1996 to reduce the multilateral debt burden jeopardizing the pursuit of structural adjustment and poverty alleviation in poor countries. IFAD is participating in country debt initiatives on a case-by-case basis and is also contributing to the development of this initiative. To date, the Fund has committed itself to USD 24.5 million of debt relief for seven countries. The upper ceiling of the costs of IFAD's participation in HIPC DI was estimated at USD 60 million. However, recent information from the World Bank/International Monetary Fund (25 June and 26 July 1999) identifies the following modifications to the original HIPC DI framework as a result of the Cologne G8 meeting: (a) deeper debt relief, reducing the NPV debt-to-exports target to 150% (from 200-250%) and the NPV debt-to-revenue target to 250%, fixing debt-relief targets at decision point, and making the new framework retroactive; and (b) broader coverage, extending the debt initiative to 36 HIPCs rather than 29. Excluding Liberia, Somalia and The Sudan, preliminary estimates of the total cost of HIPC DI show an increase from USD 12.5 to 27.4 billion in 1998 NPV terms, while the cost to the multilateral creditors increases from USD 6.2 to 13.3 billion. Under the enhanced HIPC DI IFAD would be expected to deliver an estimated USD 260 million (in 1998 NPV terms) in debt relief.

83. *The consultation recommends that IFAD fully participate in the enhanced HIPC DI. The Executive Board should define the financial modalities and procedures for the above-mentioned participation, including through: IFAD's resources; the HIPC DI Trust Fund administered by the World Bank; and the IFAD Trust Fund for the HIPC DI. In doing so, due care should be taken to minimize the impact thereof on the annual lending programme of IFAD. IFAD should participate fully in the process of establishing poverty reduction strategies by eligible countries, given its special expertise in combatting rural poverty. Member Countries able to do so should be invited to the enhancement HIPC DI either through the HIPC DI Trust Fund of the World Bank, explicitly earmarking those contributions for debt owed to IFAD, or through the IFAD Trust Fund for the HIPC DI.*

### **B. Maximizing Investment Income: Drawdown and Liquidity Management**

84. In an effort to maximize investment earnings, in recent years IFAD has revised its investment policy and guidelines, moving from investments entirely in government bonds to a mix of different instruments. The total portfolio, consisting of about USD 2.3 billion at the end of 1998, generated



earnings at an overall average of 8.5% in 1998 (7.5% in 1997). This new policy is expected to result in increased average earnings over time, although it may mean greater volatility in annual levels.

85. Efforts to maximize investment earnings will be of little use if the Fund's investment portfolio is eroded drastically. At present, there is a cap imposed on the growth of the investment portfolio, implemented through the 35% drawdown policy. That is, 35% of annual disbursement requirements are met by drawing down from Member States' contributions, as opposed to the pre-1993 policy of 100%. This results in a major loss of investment income, one of the three main sources of funds for IFAD operations. The Deloitte & Touche study suggests that one of the most effective measures for strengthening IFAD's financial position could be to increase the current percentage drawdown.

### **C. Replenishment Size and Burden-Sharing**

(to be completed)

### **D. Reporting Contributions**

(to be completed)

### **E. Market Mechanisms for Enhancing Commitments**

86. IFAD has started to explore the possibility of tapping private capital to enhance its commitments in the medium to long term. The Consultation welcomed the various presentations made on market mechanisms in July and October 1999. The latter allowed International Finance Corporation (IFC) staff to share their experience with the Consultation and outline the scope for *securitization* in IFAD, although the Consultation recommended a cautious approach to this mechanism. The Consultation requested IFAD to explore the scope for increasing the financing available from non-donor sources.

## **VI. RECOMMENDATIONS**

87. The Consultation reconfirmed that the Fund, with its exclusive focus on rural poverty alleviation and the knowledge it has gained, can continue to play a unique role in global poverty eradication. This role should allow the Fund to contribute effectively towards the achievement of the poverty-alleviation goal established for the year 2015. However, this will be contingent upon its ability to enhance its comparative advantage and influence the direction of policies and resource flows to address rural poverty and household food security. To this end, the key recommendations are set out below.

**A.** In terms of its General Policy, IFAD should:

- (i)** Adopt an approach that harmonizes with the Comprehensive Development Framework and UNDAF, bearing in mind IFAD's specific mandate, and ensure that the national policy and institutional environment in prospective recipient countries is taken fully into account in deciding the level and form of assistance (paragraphs 19, 23-24);



- (ii) Ensure, in collaboration with the relevant recipient government agencies, the fullest participation by prospective beneficiaries and other stakeholders in project design and implementation (paragraphs 24 and 34);
- (iii) Ensure that COSOPs bring out the national and sectoral policy issues relevant to programme success, with conclusions on project proposals reflecting such analysis (paragraphs 20, 23-26);
- (iv) Taking into account IFAD's own evaluations, improve the organization's ability to assess the policy environment and ways of influencing it through its operations and dialogue with borrowers (paragraphs 57-58); and
- (v) Give appropriate weight to borrower's implementation performance in determining resource allocations (paragraph 56).

**B.** On the issue of Specific Approaches and Impact, IFAD should:

- (i) Improve the effectiveness of the Fund's approach to the task of poverty alleviation with a strengthened search for new and innovative solutions in key areas. These include the environment (with an expansion of efforts in dry zones and fragile ecosystems, where intrinsic poverty and food insecurity combine with environmental degradation); household food security; grass-roots organizations and capacity-building; rural financial services; and gender (paragraphs 12 and 27);
- (ii) Build on the Fund's comparative advantage by enhancing its policy dialogue and analysis in relevant areas and by sharpening its focus on areas that can act as a catalyst for wider application (paragraphs 12-13); and
- (iii) Improve impact assessment; document innovative features in a standard format; and devise and implement a strategy for sharing lessons learned with other stakeholders (paragraphs 13 and 73).

**C.** In respect of Complementarity and Replication, IFAD should:

- (i) Forge more strategic partnerships and expand the Fund's collaboration and cofinancing with other donors. The objectives are to improve mutual learning and lesson sharing; exploit the scope for complementary actions; share institutional capacity; and strengthen the potential for replication and expansion of best practices in poverty alleviation (paragraphs 14-15); and
- (ii) COSOPs should examine the scope for collaboration and technical and financial cooperation with other donors (paragraph 25).

**D.** In terms of the Use of Resources, IFAD should:

- (i) Consider the distribution of annual lending by region, including demands from new countries and post-crisis recovery situations (paragraph 52);
- (ii) Concentrate its resources in poor countries and ensure that their share, on highly concessional terms, should be no less than 67%. (paragraph 54);
- (iii) Draw up criteria to determine the circumstances under which loans on highly concessional terms might go to other countries, with a proposed ceiling on the proportion of such funds (paragraph 54);



- (iv) Direct its programme of assistance to middle-income countries, in which there are clear opportunities for innovative projects and for leveraging institutional and policy reorientation in favour of the rural poor, together with mobilization of more domestic resources (paragraph 59-61);
- (v) Use grant resources to further the core objectives of the Fund, in particular promoting innovative policy and initiatives, institutional solutions, technological improvements and knowledge sharing (paragraphs 64-66); and
- (vi) Explore the scope for increasing the financing available from non-donor sources (paragraph 85)

88. The Plan of Action is set out in tabular form in Annex I. This shows how each of the recommendations listed above will be incorporated into IFAD's policy framework and management tools. The Plan of Action will be implemented over the period 2000-02. Progress will be reported periodically to the Executive Board starting in September 2000 and annually to the Governing Council. In addition, there will be a mid-term review of progress, reported to the Executive Board and the Governing Council.





**IFAD V: PLAN OF ACTION (2000-2002)**

(under review)



## **SUMMARY AND CONCLUSIONS OF THE REPORT BY DELOITTE & TOUCHE: "REVIEW OF IFAD RESOURCE ADEQUACY"**

This assessment of IFAD's resource adequacy focused initially on the financial side of the issue. Working closely with IFAD staff, we have developed scenarios that quantify the impact of such variables as interest rate, income earnings, inflation, repayments, and lending mix, and arrived at a series of cases that define the financial field of play within which IFAD's future will lie.

Before discussing our findings and conclusions it is important that the reader conceives this document with the following philosophy:

Understand and establish IFAD's unique role and expertise in reaching out to the rural poor. Once consensus has been reached as to IFAD's task then the reader needs to decide what impact should IFAD have in alleviating the poor either at a global level or at a regional level. The ensuing discussions would then lead to establishing the cost of achieving this goal.

It should be noted that should there be significant changes in the world economic and political scenarios then these could have significant impact on IFAD's resource requirements. For example President Clinton's proposal to "forgive" Africa's debts could have an impact on IFAD's loan flows and therefore its resource requirements, the impact of which is, at this moment, not foreseeable.

Furthermore it is important to be clear as to the meaning of Sustainability as used in this exercise. Sustainability is defined as the level of the credible programme of commitments that the member countries are willing to support. Self-sufficiency is the level of commitments that the Fund can achieve without further replenishments.

Having said this, illustrated below, are the costs associated with the three impact scenarios that we were asked to comment on:

- The financial self-sufficiency<sup>3</sup> level of operations with no further replenishments from donors is about \$ 185 million per year
- Maintaining operations at present levels of \$ 450 (in 1996 prices) million per year would require new replenishments from donors of about \$ 200 million per year in real terms and declining over time to \$ 110 million per year. It should be noted that a replenishment level of \$150 million per year in real terms would not allow a reduction in the level of replenishments requirements over time.
- Increasing operations to over \$600 million by year 2005 (end of VI replenishment) would require new replenishments from donors of about \$270 million per year declining over time to about \$200 million per year.

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<sup>3</sup> Originally "sustainable" in the Terms of Reference

ANNEX II

In order to calculate the above figures we have made two significant changes to the model being: an increase in the projection period and, more importantly, the introduction of cash flow monitoring. No other changes have been made to the assumptions used in the model<sup>4</sup> although we have analysed each one and given our comments and conclusions thereon.

For ease of interpretation we have identified the key assumptions (see Annex 6) that affect the model and classified them in four categories: external, fundamental, high impact and low impact. These assumptions are briefly discussed in the following paragraphs, the details of which can be found in section IV of this report

Included in the external assumptions are inflation and portfolio investment income. The impact of a percentage change in inflation, albeit mitigated by the rise in interest rates, would be significant. On the other hand should IFAD manage to consistently achieve portfolio returns higher than those modelled a reduction in the resource requirements could be achieved. In this context considerable “front loading” would reduce the required replenishments to an almost negligible level due to the increased rate of return capacity of the investment portfolio. However this may not meet the consensus of all the member countries.

Fundamental assumptions are those that need to be changed to take into consideration aspects that we believe to be of paramount importance. Included herein is the treatment of loan arrears or defaults. At present the model considers arrears to be 5% per annum lagged by one year. However in consideration of actual and future arrears we believe that some level of loan arrears/loss should be built into the model. We suggest that a 5% loan loss provision would be a conservative figure that would allow IFAD to correctly model its loan re-flows.

Additional HIPC-DI costs would adversely affect IFAD’s resource requirements although this could be off-set, in part, by the funds received by donor contributions towards the HIPC initiatives.

High impact assumptions are those that, if changed, have a significant impact on the modelling exercise. Of these the foremost is the draw down policy which if changed to allow IFAD to draw down the full amount disbursed per annum would result in a significant decrease in replenishment requirements over time.

Low impact assumptions include hardening of loan conditions, loan mix, and grants.

The marginal impact of these depends on the changes made. Grants today amount to 7.5% of total loans of which about half goes towards project implementation and other associated project costs and the other half to other research institutes such as CGIAR. Of these only the portion given to other institutions (the project related grants are essential to the success of the projects) could be used differently therefore increasing the level of resources available to be committed.

Hardening of loan conditions would have some effect depending on the type of adjustment made examples are shorter repayment terms, shorter grace periods, inclusion of commitment fees and charges.

Change in the loan mix i.e. increase the portion of ordinary loans reducing the portion of highly concessional loans will result in improved results but may not be in line with IFAD’s mission.

Whatever changes to the assumptions that could be made there is no financial analysis that would, once and for all, end the debate over the appropriate level of funding for IFAD. There is no financial methodology that would lead donors, borrowers and management to a common conclusion as to the “right” level of commitments and the best mix of investments and replenishments to support those operations. There are simply too many non-financial factors in the decision of operating level, and too

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<sup>4</sup> Assumptions are: Inflation 3%, draw down policy 35% of promissory notes, investment income 7%, grants 7.5% and 5% arrears lagged one year.



many choices among variables that could be adjusted to have the same effect on resources or impact. IFAD management recognises this complex matrix of factors, and included in our terms of reference a review of programme issues to make sure that the financial discussion is well anchored in the reality of rural development lending in today's donor community.

Fortunately, there is a well-documented history of activities with which to address these programme issues, and a distinctive pattern of results that collectively point to an area of comparative advantage for IFAD. We could not, of course, in this brief assignment conduct the range of analyses that a thorough discussion of sustainable IFAD operations requires. However, we have developed a sense of the direction in which IFAD's resource profile could move and we are in a position to highlight issues that need to be addressed if the case for sustained operations is to be made effectively to the Fund's donors.

IFAD is unique among IFI's in that its concessional lending accounts for the majority of its operations, and income from conventional lending is not significant in terms of off-setting the grant element in concessional loans. In other words, the operating policies given to IFAD by its member governments effectively rule out financial self-sufficiency. The only alternative to periodic replenishment is to establish an endowment sufficiently large that its earnings are equal to the grant element in lending operations. The present funding mode is a combination of replenishments, investment income and re-flows. For any agreed level of operations, constructive debate over funding must centre on the balance between these three sources, and consideration of possible alternative sources of external funding. The notion of IFAD "going it alone" defeats the purpose for which it was founded.

### **A Programme Approach**

As a result of our meetings with a wide range of member countries and other IFI's and an examination of financial and operations data, we believe that the approach to future operating level that will generate the greatest consensus and the most consistent support is one that sets financial considerations firmly in the context of a distinct role for IFAD. In practice such an approach consists of three steps:

1. Establish the unique role or expertise of IFAD in the development community,
2. Establish the potential impact of IFAD on the development of its target population, and
3. Fit resource considerations to that distinct contribution.

Following a brief survey of recent changes in the development picture, this report generally follows these three stages. It concludes with an indicative list of next steps to ensure that the dialogue on IFAD resources goes forward on a sound analytical base.

### **Recent Changes in the Development Picture**

In the several years since the resources and activities of IFAD were last examined at Board level, there have been a number of changes that could have a material effect on the issues of the role of IFAD, the need for its services, or the scope of those services. For example:

#### **Focus on Poverty**

The OECD Development Assistance Committee set development goals in 1996 reflecting goals set by the international community. They focus primarily on the reduction of poverty and its causes, and include the following specific objectives:



- Reduction of extreme poverty by at least 50% by the year 2015 (estimated at 1.3 billion in 1996)
- The World Food Summit in 1996 also had similar objectives.

### Population Living on Less Than One Dollar a Day in Developing Countries

	Million	% of Population
East Asia and Pacific	445.8	26.0
Europe and Central Asia	14.5	3.5
Latin America and Caribbean	109.6	9.1
Middle East and North Africa	10.7	4.1
South Asia	514.7	43.1
Sub-Saharan Africa	218.6	39.1
<b>Total</b>	<b>1 313.9</b>	<b>29.4</b>

Although it will vary from region to region, the share of these poor living in rural areas is probably about 75%<sup>5</sup>.

### Renewed appreciation of the need for rural development

Donors generally recognise that the trickle of benefits from macropolicy interventions or other large-scale projects down to the rural poor is seriously hampered by the absence of employment or production links of the poor to the rest of the economy. The World Bank has renewed its focus on rural development and announced a new policy and lending priority, particularly in Africa.

### Re-orientation of other agencies supporting rural development

Budgetary constraints as well as more informed thinking on development have led to recognition on the part of donors that they cannot be all things to all people, that they have acquired, or should acquire, particular areas of competence. For example, the World Bank has recognised its limited effectiveness in working at the community level, but its comparative advantage in broad policy-based operations that influence the environment for production in terms of inputs, incentives and opportunities. This leads the Bank increasingly to seek the collaboration of agencies that have the knowledge and the flexibility to assist local beneficiaries to take advantage of the economic opportunities created by the improved environment. There are many factors in addition to programme emphasis that determine the overall lending level of the World Bank Group, but within that framework, a larger share can be expected to have a poverty alleviation objective. Several bilateral donors have also stated explicitly the importance of the rural poor in their programmes, but at the same time their limited capacity to deliver appropriate projects.

### Trends in official development assistance

Since 1992 ODA flows have declined over 20% in constant dollar terms. Although economic difficulties constrain the contributions of some important ODA donors, there is a search, particularly among European donors, to find effective vehicles for the delivery of development capital.

<sup>5</sup> World Bank – Rural development: from vision to action 1997, “despite integration nearly ¾ of the poor will continue to live in rural areas well into next century.”



### **Sharpened focus of development assistance**

The days of the indiscriminate view that “development is good” are gone. Donors are more pragmatic and results-oriented in their development strategies. Whether clear beneficiary targets, or tangible results, the theme is a focused effort toward a measurable outcome.

### **New groups of rural poor**

The break-up of the command economies in the former Soviet Union has left many rural producers without the resources or the markets with which to earn a livelihood. The overall economic situation in these countries has precluded any social safety net to protect them during an adjustment period. The economic decline of a number of Asian countries has also produced millions of poor in a very short time, and eroded the markets and financial infrastructure on which their well being once depended. Elsewhere, environmental degradation, increasing geographical concentration of the poor in areas with fragile ecosystems and the failure of land settlement schemes have also produced rural populations that have lost their earning power.

Effective interventions to reduce poverty in these areas would involve additional investments with a higher degree of concessionality, even grants, above and beyond normal levels of IFAD investment.

### **Improved environment for rural development**

Despite the mixed results of many structural adjustment operations, there is little doubt that the economic climate for investment and employment in many developing countries has improved, and that the benefits of this “more even playing field” could accrue to the rural poor if they could only be given the means to intensify and monetise their economic activity.

Collectively, these developments point to a greater need for the type of expertise IFAD has to offer and growing resources to meet that need, but they also indicate that, more than ever, development agencies need to have clear objectives and results-driven operating systems.



**ANNEX III: Potential New Donors**

(to be completed)

**ANNEX IV: Documents Provided to the Consultation: Papers and Technical Notes**

(to be completed)

**ANNEX V: Draft Resolution of the Governing Council**

- Annexes
- Tables

(to be completed)