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**IFAD**

**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**

**Consultation on the Seventh Replenishment of IFAD's Resources – Second Session**

Rome, 21-22 April 2005

**THE WAY FORWARD**

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**ATTACHMENT:**

**SCENARIO FOR THE SEVENTH REPLENISHMENT PERIOD:  
SEVENTH REPLENISHMENT OF USD 800 MILLION,  
PROGRAMME OF WORK GROWING 10% ANNUALLY**



**ABBREVIATIONS AND ACRONYMS**

|       |  |
|-------|--|
| ADF   | African Development Fund                                 |
| ALM   | Asset Liability Management                               |
| COSOP | Country Strategic Opportunities Paper                    |
| CPM   | Country Programme Manager                                |
| IDA   | International Development Association (World Bank Group) |
| IEE   | Independent External Evaluation                          |
| MDGs  | Millennium Development Goals                             |
| ODA   | Official Development Assistance                          |
| PBAS  | Performance-Based Allocation System                      |
| PRSP  | Poverty Reduction Strategy Paper                         |
| RIMS  | Results and Impact Management System                     |
| SWAp  | Sector-Wide Approach                                     |
| UN    | United Nations   |



## INTRODUCTION

1. Since the adoption of the Millennium Development Goals (MDGs) in 2000, progress towards poverty reduction targets has been uneven – especially in the rural areas of many developing countries. Rural poverty has emerged as the largest factor of the global extreme poverty situation: over 800 million rural people, about 74% of the total, are living on less than USD 1 per day.
2. To meet the challenge of poverty reduction, development assistance must be increased and global policy must become more sensitive to the interests of developing countries and poor people. Commitments are being made on both fronts, and pledges by developed countries to reach the target of 0.7 per cent of gross domestic product (GDP) for development assistance are gaining momentum. The need is however not just for more assistance, but for more *effective* assistance. For that to be achieved, aid and policy reform must be better targeted: they must address the specific issues faced by poor rural people as they seek to improve their livelihoods in the context of rapid change.
3. No single institution or organization can satisfy the need for new solutions. These must come from farmers, governments, the private sector, civil society and international development partners working together within a common framework. As the Secretary-General of the United Nations (UN) emphasized in the statement introducing his report *In Larger Freedom* on 21 March 2005, to achieve the MDGs we need to improve “... governance, uphold the rule of law, combat corruption and adopt an inclusive approach to development, making space for civil society and the private sector to play their full part”.
4. IFAD is unique among international development institutions in its exclusive focus on rural poverty. The Fund has helped to strengthen the ability of millions of poor rural people to increase their income and food security. Its stance has been pro-poor and pro-country ownership. And it has focused on the difficult task of the empowerment of poor rural people as producers and income earners, and the thorny political and social issues (e.g. gender and ethnicity) that lie behind this, during a period when global attention is focused elsewhere.
5. IFAD is being asked by its Member States to play a greater role in helping create and give dynamism to the partnerships (national and international, bilateral and multilateral) that are essential for a more effective push to eliminate the obstacles confronting small-scale farmers, herders and fishermen as they work to increase their incomes and food security. In order to respond properly, it must evolve, and it must be equipped. IFAD must *evolve*, because the challenge now is to support good projects and build a broad national and international programme and policy framework for rural poverty reduction. IFAD must be *equipped*, because change demands innovation and knowledge.
6. Country leadership and ownership of the poverty reduction effort is essential, and harmonization and coordination efforts must take this as their first principle (as eloquently expressed in the Paris Declaration on Aid Effectiveness). To make a difference, country leadership must be able to draw upon country capacity to identify and respond to key livelihood issues. It is on strengthening this capacity – in government, among farmers, in civil society and in the private sector – that IFAD will focus its efforts.
7. IFAD supports countries with varying institutional, social and economic conditions. In every country, its programmes, projects and other activities need to be tailored and fully responsive to the national needs, conditions and goals. IFAD projects and programmes are being increasingly integrated within the framework of national policies and strategies on poverty reduction and agricultural/rural development in order to help achieve the country’s poverty and development goals. On the basis of the lessons and insights from its operational experience, IFAD will contribute actively to national policy and strategy development, in particular to Poverty Reduction Strategy Papers (PRSPs) and similar strategic frameworks. At the same time, some countries have adopted sector-wide agricultural



programmes and similar instruments to achieve their goals for rural development. In such countries, as elaborated in the paper on Sector-Wide Approaches (SWAs)<sup>1</sup>. IFAD will explore how best it can join with its partners in supporting these national sectoral instruments and incorporate its activities directly within the sector programmes.

8. At IFAD's core remains its commitment to enabling the rural poor to overcome their poverty through strengthening their capacities and assets. In this context, it needs to focus on poor people playing a leading role in the design and implementation of projects and in the whole process of national rural policy and programme development. IFAD will be working with national institutions and the international community to facilitate partnerships, invest in capacity, explore innovation and promote upscaling of tested solutions. It will support country leadership of the rural poverty reduction effort by strengthening its country interface. To achieve this, IFAD must consolidate and expand its role within the international effort to eradicate poverty in the rural sector.

9. One of IFAD's most important contributions must be to promote national poverty reduction strategies that are more rooted in consultations with poor rural people. Implementing these strategies effectively will require greater resources, both national and international, for rural and agricultural development. The current 'gap' in realizing the objective of more and better-applied resources for agricultural and rural development is clear; and a stronger IFAD will be part of the solution.

10. To help fill this gap, IFAD will focus its resources where its value-added can be greatest, and will be guided by results. It will develop a new Strategic Framework, and a new three-year medium-term planning mechanism translating this framework into concrete objectives and actions with monitorable indicators of implementation and performance. It will articulate clear policy dialogue, partnership and learning objectives, which will be embedded in all of its activities. The Strategic Framework and three-year medium-term plan will be presented to the Executive Board for its consideration.

11. This Way Forward document delineates the direction that IFAD proposes to take. Salient points will be captured in the Report of the Consultation on the Seventh Replenishment of IFAD's Resources and will be the basis for an action plan, which will be detailed, costed and presented to the Executive Board by management. Part One of this document describes the global situation and the important gaps in capacities to deal with poverty, which is overwhelmingly rural. Part Two details how IFAD plans to strengthen its own impact and contribute to enhancing the overall global poverty reduction effort. Part Three indicates the key issues that require consideration by the Consultation to enable the Fund to use its potential fully.

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<sup>1</sup> See IFAD Policy on SWAs for Agriculture and Rural Development, presented to the Eighty-Fourth Session of IFAD's Executive Board in April 2005.

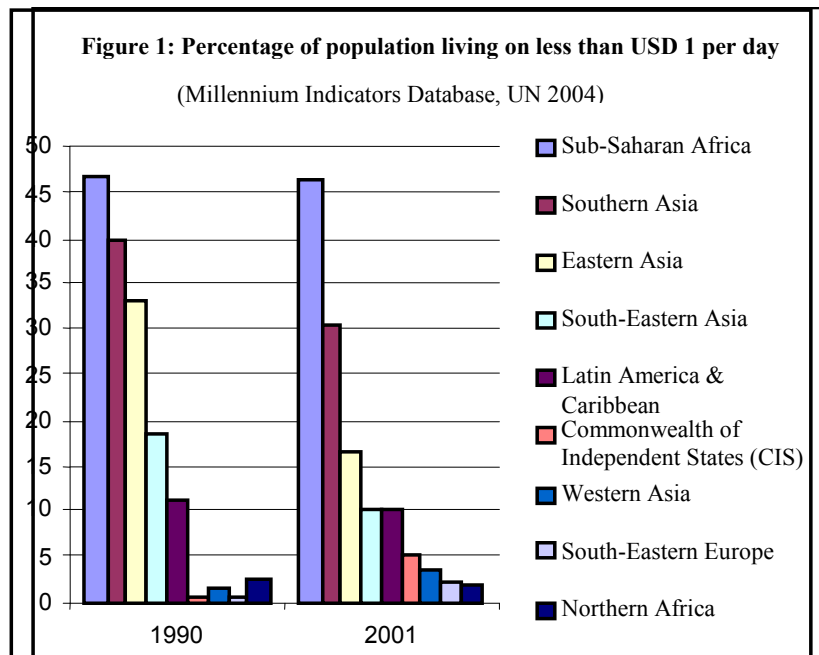
## PART ONE – THE GLOBAL CONTEXT

### I. GLOBAL WEALTH, POVERTY AND THE MILLENNIUM DEVELOPMENT GOALS

12. Global wealth has gone through a period of extraordinary expansion. From 1970-2000, world real GDP rose by 150 per cent, and trade expanded by 360 per cent. In the period 2000-2003, global GDP increased by a further six per cent. Incomes grew significantly in developed countries, and even more rapidly in many developing countries. Global incomes rose and global integration deepened. The processes were interrelated. But, incomes did not rise for all. In 2000, 38 countries were still reporting annual per capita income of less than USD 400.

13. World leaders at the Millennium Summit in September 2000 underlined the unacceptability of a situation in which a significant part of the global system, and of the world’s population, was being left behind. The outcome was a common commitment that was unprecedented in terms of the concreteness of the goals and targets adopted – the Millennium Development Goals.

14. Since the Millennium Summit, there has been some important progress towards attaining the MDGs, notably in India and China, which together account for the bulk of achievements to date. Yet in many other countries, particularly in sub-Saharan Africa, but also in parts of Asia and Latin America, there has been little headway. There remain 1.1 billion people living on an income of less than the equivalent of USD 1 per day – and 2.7 billion living on less than the equivalent of USD 2 per day.



15. The need to move forward has never been felt so urgently. In January 2005, the Secretary-General’s Millennium Project reported that progress was inadequate. Only one month earlier, in December 2004, the High-level Panel on Threats, Challenges and Change put the spotlight on poverty as a crucial threat to international peace and security. Global poverty reduction has taken the political centre stage in developing and developed countries alike. Business as usual will not achieve the MDGs, and particularly not in the poorest countries.





16. In September 2005, world leaders will meet again to review progress – and to consider the way ahead. The most authoritative diagnosis states clearly that the MDGs will not be broadly met by the target date of 2015 unless there are major changes in development assistance and the international system of economic relations.<sup>2</sup>

## II. THE RURAL CORE OF GLOBAL POVERTY AND THE STATUS OF AGRICULTURE AND DEVELOPMENT ASSISTANCE

17. To achieve the MDGs by 2015, poverty reduction efforts must be specific and effective. Who the poor are, and the circumstances in which they live, must shape the content of poverty reduction programmes; and resources and actions must be specifically targeted. The large majority of poor people, approximately 75 per cent, live in *rural* areas<sup>3</sup> – a situation that has not changed much since IFAD first highlighted the fact in its *Rural Poverty Report 2001*.<sup>4</sup> The poorest *countries* are those with predominantly agricultural economies and societies, and the poorest *people* live predominantly in rural areas.

18. Even in developing countries that are making greater strides towards achieving the MDGs, very large numbers of people in the countryside remain in poverty. Rural needs must be met, and the response must involve income, production and employment opportunities for poor people. Progress in rural development cannot be made until inequalities of opportunity and assets *within* the rural sector are addressed, particularly by recognizing and enhancing the role of poor women and, in large parts of the world, by tackling the social exclusion of minority ethnic groups. Any response to rural poverty that ignores the mechanisms of marginalization and exclusion is likely to fail.

19. The level of development assistance to agriculture has been low. In real dollar terms, the Official Development Assistance (ODA) for agriculture *fell by over two thirds* between 1985 and 2002 (see Figure 2). Development assistance to agriculture was marginalized among bilateral agencies and multilateral development banks.<sup>5</sup> Agriculture itself, however, remained central to the livelihoods and prospects of the majority of the world's extremely poor people.

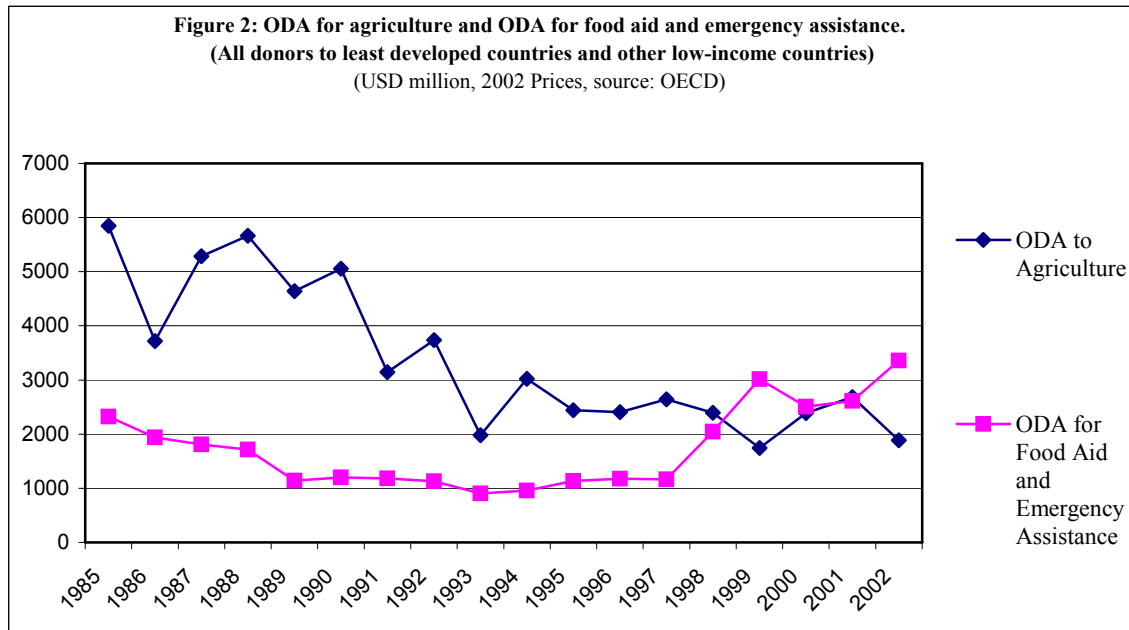
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<sup>2</sup> *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*. United Nations Millennium Project. New York: United Nations, 2005.

<sup>3</sup> Regional levels of the rural population with an income below one dollar a day are as follows: East Asia, 79.6 per cent; South Asia, 77.2 per cent; Eastern Europe and Central Asia, 52.6 per cent; Sub-Saharan Africa, 73.3 per cent; and Latin America and the Caribbean, 41.9 per cent. Source: *World Development Indicators*. World Bank, 2004

<sup>4</sup> *Rural Poverty Report 2001: The Challenge of Ending Rural Poverty*. Published for IFAD by Oxford University Press, 2001.

<sup>5</sup> The data for the World Bank, for example, are broadly in line with the ODA trend, although as a percentage of all lending, agricultural lending fell even faster: by 75%, from 30% of lending in 1980 to 7%, in 2003.



20. There are no authoritative data on the total amounts of ODA committed to *rural* areas. It seems likely, however, that there have been some increases in expenditure on social services (particularly health and education), as well as on infrastructure. Yet development assistance to activities and assets that have a direct and immediate bearing on poor rural people's incomes and productivity has fallen dramatically.

21. The engagement of developing countries themselves in support of agricultural development has tended to parallel ODA. In the poorest countries, the percentage of government expenditure on agriculture is at extraordinarily low levels (and has fallen in countries with the lowest incomes and the highest dependence on agriculture). For the last 20 years, higher levels of government expenditure for agriculture in developing countries have shown a clear correlation with progress towards poverty reduction (see Figure 3). The comparison between sub-Saharan Africa and east and south Asia is striking: rapid progress towards the achievement of the first MDG (reducing poverty and hunger by half) in Asia is correlated with high and increasing levels of government expenditure in agriculture. In sub-Saharan Africa, where the level of public expenditure for agriculture was extremely low and further declined during the 1990s, no progress has been made. The 2002 African Union Summit decision to recommend allocation of ten per cent of national budgets to agriculture signals a welcome reversal of this trend.

22. The Report of the Millennium Project argues that a transformation in the development of rural areas and poor rural people is a *sine qua non* of achieving the MDGs. It lists "Rural development: increasing food output and incomes" as the *first* of its main investment-and-policy clusters.<sup>6</sup> For that transformation to happen, crucial gaps in national and global development efforts have to be filled:

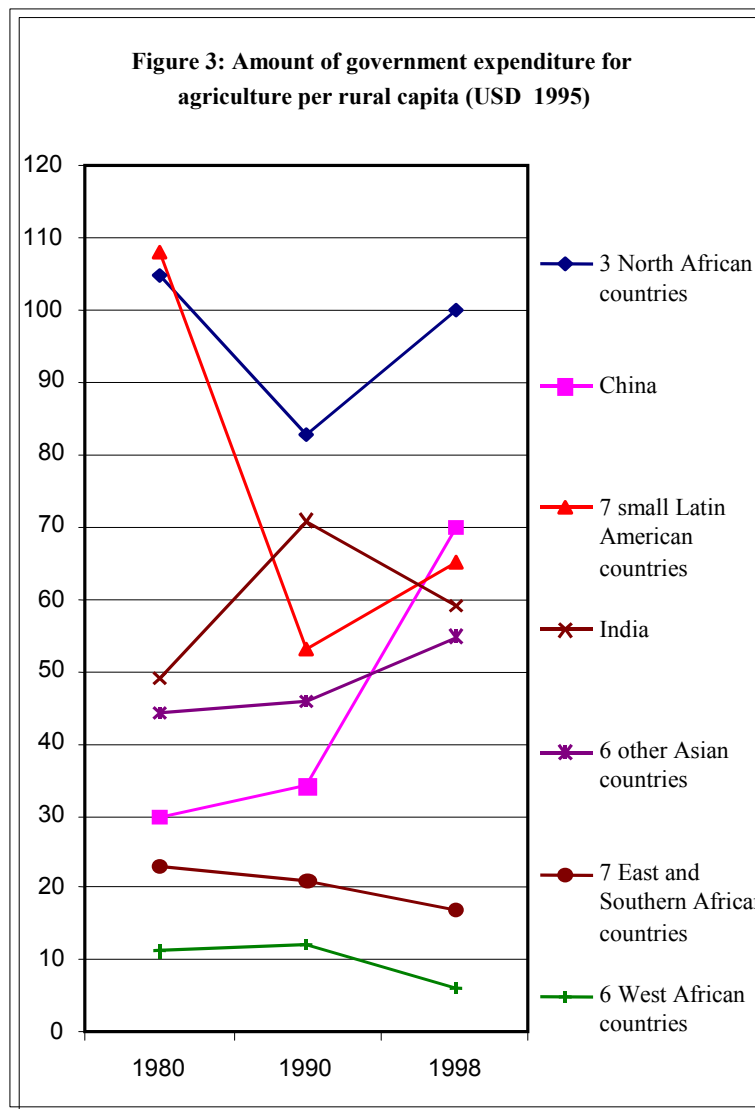
- a. the *material resource* gap – requiring a major increase in assistance to rural and agricultural development processes bearing directly on the productivity and income of poor rural people;
- b. the *institutional* gap – requiring support for the emergence of the key institutions (of poor rural people, of the state, of the private sector and of civil society) necessary for a more dynamic process of rural economic change that makes a difference to poor people;

<sup>6</sup> *Investing in Development*, p 27.



- c. the *policy gap* – requiring support for *national* processes for making agricultural and rural development policies that create opportunities for poor rural people within often rapidly evolving national and international contexts, as well as support to improve understanding of the *international* processes shaping the national and local options of poor rural people; and
- d. the *learning gap* – reflecting the fact that the opportunities and challenges facing poor rural people today are different, and that the focus of development cooperation in the context of the MDGs is on *poor people* as actors in poverty reduction – a departure from the traditional sectoral emphasis.

23. At the International Conference on Financing for Development held in Monterrey, 18-22 March 2002, poverty reduction, as well as aid, debt and policy reform, was placed squarely within the mainstream processes of investment and trade. This underlines the conclusion emerging from the MDG success stories: accelerated poverty reduction must be based on creating new and better positions for poor people in the normal processes of economic life.



24. The idea of a single path to development, with a uniform package of economic policy, institutional reform and the material conditions to sustain it, has generally been abandoned. In its place has emerged an understanding of development as a process that takes different concrete forms in



different places and times; a process that must be led by the countries themselves in response to their particular characteristics and situation.<sup>7</sup> The corollary is the ideal of the decentralization of international development assistance in favour of country-specific responses to poverty challenges, developed at the country-level through dialogue with all major stakeholders, especially the poor people themselves.

### III. IFAD'S ROLE IN THE SYSTEM OF DEVELOPMENT ASSISTANCE

25. Country leadership and ownership, common subscription to the MDGs, the emergence of national poverty reduction strategies, and the coordination/harmonization of assistance all have the *potential* to be powerful factors in accelerating rural poverty reduction. However, that potential can only be *realized* if national and international efforts are moulded by a better grasp of what it takes to create sustainable economic opportunities. The challenge is to go beyond recognizing that poverty reduction strategies must reflect particular national conditions – to ensure that those strategies reflect the concrete and particular opportunities of poor people themselves.

26. Poor rural people's income and food security opportunities are especially dependent upon their *own* productive assets, and their *own* organization, e.g. for production, for marketing, for credit, and for land and water management. The poverty challenge is inextricably linked to improving poor rural people's own economic capacities and the social relations by which they are shaped. Poor people are defined not only in terms of income and food security, but in terms of the social positions that *make* them poor: as poor women and poor members of indigenous and other marginalized groups.

27. Support to poverty reduction is increasing, but there are *continuing* weaknesses in the capacity to formulate and manage pro-poor change in rural economic assets and relations, and to promote these within national strategies and programmes. There is a danger that PRSPs will fail to target rural poverty issues adequately, and that broad national rural development programmes will not identify the vital livelihood problems of poor rural people and respond to them in the ways called for by the changes in the economic environment. Strengthening the capacity of national partners and processes to identify and answer these livelihood problems is vital. This will be IFAD's objective.

28. The Fund's contribution will not come from offering ready-made solutions to rural poverty reduction. In a context of rapid change, the greatest asset is the capacity to learn and promote learning among others. IFAD's value-added will stem from an approach that combines: sustainable empowerment of poor rural people; partnerships involving poor rural people, governments, the private sector and civil society; and solutions that reflect national strategy under country leadership of the coordinated development assistance effort.

29. The objectives that IFAD pursues and the activities it supports have special relevance to the first MDG and its targets.<sup>8</sup> Nonetheless, all the MDGs bear upon the capacity of poor rural people to reduce their poverty and hunger, and all are relevant to IFAD. IFAD programmes give high priority to gender equity and are closely involved in combating HIV/AIDS. Furthermore, IFAD supports environmental sustainability through hosting the Global Mechanism and as an executing agency of the Global Environment Facility. All these areas of involvement have an immediate practical impact on the rural

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<sup>7</sup> The World Bank explains this change in the following terms: "This shift reflects the recognition that there is no single blueprint for policy programs that will work in all countries, and that any country's policy program must be designed with country ownership to fit that country's specific circumstances." *From Adjustment Lending to Development Policy Lending: Update of World Bank Policy*. Washington D.C.: World Bank, August 2004, p. 11

<sup>8</sup> The first goal, "eradicate extreme hunger and poverty" has two specific targets: (i) halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day; and (ii) halve, between 1990 and 2015, the proportion of people who suffer from hunger.



poverty problematique. Through partnerships, such as that with the Belgian Survival Fund, IFAD is also engaged in the issues of child mortality, maternal health and adult education. The challenge for IFAD in the context of the MDGs is not to adopt new targets – it has always focused on poverty and hunger through increased production and income. Moreover, many elements of the aid effectiveness agenda have long been central to IFAD’s operational practices: country leadership and ownership, alignment with national strategies, on-budget financing, and support for national procedures and service capacities. Rather, the challenge for IFAD is to harness the new environment that made the MDG consensus possible so as to strengthen significantly both the scale and the quality of its contribution to the overall effort to eradicate poverty.

30. By 2000, IFAD had become the third largest international financial institution providing agricultural development assistance, after the World Bank (International Development Association) and the Asian Development Bank.<sup>9</sup> In terms of its current portfolio of ongoing projects and programmes, numbering nearly 200, the Fund has provided about USD 3 billion towards the total investment cost of over USD 6 billion. At full development, these programmes, will help about 100 million poor men and women build better and more secure lives for themselves and their families. This represents more than ten per cent of the world’s rural poor living on less than USD 1 per day. To accelerate rural poverty reduction, IFAD’s out-reach must be broader. It must be a stronger partner in developing comprehensive national programmes. It will explore new answers to vital rural questions through highly-targeted projects and it will help organize and finance the larger scale answers that capture these solutions and make them available to the large number of poor rural people whose lives have not been improving.

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<sup>9</sup> In 2000, agricultural lending of international financial institutions ranked by size was as follows: World Bank/International Development Association, USD 2 576 million; Asian Development Bank, USD 1 051 million; and IFAD, USD 409 million.



## PART TWO - THE WAY FORWARD

### I. THE INDEPENDENT EXTERNAL EVALUATION OF IFAD

31. The Consultation on the Sixth Replenishment of IFAD's Resources recommended that an Independent External Evaluation be undertaken to determine IFAD's contribution to rural poverty reduction, examine the relevance of the organization's mission and objectives, assess corporate learning and performance, and make recommendations on policy directions and steps to improve IFAD's performance.

32. The IEE left no doubt about the vital importance of IFAD's mission.<sup>10</sup> It found that IFAD projects have raised food security and income from agriculture among poor rural people. It also found that in terms of broad indicators of successful project implementation, its performance has been equivalent to comparable development organizations, even before taking into account the fact that projects supported by IFAD have focused exclusively on poor rural people and often have been implemented in the most remote and difficult areas.

33. According to the IEE, the pressing issue for IFAD is maximizing value-added in a context of *new* possibilities and partnerships: "The critical challenge now is for IFAD to demonstrate its distinctive role based on a clearly-defined approach to innovation, targeting, partnership and policy dialogue all directed at delivering results for poor rural people, and particularly the poorest, as part of the concerted global effort to reach the MDGs".<sup>11</sup> IFAD management agrees with the IEE's identification of where further change is necessary. Several important initiatives are already being implemented, including:

- (a) modernization of the human resources management system to provide a basis for staff development;
- (b) procedures on enhancing human resources deployment to operational, policy and knowledge areas;
- (c) strengthening policy and communications divisions, and establishing a Strategic Planning and Budget Unit;
- (d) establishment of asset liability management;
- (e) strengthening of objective performance measurement and analysis through placing the Office of Evaluation on an independent footing, and implementation of the Results and Impact Management System (RIMS);
- (f) articulation of a strategic and integrated approach to country activity programming and implementation (evolution of the Country Strategic Opportunities Paper (COSOP) planning instrument);
- (g) pilot exploration of direct project supervision and field presence options;
- (h) implementation of the Performance-Based Allocation System (PBAS); and

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<sup>10</sup> The report observes: "This [IFAD's] mandate continues to be relevant, and it is further legitimized by the importance recent progress reports on the MDGs attach to the development of the rural sector. Indeed, the problem that IFAD was created to tackle continues and is likely to continue in the foreseeable future." Independent External Evaluation of IFAD, Draft Final Report, January 2005, p. vii.

<sup>11</sup> Draft Final Report, p. viii.



- (i) development of a new policy on the role and expanded size of the grant programme and policy papers on IFAD's Private Sector Development and Partnership Strategy and the IFAD Policy on Sector-Wide Approaches for Agriculture and Rural Development.

34. The IEE urges IFAD to pursue these initiatives further, to add new elements, and to combine them in a coherent and effective system – what it calls a new business model – that represents a step forward in IFAD's ability to innovate and influence. IFAD management calls the *ensemble* of initiatives “The Way Forward”.

## II. CLARIFYING IFAD'S ROLE AND FOCUS

35. A great deal of experience has been accumulated in addressing macro-economic management and social-service issues in growth and poverty reduction. There is much less experience, knowledge and capacity in dealing with the problems of poor rural people as agricultural producers and income earners. IFAD will bring to increasingly coordinated national and international poverty reduction efforts two dimensions that are essential for achieving the MDGs in rural areas: engagement in changing the material and social conditions directly shaping the productivity, income and food security of poor rural people; and, working *with* poor rural people and their organizations, such as farmers' organizations to devise solutions to their development bottlenecks and create a supportive policy, institutional and resource environment.

### A. Critical Issues in Rural Income and Food Security

36. Everywhere, poor rural people are challenged by market relations and new forms of competition for influence and resources, including competition for the very assets of the poor people themselves. Until they are in a position to manage challenges and competition better, and to exploit new opportunities, what brings prosperity to *others* may bring continued and deeper poverty to *them*.

37. Most poor rural people base their livelihoods on their own very small-scale enterprises; it is essential for them to strengthen their capacity and increase their opportunities to generate more income and food by and for themselves in the normal course of their productive lives, including market relations in economies characterized by domestic liberalization and external globalization. The micro-level bases of that empowerment must be fully integrated into both national and sectoral poverty reduction strategies. Such integration would help accelerate not only poverty reduction, but also overall growth.

38. The conditions of poor rural people vary enormously – by geographical area, by production system, by gender and by social-cultural characteristics. Nonetheless, a limited number of common factors bear critically on the ability of poor rural people to achieve sustainable improvements in their income and food security, and IFAD will focus on strengthening the capacity of poor people, governments, and other partners to manage them. Foremost among these factors are: security of access to and management of natural assets (especially land and water); equitable and efficient relations with other actors in market exchanges; access to financial services for livelihood security and improvement; and access to information, knowledge and technology. Without adequate or secure access to land and water, the basic existence of poor rural people is precarious. Without access to financial services, it is hard to invest to improve productivity and competitiveness – or to meet the basic norms and standards of the evolving demand for agricultural and rural products. Without efficiency and bargaining power in the market, returns on effort and investment remain low. And without knowledge, technology and information, it is difficult to know how and what to produce, and how to sell it. These are the substantive issues confronting poor rural people. IFAD will respond to a broad range of situational needs, but a key task is to strengthen the capacity of poor people and the development system to address these constraints.

39. Throughout its history, IFAD has focused on these factors *as experienced* by poor rural women, poor rural men, and indigenous and other marginalized groups. The category ‘rural poor’ hides a



complex reality of inequality, with perhaps the majority of poor rural people suffering from special exclusion processes. One of the requirements of rural poverty reduction strategies is not only that they be *sensitive* to exclusion in all its forms, but also that they include *overcoming* that exclusion as an explicit and central objective.

### **B. Increase the Capacity and Opportunity of Poor People to Shape Relations and Policies**

40. Individual poor rural people have to deal with market agents, groups and institutions with much greater power and resources, and with different objectives. That asymmetry determines who leads and benefits from change. These relations are necessary and the solution for poor people is not to withdraw from them, but to achieve a situation in which they are more equitably placed. A vital element of IFAD's contribution to sustainable national capacities for rural poverty reduction, therefore, will be strengthening the capacity of poor rural people to better manage their own resources (e.g. in member-based rural financial institutions and land management organizations) and their relations with other groups (e.g. through farmers' marketing groups and farmers' field schools).

41. Policy and law also are vital factors in shaping rural growth processes and determining who benefits from them. The very fact that the poor people *are* poor is a clear indication that their policy influence is weak. IFAD will work with national partners to build capacity and strengthen the processes through which the concerns and challenges of poor rural people are expressed, understood and reflected within national policy- and law-making mechanisms. The reduction of rural poverty requires broad partnerships, including: governments; poor rural people and their organizations; the private sector; and the international development community. Full participation by poor people and their organizations is a *sine qua non* of success: it is upon them as producers and income generators that both growth and the reduction of poverty depends.

## **III. DEVELOPING A NEW OPERATING MODEL**

42. Country leadership and ownership involves country development and implementation of strategies, policies and programmes. The capacity of country-level partners and effectiveness of local processes will be a critical determinant of success. As a result of the long period in which rural and agricultural development were side-lined, these processes and capabilities are often not strong. When they are weak they must be the focus of special efforts to strengthen them. IFAD will participate in the support to capacity development, specifically targeting, the *country-level processes and capabilities that bear upon identifying and responding to the evolving nature of rural poverty*.

43. Country-level systems will need to respond to the rapidly changing issues arising from globalization, and to develop and implement national responses to rural poverty issues. They must have important *innovation, policy dialogue and learning and knowledge management* capabilities, and collaboration to develop those capacities will be a high priority for IFAD. Within the frame of reference of rural poverty reduction as a country led process: *innovation* involves identification and adoption by national actors, and particularly the poor and their organizations, of new approaches to overcoming the rural livelihood obstacles that they identify and prioritize; *policy dialogue*, principally involves improved national processes of participation and consultation by and among government, poor rural people, rural institutions and the private sector; and, more effective *learning and knowledge management*, involves rural development partners, generating and sharing information about national and international experience relative to viable approaches to rural poverty issues.

### **A. Innovation, Knowledge and Policy Dialogue**

44. Innovation is not an end in itself, but a means of generating better answers to the questions that have not been well answered in the past. For IFAD, the most important innovations are the ones that change the way smallholders and other poor people invest in production, market their products, manage their assets, organize themselves, communicate and interact with their partners, and influence





policies and institutions. New answers will be ineffective unless they address the issues that are important for the livelihood of poor rural people, and unless innovation is developed with and adopted by them. Through the Initiative for Mainstreaming Innovation (IMI), IFAD will strengthen its capacity to become more systematic in identifying, validating, sharing and scaling-up innovation in the context of IFAD operations.

45. Building an effective pro-poor policy and programme environment must be based on knowledge about the real and varied local conditions, aspirations and possibilities of poor rural people. This knowledge is often scant, especially with regard to the conditions of poor rural women and marginalized groups. IFAD will work with country-level partners to improve local learning and communication capacities, particularly among poor rural people and their organizations. It will further seek to share with them livelihood approaches that have been explored elsewhere, such as land security, access to water and value-chain development. IFAD's learning and knowledge development objectives will be articulated in COSOPs and reflected in its programmes. At headquarters, IFAD will develop management processes on knowledge sharing as a key element to enhance impact, innovation, partnership-building and policy dialogue.

46. All activities supported by IFAD at the country level need to generate knowledge about the effectiveness of new approaches, and feed into policy and strategy processes. The objective will be that other national-level actors have access to the results of the activity and that this knowledge becomes available for broader use. Thus, for example, a project for the supply of new rural financial products should generate knowledge about how and why it is successful, and actively share that knowledge with all parties involved in financial-sector and rural development.

47. In addition to including learning, knowledge development and communication as normal functions in projects and programmes, IFAD will provide country grants to support national rural development networks and specialized studies by local groups and organizations (in partnership with external specialist groups as appropriate).

48. Policies and programmes are not shaped only by knowledge. They are shaped by politics and policy dialogue. Where country mechanisms for consultation with development partners exist, IFAD will participate directly in the discussion of national poverty reduction strategies and rural development policy, and, where appropriate, in the elaboration of rural sectoral programmes. The Fund will seek to ensure that poverty reduction policies and programmes address the key rural livelihood issues, and that their elaboration is supported by a system of consultation and dialogue that captures the views of the poor rural people themselves. In addition to promoting more effective pro-poor *design* (e.g. support for consultation with poor rural people, poverty baseline survey work, and poverty analysis), IFAD will support efforts in designing and carrying out participatory monitoring of the implementation and impact of broad programmes to ensure adequate information feedback from poor rural people. The aim is to monitor poverty reduction *results*.

49. National policy dialogue processes for poverty reduction and sectoral programme development are natural entry points for promoting rural poverty reduction. IFAD participates in PRSP and SWAp processes, as well as in development of other policy and programme frameworks for rural poverty reduction<sup>12</sup>. The sustained development of policy and programmes responsive to the needs of poor rural people, however, will depend critically on policy processes that draw upon effective national systems of analysis and representation of rural interests. With government and other stakeholders, IFAD will promote organizations and capabilities that enable the effective representation of the concerns and vision of poor rural people in the policy process (including the PRSP, but also other fora touching on vital rural questions such as land and markets).

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<sup>12</sup> See footnote 1.



## B. From a Portfolio of Projects to a Country Programme

50. The principal focus of IFAD's operations will be support to developing countries to produce, finance and implement strong and effective programmes and projects of investment and policy change for agricultural and rural development. It is fundamental to the emphasis on country leadership that *means* of engagement must reflect the national situation and national priorities about how the poverty reduction effort is structured. In all cases, the *end* will be the same: to strengthen national capacity to achieve significant and sustainable reduction in rural poverty by addressing key rural and agricultural development bottlenecks for and with poor people.

51. Country-level activities will be identified, prioritized and elaborated with country stakeholders, and will be agreed upon with national governments within the framework of their development and poverty reduction strategies and coordination mechanisms. The ensemble of IFAD country-level activities will be a set of loan- and grant-based investments. In addition to directly addressing material and institutional asset constraints, these investments will:

- promote the capacity of country institutions and organizations, particularly those of poor rural people, to identify these constraints, participate in exploring solutions and disseminate findings;
- ensure that knowledge generated about local conditions and opportunities for improving them is widely and systematically shared;
- promote the incorporation of experience and knowledge gained into national policy development processes, and support national systems of monitoring and evaluation; and
- facilitate the implementation of tested solutions on a larger scale (scaling up) through national programmes for capacity development and for rural development.

52. In the context of concern about the impact of unsustainable debt levels on the poverty reduction prospects of the poorest countries, IFAD may need to apply a further grant element in its financial assistance to countries eligible for highly concessional loan terms. The overall envelope for the country programme will be determined by the PBAS. The mix of terms (highly concessional lending and grant) on which resources will be made available will reflect the country's debt sustainability situation.

53. Fund-supported projects and programmes will be linked to mainstream development, poverty reduction and policy processes. Thus, a project exploring, for example, collaboration between farmers' organizations and the private sector in value-chain development, might well be flanked by a small country grant to a national group to identify legislative constraints and participate in consultations with government departments on options for change. Additional resources could support stakeholder meetings and conferences preparing the ground for a national programme of support to small-scale producers for penetrating new markets.

54. IFAD projects and programmes will depend on: country achievements (e.g. whether it already has adequate systems to promote secure tenure of land by poor rural people); the nature of the underlying resource base (e.g. whether access to water is a critical issue); and the initiatives already launched by country-level partners, both national and international. All activities will reflect national priorities and strategies and will provide a practical basis for the further development of country approaches and capacities. They will also be consistent with country-level agreements on rationalizing demand for scarce national capacities. IFAD's projects – both loans and grants – and its policy involvement will increasingly form a coherent country programme designed to support the country's own development and poverty objectives.

55. The strategic point of reference for the country programme will be the COSOP, which will be developed between IFAD and country-level stakeholders led by government. Taking into account the analysis of rural institutional and policy framework issues jointly identified in the implementation of



the PBAS, the COSOP will articulate the overall objectives of IFAD's assistance and the major innovation and change goals corresponding to them (validated within the framework of IFAD's Strategic Framework, priorities and policies, on the one hand, and national strategies and mechanisms, on the other). The COSOP will also articulate the modalities to be employed, the monitorable indicators of achievement, and an indicative resource envelope consistent with the PBAS and the IFAD policy on grant financing. The COSOP will be subject to review by IFAD's Executive Board.

### C. Supervision: In-Country Partnerships and Presence

56. Project supervision is one of the most important interfaces between IFAD and national-level processes. IFAD's concept and practice of supervision will be reformed<sup>13</sup> to reflect the imperative to develop national capacities for effective engagement in rural poverty reduction. It will also be revised to respond to the shift in focus of resource management towards a more flexible application of resources, including real-time development and sharing of knowledge. It will take the form of country-level partnership for monitoring and guiding activities that also provide a regular flow of inputs into knowledge, policy and programme development. Correspondingly, local organizations and partners will be mobilized for the supervision and results-monitoring of IFAD-financed activities, wherever possible. Such changes will transcend the traditional IFAD Country Programme Manager (CPM)/country relationship and will require the establishment of IFAD 'country teams', which will also manage the critical IFAD inputs into national processes of partnership building, policy dialogue, learning and knowledge management.

57. The country team will include the CPM and partners directly and indirectly involved in IFAD-supported activities. It will provide a framework for: systematic exchanges of experience; mutual support in implementation and monitoring; participation in project supervision processes; and collaboration with other stakeholders to bring issues into broader forums for poverty reduction and rural development. The country team will be supported by a country programme management team at IFAD headquarters. This will consist of the CPM, the Regional Economist, the Lead Advisor in the Technical Advisory Division, and loan administration, legal and communications officials, as well as specific staff with responsibility for knowledge management. In the light of varying country situations and requirements, the country programme management team at IFAD headquarters will operate in a flexible and responsive manner.

58. The country team will play a key role in developing and implementing the country programmes and will give particular attention to areas for innovation that can benefit from international experience. The country team will enable regular participation in and contribution to national development assistance and poverty reduction processes, including consultation and coordination with the UN organizations in the country, as well as the Bretton Woods institutions and bilateral development agencies. The country team will strive to link the initiatives of poor people's organizations and civil society on the one hand, and the development assistance system on the other.

59. The scope of the IFAD country team will vary according to the level and type of IFAD's country-level engagement and local circumstances (e.g. the level of development and degree of intensity of coordination processes, and the existence of independent networks and coalitions around rural poverty reduction issues). It will be coordinated by the CPM within the framework of the COSOP. As suggested by the IEE, IFAD, where appropriate, proposes to increase the number of in-country staff (*field presence*) to provide an anchor for the country team, in order to support the development, monitoring and implementation of the country programme as a whole, including participation in supervision. Staff recruited for this purpose will have sufficient authority to allow decentralization of day-to-day decision-making. The further design of field presence will benefit from the experience of the ongoing FPPP (Field Presence Pilot Programme).

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<sup>13</sup> Subject to amendment of the Agreement Establishing IFAD, see below.



60. In cases where the potential for IFAD to add value to national (and regional) poverty reduction efforts is particularly high, CPMs could be deployed in-country. Outposting of the CPM may be a time-bound capacity-building instrument. As recommended by the IEE, the effective functioning of the country team will require a reduction in the existing ratio between countries and CPMs, and pursuit of the ideal of one CPM per country in particularly active country programmes.

#### **D. Strengthening Regional-Level Capacities**

61. Developing countries and their international development partners are looking to regional initiatives and institutions to promote local conditions for poverty reduction. For example, the New Partnership for Africa's Development is looked to as a mechanism supporting further development of national-level development strategies, including sector strategies. It is also regarded as a means of strengthening critical institutions (e.g. through support for governance) and mobilizing regional investments (e.g. in infrastructure). The Southern African Development Community and the Southern Cone Common Market are being looked to as mechanisms for reducing obstacles to the regional trade that is vital to small-scale rural producers. The Economic Community of West African States is the organization for a coordinated agricultural development strategy for the region, as in ASEAN in South east Asia.

62. IFAD will expand its collaboration with regional institutions and initiatives, focusing on strengthening capacities to develop and implement policies bearing upon the local-level livelihood options of poor rural people (e.g. regional trade and communications, regional standards and regulations for rural financial institutions), as well as their capacity to support national-level policy and poverty reduction programmes. IFAD will also support the capacity of poor people's organizations to establish regional linkages and articulate their interests to regional bodies.

#### **E. Contributing to an Enabling Global Environment**

63. The scope for *country-level* actors to engage in effective local action to strengthen the capacity and assets of poor rural people depends in part upon the opportunities created by *global-level* policies. The Millennium Development Declaration explicitly reflects this in calling for a new international development partnership embracing not just aid, but progress on trade and debt relief. The International Conference on Financing for Development in 2002 elaborated on these aspects in the Monterrey Consensus.

64. Global policy dialogue often gives insufficient attention to the position of the rural and agricultural sectors in broader economic change processes. There still remains much scope for raising the level of awareness of these concerns, particularly as they relate to *poor and small-scale producers*. Similarly, in the global-level discussion of the effectiveness of development assistance, insufficient attention has been given to the urgent need to harmonize assistance for accelerated rural and agricultural development in developing countries – or to the challenge of combining support for comprehensive national programmes with opportunities for innovation in developing new approaches to rural issues.



65. IFAD's contribution to making the global policy dialogue more pro-rural will be rooted in the perspectives of country-level and regional partners. As in the Fund's country-level operations, actively managed strategic partnerships will be essential for strengthening both analysis and representation, including supporting the capacity of existing networks and institutions to address global policy issues. The issue is not to create a parallel capacity, but to work together to ensure that the issues confronting poor rural people are woven into the analysis and that the message is effectively communicated. Equally, while IFAD will continue to represent and communicate the views of poor rural people, it will also help support activities such as farmers' forums to function as channels for the direct expression of poor people's interests.

66. In this context, IFAD will act as a conveyor of issues from the local level (e.g. constraints on development among small-scale farmers arising from global regulation and the aid and external policies of developed countries) to the global dialogue level. It will also serve as a means of conveying from the global level some of the changes that must be taken into account in developing viable national-level strategies and activities.

#### **F. Financial Management in IFAD**

67. The Consultation on the Sixth Replenishment of IFAD's Resources recommended that IFAD management review the organization's investment policy as it pertains to the security of investments, asset liability management (ALM) and reporting to the Executive Board. ALM focuses on the management of IFAD's assets and liabilities, and their related financial risks. Within this context, IFAD proposed its ALM framework. The framework was endorsed by the Executive Board in December 2003 as an effective means of managing financial risks. Its implementation status was reported to the Executive Board Informal Seminar in June 2004. The review aimed at four action points, of which three were addressed in 2004. First, an ALM section was created within the Treasury Division as a focal point of IFAD's ALM functionality, which used to be spread across different divisions. IFAD's existing financial model was consequently transferred to and expanded by this new section in line with the broader ALM perspective. Second, additional ALM analyses led to reduced market risk in the investment portfolio through the creation of a new held-to-maturity portfolio and through liquidation of the equities portfolio to fund the new portfolio in 2005. Third, currency risk was reduced in 2004 by eliminating some unhedged currency exposures. The fourth action point is the proposal of a change in the definition of committable resources as described below.

68. The 2003 ALM review highlighted that IFAD's liquidity risk is minimal due to its highly liquid investment portfolio, and that its level of liquidity is high compared with other financial institutions. The review therefore proposed, as its fourth action point, to change the definition of committable resources, which would enable IFAD to increase its lending level while remaining within prudent liquidity levels. Currently, IFAD's committable resources include only cash and investments, and promissory notes to the extent that these have not been already committed for loans and grants or appropriated to the General Reserve. Additionally, the Executive Board is allowed to use up to three years of future loan reflows to fill shortfalls in the available committable resources. The ALM review recommended the inclusion of a portion of loan receivables as well as Member States' instruments of contribution receivables as part of the committable resources definition. This is also based on IFAD's 28-year track record of very few delinquent borrowers and notes that Members' deposited instruments of contribution reflect Members' legal written commitments (such as the currently included promissory notes) to the resources of a replenishment period. Naturally, both loan receivables and contribution receivables are proposed to be included net of allowances and provisions. The new definition of committable resources would be implemented within the context of a sound ALM framework, which includes checks and controls, regular monitoring and ample leeway for corrections in case of unforeseen developments. The ALM framework is further discussed in document REPL. VII/2/R.3.



## IV. STRENGTHENING KNOWLEDGE MANAGEMENT

### A. The Critical Knowledge Gap

69. Neither governments, nor civil society institutions, nor other development partners can be *effectively* pro-poor in rural areas unless they understand where poor rural people are, how they make their living, what their specific opportunities and constraints are, and what mechanisms will work in enabling poor people to improve their incomes and food security. Most of all, they cannot be effective if they do not understand how poor people see their own world, for every successful poverty reduction effort is an effort *with* poor people, not *for* them. This insight is particularly critical with regard to the conditions of women and excluded ethnic groups, where subsumption under the general heading of ‘the rural poor’ can be misleading relative to the real constraints and opportunities they confront.

70. The participation of poor rural people in systems of social communication and representation is typically low, and the opinions voiced by poor people about their situation are often not heard. Rural institutions are weak and often unable to discharge their information and analysis roles effectively. Meanwhile, research and analysis on agricultural and related livelihood issues among international development partners have declined alongside ODA for agriculture. The historical absence of focus on the economic issues of the rural poor also means that much of the existing stock of knowledge about agriculture is of limited relevance to the constraints that poor people currently face.

### B. Strengthening Learning Partnerships

71. Anchoring programme development and policy dialogue in local conditions is essential. However, globalization means that small-scale farmers and other poor rural people face many similar challenges, and these are what IFAD seeks to respond to in its overall strategic development focus. Action and understanding at the local and national levels can be strengthened by drawing upon and sharing experience from elsewhere. IFAD’s knowledge management would be at three levels. At the country level it would draw on lessons from its own projects, strategic and implementation partnerships and local knowledge centres. This country-based knowledge could then be shared at regional levels through appropriate regional institutions. Finally, at the global level, knowledge on poverty reduction processes: ‘what works and what doesn’t’, would be shared and validated through international institutions and networks.

72. IFAD will manage its grants programme as the basis of a focused partnership strategy to develop a better understanding of natural resource access and management, equitable market linkages, rural finance, and the information and technology issues confronting poor rural people in developing countries; and to improve the sharing of experiences and findings among all rural development partners at the global, regional and, especially, country level. IFAD will seek to be a catalyst and facilitator of global learning systems on rural poverty and livelihoods, influencing and strengthening the capacities of other specialized institutions to focus on and deliver accurate knowledge, and to enhance learning and knowledge sharing.

73. IFAD will initiate and support a limited number of high-quality strategic learning and communication partnerships with international and regional centres of excellence (which may include national institutions with acknowledged capabilities at the regional and international levels). Many such partnerships already exist, including IFAD’s: participation in the Consultative Group to Assist the Poor; collaboration with the World Bank and others in undertaking Poverty and Social Impact Analysis; co-sponsorship of the Consultative Group on International Agricultural Research; housing of the Global Mechanism; collaboration with the Food and Agriculture Organization of the United Nations in building bottom-up knowledge management systems among poor farmers; and development of global and regional networks such as the International Land Coalition, FIDAFRIQUE (an Internet-based network of organizations and projects working with the rural poor in West and



Central Africa) and FIDAMERICA (a similar Internet-based network, covering Latin America and the Caribbean).

74. These sorts of partnerships, especially those with institutions enjoying a broad basis of support and influence (such as the International Food Policy Research Institute), will become the core of IFAD's contribution to global and regional-level learning and knowledge management for rural poverty reduction. The partnerships will be enhanced in a framework of mutual commitment, and results-driven in terms of improved availability of better knowledge for governments, farmers' organizations, and national and regional institutions. They will be actively managed and monitored against strategic corporate objectives.

75. The substance of these partnerships will be joint investment in medium-term programmes aimed at: establishing priorities about what needs to be better understood; generating inventories of relevant experience and knowledge; identifying important gaps; organizing studies, action research, exchanges, etc.; and disseminating results to partners and targeted actors at national, regional and international levels. The objective will be to influence existing systems to respond better to specific issues in the interests of poor rural people, e.g. to extend sectoral analyses to a more acute examination of the conditions of *poor* producers, and to better analyse the major issues of poor rural women as producers and income generators in the context of their own livelihood strategies. The results will be used in the activities IFAD supports, but the target user-group will be all institutions and organizations involved in agricultural and rural development for poverty reduction.

### **C. Learning and Knowledge Management in IFAD**

76. IFAD itself must learn, and must be a strong user of cutting-edge knowledge from all sources. This will involve two processes: systematizing learning from external centres of excellence and strengthening IFAD's own internal learning processes.

77. IFAD will mobilize its strategic learning partnerships both to strengthen its own activities and to maximize the institution's catalytic effect. Institutional learning partners will participate directly in activity and programme design for IFAD, thus establishing a direct connection between centres of excellence and IFAD's country-level partners. Correspondingly, institutional arrangements with these centres will take the place of many of the ad hoc consultancy arrangements that IFAD currently relies upon. IFAD will also draw upon these institutional relationships for internal quality assurance and control processes (e.g. activity/programme design review), in which IFAD will mobilize the best available expertise *in the rural development community* for supporting activities that are explicitly oriented towards achieving broad impact through disseminating knowledge about examples of best practice.

78. Internal learning processes will be strengthened vertically and horizontally. Vertical strengthening will involve more direct and systematic exposure of staff to country-level and activity-level experience through raising staff participation in local programme, policy and knowledge-gathering processes, including more direct engagement in country-level supervision. Horizontal strengthening will involve the increased organization of work processes on a team basis. At the country level, CPMs will work within the context of country teams, and at the headquarters level both activity development and implementation management will take place within the structure of the country programme management team. Activity development will be increasingly linked to IFAD thematic reference groups, which will represent internal points of support and provide linkages to external learning partners for operations in each of IFAD's strategic focus areas.

79. Effective support to knowledge management in IFAD will require greater staffing resources and adequate training and exposure programmes for learning and knowledge development. These will include: learning and knowledge management within IFAD; communications for development; and the establishment, management and use of learning and knowledge partnerships.



80. Experience suggests that high-quality learning and knowledge development can take place only if actively monitored and managed. This will be reflected in medium-term and annual planning and monitoring systems as a major institutional priority, and achievements will be assessed in corporate and personal performance reviews. IFAD will also mobilize the advice and assistance of other development institutions that represent the state of the art in the design and implementation of knowledge management systems.

## **V. ENHANCING DEVELOPMENT EFFECTIVENESS AND THE CULTURE OF RESULTS AND PERFORMANCE**

81. Exercising a substantial influence on the rural poverty reduction effort will require IFAD to adopt clear objectives with measurable indicators of success, within a framework of internal and external transparency and accountability. Correspondingly, IFAD will update its Strategic Framework, operate within a new medium-term planning framework, and systematically measure and report its progress and results.

### **A. An Updated Strategic Framework and Inventory of Policies**

82. IFAD is currently operating within its Strategic Framework for 2002-2006. Taking into account that the beginning of the Seventh Replenishment period is 2007, an updated Strategic Framework for 2007 and beyond will be elaborated in 2006 for consideration by IFAD's Executive Board. This will reflect the objectives and mode of engagement for the Fund's operations. It will provide the guiding framework for the new regional strategies as well as for the finalization of new cross-cutting strategies and policies.

83. IFAD will develop explicit policy papers in key areas to give staff and partners better guidance and information. These policy papers will capture the experience and best practices of IFAD and its development partners, including its institutional learning and knowledge development partners. The papers will be discussed and approved by the Executive Board, and shared with the development community.

84. In areas where IFAD intends to strengthen its position significantly, such as in partnerships, policy influence, and learning and communication for development, special internal review mechanisms would be established to ensure policy implementation in all major plans and activities.

### **B. A New Medium-Term Planning Instrument**

85. In order to provide a medium-term framework for the Fund's annual Programme of Work and Budget, in 2006 IFAD will produce a three-year medium-term plan for the period 2007-2009. This plan will establish IFAD's objectives in the light of the new Strategic Framework, provide targets and monitorable indicators of achievement, identify major internal development goals and give guidelines for overall resource use against objectives. The three-year medium-term plan will be presented to the Executive Board as an indicative instrument. The budget authorization mechanism will remain the approval of the annual programme of work and budget.





### **C. Monitoring Effectiveness, Results and Performance**

86. The effective value of any plan is conditioned by the strength of the system of performance measurement and monitoring. IFAD will develop (with external assistance as needed) results indicators for each of its strategic objectives within an accountability framework. This accountability framework will link strategy to action by consolidating planning, budgeting and monitoring, and establish capability for quantitative monitoring of corporate performance. In this context, it will establish key performance indicators on innovation, scaling up and partnership-building. The accountability framework will draw upon the RIMS, the PBAS and evaluations from the Office of Evaluation, and will develop additional measuring instruments for activities not addressed under those systems. Monitoring of country-level results will be based on national systems, as these emerge, with the support of, inter alia, IFAD's own programmes.

87. IFAD will produce periodic reports on effectiveness, which will be submitted to the Executive Board. The Fund will draw upon external advisers in assessing the qualitative/quantitative dimensions of performance and in making comparisons with the performance of other development organizations.

88. The establishment of an effective planning and performance measurement system, that provides a platform for corporate management for and by results, will draw upon the achievements of the Strategic Change Programme (e.g. in the areas of budget management and reporting), the creation of the Strategic Planning and Budget Unit and the implementation of the PBAS and RIMS. Nonetheless, it will require considerable investment and the mobilization of the experience of other institutions in performance-linked planning and budgeting.

89. Reporting on projects and individual activities will include indicators reflecting corporate and country-level objectives. In addition, country performance reports – the portfolio performance review extended to include the contribution of individual activities to the achievement of the country objectives – will be produced. They will solicit the views of country-level partners and collaborating partners.

### **D. The Contribution of IFAD's Executive Board**

90. The Executive Board is one of IFAD's most important *development* assets. It is itself a global forum in which developing and developed countries discuss the issues involved in rural poverty reduction, and it is a resource for IFAD to draw upon in devising means of serving both developing and developed Member States in country-level operations. The broad-based composition of the Executive Board has been a major factor allowing IFAD to pursue a country-led assistance strategy attuned to local circumstances. Ways to allow the Executive Board greater opportunity for strategic discussion and to provide policy guidance to the institution will also be reviewed.



### PART THREE – MOVING FORWARD

91. IFAD needs to further enhance the impact and sustainability of its projects as well as its catalytic role; it needs to continue to focus on the issues that lie at the heart of the income and production systems of poor rural people; and it needs to address these issues at the material, institutional and policy levels. The directions that have been outlined in this document build upon existing initiatives, but taken together they signify a major step forward, incorporating many of the recommendations of the IEE, but also going beyond them.

92. Moving forward will require careful preparation, with proper resourcing and monitoring. Subsequent to the decisions and guidance of the Consultation, IFAD would develop an Action Plan for consideration by the Executive Board. The Action Plan would include details of implementation, a time-line, milestones and indicators of achievement, cost estimates, and reporting and review processes.

93. Decisions and guidance are required from the Consultation in the following areas: the level of the Seventh Replenishment; the ALM model and the new definition of committable resources; the percentage of the IFAD annual programme of work provided to Members on a grant basis; project supervision and the Fund's country presence; and agreement on resources for implementing the Action Plan. Enhancing project supervision and grant financing requires a recommendation that the Agreement Establishing IFAD be amended by the Governing Council.

#### I. FINANCING RURAL POVERTY REDUCTION: THE SEVENTH REPLENISHMENT

94. The Millennium Summit and the MDGs that world leaders adopted in 2000 have reshaped the development agenda and established poverty eradication as the overarching goal of international development cooperation. In support of the efforts to strengthen domestic performance made by developing countries, developed countries pledged to raise their ODA significantly. Since the Millennium Summit in 2000 and the International Conference on Financing for Development in 2002, there have been encouraging signs that the pledges made to increase ODA are beginning to be fulfilled. From a level of about USD 54 billion at the time of the Monterrey Conference, total ODA in 2006 is expected to rise to about USD 88 billion, and reach approximately USD 100 billion in 2010.

95. In the new framework to eradicate extreme poverty, IFAD occupies a key position. As the IEE stressed<sup>14</sup>, IFAD's mandate "continues to be relevant, and it is further legitimized by the importance recent progress reports on the MDGs attach to the development of the rural sector. Indeed, the problem that IFAD was created to tackle continues and is likely to continue in the foreseeable future".

96. Over its 27 years of operations, IFAD has demonstrated a track record of supporting effective programmes to combat rural poverty in a wide range of social, economic and institutional conditions. The insights provided by the IEE and the change programme that has been outlined in this document will further enhance the impact, effectiveness and sustainability of Fund-supported projects and programmes. IFAD is thus well positioned to increase its programme of work and impact substantially to reach a greater number of poor rural men and women each year, and to reach them more effectively.

97. In this context, the Seventh Replenishment Consultation comes at a particularly appropriate moment.

98. In the Fifth and Sixth Replenishments, IFAD received contributions of about one third of one per cent of global ODA. At a time when the world has a strong focus on poverty and has recognized the *centrality* of rural poverty in the poverty problematique, IFAD should at least maintain

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<sup>14</sup> See footnote 10.



this proportion of global ODA. During the Seventh Replenishment period, 2007-2009, if the pledges made by Development Assistance Committee (DAC) countries are fulfilled, ODA flows are likely to be more than USD 85 billion per year. Maintaining the proportion of one third of one per cent would mean a Seventh Replenishment of IFAD's Resources of about USD 800 million.

99. The experience of the replenishments of comparable development funds also supports an increase of this size in the Fund's Seventh Replenishment. Over the last year, the replenishments of the International Development Association (IDA) and the African Development Fund (ADF) have been completed, resulting in an increase of 30 per cent for IDA and 43 per cent for ADF. IFAD's Sixth Replenishment had a target of USD 560 million and at current exchange rates, Member contributions and pledges to the Sixth Replenishment total more than USD 600 million. As an institution whose mandate and mission are at the core of the MDG focus on eradicating poverty, IFAD could argue for a Seventh Replenishment with a similar order of increase as IDA/ADF. On the basis of an increase of the average achieved by the replenishments of IDA/ADF, about 37 per cent, the Seventh Replenishment would be at the level of about USD 800 million.

100. A replenishment of USD 800 million would allow IFAD to raise its programme of work by about ten per cent per year, with the Fund's annual loans and grants growing from USD 500 million in 2005 to an annual average, over the Seventh Replenishment period, of USD 668 million (as indicated in the Attachment).

101. Currently, IFAD programmes reach about an additional ten million poor people per year. With a replenishment of USD 800 million, that number could increase to 14 million poor people a year. Thus, between now and 2015, IFAD programmes could reach 150 million more poor rural people – with increasing effectiveness and impact – thus making a substantial contribution to achieving the MDGs.

## II. GRANTS IN THE IFAD PROGRAMME OF WORK

102. The level and role of grants in the IFAD programme of work were discussed in the Consultation on the Sixth Replenishment, where it was recommended that the level of grants be raised from 7.5 per cent to 10 per cent and that the increase should be applied to a new category of country grants according to the terms of the new grants policy and guidelines as approved by the Executive Board (see IFAD Policy for Grant Financing, EB 2003/80/R.5/Rev.1). The recommendation was consistent with the existing provisions of the Agreement Establishing IFAD, which stipulate: "The proportion of grants shall not normally exceed one-eighth of the resources committed in any financial year" (Agreement Establishing IFAD, article 7, section 2 (b)).

103. There is rising international concern about the negative impact of high levels of external indebtedness on sustainable poverty reduction in the poorest countries. Other international development funds have recently made commitments to include an increased and substantial grant component in their financing of activities in the poorest developing countries. IFAD itself has been committed to reducing the unsustainable public external debt burden of the poorest countries through its full participation in the Heavily Indebted Poor Countries (HIPC) Debt Initiative. Against this background, and taking into account that IFAD must be able to offer resources on terms comparable with those offered by other multilateral financial institutions, IFAD management proposes that the Consultation on the Seventh Replenishment consider the need to amend the Agreement Establishing IFAD to raise the 12.5 per cent ceiling on grants as a proportion of the IFAD programme of work. The aim would be to harmonize IFAD with other development institutions in terms of applying a debt sustainability methodology in support for projects and programmes in countries eligible for borrowing on highly concessional terms.



### III. COUNTRY INTERFACE AND FIELD PRESENCE

104. The issue of *field presence* was also considered at the Consultation on the Sixth Replenishment. This issue referred principally to the deployment of Fund-financed local staff in-country to provide support to project implementation, policy dialogue, partnership building and knowledge management. In the light of the Report on the Consultation on the Sixth Replenishment, it was agreed by the Executive Board that IFAD explore initiatives to enhance the Fund's field presence under a three-year pilot programme in 15 countries (Field Presence Pilot Programme (EB 2003/80/R.4)).

105. Many borrowing countries have urged IFAD to strengthen its interface with country-level development and coordination processes. Not only will this help make project implementation more effective but it will allow the Fund to play a stronger role in country-level policy strategy processes. This strengthened interface would need to be organized flexibly, according to the opportunities for IFAD in the specific country situation. In some cases where the country programme is particularly important, and where the prospects for impact and influence are particularly great, an IFAD staff member may be outposted to the country.

106. IFAD management suggests that the Consultation on the Seventh Replenishment consider the question of IFAD's interface with in-country processes, and in particular that:

- IFAD strengthen its interface with in-country processes to enhance impact and participate more effectively in national rural poverty reduction strategy and policy development;
- the form of this interface should respond to specific country conditions and opportunities and could include the mobilization of in-country staff under the supervision of CPMs, and in some cases the out-posting of CPMs; and
- the Fund's approach to the country interface be elaborated in the Action Plan to be submitted to the Executive Board in 2006.

### IV. SUPERVISION

107. IFAD's supervision arrangements are ruled by the provision of the Agreement Establishing IFAD (article 7, section 2(g)) where it is stipulated:

“The Fund shall entrust the administration of loans, for the purpose of the disbursement of the proceeds of the loan and the supervision of the implementation of the project or programme concerned, to competent international institutions. Such institutions shall be of a world-wide or regional character and shall be selected in each case with the approval of the recipient.”

108. Changes in IFAD's supervision modalities are suggested by a number of factors, including: the IEE recommendation on supervision; the aid coordination/harmonization process (as expressed most recently in the Paris Declaration on Aid Effectiveness); and the need for IFAD to strengthen its work with local partners in monitoring and guiding activities. IFAD management suggests that the Consultation consider recommending to the Governing Council that these provisions be modified to exclude reference to “international” and “world-wide or regional character”. The strengthened approach to supervision would be elaborated in the Action Plan for the Executive Board's review.



## V. BUDGETARY IMPLICATIONS

109. For several years, IFAD has sought to respond to new demands from its Member States, reflecting changes in the national and international poverty reduction environment with a zero-real-growth approach to the administrative budget. However, in order to respond effectively to the IEE recommendations and implement the Action Plan, additional budgetary resources will be required. It is suggested that the Consultation Report recognize, first, that a growing programme of work has budgetary implications and, second, that proper implementation of the Action Plan resulting from the Seventh Replenishment Consultation will require additional financing. In the Report, the Consultation could agree on a financing framework for this latter purpose, allowing the Executive Board to approve financing within the framework agreed by the Consultation and on the basis of detailed proposals in the Action Plan.



## **Scenario for the Seventh Replenishment Period:** **Seventh Replenishment of USD 800 million,** **Programme of Work Growing 10% Annually**

### **1) Scenario Assumptions:**

- 7th Replenishment of USD 800 million.
- Programme of Work USD 550 million in 2006 and growing 10% annually in 7<sup>th</sup> Replenishment period.
- Grants at 10% of Programme of Work.
- Definition of committable resources based on the Asset Liability Management framework, including Member States' instruments of contribution receivables and, in this scenario, 5 years of loan reflows as part of committable resources. The included loan reflows are conservatively defined as 95% of each year's principal and interest, excluding projected foregone principal and interest reflows due to HIPC DI, to the extent contributions to IFAD's HIPC DI are not sufficient to cover such foregone reflows.
- USD/SDR foreign exchange rate of 1.5498 at 31 December 2004 and maintained in future.

### **2) Scenario Results:**

The table below shows the annual level and growth of the programme of work, when assuming a 10 % annual growth in the 7<sup>th</sup> replenishment period 2007-2009, whereby the programme of work would reach a level of USD 732 million in 2009.

| <b>Year</b>                         | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Programme of Work (USD million)     | 500         | 550         | 605         | 666         | 732         |
| Programme of Work Annual Growth (%) |             | 10%         | 10%         | 10%         | 10%         |

This scenario would reach a 59% usage of 5 years, equivalent to 3.1 years, of future loan reflows for commitments during the 7th replenishment period. Projections show an acceptable liquidity level in the 7<sup>th</sup> replenishment period. Long-term liquidity projections depend on a number of assumptions for future replenishment periods, including programme of work and replenishment levels.

|  | <b>6<sup>th</sup> Repl.<br/>2004-2006</b> | <b>7<sup>th</sup> Repl.<br/>2007-2009</b> |
|--|---|---|
| Total Replenishment Target Level (USD million)             | 560                                       | 800                                       |
| Average Annual Replenishment Level (USD million)           | 187                                       | 267                                       |
| Average Annual POW (USD million)                           | 513                                       | 668                                       |
| Maximum Annual Usage of 5 Years of Future Loan Reflows (%) | 46% <sup>1)</sup>                         | 59%                                       |
| Lowest Liquidity Level in Period (USD million)             | 2 484                                     | 2 349                                     |

1) Based on the current ceiling of advance commitment authority.

**3) Additional Scenario Information Based on Possible Trends in the 8<sup>th</sup> Replenishment Period:****3a) Scenario results for the 8<sup>th</sup> Replenishment Period if Assuming a Continued 10 % Annual Growth of Programme of Work in the 8<sup>th</sup> Replenishment Period**

The table below shows the annual level and growth of the Programme of Work, when assuming a continued 10 % annual growth also in the 8<sup>th</sup> replenishment period 2010-2012, whereby the Programme of Work would reach a level of USD 974 million in 2012.

| Year                                | 2010 | 2011 | 2012 |
|-------------------------------------|------|------|------|
| Programme of Work (USD million)     | 805  | 886  | 974  |
| Programme of Work Annual Growth (%) | 10%  | 10%  | 10%  |

This programme of work could be sustained in the 8<sup>th</sup> replenishment with a replenishment of USD 1 100 million. This scenario would fully use the five years of loan reflows for commitments. Projections of liquidity show an acceptable liquidity also in the 8<sup>th</sup> replenishment period and lower but sustainable liquidity for several later replenishment periods, if assuming that the levels of replenishment and programme of work would be maintained in real terms.

|  | 8th Repl.<br>2010-2012 |
|--|------------------------|
| Total Replenishment Target Level (USD million)             | 1 100                  |
| Average Annual Replenishment Level (USD million)           | 367                    |
| Average Annual POW (USD million)                           | 888                    |
| Maximum Annual Usage of 5 Years of Future Loan Reflows (%) | 100%                   |
| Lowest Liquidity Level in Period (USD million)             | 2 352                  |

**3b) Scenario results for the 8<sup>th</sup> Replenishment Period if assuming 8 % Annual Growth of Programme of Work in the 8<sup>th</sup> Replenishment Period**

The table below shows the annual level and growth of the programme of work, when assuming 8 % annual growth in the 8<sup>th</sup> replenishment period 2010-2012, whereby the programme of work would reach a level of USD 922 million in 2012.

| Year                                | 2010 | 2011 | 2012 |
|-------------------------------------|------|------|------|
| Programme of Work (USD million)     | 791  | 854  | 922  |
| Programme of Work Annual Growth (%) | 8%   | 8%   | 8%   |

This programme of work could be sustained in the 8<sup>th</sup> replenishment period if assuming an 8<sup>th</sup> replenishment level of USD 1 000 million. Also this scenario would fully use five years of future loan reflows for commitments. Projections of liquidity remain acceptable for the 8<sup>th</sup> replenishment period and show lower but sustainable liquidity for several later replenishment periods if assuming that the levels of replenishment and programme of work would be maintained in real terms.

|  | 8th Repl.<br>2010-2012 |
|--|------------------------|
| Total Replenishment Target Level (USD million)             | 1 000                  |
| Average Annual Replenishment Level (USD million)           | 333                    |
| Average Annual POW (USD million)                           | 856                    |
| Maximum Annual Usage of 5 Years of Future Loan Reflows (%) | 100%                   |
| Lowest Liquidity Level in Period (USD million)             | 2 306                  |