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IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Consultation on the Sixth Replenishment of IFAD's Resources – Fourth Session
Rome, 9-10 October 2002

ENABLING THE RURAL POOR TO OVERCOME THEIR POVERTY: REPORT OF THE CONSULTATION ON THE SIXTH REPLENISHMENT OF IFAD'S RESOURCES (2004-2006)

DRAFT

1. At its Third Session, the Consultation reviewed the first draft of its Report on the Sixth Replenishment of IFAD's Resources as contained in document REPL.VI/3/R.5.

2. The Consultation is invited to consider this revised draft and is asked to note that the report, as presented, constitutes work in progress and reflects the ongoing discussions of the Consultation.

3. The Consultation is further invited to note that the revised draft differs from document REPL.VI/3/R.5 with respect to the completion of:

(a) section V. B., specifically the inclusion of paragraphs 42-44 on pages 9-11;
(b) in Section V. D. the subsection entitled Field Presence and Country Ownership, specifically the inclusion of paragraphs 69-76 on pages 15-17;
(c) section VI, specifically the revision/inclusion of paragraphs 82-89 on pages 19-20;
(d) section VII, specifically the inclusion of paragraphs 90-96 on pages 21-22.

4. Finally, with the introduction of the above-referenced new sections, there is now a need to review the policy consistency of the entire paper, with special reference to sections written earlier. This will be effected as conclusions on these new issues are reached during the Consultation process.

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ABBREVIATIONS AND ACRONYMS

ACA	Advance Commitment Authority
BSF	Belgian Survival Fund
COSOP	Country Strategic Opportunities Paper
FfD	Financing for Development
FLO	Field Liaison Office
GEF	Global Environment Facility
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
IFI	International Financial Institution
IMF	International Monetary Fund
MDGs	Millennium Development Goals
M&E	Monitoring and Evaluation
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organization
ODA	Official Development Assistance
PRS	Poverty Reduction Strategy
PRSP	Poverty-Reduction Strategy Paper
PRGF	Poverty Reduction and Growth Facility
SCP	Strategic Change Programme
SWAP	Sector-Wide Approach
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS

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I. INTRODUCTION

1. The purpose of this document[1] is to articulate the level of resources needed to reach agreed objectives in rural poverty reduction in partnership with others during the Sixth Replenishment period (2004-2006). The resource level has been considered against a background of severe world poverty, IFAD's specific role in the global combat against poverty, and the strategic priorities of the Fund. This document summarizes the conclusions of the Consultation on the Sixth Replenishment of IFAD's Resources concerning the Fund's strategic priorities and approaches and the focus of its programme of work from 2004 to 2006. It concludes with the recommendation to the Governing Council of a replenishment level of USD … million to support a base-level annual programme of work of USD … million in (year) United States dollars.

II. THE STATE OF RURAL POVERTY

2. During the 1990s, the gross domestic product (GDP) per capita in developing countries grew by 1.6% per year. The proportion of people living on less than one dollar per day fell from 29 to 23%, but the number of people living on less than two dollars per day increased. Estimates by the World Bank and by IFAD in its *Rural Poverty Report 2001* highlight that of the world's 1.2 billion extremely poor, three quarters, about 900 million people, live in rural areas, largely dependent upon agriculture and related activities for their livelihood.

3. While poverty rates declined in most regions, in sub-Saharan Africa and the transition countries of eastern Europe and central Asia, the incidence of poverty intensified. Much of the progress in Asia occurred in China, where sustained growth lifted nearly 150 million people out of poverty. Faster growth in parts of southern Asia also led to some decline in the total number living in extreme poverty. In other regions, however, even as the proportion of those in extreme poverty has fallen, the actual number of poor has risen with population growth. The proportion of poor is highest in sub-Saharan Africa, where civil conflict, slow economic growth and the HIV/AIDS pandemic have pushed millions to the margin of survival.

4. Recognizing the urgency of responding to the challenge of mass poverty, at the Millennium Summit in September 2000 world leaders adopted the goal of halving the proportion of those living in extreme poverty by 2015. Unfortunately, the present rate of poverty reduction is well below the level required to achieve this goal; in sub-Saharan Africa it is one sixth the rate required. The Millennium Summit Declaration has, however, brought reinforced priority and attention to poverty. This new sense of urgency was reflected in the outcome of the Financing for Development (FfD) Conference held last March in Monterrey, Mexico, in which substantial additional development assistance for poverty reduction was pledged by the United States and the European Union. The challenge now is to translate these new commitments into ground-level action that makes a real difference in the lives of the poor.

5. The world's understanding of poverty has evolved greatly and has internalized the poor's own perception of their poverty. Poverty is experienced as lack of adequate income to meet basic needs;

[1] Document REPL.VI/2/R.2 provides a technical background for this paper.

insecure access to productive assets (human, natural, physical, financial and social capital); lack of nutrition security; precarious health conditions; unequal access to education and social services; and lack of self-esteem, dignity and empowerment. Poverty is also a condition of vulnerability, exclusion, powerlessness and inability to escape violence. The vulnerability of the rural poor is a "silent emergency" that is intimately linked to weak local governance. The poor experience poverty as an inability to control the conditions of their livelihoods, influence decisions affecting their lives, negotiate better terms of trade and barter, stop corruption and make governmental and non-governmental organizations (NGOs) accountable to them. Lack of strong social organization makes it difficult for them to exploit opportunities within their communities and to develop links with external partners. Powerlessness is clearly one of the most significant causes of poverty; it is also one of its most important effects. Among the highly diversified rural poor populations, one significant group stands out: women. The majority of women still remain economically and politically marginalized, although their contributions to the resilience of rural households and their potential as agents of change have been demonstrated.

6. Progress in world poverty reduction is significant, but the number of poor people remains vast, especially in rural areas and among women. The adoption of a comprehensive definition of poverty is prompting the design and implementation of inclusive, efficient and gender-responsive strategies for rural poverty reduction and validates IFAD's focus on reducing rural poverty by "enabling the rural poor to overcome their poverty".

III. IFAD'S ROLE AND IDENTITY

7. IFAD is unusual among international financial institutions (IFIs) in that it has a specific mandate focused on the rural poor and on helping them overcome poverty and food insecurity. Over the last quarter century, the Fund has directed all of its resources to identifying the causes and developing innovative solutions to the poverty that entraps large numbers of smallholder farmers and other rural poor groups, especially women. A quarter of a century ago, other IFIs provided a significant proportion of their lending to agriculture and the rural sector. Over the last two decades, however, the World Bank and regional development banks have sharply reduced the share of their lending for agriculture, currently to levels well below 10% of the total. More generally, agriculture now receives a sharply lower proportion of global official development assistance (ODA). The character of this assistance has also shifted towards sectoral lending, especially for the social sectors, with less support to agriculture and other productive activities of the poor.

8. This has left IFAD as one of the few development agencies focusing on providing direct support for the *productive activities of the poor*. The Fund has sought over the last year, especially at the FfD Conference, to work with other organizations to highlight the importance of agriculture and rural development for poverty reduction and the necessity of increasing investments in the rural sector.

9. In some developing countries, in consequence, IFAD has emerged as one of the principal external financing agencies for rural development and support to the smallholder farm sector. IFAD's programmes are thus strongly complementary to the macro and sector policy programmes of other IFIs. One of the aims of its programmes is to ensure that smallholder farmers and other poor groups obtain equitable access to the benefits generated by the infrastructure and sector-wide programmes financed by other IFIs.

10. **Search for innovation**. Despite challenges, the Fund has succeeded in promoting a number of innovative approaches that in some cases have been replicated and scaled up. In particular, five notable cross-cutting innovative approaches have been assessed. These are: (i) innovation in soil and water conservation under the Special Programme for Sub-Saharan African Countries Affected by

Drought and Desertification; (ii) innovation in rural finance through the financial services associations; (iii) innovation in land-tenure policy for natural resource management; (iv) reviving endogenous innovation in farming systems; and (v) innovation in gender mainstreaming. Evaluations have found that IFAD's successful innovations are based on a structured, conscious process of innovation, with sequential stages that build on the traditional knowledge of the poor in specific contexts, their culture, social norms and resource constraints, that are affordable by the poor and that produce fairly rapid results.

11. During the last two IFAD replenishments, 22% of total contributions have been made by the developing countries of Lists B and C. This compares with an average of 2.1% for the International Development Association (IDA), 4.6% for the African Development Fund (AfDF) and the Asian Development Fund (AsDF), and 8.3% for the Fund for Special Operations of the Inter-American Development Bank. Because of its resource constraints, IFAD pursues an active campaign to mobilize cofinancing for the programmes it helps fund. In the context of the supervision of its programmes, it works in partnership with cooperating institutions, thereby also influencing their approach to rural poverty reduction.

IV. THE STRATEGIC CONTEXT FOR IFAD

12. The strategies to guide IFAD in fulfilling its mission during the Sixth Replenishment period consist of: the Millennium Development Goals (MDGs); the *Strategic Framework for IFAD 2002-2006*; the IFAD V: Plan of Action together with the Strategic Change Programme; and the regional strategies.

A. Millennium Development Goals, Monterrey Consensus and IFAD's Contribution

13. The global conferences of the 1990s called for action on a range of development challenges in different sectors of human life; these commitments were synthesized in 2000 as the MDGs in the Millennium Declaration. Agreement on goals and targets for 2015 is spurring effective development cooperation through coordination and partnership. It focuses all actors' poverty-reduction strategies on an agreed set of complementary goals and their enabling conditions (see Appendix A for a detailed discussion). The FfD Conference in Monterrey has reinvigorated this consensus through a global partnership for development, centred on the MDGs and the requisite enabling conditions such as policy and institutional reform, ODA, market access and debt sustainability.

14. IFAD, as well, is pursuing the MDGs and will report on the progress made. Eradication of extreme poverty and hunger, universal primary education, gender equality and empowerment of women, reduction of child mortality, improvement of maternal health, combat against HIV/AIDS, malaria and other diseases, and environmental sustainability are of concern to IFAD as mutually reinforcing causes and consequences of poverty (see Appendix A for details). IFAD will contribute to securing:

(a) the rural dimension and gender responsiveness of the MDGs;
(b) eradication of extreme poverty and hunger;
(c) empowerment of women;
(d) environmental sustainability; and
(e) a global partnership for development.

15. IFAD will also indirectly pursue some of the education-, sanitation- and health-related goals not specifically mentioned in the above list. It will do this through its partnerships with the Belgian Survival Fund (BSF), the joint United Nations Programme HIV/AIDS (UNAIDS) and others, for whom these goals, together with their targets and indicators, are directly relevant.

B. IFAD's Strategic Framework Objectives: Operational Implications

16. To guide IFAD in delivering its mission and contributing to the MDGs, in 2001 the Fund developed the *Strategic Framework for IFAD 2002-2006: Enabling the Rural Poor to Overcome their Poverty*. The Executive Board and the Governing Council endorsed the framework in December 2001 and February 2002, respectively.

17. The strategic framework sets the mission and three strategic objectives for the Fund:

(a) mission: enable the rural poor to overcome their poverty;

(b) objectives:

(i) strengthen the capacity of the rural poor and their organizations;
(ii) improve equitable access to productive natural resources and technology; and
(iii) increase access to financial services and markets.

18. In relation to these objectives, the Fund will exert its catalytic role through the impact of its field operations on rural poverty and their link to the policy level, and through advocacy within the international community, in partnership with others, for a supportive regional and global environment.

C. IFAD V: Plan of Action: Building on Achievements

19. The report of the Consultation for IFAD's Fifth Replenishment – Partnerships for Eradicating Rural Poverty: Report of the Consultation to Review the Adequacy of the Resources Available to IFAD – was accompanied by the IFAD V: Plan of Action (2000-2002), a crucial organizational development instrument. In implementing this plan, concrete measures are being taken to develop a basic conceptual, methodological and procedural framework and the organizational capacity to deliver greater impact in order to sharpen the catalytic profile of IFAD and enhance the quality of its agricultural and rural development programmes. Details are provided in Appendix B.

D. Strategic Change Programme: Modernizing Policies, Processes and Systems

20. The objective of the Strategic Change Programme (SCP – formally called the Process Re-Engineering Programme) is to make IFAD a more efficient and effective organization in realizing its strategic objectives. It aims to develop the Fund's institutional capabilities through organizational development and through the modernization of its policies, processes and systems. This entails modernizing its human resource management policy, financial management system, strategic planning and resource-allocation process, knowledge-management and innovation processes, communication strategy and advocacy capabilities. It also entails modernizing information technology to support all of the above with a more strategy-oriented management information system. The specific objectives of the SCP are described in Appendix B.

E. Regional Strategies

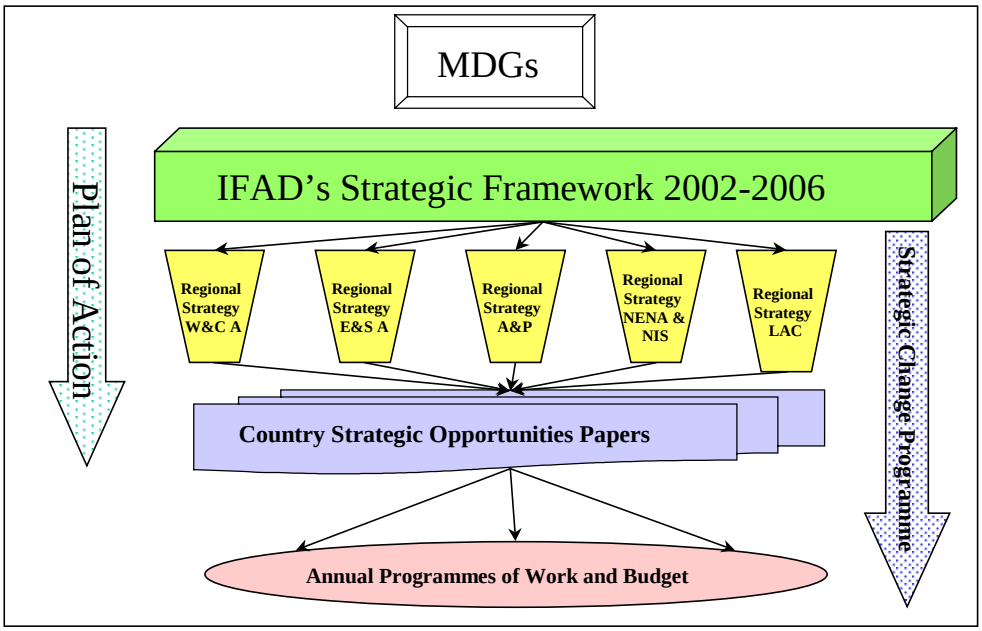
21. In the context of preparations for IFAD's *Rural Poverty Report 2001* and the *Strategic Framework for IFAD 2002-2006*, the regional divisions undertook detailed rural poverty assessments that constituted the basis for subsequent regional strategies. These strategies describe IFAD's pursuit of its strategic framework mission and objectives at the regional level, and constitute the first level of operationalizing the framework. They identify the core rural poverty issues the Fund is confronting in each region, opportunities that exist to address them, constraints, and the strategic choices the Fund will pursue in the medium term with its partners. The regional strategies form the basis for the regional lending programme framework and the country strategies, and will, in turn, evolve over time on the basis of experience acquired through country strategy development. The regional strategies

were reviewed in-depth at round tables during the February 2002 Governing Council and are also discussed at regional workshops.

F. Linkages

22. The MDGs, strategic framework, plan of action, regional strategies and SCP constitute mutually reinforcing elements of an integrated framework for IFAD during the Sixth Replenishment period. They jointly frame IFAD's priorities for the use of its institutional capacity into strong policy coherence. The MDGs set the global poverty-reduction objectives, their enabling conditions and global partnership requirements. The strategic framework defines IFAD-specific objectives for rural poverty reduction and articulates the Fund's strategy for contributing to the global goals. The plan of action guides IFAD in implementing the policy framework of the Fifth Replenishment; the Strategic Change Programme develops the policies, processes and systems required for modernizing IFAD to fulfil its mission in the light of the strategic framework. Together they develop the institutional capabilities with which IFAD can play an operational and a broader catalytic role in rural poverty eradication. The regional strategies provide a framework for developing country strategies consistent with the strategic framework. These linkages and their logical sequence are illustrated in the following chart.

Figure 1. Enabling the Rural Poor to Overcome their Poverty



Note: W&CA = Western and Central Africa
E&SA = Eastern and Southern Africa
A&P = Asia and the Pacific
NENA & NIS = Near East and North Africa and Newly Independent States
LAC = Latin America and the Caribbean

V. OPERATIONALIZING THE STRATEGIC FRAMEWORK AND THE REGIONAL STRATEGIES

23. The strategic framework and the supporting regional strategies provide the basis for all IFAD's activities and resource allocations. The process has four building blocks: IFAD's programme of work; a policy framework for translating the regional lending shares into specific country programme allocations; country-level programme planning through country strategic opportunities papers (COSOPs) to ensure programmatic selectivity and effectiveness; and the Fund's catalytic efforts in support of its programme priorities.

A. IFAD's Programme of Work

Level of the Programme

24. The strategic framework and the supporting regional strategies, being directional, are scale neutral – they can be implemented through programmes at different levels. However, IFAD needs a programme of work with a critical mass. There is a level below which programme impact would be limited on poor people, and so local and specific on institutions and policies that it would severely constrain IFAD's catalytic role. At the time of the Fifth Replenishment, IFAD's stakeholders judged this level to be USD 450 million in 1996 prices, or about USD 520 million in 2004 prices, compared to a current base-level of about USD 437 million per annum.

25. IFAD's average annual lending programme for the last three years amounted to USD 415 million, and this supported an average annual total project/programme cost of USD 922 million, which implies a leverage factor of 122%. With these resources, IFAD sustained an average of 27 projects/programmes per year, which reached about 10 million people annually. This allowed IFAD to operate in 60 different countries in a three-year period, with a total of 82 projects/programmes. This also means that IFAD, on average, reaches a large share of its 118 operational countries every six years. Applying the same programme-structure ratios and the current average loan size of about USD 15 million, an annual lending programme of USD 520 million would lead to the financing of about USD 1.2 billion of total project/programme costs. It would finance 30 to 34 projects/programmes per year, which would reach about 13 million people per year. A lending programme of USD 520 million would thus allow IFAD to strengthen its catalytic role and reach a significantly increased number of poor people. In addition, the increased frequency (4.7 years) of its lending to different borrowing Member States would ensure a more continuous dialogue on policy change and better-structured leverage within partnerships.

26. Implicit in this statistical sketch of IFAD's total lending-programme level relative to the number of poor people reached is the aspiration that contributions to IFAD's replenishment, amounting annually to 0.3% of current ODA levels, would lead to an IFAD contribution to the targeted reduction in the number of poor people that significantly exceeds its share of ODA. An example: the recently approved Orissa Tribal Empowerment and Livelihoods Programme in India is financed by an IFAD contribution of USD 20 million, cofinancing from the United Kingdom for USD 40 million, and domestic financing for USD 20 million, and is designed to reach 338 000 people.

27. With a view to securing a critical mass of impact on people, policies and institutions, an annual programme of work at the level of USD … million (in … prices) is confirmed as the base level for the Sixth Replenishment period.

Programme Focus

28. During the Sixth Replenishment period, IFAD's programme of work will concentrate its critical mass on the mission to enable the rural poor to overcome their poverty. It will allocate its resources to help poor producers increase their productivity and output by:

(a) developing and strengthening organizations of the poor to confront the issues they define as critical;
(b) securing equitable access for the rural poor to land, water and forests, and to context-specific technologies that enhance farm productivity, with gender-differentiated approaches;
(c) developing sustainable and responsive rural finance institutions in market-oriented systems;
(d) developing market linkages through diversification of the production base, improvements in processing, efficient marketing services, and market and transport infrastructure development;
(e) increasing access to knowledge so that poor people can seize opportunities and overcome obstacles;
(f) expanding the influence that the poor exert over public policy and institutions (including laws and regulations) of relevance to rural poverty reduction;
(g) enhancing their bargaining power in the marketplace; and
(h) ensuring that women are at the centre of the agenda of institutional transformation – as dynamic organizers and effective participants in grass-roots organizations and local self-help initiatives.

29. Gender responsiveness, participation and enhanced productivity, within a sustainable livelihoods approach, remain constant programme values for the Fund. In developing its programme of work, IFAD aims at innovation and at pro-poor institutional transformation. Its country programmes will pursue the specific sectoral policy objectives introduced below. Within these priorities, IFAD will deploy a range of region-specific programmatic emphases based on the evolving regional strategies.

30. In general, the Fund will cover essential rural community development and longer-term rehabilitation needs in vulnerable regions such as Central America, the rainfed areas and uplands in Asia, and sub-Saharan Africa. The Fund will substantially address the investment and knowledge-development gap that has widened as other donors have reduced their commitments to the agricultural and rural production sectors. It will also invest adequately in countries that have shown good returns on development assistance in terms of poverty reduction (Mozambique and Uganda, for example).

31. More specifically, the Fund will consolidate advances in sectors and approaches known to have a lasting impact on poverty reduction (such as rural finance, commercialization and gender-responsive programmes). At the same time, it will seriously address other important structural issues such as land reform and sustainable natural resource management, for which community organization is a valuable basis.

32. **Africa**. The Fund will offer significant follow-through on rural finance and commercialization programmes – going beyond localized microfinance institutions to develop umbrella organizations and links with the commercial banking sector under enabling legislation. The New Partnership for Africa's Development (NEPAD) is providing the development community with an important opportunity for partnership-building around such development challenges. IFAD has actively participated in the NEPAD preparatory process and in regional meetings, and will seek to continue its participation in the partnership in concrete ways. The Fund will sustain investments in natural resource management in the most vulnerable areas and begin to address one of the critical poverty and

transformation issues confronting rural Africa and especially southern Africa – land tenure reform. The policy and institutional framework in many African countries has improved. There is now an opportunity to implement new and more enduring approaches to smallholder development. If governments are not assisted in implementing new approaches, the opportunity may vanish. Governments have increasingly turned to IFAD for support in transforming policies into realities. IFAD will finance programmes to establish the institutional framework at all levels for change – with the firm expectation that sufficient resources will be available to weather the inevitable difficulties of transition. IFAD will also engage in partnership programmes that address the issue of HIV/AIDS as a rural poverty issue, heavily impacting the productive capacities of the poor. Specifically in West Africa, the Fund will resume lending to countries that have not had loans recently, especially countries emerging from conflict.

33. **Latin America and the Caribbean**. The challenge of poverty reduction in Latin America and the Caribbean has been compounded by three catastrophes – *El Niño,* Hurricane Mitch and the effects of financial crises. The needs of the region are much greater than the resources available, given the long-term effects of natural disasters: reversal of economic progress in many Central American and Andean countries and the ravaging of farm infrastructure and crops. The Fund will seek to deal with the long-term fallout from these disasters. It will be well placed to influence national and regional anti-poverty policies and programmes, and will be in a position to help address the neglected problems of indigenous populations. An effective programme will allow IFAD to build strong partnerships with other international donors based on a medium-term intervention strategy in each country – recognizing that other IFIs in the region put less emphasis on rural development.

34. **Asia and the Pacific**. Despite impressive economic growth in the past 20 years, the Asia and the Pacific region still has the overwhelming majority of the world's people living in poverty. Moreover, by any measure of the depth of poverty (social and health indicators), the picture is challenging.

35. One major lesson from past crises is the need to focus on agriculture for income generation in the hinterland, where rainfed agriculture is critical to survival – in Asia's developing countries roughly 266 million hectares of agricultural land are rainfed. Today, new opportunities also exist to promote community-based resource management systems in mountainous areas, where upland dwellers have been known to be effective stewards of biodiversity. In these areas, the concentration of the rural poor is high. IFAD will support poverty-reduction efforts – crucial to the social stability of Asian countries – for the protection of their natural resources and the global environment.

36. **Near East and North Africa**. In the Near East and North Africa, water is a critical factor for human and animal consumption and for agriculture. Soils in fragile, dryland ecosystems under relentless pressure are being depleted and degraded. IFAD has developed considerable experience in such marginal areas. More resources would mean a greater likelihood of helping the poor cope with harsh environmental constraints. The Fund will pursue its current goals of diffusing improved participatory resource-management techniques, creating self-reliance in poor communities, lessening dependence on the state and reducing migration.

37. In rural areas of **eastern Europe and the Newly Independent States**, people are on the brink of social disintegration and armed conflict. IFAD programmes can contribute to fostering peaceful, sustainable solutions to the economic hardship that rural people face. The Fund will support small-scale production systems based on a well-sequenced transition from central planning to a market economy. This will include support for second-generation institutional reforms, in particular with regard to sustainable rural finance organization.

38. The programme focus outlined for the Sixth Replenishment period, supported by the strategic framework objectives and based on the detailed evolving regional strategies, constitutes a coherent, effective rural-poverty-reduction framework for IFAD's programme of work for 2004-2006.

Lending Programme Structure by Terms and Conditions and by Region

39. Countries with a per capita gross national product (GNP) of USD 805 or less (in 1992 prices) are eligible to receive highly concessional loans. Those with per capita GNP between USD 806 and 1 305 are eligible for intermediate terms, and those with per capita GNP above USD 1 306 are eligible for ordinary terms. Of IFAD's borrowing countries, about 14 borrow on intermediate terms and 30 on ordinary terms. These are mainly countries in Latin America and the Near East and north Africa, with some in Asia and only a few in Africa. The Fund's policy framework for resource allocation reserves two thirds of its lending programme for highly concessional borrowers, leaving approximately one third for those on intermediate and ordinary terms.

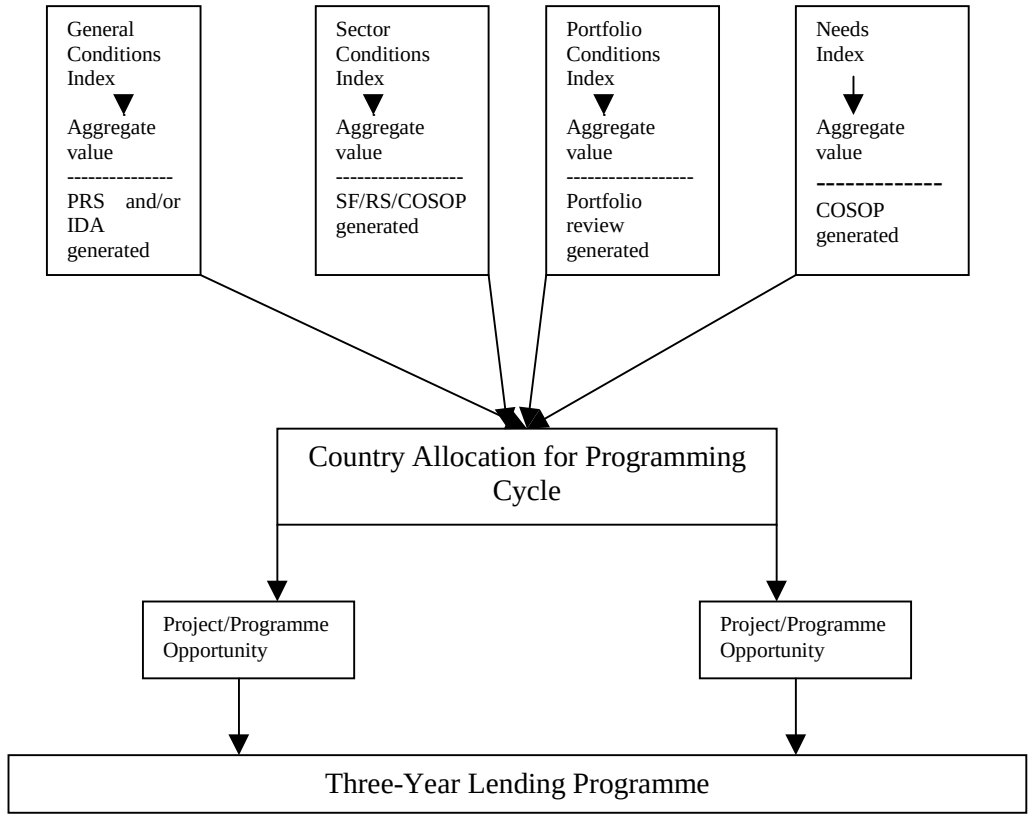
40. In 1999, upon the recommendation of the Ad-Hoc Committee on Regional Allocations, the Executive Board approved the following allocation of IFAD's lending programme resources by geographic region: 39.4% for Africa, 28.5% for Asia and the Pacific, 17.0% for Latin America and the Caribbean, 7.1% for the Near East and north Africa, and 8% for eastern Europe and the Newly Independent States. This corresponds to 36.77% for the two Africa divisions, 31.01% for the Asia and the Pacific Division, 17.03% for the Latin America and the Caribbean Division and 15.19% for the Near East and North Africa Division. These allocations are based on composite indexes (combining indexes for food security, integrated poverty, basic needs and agricultural population) reflecting the rural-poverty-reduction needs of the different regions.

41. During the Sixth Replenishment period, IFAD will continue to allocate at least 67% of its loan resources to countries that borrow on highly concessional terms and conditions, and will ensure that the regional lending shares are adhered to on a three-year rolling-average basis.

B. Linking Resource Allocations to Performance

42. In order to enhance the effectiveness of their concessional lending, major IFIs have developed a system of performance-based allocations. IFAD as well proposes to develop and implement a transparent and *ex ante* system of performance-based resource allocation. Such a system should reflect IFAD's specific mandate; respect its operational modalities (e.g. an orientation towards catalytic impact through project/programme operations rather than balance-of-payments or direct budgetary support); and build upon existing practices, experience and capacity. In this context, two aspects of performance have been defined: country performance in establishing the policy and institutional framework(s) for sustained reduction of rural poverty; and past performance of a country in effectively using loan-based resources provided by IFAD to achieve broad, sustained impact measured in terms of rural poverty reduction. The criteria for such a system are illustrated in Figure 2.

Figure 2. Translation of Country Resource Allocations into the Three-Year Programming Cycle



Notes: SF = Strategic Framework
RS = Regional Strategy

43. The system could be implemented as soon as it is capable of operating consistently and accurately. This would require:

- ***either*** a subsystem for recording country poverty-reduction strategy (PRS) status, extracting basic PRS principles, evaluating the performance of non-Heavily Indebted Poor Countries (HIPCs) or Poverty Reduction and Growth Facility (PRGF) countries in the light of those principles, 'scoring' performance, and training the staff concerned, ***or*** adaptation of IDA's country policy and institutional assessments as the basis for 'scoring' the general country policy and institutional environment bearing on poverty reduction;
- development of a strategic framework/regional strategy-based country assessment table and a method for (i) assessing country performance in the pro-poor rural development 'sector' on the basis of the table, (ii) 'scoring' performance, and (iii) training the staff concerned;
- development of criteria for 'scoring' performance at the level of country portfolio implementation and impact, development of a method of synthesizing scores into a single measure, and training the staff concerned;
- development of a set of broadly comparable weights for each of the aggregate performance measures, reflecting their relative significance in achieving impact in the

field of rural poverty reduction, and explicit weighting of the 'needs' index and its sub-components;
- development of a transparent, simple procedure for translating a country 'points' system for country allocations (as defined above) into monetary values;
- development of a set of conditions for variance (i.e. flexibility in responding to exceptional circumstances);
- establishment of intra-IFAD processes ensuring consistency and transparency in assessment and ranking;
- elaboration of a form for presenting three-year rolling lending programmes that reflects and respects the above; and
- a comprehensive review and mobilization of human and financial requirements to support the installation and regular operation of the system.

44. System operation would be closely linked to presentation of an indicative three-year rolling lending programme as part of the IFAD workplan. This would normally first be submitted to the Executive Board for review in September of each year. Given the time required for preparation of the system, it is proposed that it would first be introduced in September 2003 in support of the Board document on strategic priorities and the programme of work. Full implementation of the system, including general access to information on the ranking process and its methodology, would be achieved in 2004.

C. Ensuring Selectivity and Effectiveness: Operating at the Country Level

45. Country programme planning and implementation is the core process for giving scale to the strategic framework, the regional strategies and the lending programme framework. In particular, it is the process through which the Fund harmonizes its role as a universal institution (in which all developing member states are in principle eligible to borrow) with the need for strategic focus and selectivity in order to enhance effectiveness. It is ultimately the critical process through which the Fund applies its framework for linking resource allocations to performance in order to enhance aid effectiveness.

Country Strategic Opportunities Papers

46. The main instrument for country programme planning is the country strategic opportunities paper (COSOP). Appendix C provides a more detailed presentation on this instrument.

47. The COSOP is a country-specific document, prepared by IFAD in close collaboration with the country concerned – country ownership is vital. It is forward-looking, providing a medium-term planning framework, and encompasses all IFAD operations in a country (ongoing projects, new projects and programmes, policy dialogue, the Debt Initiative for HIPCs, arrears settlement, collaboration with NGOs, technical assistance grants, workshops, studies, etc.). It also constitutes the framework for planning and structuring the Fund's strategic mix of operations in a given country – the sequence and the balance of innovations, replications, scaled-up projects and longer-term programme approaches (see below). In order to realize these objectives COSOPs need to: prescribe the recommended investment approach/instrument for the country concerned on the basis of performance and lessons learned; develop the agenda for IFAD's pro-poor institutional and policy dialogue; design a strategy for increasing agricultural and rural productivity and sustainability; define IFAD's participation in the PRSP process; specify IFAD's role in post-crisis rehabilitation where appropriate; and identify the opportunities for partnership development and the approach to be taken to be effective at the country level (the following sections describe more precisely what this entails).

48. COSOPs also constitute the basis for linking the allocation of the regional lending shares to specific country programme scenarios according to criteria that indicate the likelihood of effective use

of the resources provided. In this context, the COSOP also describes where necessary the process and the support needed to reach the required performance standard. COSOPs assess the pro-poor quality of a country's policy and institutional framework, and define an agenda for the institutional transformation that will accompany programme development to ensure the long-term effectiveness of IFAD's support in terms of rural poverty reduction.

49. COSOPs constitute an appropriate instrument for allocating IFAD's scarce resources strategically, ensuring programme selectivity, and applying its policy framework for linking resource allocations to performance to ensure effectiveness. For the Sixth Replenishment period, the conclusions of the Executive Board review of the pilot experience of COSOPs (end-2002) will need to be internalized.

Programme Approach

50. As the organizing principle for investments in sustainable poverty eradication, the 'project' has demonstrated its merits; especially when new strategies or approaches need to be tested and where the policy and institutional environment needs further development to support rural poverty reduction. It is often location-specific, implemented by well-organized project management teams, with clearly defined planning processes, and objectives to be achieved in a relatively short period (6-8 years) through an appraised set of activities. The Fund has broadened the scope for project investments by introducing a higher level of flexibility and participation in project development and by emphasizing the merits of a well-planned programme for developing the country portfolio through a strategic mix of country operations. Country portfolios consist of a balance and sequence of innovative pilot, replicated and scaled-up projects.

51. However, the strategic orientation of country operations needs to be further strengthened through a more programmatic approach: a longer time frame with carefully designed phases, a higher degree of flexibility and even more room for participation, with policy and institutional objectives that reach beyond a defined geographical area, and with a stronger emphasis on mobilizing additional strategic partners. The Fund recently introduced the flexible lending mechanism (FLM)[2] – a new lending instrument to address this need for a more programmatic approach – and the pilot experience is under review.

52. Recently, a number of countries have made significant progress in establishing a pro-poor policy and institutional environment and have developed effective strategies for rural poverty reduction (such as poverty-reduction strategy papers [PRSPs] and sector-wide approaches [SWAPs]). The effectiveness of aid would be greatly enhanced if all external development assistance would rally around such strategies. It would rationalize the demand on scarce domestic financial and human resources, harmonize donor approaches, enhance country ownership, facilitate partnerships, and result in more efficient programmes and sustainable impact on rural poverty and the policy framework.

53. In countries where appropriate pro-poor policies and institutions are in place, IFAD will pursue more programmatic approaches. To this end IFAD will join national partnerships, participate in country processes of rural-poverty-reduction strategy development, and design and implement its country programmes in that context, through the COSOP process.

[2] FLM programmes are longer term, most often divided in three phases, with substantial levels of flexibility. The results of each phase trigger the subsequent phase. FLM programmes have stronger monitoring and evaluation (M&E) efforts supported by higher levels of resources, and the quality of the policy environment, especially decentralization, is a prerequisite.

Pro-Poor Institutional Transformation

54. The past decade has seen much progress on pro-poor policy and institutional transformation throughout the developing world. Domestic input and output markets have become more liberal in many countries; a framework for reducing interventions in international agricultural trade has been introduced; subsidized credit programmes, whose benefits tend to be pre-empted by the less-poor, have diminished; and the operation of land markets has improved. This has begun to create an incentive framework and an enabling environment for production by the rural poor. Despite the progress achieved, the policy reform agenda is still incomplete. The continuation of policy and institutional reforms to create a pro-poor enabling policy environment, as called for also in the Monterrey Consensus, is thus one of the major thrusts of the strategic framework. There is a need both to complete the traditional policy reform agenda and to address, in a gender-responsive manner, new policy issues in rural poverty reduction. The COSOP process constitutes an important opportunity to initiate this process together with the country. Areas for specific attention are provided in more detail in Appendix D.

55. However, the policy and institutional reform agenda is complex, and progress may be slow. There is a tendency to overestimate ability to complete reforms. Selectivity in identifying the key policy transformation objectives, and their correct sequencing, together with partnerships with more policy-oriented organizations, are essential to success. National ownership in identifying and planning the implementation of the agenda for institutional change is crucial.

56. During the Sixth Replenishment period, IFAD will use the COSOP process to advocate a pro-poor policy and institutional transformation agenda, in partnership with other organizations, ensuring country ownership of the agenda and paying due attention to sequencing.

Increasing Agricultural Productivity and Sustainability

57. Development experience has shown that agriculture is a major engine of growth in poor countries. Accelerated rural poverty reduction depends on direct measures for increasing productivity in the agricultural sector, with its backward and forward linkages to rural enterprises that provide goods and services to the farm sector. The building blocks of productivity-focused agricultural development – in the context of a sustainable natural resources management strategy – consist of several mutually reinforcing elements (described in Appendix E). The COSOP needs to identify them and develop them into a strategy for the country, IFAD and its partners.

58. Building on its experience in rural poverty –reduction, in the Sixth Replenishment period IFAD will support the enhancement of productivity and sustainability in the smallholder agricultural sector, especially among women farmers. It will do this by harnessing recognized engines for agricultural development, investing to increase agricultural productivity, and building productivity and economic viability criteria into its programme designs. COSOPs are IFAD's core process for achieving this objective.

Working in the Framework of PRSPs (in HIPCs and non-HIPCs)

59. IFAD is fully participating in the Debt Initiative for HIPCs, at a total projected nominal cost of USD 440 million, of which USD 107 million may fall due in the Sixth Replenishment period, the peak period for the Initiative. The Debt Initiative is expected to provide 37 low-income countries with a sustainable strategy to exit from unmanageable debt. So far, 24 countries have become eligible for debt relief. Many of the remaining country cases are conflict-affected and/or have heavy debt arrears, which may delay their eligibility. One of the criteria for the Initiative is the development and implementation of an effective, country-owned poverty-reduction strategy. This approach was subsequently adopted by the International Monetary Fund (IMF) as an eligibility criterion for access

to its PRGF. As a consequence, from 60 to 70 low-income countries either have a PRSP or are in the process of developing one.

60. This constitutes an opportunity to ensure that rural poverty reduction and its enabling conditions are an integral part of the country's own poverty-reduction strategy. IFAD's participation in the PRSP process will aim at ensuring a number of measures in support of rural production and poverty reduction (identified in Appendix F). In particular, the Fund will foster agricultural diversification, as part of a strategy for broadening and diversifying the narrow production and export base of HIPCs, heavily dependent upon a few primary commodities, which makes them particularly vulnerable to external and terms-of-trade shocks.

61. IFAD's participation in PRSP processes (planning and implementation) will also result in synergies between PRSPs and its COSOPs, and an integration of IFAD operations into broader poverty-reduction programmes. IFAD's participation in these processes can take different forms: supporting participatory processes for the planning and updating of PRSPs; providing assistance in the actual implementation of PRSPs and their participatory monitoring; defining and pursuing the agricultural development agenda; helping the poor articulate and meet their policy and organizational requirements; and institutionalizing PRSP processes. Partnership with governments (central and local) and other actors in the sphere of rural development, especially IFIs, is of foremost concern. The COSOP process allows IFAD to influence PRSPs in favour of the rural poor, and it also allows IFAD to define its specific role concretely in the broader framework of poverty reduction provided by PRSPs. For this reason, IFAD needs to develop COSOPs even in countries that have PRSPs or other poverty-reduction strategies and SWAPs.

62. During the Sixth Replenishment period, IFAD will participate in PRSP processes, giving priority to those countries in which the potential for effective rural poverty reduction is high and the potential for partnerships with other organizations in the context of the PRSP is most promising. The link between COSOPs and PRSPs must be ensured.

IFAD's Role in Post-Crisis Rehabilitation

63. Crises – natural disasters, civil strife, financial crises – and the resulting emergency situations have proliferated considerably in developing countries, with increased incidence and severity. Whatever the cause of the crisis, it is often the rural poor who are hardest hit, due to their greater vulnerability. Crises also significantly disrupt agriculture and food production. A major challenge in post-crisis assistance is harmonizing the need for emergency relief with that of a return to sustainable development.

64. COSOPs are IFAD's instrument of choice in planning the implementation of its Framework for Bridging Post-Crisis Recovery and Long-Term Development (September 1998) in countries where this is appropriate. Appendix G provides the elements of this framework.

65. During the Sixth Replenishment period, IFAD may selectively participate in post-crisis rehabilitation, basically on the basis of loan resources, but it may also do so with a limited level of grant resources and with supplementary funds specifically mobilized for the purpose.

D. Acting as a Catalyst

66. Impact is of central concern to IFAD. In the sphere of its investment programmes, this translates into a focus on sustainable impact on rural poor people, enabling them to overcome their poverty. But impact on people benefiting directly from IFAD's lending programmes, crucial as it is, is not enough. IFAD needs to expand its catalytic role beyond its own programme funding, influencing that of others, and extending into impact on the countries' policy and institutional environment, and

on the global policy agenda for rural poverty reduction. To do this IFAD needs to: deploy innovation capabilities, ensure country ownership, address the issue of field presence, work in partnership with others and pursue cofinancing and supplementary funding, engage in global pro-poor policy advocacy, and realize its specificity in all these contexts.

Focus on Innovation

67. Despite challenges, the Fund has succeeded in promoting a number of innovative approaches, presented earlier, that in some cases were replicated and scaled up. Evaluations have found that the successful innovative approaches promoted by IFAD are based on a structured, conscious process of innovation, with sequential stages that build on the traditional knowledge of the poor in specific contexts, their culture, social norms and resource constraints, that are affordable by the poor and that produce fairly rapid results.

68. The Fund has a potentially stronger role in promoting replicable innovation for rural poverty reduction. Evaluations have concluded that IFAD's main innovative role should be as a 'facilitator' in scouting for, identifying and promoting pro-poor innovative approaches in cooperation with its partners. The Fund and its partners should continue to facilitate, more proactively, the promotion and dissemination of innovations in rural poverty reduction that are identified by various sources, including the poor themselves, and enable them to be replicated and/or scaled up by other IFAD projects and larger partners. Partial testing of innovative approaches for performance improvement and validation can and should be supported by IFAD through its grant programme.

Field Presence and Country Ownership

69. As indicated by the External Review, IFAD is constrained in achieving its strategic objectives by the fact that it is a headquarters-based organization. In seeking to strengthen IFAD's field presence, management proposes to draw on lessons learned from experience and from observing the field-presence arrangements of other agencies and to select the most suitable options for enhancing its presence systematically. In addition to intensifying the use of traditional tools throughout the regions, it would also consider introducing new instruments on a selective basis in response to specific country or regional requirements. In addition to promoting the core objective of enhancing impact through improved project implementation, such a move should also serve the related purposes of policy dialogue, partnership-building, and knowledge generation and sharing in an environment of progressive decentralization of donor activities.

70. The proposed approach is based on the following principles:

- The main objective in enhancing IFAD's field presence is improved impact on the socio-economic situation of the target group through better project implementation.
- Another objective is strengthened processes of policy dialogue, partnership-building and knowledge-sharing.
- IFAD will strengthen its use of traditional physical and virtual tools for enhancing its presence in regions and countries and will apply them in a strategic country- and region-specific manner.
- In a limited number of selected countries, suggestions have been made for a new approach to field presence, i.e. the establishment of locally staffed liaison offices, in order to complement tested traditional tools.
- The ultimate goal is to strengthen local and national capacity to engage in programme implementation and policy dialogue.

71. In assessing the options, IFAD is considering a number of key criteria, keeping in mind that there can be no blueprint approach in view of the differences among countries and regions. Options have to be evaluated in relation to the main purpose. In the past, the need to better support project

implementation and thus to strengthen IFAD's impact in the field was already the foremost reason for establishing a (proxy-) presence in selected countries. To this end, traditional tools such as short-term missions by IFAD staff, international consultants and cooperating institutions (CIs) were complemented by local resources, including local consultants, joint project offices and local resource groups. Such initiatives have led to good results in relation to project implementation and administration. They have been less successful, however, in playing a systematic part in enhancing IFAD's policy dialogue with governments. While in some cases a high-level local consultant or an experienced project manager can participate in policy-related discussions and represent IFAD's point of view, as a rule an effective advocacy role at the policy level can only be played by an IFAD staff member recognized as the official representative of the institution. The same goes for in-country partnership-building, which in most borrowing countries is an ongoing activity that enhances donor complementarity, cofinancing and harmonization of approaches, and in which the absence of IFAD staff for most of the year has been identified as a serious constraint. In particular, the growing trend among many donors to decentralize decision-making suggests a need to provide a more permanent IFAD presence. For both – policy dialogue and partnership-building – IFAD has increasingly used the traditional instruments at its disposal (in particular staff missions, but also international consultants having extensive experience with IFAD) and has attempted to cover the periods between missions by using local consultants on a short-term basis. However, with the increasing involvement of donors at the country level and in the policy arena, IFAD will need to envisage a more active role in certain countries.

72. Physical tools are being increasingly enhanced by virtual links (including regional and country-based networks) and the use of modern information and communications technology. In this area, IFAD has undertaken a number of successful pilot activities, including regional electronic knowledge networks (e.g. Electronic Networking for Rural Asia/Pacific – ENRAP – and FIDAMERICA), videoconferencing, etc.

73. In addition to the traditional tools discussed above – which have been used regularly or on a pilot basis in the past and will continue to be so – establishing field liaison offices (FLOs) in a limited number of countries may offer an option for responding to the views of partners and to the requirements of increased attention to policy dialogue and partnership-building. A field presence in the form of a permanent, locally staffed liaison office can play a crucial role in enhancing impact through implementation support and more-regular supervision. It can also have a facilitating function in policy dialogue and partnership-building, areas that will, however, require a significant direct input by headquarters staff. A permanent in-country presence will need to be accompanied by both traditional and innovative 'complementary tools', although it may to a certain extent reduce the need for frequent staff missions and also affect the role of CIs. Likewise, supportive measures will be needed, in particular those related to modern communications, in order to facilitate the work of headquarters and local offices and contribute to other tasks, e.g. knowledge-sharing.

74. Locally-staffed offices in selected countries can effectively support the implementation of ongoing projects, both directly and through facilitating the work of the country portfolio manager (CPM). It can also ensure liaison with relevant government departments and provide a link to development partners, including bilateral donors, regional development banks and United Nations (UN) agencies (the UN resident coordinator and local offices of other UN agencies), thus supporting partnership activities in between CPM visits. Staffed by nationals (as opposed to internationally recruited professionals or outposted CPMs), it would be in line with IFAD's policy of reliance on country ownership and local capacities; it would also permit IFAD to benefit from local knowledge and increase its understanding of a country's cultural and social complexity. The terms of reference (TOR) of an FLO could therefore include:

- regular follow-up on the implementation of all ongoing projects;
- contribution to supervision activities;

- contacts with government at the policy level;
- partnership-building and participation in coordination meetings with bilateral development partners, UN agencies, IFIs and other multilateral development agencies;
- participation in national forums, workshops etc.
- supplying of relevant country information to IFAD headquarters and missions; and
- facilitation of the logistics of missions.

75. Economic conditions, manpower availability, logistics, infrastructure and price levels vary widely from country to country and region to region. These differences would impact on the TOR of an FLO in a given country and therefore would not allow definition of a standard blueprint model.

76. Clear criteria as to which countries would qualify for the establishment of an FLO would need to be identified. The size of the ongoing and pipeline portfolios would certainly be taken into consideration, as would the need for more active IFAD involvement at the policy level, potential for partnership-building and synergies, requirements for stronger implementation support and other factors. The number of countries for which the FLO option could be envisaged would depend on the availability of financial resources to cover the costs. The FLO model could help promote the goal of strengthening local and national capacity to engage in programme implementation and policy dialogue.

Working in Partnership with Others

77. Working in partnership with others is a strategy that enables IFAD to be more effective in delivering its strategic framework, ensuring programme impact and fulfilling its catalytic role. The Fund works through partnerships in three modes:

(a) **Multi-stakeholder coordination processes**. In recent years, three coordination instruments have been introduced: the United Nations Development Assistance Framework (UNDAF), the Comprehensive Development Framework (CDF), and the PRSP. UNDAF is an internal UN instrument for planning and coordinating UN-system support to member states for follow-up to global conferences in which international development goals have been defined. The CDF was conceptualized by the World Bank as a government process to articulate a comprehensive framework for the development of a country. A third process, the PRSP, which was discussed earlier, was developed in recent years as a country-owned, government-managed process to develop and implement a strategy for poverty reduction.

In addition to these global multi-stakeholder partnership frameworks, other forms of more specific partnership are in the making. One important example is NEPAD, the particularly significant initiative taken last year by African countries, with a steering committee consisting of the presidents of Algeria, Egypt, Nigeria, Senegal and South Africa. IFAD will actively support NEPAD and its programmes.

(b) **Partnerships.** The Fund takes advantage of many opportunities for developing strategic partnerships. Country strategy work, driven by the borrowing Member State, provides a framework for sharing experience and vision of the road forward, and for developing platforms for cooperation with other development financiers. Participatory project planning and monitoring puts the ultimate clients – the rural poor and their organizations – at the centre of the partnership. The participation of community-based organizations and NGOs in investment projects expands the partnership to civil society and ensures a broader exchange of knowledge and stronger participation. Researchers and research centres, supported by technical assistance grants, develop and disseminate technical

knowledge and management expertise to the rural poor. And where the alliance succeeds in encompassing the private sector, service delivery becomes commercial and sustainable. More details on such partnerships are provided in REPL.VI/2/R2. The results of such partnership are: consistency in policy approaches; coordinated action and optimized use of scarce local resources; and, wherever possible, mobilization of additional resources through cofinancing. The key challenge for the Fund is to broaden the scope of such strategic partnership-building initiatives continuously. Effective approaches include periodic meetings with strategic external partners at both field and headquarters levels and provision of programmatic trust funds by donors for studies and reviews. Efforts are being made to develop multi-year programmatic trust funds that will support knowledge management, policy advocacy, and impact-enhancement activities in selected programme areas related to the strategic framework. Partnerships with other IFIs can be with partners in knowledge management and in policy dialogue with governments and potential replicators of proven innovations as well as with cofinanciers and cooperating institutions. Cooperation with the World Food Programme (WFP) and the Food and Agriculture Organization of the United Nations (FAO) is at this point fully operational; and IFAD's housing of the Popular Coalition to Eradicate Hunger and Poverty and the Global Mechanism of the United Nations Convention to Combat Desertification has broadened the potential for collaborating with other stakeholders in rural development.

(c) **Cofinancing**. For IFAD, strategic partnership-building has much broader objectives than cofinancing and consists of knowledge-sharing and adopting complementary strategies, as already described. But cofinancing *is* strategically important to IFAD in leveraging its resources, and it is therefore considered a tangible outcome of a successful partnership. IFAD is critically aware of the scarcity of its resources, especially when compared to the extent and depth of rural poverty. It has developed an elaborate and diversified approach to mobilizing cofinancing, as indicated in the following box. In the area of cofinancing, IFAD performs better in some years, and better with some partners. Cofinancing is not yet a systematically strong point in its strategic partnership-building efforts, and the Fund needs to continue learning and working to improve its strategy in this area.

IFAD's Cofinancing Strategy Objectives

The common concerns of the different approaches to and procedures for cofinancing are enhancement of project coverage; leveraging of other institutions' resources and thus implicitly their strategies and policies; and project sustainability without IFAD.

The strategic objectives specific to these different approaches and procedures are:

(a) cofinancing of IFAD-initiated projects: mobilizing of additional resources behind innovative approaches developed by IFAD;
(b) cofinancing of projects initiated by other IFIs: collaborating with other IFIs in projects initiated by them, and in the process influencing their project design and reducing IFAD's programme processing costs;
(c) joint cofinancing: simultaneous and pro rata financing of all project activities, in order to develop a fully joint project;
(d) parallel cofinancing by activity or by area: selection by each financier of specific activities or areas to be supported by its resources, thus permitting each financier to pursue its own comparative advantage in a common project; and
(e) sequential cofinancing: funding by another external financier of the continuation of a project after IFAD has withdrawn from it, thereby ensuring the continuation of project activities.

Obtaining cofinancing from different actors also has its strategic importance:

(a) cofinancing from external partners ensures leverage on their resources and influence on their programming strategy and policy framework; and
(b) cofinancing from governments, beneficiaries, commercial banks and other local actors contributes to establishing a project's sustainability.

78. During the Sixth Replenishment period, IFAD will continue to engage actively in multi-stakeholder coordination processes, develop programme-based partnerships and pursue cofinancing to leverage its own programme of work.

Playing a Catalytic Role Beyond the Country Level

79. Enabling the poor to overcome their poverty will be achieved more rapidly in a supportive regional and global environment. Local and community-based responses to poverty will work better in a more supportive global context, but at present, the rural poor do not exercise a direct or decisive influence at this level. IFAD must therefore play a pro-poor advocacy role in their interests. Advocacy intended to influence policy will focus on issues identified as critical during work with rural poor people in the field. It will take two forms: (a) developing and sharing knowledge generated from country programme experience; and (b) seeking to influence regional and international policies that shape rural development options.

80. The plan of action and the Strategic Change Programme are tools to deal more effectively with challenges that go beyond country programme development, but that constitute an integral part of IFAD's catalytic role: knowledge management, policy advocacy and global partnership-building. It will be important to allocate adequate programme resources to these activities to ensure that IFAD plays an innovative role in these areas as well. They complement country programme development in a comprehensive programme of work.

81. Active pro-poor policy advocacy should be an integral part of IFAD's programme of work during the Sixth Replenishment period.

VI. MONITORING RESULTS AND IMPACT

82. The need to assess and measure the results and impact of IFAD-supported operations has long been a concern in the Fund. This became more pressing with the adoption of the IFAD V: Plan of Action, which emphasized various interrelated areas in need of improvement, and progress has been made since then.

83. IFAD has launched an initiative to enhance the capacity of ongoing IFAD-supported projects for systematic monitoring and evaluation (M&E). It consists of the regular use of logical frameworks that, *inter alia*, establish measurable and sex-disaggregated indicators for project outcomes in all projects. Moreover IFAD has prepared a comprehensive guide for M&E at the project level, in consultation with its project partners. Targeted primarily at managers, M&E officers and implementation partners of IFAD-supported projects, the guide is expected to become an important milestone in enhancing the effectiveness of M&E systems at the project level, including their capacity to measure impact and results. It is now being tested in the field in IFAD's regions and customized to reflect regional diversity. This will involve workshops, training and the establishment of networks of consultants and technical advisors with expertise in the fields of M&E and impact-oriented management. Measurement of progress in gender equality and regular disaggregation of M&E data by sex will be cross-cutting concerns. Translation of the guide into local languages will be part of its customization.

84. In 2001, IFAD also developed a new methodology for impact evaluation. Its objectives are to: (i) better measure and evaluate impact at project completion; (ii) produce a consolidated picture of the results, achievements and performance of a group of completed projects; and (iii) indicate how IFAD contributes to meeting the International Development Goals. The methodology consists of a set of

common evaluation criteria, including agreed categories of impact indicators for rural poverty reduction. The common evaluation criteria are: rural poverty impact and the performance of the project and of partners. The methodology embodies a unified definition of rural poverty impact based on six domains of the livelihoods of the rural poor. These are derived from the *Rural Poverty Report 2001* and the *Strategic Framework for IFAD 2002-2006*. As gender equality is one of the impact domains, evaluations are required to disaggregate impact information and analysis, taking into account target group differentiation and gender differences. IFAD is now applying this methodology in all project evaluations. The use of common evaluation criteria, including agreed domains of impact, will ensure that impact is systematically assessed and results are comparable across projects. It will thus be possible to aggregate and consolidate the results achieved and provide an overview of the impact and performance of a group of completed projects evaluated during the course of a given year. This consolidated overview will be presented in annual reports on IFAD's impact and development effectiveness. These reports – to be issued first in 2003 – will provide IFAD management and the Executive Board with a consolidated picture of results, impact achievement and effectiveness, as well as a summary of lessons learned during the reporting year.

85. Finally, IFAD has increased the results and impact orientation of the process that produces the annual Progress Report on the Project Portfolio.

86. These initiatives aim to focus on measurable results and outcomes. The Fund now needs to develop a system that defines clear, measurable objectives for its project portfolio. Measurement of the achievement of these objectives should be based on monitorable indicators of project implementation performance, outreach and outcome/impact – the latter to include indicators related to gender mainstreaming – that make possible annual reporting to IFAD management and the Executive Board.

87. **Gender mainstreaming**. IFAD is currently developing an action plan for gender mainstreaming for 2003-2005 that will identify actions to operationalize the principles of the strategic framework as they relate to gender mainstreaming and the empowerment of rural women. The plan will specify institutional responsibility for each action and indicators for measuring progress.

88. IFAD will report on implementation of the action plan in the annual portfolio report, as well as on the main results achieved in gender equality and the empowerment of rural poor women. IFAD's reporting formats at different stages of the project cycle, and in particular the gender section of the portfolio report, will be revised to provide systematic and substantive information on gender issues.

89. **Independence of the evaluation function**. The Consultation on the Sixth Replenishment of IFAD's Resources has discussed a proposal that the Office of Evaluation and Studies report directly to the Executive Board, independent of management, in order to strengthen its effectiveness. The rationale given for this proposal was that such independence would contribute to a process that could sustain the confidence of Member States in the long run and help realize the full value of the evaluation function. The Consultation has before it a paper presented by the Fund on strengthening the effectiveness of the evaluation function at IFAD in the light of international experience. The paper covers principles for the evaluation of development assistance, a survey of evaluation reporting practices in multilateral organizations, IFAD's current approach to evaluation independence, the pros and cons of independence from management and ways to enhance independence and effectiveness. Based on the discussions and guidance provided by the Consultation, management will prepare a more detailed paper on strengthening the effectiveness of IFAD's evaluation function.

VII. MANAGING IFAD'S FINANCIAL RESOURCES

90. The use of the Advance Commitment Authority (ACA) during the Sixth Replenishment period will follow the procedures specified in the Resolution on the Sixth Replenishment of IFAD's Resources. In this context the overall policy ceiling for the use of the ACA will continue to be based on three years of lending reflows.

91. With a Sixth Replenishment, based on Scenario G[3], of about USD 560 million and prudent ACA use, IFAD plans to raise annual commitments from an average of USD 428 million during the Fifth Replenishment period to USD 500 million in 2004 prices[4].

92. This presupposes a number of factors. Key assumptions have to do with the punctuality and adequacy of resource inflows; timely receipt of payment of contributions, timely receipt of lending reflows, with arrears contained – as in the past – at less than 5% of the amounts due; and investment income of 3.5% per annum. For the Sixth Replenishment period this implies that annual contribution receipts should average USD 187 million, reflows USD 198 million and investment income USD 73 million.

93. ACA requirements are expected to be just over USD 100 million per year during the Sixth Replenishment period (compared to USD 132 million during the Fifth). This figure would decrease progressively in subsequent years, if the proposed commitment and replenishment levels were to be maintained in real terms for the Seventh and future replenishments, though this is again subject to the key assumptions.

94. In cumulative terms, outstanding ACA is projected to reach approximately 100% of three years of reflows at the end of the Sixth Replenishment period

95. About one third of additional ACA requirements foreseen for the Sixth Replenishment period are related to the costs of participation in the Debt Initiative for HIPCs. If external financing can be found to help meet these costs, ACA use may be lower than forecast at present. However, if the assumptions of timely payments of contributions, etc. are not fulfilled, the lending programme may need to be adjusted.

96. **Financing Debt Initiative commitments**. Document REPL.VI/3/INF.3 provided the Consultation on the Sixth Replenishment of IFAD's Resources with details of the Fund's past efforts and results in mobilizing additional external resources to help finance its participation in the Initiative. It also flagged a need for the Fund's membership to define a broader strategy for this financing. To this effect, the document highlighted the following issues:

(i) At its Twenty-Third Session in February 2000, the Governing Council decided that IFAD would participate fully in the Debt Initiative, that it would do so through a combination of internal and external resources, but that it would need to minimize the impact of debt relief on IFAD's capacity to provide new loans and grants.

(ii) In the light of IFAD's constrained resource position, each dollar of debt relief provided by the Fund implies *de facto* an equivalent reduction in resources available for commitment to new loans and grants.

(iii) Thus, in order to meet the Governing Council requirement, the Fund needs to mobilize additional external resources. It has done so through direct contributions (The

[3] As indicated in document REPL.VI/3/R.3.

[4] These figures include some types of grants now financed under the PDFF.

Netherlands) and through contributions from IFAD-earmarked resources in the World Bank-administered HIPC Trust Fund (Belgium, Germany). Further pledges have been made by Italy, Switzerland and the European Union.

(iv) In line with levels of external support received by other IFIs participating in the Initiative (a number of IFAD's institutional characteristics are close to those of the African Development Bank), and considering the level of contributions to IFAD's Replenishment provided by developing countries themselves, it is recommended that IFAD seek additional external financing for 66% of its Initiative financing requirements.

(v) This should be achieved through additional direct contributions and through securing comparable access to the World Bank-administered trust fund.

VIII. RECOMMENDATION

97. The Consultation on the Sixth Replenishment of IFAD's Resources (2004-2006) recommends to the Governing Council the adoption of the draft resolution enclosed as Annex I to this report.

ANNEX I

DRAFT RESOLUTION ON THE SIXTH REPLENISHMENT OF IFAD'S RESOURCES

To be completed at a later stage, upon completion of the discussion of document REPL.VI/4/R.5/Add.1.

ANNEX II

LIST OF DOCUMENTS PROVIDED TO THE CONSULTATION AND OTHER REFERENCE DOCUMENTS AVAILABLE

(Definitive listing to be compiled once the report is finalized; the following list is therefore indicative at present)

Rural Poverty Report 2001

Strategic Framework for IFAD 2002-2006

Regional strategies

IFAD V: Plan of Action

Action Plan Progress Report

Strategic Change Programme

Strategic Change Programme Progress Report

Document REPL.VI/2/R.2: technical background for the present paper

Field Presence

Performance-Based Lending

Financial Scenarios

External Review of IFAD

Replicable Innovation

LIST OF APPENDIXES

ANNEX III

APPENDIX A

MILLENNIUM DEVELOPMENT GOALS

1. In the course of the 1990s, a series of global conferences and summits defined programmes of action on a number of development challenges (including sustainable development, food security, gender, poverty and housing). To plan for and monitor progress in meeting these development commitments, the OECD developed an integrated set of International Development Goals, enacted in 2000 as the Millennium Development Goals (MDGs).

2. MDGs entail: (i) a global consensus that development equals poverty reduction; and (ii) a broad agreement on a set of goals and targets for poverty reduction, which actually largely meets the goals of the poor themselves, as identified by a vast number of participatory poverty assessments. Agreement on goals and targets constitutes a necessary (but insufficient) condition for enhanced effectiveness of development cooperation through coordination and partnership. The goals represent a partnership between the developed and the developing countries determined, as the United Nations Millenium Declaration states, "to create an environment – at the national and global levels alike – which is conducive to development and the elimination of poverty".

3. The enunciation of the MDGs is now focusing all actors' poverty-reduction strategies on the agreed set of '7 plus 1' development goals (see Table 1), in addition to the fundamental need for high-quality growth. The main reference document for developing the MDGs has been Section III of the Millennium Declaration on 'Development and Poverty Eradication'. For the purpose of monitoring progress, the normal baseline year for the targets will be 1990, which is the baseline used by the global conferences of the 1990s.

Table 1: Millennium Development Goals, Targets and Indicators[1]

Goals	Targets	Indicators
Goal 1: Eradicate extreme poverty and hunger	**Target 1**: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day **Target 2**: Halve, between 1990 and 2015, the proportion of people who suffer from hunger	1.1. Proportion of population below USD 1 per day 1.2. Poverty gap ratio [incidence x depth of poverty] 1.3. Share of poorest quintile in national consumption 2.4. Prevalence of underweight children (under five years of age) 2.5. Proportion of population below minimum level of dietary energy consumption
Goal 2: Achieve universal primary education	**Target 3**: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	3.6. Net enrolment ratio in primary education 3.7. Proportion of pupils starting grade 1 who reach grade 5 3.8. Literacy rate of 15-24-year-olds
Goal 3: Promote gender equality and empower women	**Target 4**: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015	4.9. Ratio of girls to boys in primary, secondary and tertiary education 4.10. Ratio of literate 15-24-year-olds by gender 4.11. Share of women in wage employment in the non-agricultural sector 4.12 Proportion of seats held by women in national parliament
Goal 4: Reduce child mortality	**Target 5**: Reduce by two thirds, between 1990 and 2015, the under-five mortality rate	5.13. Under-five mortality rate 5.14. Infant mortality rate 5.15. Proportion of one-year-old children immunized against measles
Goal 5: Improve maternal health	**Target 6**: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio	6.16 Maternal mortality ratio 6.17 Proportion of births attended by skilled health personnel

[1] Where relevant, the indicators should be calculated for subnational levels -– urban and rural areas, regions, socio-economic groups, and by age and gender. Some of the indicators listed below will be monitored separately for least developed countries (LDCs), Africa, land-locked countries and small-island developing states.

Goal 6: Combat HIV/AIDS, malaria and other diseases	**Target 7**: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS **Target 8**: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases	7.18. HIV prevalence among 15-24-year-old pregnant women 7.19. Contraceptive prevalence rate 7.20. Number of children orphaned by HIV/AIDS 8.21. Prevalence and death rates associated with malaria 8.22.Proportion of population in malaria risk areas using effective malaria prevention and treatment measures 8.23. Prevalence and death rates associated with tuberculosis (TB) 8.24. Proportion of TB cases detected and cured under DOTS (directly observed treatment short course)
Goal 7: Ensure environmental sustainability	**Target 9**: Integrate the principles of sustainable development into country policies and programmes, and reverse the loss of environmental resources **Target 10**: Halve, by 2015, the proportion of people without sustainable access to safe drinking water **Target 11**: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers	9.25. Proportion of land area covered by forest 9.26. Land area protected to maintain biological diversity 9.27. GDP per unit of energy use (as proxy for energy efficiency) 9.28. Carbon dioxide emissions (per capita) [Plus two figures of global atmospheric pollution: ozone depletion and the accumulation of global warming gases] 10.29. Proportion of population with sustainable access to an improved water source 11.30. Proportion of people with access to improved sanitation 11.31. Proportion of people with access to secure tenure [Urban/rural disaggregation of several of the above indicators may be relevant for monitoring improvement in the lives of slum dwellers]
Goal 8: Develop a global partnership for development (*Some of the indicators will be monitored separately for LDCs, Africa, land-locked countries and small-island developing states.)*	**Target 12**:Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Includes a commitment to good governance, development, and poverty reduction – both nationally and internationally **Target 13**:Address the special needs of LDCs. Includes: tariff and quota-free access for LDC exports; enhanced Debt Initiative and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction . **Target 14:** Address the special needs of land-locked countries and small-island developing states **Target 15**: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term **Target 16**: In cooperation with developing countries, develop and implement strategies for decent and productive work for youth **Target 17**: In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries **Target 18**: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications	12-14. **Official Development Assistance** 32. Net ODA as percentage of DAC donors' gross national income (GNI) [targets of 0.7% in total and 0.15% for LDCs] 33. Proportion of ODA to basic social services (basic education, primary health care, nutrition, safe water and sanitation) 34. Proportion of ODA that is untied 35. Proportion of ODA for environment in small-island developing states 36. Proportion of ODA for transport sector in land-locked countries 12-14. **Market Access** 37. Proportion of exports (by value and excluding arms) admitted free of duties and quotas 38. Average tariffs and quotas on agricultural products and textiles and clothing 39. Domestic and export agricultural subsidies in OECD countries 40. Proportion of ODA provided to help build trade capacity 15. **Debt Sustainability** 15. 41. Proportion of official bilateral HIPC debt cancelled 15. 42. Debt service as a percentage of exports of goods and services 15. 43. Proportion of ODA provided as debt relief 15. 44. Number of countries reaching Debt Initiative decision and completion points 16. 45. Unemployment rate of 15-24-year-olds 17. 46. Proportion of population with access to affordable essential drugs on a sustainable basis 18.47. Telephone lines per 1 000 people 18.48. Personal computers per 1 000 people

4. **Governance of the MDGs and reporting on the MDGs.** The United Nations will report on progress towards the MDGs at global and country levels, coordinated by UNDESA and UNDP, respectively. Reporting will be based on two processes: (i) close consultation and collaboration with all relevant institutions, comprising the United Nations Development Group (including WHO and UNCTAD), other United Nations departments, funds, programmes and specialized agencies, the World Bank, IMF and OECD and regional groupings and experts; and (ii) the use of progress reports on and updates of the nationally owned poverty-reduction strategies such as the PRSPs, United Nations common country assessments (CCAs) and national human development reports (NHDRs), that emphasize a consultative process among the development partners. The main purpose of such collaboration and consultation will be to ensure a common assessment and understanding of the status of the MDGs at both global and national levels. The United Nations Secretariat will invite all relevant

institutions to participate in and contribute to global- and country-level reporting with a view to issuing an annual United Nations report that has the wide support of the international community and that can be used by other institutions in their regular reporting on the goals.

5. IFAD, as well, is contributing to achieving the MDGs and will report on the progress made. The eradication of extreme poverty and hunger, universal primary education, gender equality and empowerment of women, the reduction of child mortality, the improvement of maternal health, the combat against HIV/AIDS, malaria and other diseases, and environmental sustainability are of concern to IFAD, as mutually reinforcing causes and consequences of poverty. However the selected goals (targets and indicators) are not all directly relevant for IFAD's programme priorities and instruments. While the methodological problem of attribution of achieved impact to specific investment programme activities remains to be resolved, IFAD will help in securing:

(a) the rural dimension and the gender responsiveness of directly relevant goals;
(b) the eradication of extreme poverty and hunger, using as indicators country-specific poverty lines and anthropometric measures for child malnutrition – stunting;
(c) the empowerment of women, by enabling rural women and their organizations to participate on a sustainable basis in the development and implementation of pro-poor policies and poverty-reduction programmes;
(d) environmental sustainability, by supporting the integration of the principles of sustainable development into country policies and programmes and by contributing to biodiversity; and
(e) a global partnership for development, by contributing to ODA for agricultural development, through advocacy for market access and by contributing to debt sustainability.

6. IFAD will also indirectly contribute to some of the education, sanitation and health related goals, targets and indicators not specifically retained in the above list, through its partnerships with the BSF, UNAIDS and others, for whom these goals, targets and indicators are directly relevant.

Table 2: MDGs Most Relevant to IFAD

Goals	Targets	Indicators
Eradicate extreme poverty and hunger	• Halve, between 1990 and 2015, the proportion of people whose income is less than USD 1 a day • Halve, between 1990 and 2015, the proportion of people who suffer from hunger	• Proportion of population below USD 1 per day • Poverty gap ratio [incidence x depth of poverty] • Prevalence of underweight children (under five years of age)
Promote gender equality and empower women		• Ratio of literate among 15-24-year-olds, by sex.
Combat HIV/AIDS, malaria and other diseases	• Have halted by 2015, and begun to reverse, the spread of HIV/AIDS	• HIV prevalence among 15-24-year-old pregnant women
Ensure environmental sustainability	• Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources • Halve, by 2015, the proportion of people without sustainable access to safe drinking water	• Proportion of land area covered by forest • Land area protected to maintain biological diversity • Proportion of population with sustainable access to an improved water source
Develop a Global Partnership for Development	• Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Includes a commitment to good governance, development and poverty reduction – both nationally	**Official Development Assistance** • Net ODA as percentage of DAC donors' GNI [targets of 0.7% in total and 0.15% for LDCs] • Proportion of ODA to basic social services (basic education, primary health care, nutrition, safe water and sanitation) • Proportion of ODA for environment in small-island

	and internationally • Address the special needs of the least-developed countries. Includes: tariff and quota free access for LDC exports; the enhanced Debt Initiative and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction • Address the special needs of land-locked countries and small-island developing states • Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term • In cooperation with developing countries, develop and implement strategies for decent and productive work for youth	developing states • Proportion of ODA for transport sector in land-locked countries **Market Access** • Proportion of exports (by value and excluding arms) admitted free of duties and quotas • Average tariffs and quotas on agricultural products and textiles and clothing • Domestic and export agricultural subsidies in OECD countries • Proportion of ODA provided to help build trade capacity **Debt Sustainability** • Unemployment rate of 15-24-year-olds

7. **The cost of reaching the MDGs.** Using two parallel methods[2], a recent World Bank study provides two broadly consistent estimates for the additional annual foreign aid required to reach the MDGs by 2015:

(a) USD 39-54 billion for reducing income poverty by half between 1990 and 2015[3]; or
(b) USD 40-60 billion a year for the health, education and environmental goals, noting that the achievement of these goals contribute substantially to reducing income poverty.

8. The question asked was: If the necessary changes in policies and institutions are forthcoming, what additional financial resources will be needed to achieve the 2015 goals? The results of the two methods are broadly consistent and call for a doubling of annual ODA.

9. The basic World Bank assessment distinguishes between 33 'on-track' countries[4] that do not need additional aid to reach the income poverty-reduction goal; and 65 'uphill countries' that are the potential recipients of this additional aid. Using a composite performance indicator, these uphill countries are further subdivided: (i) 43 countries with adequate policies and institutions that can make effective use of additional funds immediately; and (ii) 22 countries that would need to improve their policies and institutions before they could effectively benefit from additional aid. The 43 uphill countries with adequate policies require USD 39 million in additional aid to reach the income poverty-reduction goal. For the other 22 uphill countries, it is assumed that additional aid would be forthcoming only if they improved their policies and institutions up to the average of the better-performing countries, and if they improved service delivery to make the additional spending effective. In that case, an additional USD 15 billion per year would be needed to assist these countries in reaching the poverty goal.

[2] The first approach considers economic growth as the main driver, and estimates the additional costs by calculating the additional savings required to finance the investment that will lead to the desired income growth. The second approach looks at the specific interventions required to achieve the goals of education, health and the environment. To the extent that improvements in education, health and the environment lead to faster economic growth – and there is substantial evidence that they will—the second approach can also be associated with a growth-driven strategy to achieve the goals. Similarly, the additional growth in the first approach increases public resources that could, and will, be spent on education, health and environmental interventions such as those in the second approach. Thus the ultimate differences between the two approaches may not be so great, but the fact that they start from different premises should not be overlooked.

[3] It should be noted that, with income poverty linked to the other targets, such as infant mortality and primary enrolment, achieving this goal will go some way towards achieving the others. The more the actions to promote growth are associated with those to promote human development, the stronger is the link.

[4] Countries that are either on track to reach the goal of poverty reduction using currently available resources, or countries where additional aid will not make a big difference, since foreign aid is so small compared to the size of their economy.

10. Greater improvements in the policy framework than those assumed, together with improvements in policies by rich countries, such as those for trade, would work to reduce the required resources.

11. The assessment does not distinguish between private and public investment. If these countries are successful in improving their investment climate, the amount of additional foreign aid needed will decrease. First, such an improvement would work to increase private investment, which, in terms of growth, can substitute for aid. Second, the overall productivity of capital in the economy will increase, reducing the amount of additional investment (and hence foreign aid) needed to generate the same growth rate.

12. The assessment also assumes that the world trading system will remain essentially unchanged – becoming neither more protectionist nor more open. If the Fourth World Trade Organization Ministerial Meeting in Doha, Qatar, held in November 2001, produces tangible results, they should include providing greater market access for developing countries. For developing countries as a group, the benefits of this increased market access will be much larger than financial transfers through ODA over the period up to 2015. Unfortunately, these gains would not substitute for development assistance in helping all countries reach the MDGs for two reasons: first, Africa plays such a small part in world trade (and already has preferential access in certain areas) that the geographic distribution of trade-related benefits favours the high-trading, lower and middle-income countries. Second, these low-income countries are too poor to benefit fully from multilateral trade liberalization without aid. To take advantage of market access, they require hefty investments in trade-creating infrastructure, transportation and telecommunications, as well as investments in trade-related government institutions (such as better customs and tax administration), and overall management of public investment. These in turn require development assistance – 'aid for trade'. In short, even though reducing trade barriers will undoubtedly benefit developing countries by stimulating growth and reducing global poverty, it is not sufficient to eliminate the need for aid in those countries with the largest income-poverty gap.

13. For most uphill countries with adequate policies, absorptive capacity is unlikely to be a problem in the absence of diminishing returns to aid. Possible diminishing returns to aid would be the result of congestion effects – too many projects absorbing the limited technical and managerial talent in developing countries. A shift by donors towards simplified and harmonized aid modalities could therefore be an important element in reaching the goals.

14. However, additional financing is one of many inputs required to reach the MDGs. Money alone will not guarantee that the goals will be reached. Policies and institutions are fundamental to progress on poverty reduction in all its dimensions. When countries have the appropriate policies and institutional arrangements that will make additional aid effective, then money can play an important if not critical role in accelerating progress towards the goals. To realize this international commitment requires that all members of the global community accelerate their efforts: that the 22 or so uphill countries improve their policies and institutions; that the developed countries relax trade barriers and better coordinate aid; and that donors increase financial aid by about USD 40-60 billion annually.

15. **In conclusion.** The MDGs constitute a rallying point for all development actors. However, while the importance of poverty is overwhelmingly acknowledged, inadequate attention is given to rural poverty in general, but also in the MDGs. To deliver on its mission in the context of the MDGs, IFAD needs to continue advocating the rural dimension of poverty in international and national fora; highlighting the resource, institutional and policy implications of the MDGs in rural areas; mobilizing partnerships around these rural challenges; and contributing to the reporting on progress made in reaching the MDGs.

16. Recent estimates set the additional, annual official development assistance (ODA) required to reach the MDGs by 2015 at approximately USD 54 billion. This would raise total annual ODA to the level of USD 100 billion, broadly a doubling of its current levels. This important challenge is being pursued, most prominently in the recent FfD Conference in Monterrey; the European Union (EU) Summit in Barcelona, Spain; and declarations by the governments of the United States and others. In Monterrey an estimated additional USD 30 billion was pledged by the United States and the EU for the period 2002-2006.

IFAD V: PLAN OF ACTION AND THE STRATEGIC CHANGE PROGRAMME

IFAD V: Plan of Action: Building on Achievements

1. The document Partnerships for Eradicating Rural Poverty: Report of the Consultation to Review the Adequacy of the Resources Available to IFAD was accompanied by the IFAD V: Plan of Action (2000-2002). By implementing this plan, concrete measures will have been taken to develop the basic conceptual, methodological, procedural and organizational capacity framework for sharpening the catalytic profile of IFAD in the sphere of rural poverty reduction, and for enhancing the quality of its agricultural and rural development programmes.

2. The specific achievements relate to four capacity-development areas:

(a) Policy and participation. The objective was to develop organizational capacity to influence policies and institutions in favour of the poor and to promote organizations that serve and represent the rural poor. To this end: IFAD has developed an approach to institutional analysis and dialogue for pro-poor policy change; training is being provided to develop staff capacity for policy and institutional analysis; partnerships have been established with other international financial institutions for the assessment of policy and institutional environments (e.g. with the World Bank, and in the context of PRSPs); and efforts are being made to enhance the policy orientation of IFAD-financed programmes in core sectoral areas and in relation to the strategic framework objectives, which is being reflected in IFAD's country strategy work.

(b) Performance and impact. IFAD has developed an approach for 'impact achievement through the project cycle', and the unified project design document with its 'key file' is a core instrument. A methodological framework has been established for impact assessment, and a practical guide for the monitoring and evaluation of rural development projects has been disseminated. The cross-cutting issues of environment, household food security and gender have been mainstreamed in operations. The project portfolio review process has sharpened its focus on the assessment of performance, and guidelines have been introduced for integrating impact assessment in the project completion reports. Staff and IFAD project managers are being trained in approaches to impact-enhancement.

(c) Innovation and knowledge management. An assessment of IFAD's innovation capacity has been completed and the implications of this review are discussed further below. On the basis of pilot experience with four thematic groups (in the areas of: diagnostic tools, rangeland management, rural microenterprises and rural finance) IFAD is developing its strategy for knowledge management. This effort is being coordinated by the Knowledge-Management Facilitation Unit.

(d) Partnership-building. IFAD takes part in multi-stakeholder partnerships, such as PRSPs, and the strategic partnership with the World Bank has been strengthened, with a focus on policy dialogue, advocacy and country-specific operations. Project-related partnerships have also been developed with the private sector.

The Strategic Change Programme: Modernizing Policies, Processes and Systems

3. The Strategic Change Programme has the 2005 objective of making IFAD a more efficient and effective organization in delivering the strategic framework by developing its institutional capabilities through organizational changes and through the modernization of its policies, processes and systems. This entails the modernization of its human resources management policy, financial management system, strategic planning and resource-allocation process, knowledge management and innovation processes, communication strategy and advocacy capabilities. It also entails modernizing information technology to support all of the above with a more strategic management information system. The Strategic Change Programme is being funded from extra-budgetary resources.

4. Specific objectives of the SCP comprise:

(a) strategic planning and budgeting: to link resource allocations closely to strategic priorities;

(b) financial management: to ensure an efficient and accountable use of resources through decentralized resource management, based on a structure of cost centres and supported by a robust control and assessment framework;

(c) human resources management: to establish this as a value-adding activity by improving the organization's human resources management capabilities;

(d) management information systems: to establish a more integrated and standardized IT architecture to empower users and to lead to efficient IT support for institutional and strategic framework priorities;

(e) administrative services: to use technology to reduce costs and make service provision quicker and more effective;

(f) knowledge management: to align the knowledge management strategy with the strategic framework and to ensure that the activities undertaken add value to the strategic priorities of increasing the Fund's field impact, developing partnerships and new product development efforts.

APPENDIX C

COUNTRY STRATEGIC OPPORTUNITIES PAPERS

1. The main instruments for country programme planning are the country strategic opportunities papers (COSOPs). The COSOP for a country:

(a) describes **rural poverty** and its context; rural poverty-reduction needs, opportunities and constraints; what others (including NGOs) are doing and have learned in rural development; and the lessons IFAD has learned from its previous investment programmes;

(b) identifies poverty-reduction **strategies** and priorities (including PRSPs) shared by the government concerned, IFAD and other partners (such as civil-society organizations and cofinanciers); and articulates IFAD's role and the potential for strategic alliances;

(c) positions IFAD in relation to government **policy** and in the micro-macro debate, with a strategic framework emphasis on equity in access to productive assets and on the enabling policy framework. It also positions IFAD in the debate on the **institutional framework,** focusing on the local level, decentralization, good governance, participation, enabling the poor and their organizations**,** and empowerment of the poor in public, economic and social spheres; and it identifies institutions with whom the Fund can link. The COSOP provides the basis for dialogue with the concerned government and other stakeholders. Country ownership of the strategy and the policy change agenda is central to the effectiveness of the IFAD-supported programme in a country, and the link between IFAD's COSOP work and the PRSP process is important in this context;

(d) develops country **programme options** in the context of the respective regional strategy. IFAD and its partners are selective; they prioritize and choose those options for rural poverty reduction that will ensure the highest strategic 'returns' to their efforts. The COSOP is forward-looking, providing a medium-term planning framework with scenarios, encompassing all IFAD's operations in a country (ongoing projects, new projects and programmes, policy dialogue, the Debt Initiative for Heavily Indebted Poor Countries (HIPCs), arrears settlement, collaboration with NGOs, technical assistance grants, workshops, studies, etc.). The COSOP also constitutes the framework for planning and structuring the Fund's strategic mix of operations in a given country – the sequence and the balance of innovations, replications, scaled-up projects and longer-term programme approaches;

(e) constitutes the basis for linking the allocation of the regional lending shares to specific country programme scenarios, on the basis of **performance criteria** that indicate the likelihood of effective use of the resources provided (see section 2 above). In this context the COSOP would also describe the process and the support required by a poorly performing government to reach the required performance standard. COSOPs assess the pro-poor quality of a country's policy and institutional framework, and define the agenda for institutional transformation that needs to accompany country programme development to ensure the effectiveness of IFAD's support in terms of rural poverty reduction.

2. In order to realize these objectives, COSOPs need to: prescribe the recommended investment approach/instrument for the country concerned on the basis of the above described performance criteria; develop the agenda for IFAD's pro-poor policy dialogue; design a strategy for increasing agricultural productivity and sustainability; define IFAD's participation in PRSP process; and specify IFAD's role in post-crisis rehabilitation where appropriate. The following sections describe more precisely what this entails.

PRO-POOR INSTITUTIONAL TRANSFORMATION

1. The past decade has seen much progress on pro-poor policy and institutional transformation throughout the developing world. Domestic input and output markets have become more liberal in many countries, a framework for reducing interventions in international agricultural trade has been introduced, subsidized credit programmes have diminished, and the operation of land markets has improved. This has started to create an incentive framework and an enabling environment for production by the rural poor. Despite the progress achieved, the policy reform agenda is still incomplete. The continuation of policy and institutional reforms to create a pro-poor enabling policy environment, as also called for in the Monterrey Consensus, is therefore one of the major thrusts of the strategic framework. There is a need both to complete the traditional policy reform agenda and to address, in a gender-responsive manner, new rural poverty-reduction policy issues. Areas for specific attention, in addition to the criteria for good performance identified above, are:

(a) the agenda for agricultural trade reform, including the World Trade Organization (WTO) process, liberalization of the developing countries' own internal trade policies, as well as promotion of regional trade;

(b) domestic rural and agricultural policy reform. Three critical policy issues are common to many developing countries: (i) the revision of policies to maintain low food prices, while catering to social safety nets; (ii) the promotion of efficient markets and the privatization of parastatal agencies; and (iii) the pricing of water for more efficient use;

(c) the development of an effective institutional framework. Good public institutions are characterized by transparency, accountability, responsiveness to clients, checks and balances, participatory approaches and concern for the interests of the disadvantaged;

(d) resource allocations to rural areas;

(e) decentralization. Governments need to develop decentralized systems, and define and implement actions to make decentralization an effective reform of the governance system. The role of the rural poor, especially rural women, and their organizations in planning and implementing decentralized government and development is a core concern for IFAD;

(f) rural finance development, in three sequenced stages. The first stage focuses on macroeconomic policies and the legal and regulatory framework. The second stage includes institution-building activities (such as training, technical assistance and the development of procedures and systems) using non-lending instruments such as grants. The third stage involves innovative approaches to saving, with credit lines only for qualified institutions where liquidity is a constraint;

(g) land reform for countries with inequitable land distribution. Governments are looking for cost-effective models and have been experimenting with community-managed agrarian reform programmes that often are referred to as 'market-assisted';

(h) transformation of the farm sector in transition economies. Several countries have made much progress in liberalizing domestic output and input markets, and in facilitating a transfer of the farming structure from the predominant, inefficient collectives, communes and state farms, to a heterogeneous structure composed of family farms, corporate entities,

and smaller and more efficient cooperatives. In many countries, though, the process of transformation of the farm structure is far from being complete. The loss for these countries of their traditional markets and the need to access new markets also needs to be addressed.

2. The policy and institutional reform agenda is complex and progress may be slow. There is a tendency to overestimate government's ability to complete reforms. Selectivity in identifying the key policy transformation objectives, and their correct sequencing, together with partnerships with more policy-oriented organizations, are essential to success. National ownership in identifying and planning the implementation of the agenda for institutional changed is crucial.

INCREASING AGRICULTURAL PRODUCTIVITY AND SUSTAINABILITY

Development experience has shown that agriculture is a major engine of growth in poor countries and that rural poverty reduction itself depends on direct measures for increasing productivity in the agricultural sector, with its backward and forward linkages to rural enterprises that provide services to the farm sector. The building blocks for an agricultural development strategy focused on productivity consist of the following elements:

(a) recognizing diversity in agriculture and tailoring strategies accordingly**.** In many developing countries, agriculture is in transition from a subsistence orientation and government domination to modern agriculture, well integrated into markets and with access to modern technology. The agricultural sector, however, consists of a variety of farmers at different stages in the transition process and with different needs for public support. These include: commercial farms; small family farms; subsistence-oriented farms, many managed by women; and part-time farmers, largely women;

(b) harnessing engines for agricultural development. Globalization, changes in markets and technology and the changing role of the private sector provide new drivers for agricultural growth. They consist of: transport and trade; public investment in agricultural research for productivity growth; biotechnology managed with consideration for safety, social acceptability and harmony with biodiversity; rapid growth of demand for high-value products; private entrepreneurship and rural industries to develop market outlets and deliver modern inputs based on infrastructural and institutional development; information and communication technology providing information on markets and prices, employment, production technology, epidemics, legal entitlements and social services; and increased participation of rural workers in income-generating activities due to increased mobility through transport, information, labour-market regulations and training;

(c) investing to increase agricultural productivity. Future directions include: defining the role and supporting the efficiency of the public sector to supply public, as opposed to private, goods and services; building institutional capacity through longer-term support for institutionally diversified agricultural knowledge and information systems; developing public-private partnerships based on respective roles and comparative advantage; user participation and strengthening of local capacities, decentralization strategies and participation of rural producer and community organizations (especially of women) in policy formulation and service delivery; improving the technical base by linking international, national and private research and extension systems; flexible investment arrangements; recognizing off-farm needs and opportunities; and better monitoring and evaluation systems;

(d) build productivity and economic viability criteria in programme designs.

APPENDIX F

WORKING IN THE FRAMEWORK OF PRSPS (IN HIPCS AND NON-HIPCS)

1. IFAD is fully participating in the Debt Initiative at a total projected nominal cost of USD 440 million, of which USD 107 million may fall due in the Sixth Replenishment period, the peak period for the Initiative. The Debt Initiative is expected to provide 37 low-income countries with a sustainable exit strategy out of unmanageable debt. So far, 24 countries have become eligible for debt relief, and many of the remaining country cases are conflict-affected and/or have heavy debt arrears, which may delay their eligibility. One of the criteria for the Initiative is the development and implementation of an effective country-owned poverty-reduction strategy (PRSP). This approach was subsequently also adopted by IMF as an eligibility criterion for access to its PRGF. As a consequence from 60 to 70 low-income countries either have a PRSP are or in the process of developing one.

2. This constitutes an opportunity for ensuring that rural poverty reduction and its enabling conditions are an integral part of the country's own poverty-reduction strategy. IFAD's participation in the PRSP processes would aim at ensuring:

(a) the implementation of sound economic policies that establish an environment conducive to growth and poverty reduction;

(b) the development of the policy, institutional and organizational transformation agenda required to translate public expenditure into rural poverty reduction;

(c) political stability, peace and conflict prevention;

(d) policy-making institutions that are reasonably well-functioning and accountable, leading to the emergence and enforcement of good policies, and highlighting the importance of governance, public-sector accountability and transparency; and institutional capacity-building for civil-society organizations to sustain their role;

(e) implementation of strong poverty-reduction programmes, including the mitigation of natural disasters or health threats such as the HIV/AIDS epidemic;

(f) mitigating protectionist policies that restrict access to export markets;

(g) broadening and diversifying the narrow production and export base of HIPCs, heavily dependent upon a few primary commodities, which make them particularly vulnerable to external and terms-of-trade shocks (export growth is needed to strengthen HIPC's external payment capacity); and agricultural diversification is part of this strategy); and

(h) the provision of additional financial resources on highly concessional terms and conditions.

3. IFAD's participation in PRSP processes (planning and implementation) will also result in synergy between the PRSPs and its COSOPs, and in integration of IFAD operations in poverty-reduction programmes, thereby effectively addressing the above challenges. IFAD's participation in PRSP processes can take different forms: supporting participatory processes for the planning and updating of PRSPs; providing assistance in the actual implementation of PRSPs and their participatory monitoring; defining and pursuing the agricultural development agenda; helping the poor articulate and meet their policy and organizational requirements; and institutionalizing PRSP processes. Partnership with governments (central and local) and other actors in the sphere of rural development (especially IFIs) is of foremost concern.

APPENDIX G

IFAD'S ROLE IN POST-CRISIS REHABILITATION

1. Crises (natural disasters, civil strife, financial crises) and the resulting emergency situations have proliferated considerably in the developing countries, with increased incidence and severity. Whatever the causes, it is always the rural poor who are hardest hit in times of crisis, due to their greater vulnerability. Crises also significantly disrupt agriculture and food production. A major challenge in post-crisis assistance is ensuring a smooth transition from emergency relief to sustainable development.

2. IFAD has a Framework for Bridging Post-Crisis Recovery and Long-Term Development (September 1998). The framework consists of the following limiting norms:

(a) the *objective* is to help the target group jump-start resumption of the development process and enhance their resilience and coping strategy in future crises. Such support is, by its very nature, the first phase of a long-term development process;

(b) possible *areas of support* are: the recovery of the target group's agricultural productivity and the resumption of the rural development process; income-generating activities, particularly through microcredit and microenterprises; resource conservation; and capacity-building for project implementation;

(c) the *selection criteria* are: complementarity with activities of other partners; impact on productivity and on the implementation of ongoing projects; the prospect of bridging the gap between relief and development; potential for enhancing the coping capacity of the target group; and expected economic benefits;

(d) a number of *design considerations* should be accommodated. These include: participatory needs assessment; identification of the causes of crises and mitigation measures; future coping strategy; emphasis on dialogue and cooperation with other donors; quick, high-impact, flexible design; use of existing technology; and focus on existing capacity. Particular attention needs to be given to ensuring equity, an adequate focus on gender, beneficiary participation, local capacity-building and a proper role for civil society;

(e) in the *implementation arrangements*, solid monitoring mechanisms need to be established with a view to capturing process issues;

(f) the possible *forms of involvement* are portfolio adjustment and support to early reconstruction;

(g) IFAD's involvement in post-crisis assistance will be decided on a *case-by-case basis*. Adequate consideration will be given to the level of security and stability as the enabling factor and to close inter-agency cooperation and coordination;

(h) the *project cycle* for post-crisis interventions may be adjusted to ensure that IFAD support is provided on a timely basis.