

a

IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

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

Rome, 5-7 July 2005

RURAL POVERTY REDUCTION: IFAD'S ROLE AND FOCUS

Introduction

1. This paper provides an overview of IFAD's role and focus as these have evolved in response to changes in the international environment and in order to maximize the Fund's contributions to the international poverty reduction effort. It should be considered in conjunction with two other papers prepared for the Consultation on the Seventh Replenishment of IFAD's Resources: The Way Forward and Structure and Components of IFAD's Operating Model.

Origins and Objectives

2. IFAD was established in 1977 against a background of persistent food crises and famines, an ever-increasing need for emergency assistance and food aid, political and social instability in the rural areas of many developing countries and high energy costs in developing countries due to escalating oil prices. The Fund's goal, as articulated in its Lending Policies and Criteria, was a clear and focused one: "increased food production and reduction of rural poverty and hunger".¹

"The objective of the Fund shall be to mobilize additional resources ... for projects and programmes specifically designed to introduce, expand or improve food production systems and to strengthen related policies and institutions within the framework of national priorities and strategies" – Agreement Establishing the International Fund for Agricultural Development, Article 2

A Specific Institution

3. IFAD was given a very specific mandate; it was also given a special governance and finance structure. The Fund is a partnership of developing and developed countries, in which developing countries are not merely "borrowers", but members that exercise an important role in both financing and governing the institution. As a result of that structure, IFAD is equally "owned" by a wide range of Member States in diverse circumstances and with varying approaches to social and economic development.

¹ Lending Policies and Criteria, as amended, paragraph 6.

4. This *member ownership of the institution* is mirrored in the *member ownership of the programmes and projects* it supports. In all its country-level activities, IFAD operates within the framework of national priorities and strategies, in support of national policies and through national structures of government, civil society and the private sector. The attention that IFAD has paid to country specificity, its support for country leadership, and its emphasis on working through national systems has made it an attractive partner for its Member States as they have sought, within their own visions of growth and development, to respond to food insecurity and rural poverty.

5. IFAD was never conceived as a stand-alone institution. It was mandated to mobilize additional resources and to multiply the impact of its own resources by working jointly with others.² Thus, from its inception IFAD was given the task of making a special and specific contribution in partnership with others. For IFAD, this *partnership mandate* entails a multi-tier engagement, involving relations with its Member States, with governments designing and implementing programmes and projects, with multilateral and bilateral development agencies, with civil society organizations and with rural poor people themselves as the subjects rather than the objects of development processes.

Evolution

6. Initially, IFAD existed simply as a fund channelling its resources through loans to governments for projects, designed and often cofinanced by other multilateral institutions. Experience rapidly indicated, however, that sustainable rural poverty reduction and food security could not be achieved by pursuing “blueprints” or approaches not specifically developed to address poverty. What was needed, instead, were country-specific responses to the country-specific problems of the rural poor. These responses included: (i) identifying more precisely the obstacles and opportunities confronting different groups of rural poor people in their specific and diverse activities and in their country’s specific context; and (ii) developing effective mechanisms for targeting the poor and supporting their efforts to overcome obstacles and take advantage of opportunities. IFAD’s mandate dictated a different approach to development assistance – focusing not only on poverty, but also on poor people and viewing them as protagonists rather than passive beneficiaries.

The World of Rural Poor People

The rural poor are independent producers whose livelihoods principally depend on agriculture and agriculture-related activities. They are small or landless farmers, herders, small entrepreneurs, fishers and landless agricultural labourers. They are members of indigenous groups, ethnic minorities and scheduled castes. They are those with the least land and water, and with the least control over the assets they do have. They typically have little access to formal financial institutions for capital of any sort. They often have very little access to modern technology and very little preparation for the development and management of modern forms of association. More often than not, they are women and, as such, have special difficulties in accessing key development resources, services and opportunities.

Frequently the rural poor are socially excluded, isolated and marginalized groups on whom those responsible for the development of modern institutions and services have all too often turned their backs. Their lives are characterized by vulnerability and insecurity, which make it difficult for them to take risks that could lead them out of poverty.

Yet, the rural poor also have a wealth of traditional technical and organizational knowledge. They play a critical role in managing and conserving the world’s natural resources, including its biodiversity. Collectively, they account for most of the labour engaged in agricultural production. They are hard-working people who are ready to seize opportunities to improve their lives and secure a better future for their children.

And it is on these people that agricultural development in many of the poorest countries rests and it is on their efforts that poverty reduction hinges. These are the people IFAD has been created for and has been working with throughout its existence.

² As the Lending Policies and Criteria specify: “by undertaking projects jointly with other multilateral and bilateral agencies, while ensuring the realization of the Fund’s own objectives and establishing its own independent identity in the process”. Ibid.

7. During a long period when much development attention focused on macro reforms and social sectors, IFAD engaged consistently at the grass-roots level with the micro-level issues of vital and immediate importance to the livelihood systems of rural poor people: access to land and water; sustainable agricultural production, including forests, fisheries and livestock; land and water management and irrigation (mainly small-scale); rural financial services; rural microenterprises; storage/processing of agricultural produce; marketing and access to markets; research, extension and training; small-scale rural infrastructure; and, most importantly, capacity-building for groups and organizations of poor and marginalized men and women, enabling them to take advantage of all the above. The approach IFAD followed was people-centered and bottom-up, based on the establishment or strengthening of participatory and inclusive community institutions that could decide on the nature of activities and carry out their implementation.

8. At the same time, and in accordance with its mandate, IFAD expanded its scope beyond immediate agricultural production and other related rural economic activities to increasingly address the institutional and policy issues impinging on the success or failure of its projects and that of the overall country development and poverty reduction effort. Here, IFAD's contribution has been twofold: to strengthen the institutions, organizations and processes through which rural poor people's interests are heard and responded to; and to introduce rural poverty perspectives into development policy and coordination processes.

Today's Development Context

9. Notwithstanding impressive global economic expansion, unequal development, poverty and food crises stubbornly persist. An estimated 1.1 billion people continue to live in extreme poverty in developing countries and more than 800 million are undernourished. Three quarters of these extremely poor and undernourished people live in rural areas and depend on agriculture and agriculture-related small industries and services for their livelihoods and food security. Empowering the rural poor so that they can achieve food security and improve their incomes is the main focus of IFAD's activities.

10. Paradoxically, rural development and agriculture are precisely the areas where official development assistance (ODA) has fallen dramatically in the last 20 years, where aid incoherence and neglect have had the greatest impact, and where development effectiveness (both national and international) has often been disappointing.

11. Pursuit of the Millennium Development Goals (MDGs) is now bringing the prospect of a reversal in the trend. Questions of rural development and rural economic transformation are coming to the fore.

An Emerging Consensus

In 2003, the Evian Summit of the Group of Eight strongly reaffirmed the importance of agriculture in poverty reduction and support to agriculture as a crucial instrument in ODA.

In July 2003, the heads of state and government of the African Union, in Maputo, committed themselves to allocating at least 10% of national budgetary resources to the implementation of sound policies for agricultural and rural development. One year later, the member states of the Southern African Development Community reaffirmed this commitment, to be reached within five years.

The Commission for Africa, in its 2005 report *Our Common Interest*, recognized that “agriculture is key to Africa”. It further noted that “in sub-Saharan Africa agriculture contributes at least ... 30 per cent of GDP ... and 70 to 80 per cent of employment”.

In March 2005, the report of the Secretary-General of the United Nations, *In Larger Freedom: Towards Security, Development and Human Rights for All*, identified rural development as one of the “seven broad ‘clusters’ of public investments and policies which directly address the Millennium Development Goals and set the foundation for private sector-led growth”.

Also in 2005, the United Nations Millennium Project report *Investing in Development* concluded that the MDGs will not be achieved if the quantity and quality of assistance to agriculture and rural development are not improved significantly. It acknowledged that “the global epicenter of extreme poverty is the smallholder farm ... these farmers also constitute the bulk of private-sector economic activity in many developing countries, so improving their economic lot will make a huge difference to their countries’ prospects for long-term economic growth”.

12. Rural poverty is increasingly recognized as one of the core global poverty issues of our time, and one that is increasingly linked to global processes, such as the World Trade Organization (WTO) trade negotiations and the Doha agenda. Similarly recognized is the need for new and more effective solutions tailored to country conditions. Country ownership is understood as a prerequisite for sustained change. Yet *country ownership* is of little value unless there is *country capacity* to exercise leadership and take initiative – with *country capacity* encompassing the capacities of governments, civil society, the private sector and, critically, poor people themselves and their organizations.

13. Pursuit of the MDGs is also gradually transforming the international development architecture. Consensus on development objectives has been accompanied by a growing agreement on how to pursue those objectives more effectively – through increased harmonization and coordination, improved alignment at the country level and, as mentioned earlier, strengthened county ownership. The Paris Declaration on Aid Effectiveness of 2 March 2005 is the strongest articulation of this intent.

IFAD’s Role

14. In light of the above, and as recognized by the independent external evaluation, IFAD’s mandate and way of operating remain both valid and contemporary. The need to make decisive progress on rural poverty is critical for overall poverty reduction; the model of country-led development through national institutions including the organizations of the poor, which has been the landmark of IFAD’s approach, is now considered axiomatic; and IFAD’s governance and finance structure represents the sort of forum for broad joint decision and commitment that has been called for urgently in the multilateral financial system.

15. In the context of increased harmonization and coordination, and against the long-term neglect of rural poverty issues, IFAD contributes its financial resources and its approach, experience and expertise in rural poverty reduction to collective solutions to the global poverty challenge. IFAD’s task is to help strengthen national capacities (of rural poor people, governments, other development actors, civil society and the private sector) to develop and pursue new and effective solutions to rural poverty on a large scale, particularly through their own poverty reduction strategies and policies (e.g.

the poverty reduction strategy papers). IFAD works through projects and programmes to develop national capacities to: (i) clarify who the rural poor are and what obstacles they confront; (ii) explore through practical investment projects new solutions relevant to local conditions; (iii) develop the systems through which local experience and interests are introduced in national policy and programming processes; and (iv) advocate and support the broad programmes and policy changes that make successful innovation available to all. In addition, IFAD collaborates with national and international partners to raise understanding of the relations between local rural poverty issues and decisions taken at national, regional and global levels about policy, institutions and resource flows. The goal is no longer only projects and programmes; it is to enhance country-level capacity for a broad process of rural change that effectively meets the poverty challenge, in a context of international development and assistance that empowers poor people and poor countries to formulate and pursue their own solutions.

IFAD's Specific Contribution to Increased Development Effectiveness in Poverty Reduction

16. Raising development effectiveness in rural poverty reduction requires innovation. As an institution exclusively focused on rural poverty, IFAD has a responsibility to break new ground, to work with partners to explore new and effective solutions, and to promote tested solutions within national strategy and programme development and implementation processes. This experience and knowledge needs to be widely shared as, due to globalization, more and more countries are facing similar sorts of issues.

17. IFAD's specific objective is improving the income and food security of rural poor people, not general economic development (although increasing income generation among rural poor people is a potent source of broader development). The Fund addresses the specific obstacles faced by poor rural people as they take up the challenge of improving their own condition as small farmers, herders, agricultural labourers, traders and artisans. In effect, IFAD's task is to address the issue of poverty *by addressing the issues of poor people – women and men*.

18. The main issue confronting all poor people – wherever they live and in whatever activities they engage – is to improve their livelihoods in the context of constantly evolving global trends and market relations and new forms of competition for influence and resources, including for their own assets. These challenges are compounded by increased population pressure, weakening traditional institutions, the withdrawal of state support and the retreat of governments from the provision of key productive services in many countries, the spread of HIV/AIDS and increasing environmental degradation. Until the rural poor can manage these challenges and competition more effectively, the risk is that what brings prosperity to others will bring continued and deeper poverty to them. Material investments in development projects and programmes are essential, but the key livelihood issues confronting the rural poor are mediated by relations with others. Consequently, critical elements of a sustainable reduction in rural poverty are knowledge and institutional and organizational capacity among the rural poor themselves. Rural poor people must be empowered to respond to the challenges they are facing to expand their assets and participate in, negotiate with, influence, control and hold accountable institutions that affect their lives.

19. In a global context in which the role of government is increasingly seen as facilitation and in which liberalized markets are the norm, the knowledge, organization and assets of poor people are critical determinants of sustainable solutions to poverty. Poor people's empowerment with regard to productive assets and relations is the point where all IFAD's efforts converge, and this is the Fund's greatest contribution to increased development effectiveness and an essential complement to the investments of other development actors in social sectors and infrastructure.

Engagement at the Country Level

20. At the country level, IFAD's role is to:

- strengthen national rural poverty reduction strategies and operations by working with local and international partners to identify the key obstacles confronting the rural poor through consultation and collaboration with poor people's organizations and institutions;
- explore new and more effective ways of overcoming these obstacles through focused investment programmes and projects developed and implemented with local institutions and organizations;
- promote learning from experience through stronger capacity among national institutions to explore issues and solutions;
- promote the inclusion of rural poverty issues in national and rural development policies;
- foster policy processes through which the interests of rural poor people (and tested solutions to their problems) become part of the broad rural development policy process;
- enhance the capacity of rural people and their organizations to engage in policy processes; and
- directly invest and help mobilize international and national resources in support of broad rural improvement processes – in the framework of development coordination processes.

21. The key *outputs* that IFAD is concerned with are broadly “economic”: increased production and earned income among the rural poor. The *issues* involved, however, are not solely economic. They also include social and economic exclusion due to gender, ethnicity, location or other conditions. A successful IFAD activity, therefore, will empower people to overcome exclusion and prepare a path for scaling up effective approaches in broad national change processes.

22. The precise form of activities supported by IFAD necessarily varies from country to country according to local conditions and national priorities. In general, however, activities have two distinguishing characteristics:

- They focus on key *access* questions that bear directly upon the capacity of poor and small-scale rural producers to achieve food security and higher incomes (e.g. access to land and water, access to financial services, access to effective and equitable market mechanisms, and access to technology and information).
- They focus on developing organizations and institutions *among the rural poor* to secure, maintain, manage and exploit improved access.

23. Everywhere, IFAD works with governments, civil society and the private sector to strengthen their capacity to create an enabling framework for rural poor people to reduce their poverty. It places particular emphasis on working with the organizations of the rural poor to enable them to play the roles of service, representation, negotiation and influence that are essential for sustainable poverty reduction.

24. The key to sustainable change is country capacity and commitment: not only of government, but also of all major rural stakeholders. Collectively, these stakeholders, as the effective protagonists of enduring rural poverty reduction, need to have the capacity to *innovate*, to *learn about and scale up successful approaches* and to *develop policy* in response to the obstacles as perceived by rural poor people. IFAD itself also needs strong innovation, learning and policy dialogue capacities to promote improved rural poverty reduction at the country level. But broad and enduring change involves national and local capacities. Therefore, IFAD's local partnerships in programme and project

development and implementation are not only instrumental to programme ends, but are also an essential means of investing in long-term national capacity (skills, knowledge, organizations and processes) to internalize and sustain effective rural poverty reduction.

25. Building on local-level knowledge and partnerships and on global knowledge about challenges and options for rural livelihood transformation, IFAD will expand and systematize its support to the development of national pro-poor policy, including poverty reduction strategies and sectoral policies, both in-country and through regional organizations, such as the New Partnership for Africa's Development, which are playing a growing role in forging common approaches and standards. It will do so not through prescriptive recommendations and conditionalities, but by proactively supporting and catalysing the diverse processes through which the priorities of the rural poor are truly addressed and through which poverty is actually reduced.

Engagement at the Regional and Global Levels

26. Increasingly, the realities of rural poor people are shaped by factors far beyond the local or national levels. Regional and global policy processes have a significant impact on the prospects of the rural poor. Engagement with these processes is becoming critical.

27. In this arena, IFAD's role is to:

- support the development and sharing of knowledge about challenges and opportunities facing rural poor people in the context of globalization;
- advocate material and policy support for rural and agricultural development in developing countries;
- seek to inject into regional and global policy debates a greater awareness of the implications of global and regional processes and policies for local development and poverty reduction; and
- build the capacity of organizations of rural poor people to influence regional and global policy processes and debates and represent their interests and concerns.

28. As at the country level, IFAD's role is not to seek knowledge and engage in advocacy and policy dialogue *on its own*. It is to form partnerships and work through them to influence existing resources and activities. In many cases, IFAD's impact strategy has to be twofold: direct; and indirect – by influencing the use of the far greater resources held by others.

29. As IFAD develops its indirect impact strategy, it must change its operational dispositions towards partnership and leverage at the country, regional and global levels. Many of these changes are embodied in the new IFAD operating model. They do not signify that IFAD is shifting from its historical mandate and its major engagement in project and programme development and financing. Rather, the Fund will make a more conscious and coordinated use of projects and programmes to build national, regional and international capacities, and to reinforce commitments to achieve the MDGs in an area in which it has special competence.

Targeting in IFAD Operations

30. IFAD's specific mandate among a specific group of people (the rural poor), its limited resources and the extent and complexity of rural poverty demand a clear and strategic focus. IFAD has never found trickle-down approaches efficient in terms of resource use and effective in terms of poverty reduction. Instead, it employs targeting strategies to maximize its impact by giving opportunities to people who would not otherwise have them – opportunities in line with their interests

and needs. Everywhere it focuses on the rural poor and, especially, on those who are the poorest because of exclusion from development opportunities.

31. This, however, does not mean that there is a single and homogeneous “IFAD target group”, because the rural poor are not a single and homogeneous group in any part of the world. IFAD is a global institution and, at the request of its Member States, it supports rural poverty reduction in countries where rural poverty takes many different forms. In some countries, poor people are principally in marginal areas. In others, they are mostly in medium- to high-potential areas. In some, they are small-scale farmers. In others, they are rural wage labourers. Therefore, the people IFAD works with cannot be defined a priori in locational or occupational terms or in terms of specific income thresholds. The MDG threshold for extreme poverty, for example, is a relevant indicator in much of Africa and parts of Asia. It is much less useful in most of Latin America, the Middle East, North Africa and Central and Eastern Europe.

32. The “target group” for IFAD-supported activities is a function of the national poverty situation and of the organization of the rural economy and society – but also of the organization of national policies and programmes. IFAD is a value-adding institution. If effective major programmes already exist for specific groups of the rural poor, then IFAD does not target these groups. Here, too, harmonization and coordination shape IFAD’s approach. In consultation with governments, civil society and rural organizations, IFAD seeks rural situations and groups for which no sustainable solution to poverty is under way and where what it has to offer is relevant. In this context, targeting is an instrument to bridge the gap between areas of mainstream development and areas of social or economic exclusion, making sure that people who have been “left behind” are included in the drive for greater prosperity for all. In all cases, the target group is composed exclusively of people who live in poverty and have a potential to increase their food security and income if they secure stable access to key productive resources and equitable relations with other players. Moreover, within the division of labour among institutions responding to global poverty, IFAD has rural development support instruments, and the people and communities it works with must be able to make effective use of them.

33. Identifying the precise issues confronting rural poor people and finding solutions specific to them is a complex analytical process that can be effective only if it is based on an in-depth understanding of a number of areas and their interactions: poor *people* and their livelihood systems; their specific *problems* in terms of lack of access to key resources and relations that would enable them to increase their production, income and food security; the *processes* that generate their poverty (including social exclusion mechanisms); and the *policy* framework that consolidates their situation. IFAD’s specific contribution lies not only in targeting the rural poor, but also in targeting the other factors relevant to their situation – and providing responses that are or can be within their powers. This targeting approach does not only apply to channelling resources directly to specific groups of rural poor people for specific activities through investment projects. It also applies to policy dialogue, partnership building, institutional support and learning opportunities – all oriented towards the needs, interests and initiatives of the rural poor. It is this orientation which is unique to IFAD among other development actors and multilateral financial institutions.

