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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT **Consultation on the Seventh Replenishment of IFAD's Resources – Fourth Session** Doha (Qatar), 1-2 October 2005

PROGRAMME PRIORITIES AND FINANCING REQUIREMENTS FOR THE SEVENTH REPLENISHMENT PERIOD (2007-2009)

I. PROGRAMME OF WORK

1. The Consultation on the Seventh Replenishment of IFAD's Resources is taking place at a particularly important time. Five years ago, world leaders at the Millennium Summit established the Millennium Development Goals (MDGs), the first of which was to halve the proportion of people living in extreme poverty – i.e. those surviving on a mere dollar a day – by 2015. Three quarters of these 1.2 billion extremely poor people, or 900 million poor men and women, live in rural areas and depend on agriculture and related activities for their livelihood. Addressing rural poverty is thus central to achieving the MDGs.
2. IFAD, throughout its 27 years of operation, has focused uniquely on rural poverty. Its programmes support the productive activities of the rural poor – smallholder farmers, herders, fishers, the landless and, above all, rural poor women – to help them raise productivity, output and incomes. IFAD operations are thus directed at the core of the problem of poverty – and thus the MDGs.
3. IFAD has recently undergone what is perhaps the most comprehensive evaluation ever conducted of a United Nations agency. The final report of this Independent External Evaluation (IEE) concluded that 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."
4. After intensive evaluation of IFAD projects (including field visits), the IEE found that IFAD "is on a par" with international financial institutions such as the World Bank/International Development Association. The IEE deemed that, of the sample of 20 randomly selected IFAD projects it evaluated, 70.7% were satisfactory in terms of the three criteria of relevance, effectiveness and efficiency. This compares with a rating of satisfactory outcome on the same criteria of 67.5% for World Bank rural-sector projects completed in the period 1994 to 2003.

5. At the same time, the IEE provided a number of valuable insights and recommendations to improve further the impact and sustainability of IFAD projects. On the basis of the IEE's recommendations and of ongoing initiatives and reforms, IFAD management has formulated an action plan comprising a coherent set of initiatives to respond to the challenge. These include adapting IFAD's operating model and human resource management, and implementing a new strategy to enhance impact and strengthen the Fund's capacity to monitor and report on results, development outcomes and effectiveness.

6. IFAD is thus an institution with a proven track record of helping the rural poor, including the poorest of the poor, to gain access to opportunities to raise their output and work their way out of poverty. The Fund is also in the process of strengthening its work processes to enhance its effectiveness and impact. IFAD participates fully in the enhanced Debt Initiative for Heavily Indebted Poor Countries and has proposed adopting a debt sustainability framework for debt-distressed countries.

7. Later this month world leaders will convene again to assess the progress made towards achieving the MDGs. The analysis prepared for the September summit suggests that progress has not been satisfactory, especially in sub-Saharan Africa, where present trends indicate many countries are unlikely to achieve the MDGs. At the summit, there is expected to be a reiteration of the commitment and a call for the intensification of the effort to achieve the MDGs.

8. With the renewed and greatly heightened international focus on poverty, it would be appropriate to make the best possible use of IFAD's tested capacity to enable the poor to become the agents of change – i.e. the subjects rather than the objects – of rapid rural development. IFAD currently provides loans and grants totalling USD 550 million per year, half of which are directed to countries in Africa. IFAD financing supports projects having a total investment cost of about USD 1 billion, the balance coming from external cofinancing and contributions from governments and national partners. These projects and programmes reach about 10 million poor men and women each year.

9. In the context of the enhanced effort to eradicate poverty and hunger, IFAD can and should do more. To this end, the President of IFAD proposed – in his statement to the Governing Council in February 2005 – that the Fund's programme of work should grow by 10% a year over the coming years. There was considerable support among the membership of the Fund for such a rate of growth. This would allow IFAD to raise its total work programme in the Seventh Replenishment period by about 33% vis-à-vis the Sixth Replenishment, that is, from USD 1.5 billion in 2004-2006 to USD 2 billion in 2007-2009. The higher work programme, in terms of both volume and number of projects, would enable IFAD to reach some 13 million rural poor people each year in the Seventh Replenishment period, as compared with the 10 million reached now. It would also allow IFAD to address a number of key issues that are critical constraints for the rural poor. These aspects are discussed in the next section.

II. PROGRAMME PRIORITIES

10. A work programme of USD 2 billion in the Seventh Replenishment period – 33% higher than that of the Sixth Replenishment period – would allow IFAD to intensify significantly its support to overcome key constraints that limit the productivity of the rural poor. The strategic thrust of the Fund's operations over the Seventh Replenishment period will be elaborated in the strategic framework to be developed for 2007-2009 and the regional strategies that will flow from that framework. A major aim of the strategic framework will be to strengthen IFAD's contribution to achieving the MDGs.

11. Under the new strategic framework, Fund-supported projects will build on IFAD's extensive experience in designing and supporting the implementation of poverty programmes over its 27 years of operations. During this period, IFAD has provided more than USD 8.7 billion in financing for 676 projects whose total investment cost was about USD 23.9 billion. These projects are estimated to have benefited over 250 million poor men and women.

12. The wide diversity of IFAD's borrowing Member States in terms of economic structure, income levels and natural resource base calls for varied strategies in the different regions and countries to reflect specific rural poverty conditions, opportunities and partnerships. However, there are cross-cutting themes for IFAD's enhanced programme of work during the Seventh Replenishment period. In all regions, the Fund will focus on building the capacities of the rural poor, their organizations and their communities, enabling them to raise their productivity and incomes. Without concerted and targeted efforts to create more opportunities for women and marginalized groups, socio-economic and gender inequalities will persist.

13. The lack of access to financial services represents a major constraint to improving the socio-economic choices available to the rural poor. IFAD is the only international financial institution with a specific focus on rural finance; it will leverage this comparative advantage to help build rural financial systems that provide not only credit but also access to saving, insurance and remittance services. To enable small enterprises and other poor rural producers to grow, IFAD will help them to build linkages to larger private-sector market entities and to evolve a more supportive regulatory and policy environment.

14. Improving access to natural resources and technology for the rural poor is central to IFAD's mission of rural poverty reduction. Major features of IFAD's work programme include agricultural intensification and diversification, supported by engagement in land and water issues, and a focus on knowledge management to help the rural poor to innovate, experiment and share experiences with one another. The rural poor are especially vulnerable to catastrophes such as the HIV/AIDS pandemic and are also the main victims of conflicts and natural disasters. In affected countries, new IFAD projects and programmes are incorporating specific measures to help the rural poor cope with these disasters. In all of these activities, stronger partnerships with national, regional and international institutions will underpin IFAD programmes.

15. The key elements of the regional strategic thrusts are highlighted in the sections below. They are further elaborated for each of the regions in the annex.

Western and Central Africa

16. A higher programme of work will enable IFAD to leverage the considerable experience it has accumulated regarding the constraints and opportunities for rural poverty reduction in the Western and Central Africa region, increasing its investments in its areas of comparative advantage and building on the renewed focus on agriculture and rural development in the region. Four strategic objectives are being pursued in the region: (i) strengthen the capacity of the rural poor and their organizations; (ii) improve access to financial services and to markets; (iii) raise agricultural and natural resource productivity; and (iv) reduce vulnerability to major threats to rural livelihoods.

17. IFAD is supporting specific initiatives to help achieve these strategic objectives. For the first, the Fund has prepared a community-driven development approach that will guide all future IFAD initiatives needed to anchor grass-roots participation in the evolving decentralization and institutional transformation. Investment in social infrastructure (i.e. potable water, health centres and rural classrooms) will be enhanced.

18. To respond to the needs of a dynamic microfinance sector emerging in the region, the Rural Finance Strategy and the regional action plan together with a new implementation support facility will help microfinance institutions (MFIs) to develop new products, improve monitoring and reporting systems, network with other MFIs and strengthen linkages with larger financial institutions. Regarding market access, the inclusive Private-Sector Partnership Programme recently initiated will help to develop effective linkages between small producers and the small- and larger-scale private sector for the production and marketing of targeted food crops and commodities. The promotion and development of small enterprise initiatives begun in Burkina Faso and Senegal will be expanded. Substantial investment will be required in the construction of feeder roads, storage facilities and rural markets. The Fund currently has a portfolio of about 200 ongoing projects and programmes with a total investment cost of USD 6.3 billion, of which IFAD has financed USD 2.9 billion. These projects are reaching an estimated 100 million rural poor men and women.

19. To contribute to agriculture and natural resource productivity, the division will focus on improved planting material, small-scale processing and post-harvest technologies. In this context, the multiplication and dissemination of the New Rice for Africa (NERICA) and new cassava varieties will be intensively supported. The division will foster the adoption of improved natural resource management, especially soil and water conservation in semi-arid areas, and put emphasis on micro-irrigation to reduce harvest vulnerability. Livestock productivity and fish production will be raised through farmer organizations and private village networks.

20. Many countries in the region are vulnerable to conflict, natural disasters and HIV/AIDS. The outreach capacity of IFAD-financed projects will help devise ways of responding to these threats as an integral part of the programmes in the region.

21. A higher IFAD work programme in 2007-2009 will permit an increase of the programme of work in the Western and Central Africa region on the order of USD 330 million, broken down as follows: USD 100 million in 2007, USD 110 million in 2008 and USD 120 million in 2009.

Eastern and Southern Africa

22. Eastern and Southern Africa is the region in which poverty reduction is most clearly dependent upon rural development, and it is here that the greatest acceleration is needed if the MDGs are to be achieved. A higher work programme during the Seventh Replenishment period will enable IFAD to make a significant contribution to rural poverty reduction efforts in this region.

23. In broad terms, IFAD will continue to focus its development efforts on improving the access of rural poor people to: (a) financial services, (b) markets; (c) land and water (and the management of these assets); and (d) agricultural technology and information. In all these areas, improved access will be achieved largely by enabling rural poor people to learn, build skills and develop their own institutions; to this end, increased emphasis will be placed on developing partnerships with national farmers' organizations. And in all activities, particular attention will be given to addressing the critical issues of HIV/AIDS and land tenure security for poor people.

24. In many countries of the region, IFAD is one of the major partners of governments in the rural sector. Accordingly, an important part of its role is to assist governments in developing and implementing **national** programmes at the sector and sub-sector level that respond to the needs of poor people. Supporting poverty reduction strategy processes will be a *sine qua non*; participating in sector-wide approaches (SWAs) will be an important part of IFAD's engagement in terms of the policy on SWAs adopted by the Executive Board in April 2005. In all countries, ever-greater emphasis will be placed on the agenda of the Paris Declaration on Aid Effectiveness.

25. For the Eastern and Southern Africa region, the enhanced programme of work for 2007-2009 will allow a projected total amount (in loans and grants) of USD 331 million, broken down as follows: USD 100 million in 2007, USD 110 million in 2008 and USD 121 million in 2009.

Asia and the Pacific

26. While the greatest advances in achieving the MDGs are taking place in Asia, the number of extremely poor people remains vast: 270 million in East Asia and 430 million in South Asia. Extreme poverty remains overwhelmingly a rural problem: 79.6% in East Asia and 77.2% in Asia of the people living on less than USD 1 per day are in rural areas. The Asia and the Pacific region has a number of strengths (democracy, decentralization and sound macroeconomics) that create a window of opportunity for achieving significant reductions in rural poverty in the coming years. For its part, the Fund has acquired considerable experience in the design and implementation of projects and programmes for rural poor groups, especially women and indigenous peoples.

27. IFAD will continue to implement its strategy for Asia and the Pacific¹ on four major pillars: development of less-favoured areas; enhancing women's capabilities to promote economic and social transformation; enhancing the capabilities of indigenous peoples and other marginalized groups; and building coalitions of the poor.

28. In less-favoured areas, innovative sustainable agricultural technologies for traditional and high-value crops will be developed and disseminated. For women's empowerment, the strategy will be to enhance their access to financial services and technology, increase their representation in local institutions and build their grass-roots organizations. Women will be a major target group of all new Fund-supported projects. Likewise, in fostering the development of marginalized rural groups, the emphasis will be on enhancing access to resources and social empowerment to participate in their own development.

29. Emerging strategic issues in Asia include the need for re-engaging in agriculture, coping with the scarcity of land and water resources, tapping biotechnology for the poor, and expanding the frontiers of the microfinance and microenterprise development agenda. Furthermore, poverty is a matter of both deprivation and vulnerability to exogenous shocks that trigger downward mobility of the poor. Therefore, the next major challenge in sustainable development will be the pursuit of poverty reduction strategies and policies that reduce or mitigate risks and promote coping mechanisms. Potential vulnerabilities on the horizon include the risk of the spread of HIV/AIDS, especially among Asia's rural poor and women, and that of an avian flu pandemic that could wipe out the livelihoods of large numbers of Asia's rural poor and generate health risks for the world community. Innovative crisis prevention and post-crisis reconstruction and development approaches will also be promoted as a means of assisting countries exposed to disasters or conflict.

30. A higher programme of work in 2007-2009 would allow the Asia and the Pacific region to have a work programme over the Seventh Replenishment period of USD 558 million: USD 169 million in 2007, USD 185 million in 2008 and USD 204 million in 2009.

Near East and North Africa

31. Since its establishment in 1977, IFAD has maintained a strong presence in the Near East and North Africa (NENA) region and the proposed increase in the work programme for 2007-2009 will allow the Fund to play an enhanced role. According to the Millennium Development Goals report,

¹ The Asia and the Pacific Division requested the Office of Evaluation to evaluate its 2002 regional strategy in 2005. The division will also carry out a self-assessment of the same strategy. This is expected to lead to a review of the regional strategy in early 2006.

economic development in the region has stagnated since the 1990s, and 62.9% of the extremely poor live in rural areas.

32. Water scarcity is perhaps the single most binding constraint on the rural poor in the NENA region. Very high unemployment rates (over 15%), especially among the educated youth, is another major challenge facing this region today. Despite the crucial importance of microfinance for the rural poor, the region's microfinance sector is one of the most recent among developing countries. Millions of rural poor people remain without access to adequate financial services and have difficulty accessing new markets for their agricultural commodities. These factors have led to the persistent high level of rural poverty in the region.

33. IFAD anticipates that the revised strategy for the NENA region will provide greater focus for the Fund's role in the region, both thematically and geographically. Four main themes will be addressed: (i) a new threshold in managing land and water resources for poverty reduction that will build on existing successful IFAD programmes and engagement in policy dialogue for better land and water governance; (ii) tackling youth unemployment as an integral part of rural poverty reduction programmes using the results of ongoing action research to identify effective, targeted interventions; (iii) achieving a breakthrough in rural microfinance by building partnerships with leading institutions in this field and collaborating with commercial banks and major regional financial institutions; and (iv) linking smallholder farmers and the rural poor with international markets by assisting NENA countries in developing export markets for non-traditional products and by working with existing NGO initiatives and the private sector.

Central and Eastern Europe and the Newly Independent States (CEN) Region

34. The eight countries in the Central and Eastern Europe and the Newly Independent States (CEN) subregion are a relatively new addition to IFAD's portfolio. The collapse of the former Communist system has resulted in a dramatic increase in the rate of poverty in recent times. In the countries of the Commonwealth of Independent States, the proportion of people living on less than USD 1 per day rose from 0.4% in 1990 to 5.3% in 2001. Much of this increase has occurred in rural areas, where 52.6% of the extremely poor people live. For the CEN region, poverty tends to be concentrated in the mountainous and remote areas, and among elderly people, youth, and women-headed households.

35. IFAD's overall strategic objective in the CEN region is to support the transition process with sustainable agricultural programmes that contribute to rural poverty reduction. Private-sector development and public-private partnerships will drive most interventions. The emphasis will be on improving the access of small-scale farmers to domestic, regional and international markets, using the commodities-supply-chain approach in a selective manner that stresses linkages with the poorer farm households.

36. Cross-cutting elements of the regional strategies for the NENA region and the Central and Eastern Europe and the Newly Independent States (CEN) region are expected to include: gender mainstreaming that builds on lessons learned and experience from existing IFAD-supported pilot programmes; playing a more proactive role in donor harmonization forums, establishing partnerships with the private sector and civil society; and a knowledge management approach to scale up successful innovation and enhance outreach and visibility and share lessons learned within IFAD country programmes and with its partners.

37. In the NENA/CEN region, the higher IFAD work programme in the Seventh Replenishment period will allow a total programme of USD 283 million: USD 86 million in 2007, USD 94 million in 2008 and USD 103 million in 2009.

Latin America and the Caribbean

38. Poverty reduction continues to be one of the major challenges facing the Latin America and the Caribbean region, particularly in rural areas, where 64% of the population live below the poverty line. To tackle the region's challenges, IFAD will build its operations around four major pillars: (i) development of human and social capital; (ii) tapping of market opportunities; (iii) promotion of policy dialogue; and (iv) harmonization of investments.

39. The formation of human and social capital will focus on women (by mainstreaming the gender approach in all activities) and young people (through training in labour skills and income-generating capacities). Indigenous groups, the largest group of rural poor in the region, will remain a priority, with specific attention given to Afro-Latinos.

40. Improving access to financial services and markets for poor farmers will be a central component of IFAD operations in the region. In this context, emphasis will be placed on the development of competitive productive chains, in strategic alliance with the private sector.

41. Pro-poor policy development and dialogue, based on IFAD project experience and participation by smallholder farmer representatives, will be supported. Special attention will be paid to effects of regional trade agreements and the reinforcement of harmonization and coordination with other development agencies pursuant to the Paris Declaration on Aid Effectiveness.

42. The higher work programme in 2007-2009 will allow for loans and grants in the Latin America and the Caribbean region totalling USD 307 million: USD 93 million in 2007, USD 102 million in 2008 and USD 112 million in 2009.

Conclusion

43. Over the Seventh Replenishment period, a higher work programme of USD 2 billion will allow IFAD to reach more poor people, thus validating and maximizing the impact of the changes that IFAD is introducing in its work processes and in its operating model. By reaching an estimated 13 million poor men and women a year in an increasingly effective way, IFAD will be able to make a substantial contribution to achieving the Millennium Development Goal to reduce poverty by half by 2015.

III. FINANCING REQUIREMENTS AND REPLENISHMENT LEVEL

44. As noted earlier, IFAD's mandate and long-standing experience in combating rural poverty is especially relevant in today's world where poverty has been placed at the top of the development agenda, with a stronger recognition of the centrality of addressing rural poverty. The total work programme of USD 2 billion over the Seventh Replenishment period will need significantly higher resources to finance it. These resources will come in part from Member States' contributions during the replenishment period and in part from loan reflows, investment income and loan cancellations, where applicable.

45. Under the past two replenishments, IFAD received contributions from Member States equivalent to about one third of 1% of global official development assistance (ODA). Following the pledges made in 2002 at the International Conference on Financing for Development in Monterrey, Mexico, and the specific pledges made by members of the European Union and others, ODA has been rising substantially. In the period 2007-2009, ODA is likely to average USD 85 billion to USD 90 billion per year. Even if IFAD merely maintains its current proportion of global ODA, this should generate a Seventh Replenishment level of at least USD 800 million. In this context it is worth noting that the replenishment negotiations undertaken recently for the International Development Association (IDA) and the African Development Fund resulted in growth of 30% and 43%,

respectively. A Seventh Replenishment level of USD 800 million for IFAD would represent a comparable growth rate.

46. Assuming a replenishment level of USD 800 million, internal resources totalling USD 1.2 billion, or 60% of the total, would need to be utilized to finance a total work programme of USD 2 billion in 2007-2009. As shown in Table 1, this is a significantly higher ratio of internal resources to member contributions than is the case at IDA.

Table 1: Comparison of IFAD and IDA Proportions of Programme of Work Financed by Internal and Replenishment Resources

	IFAD	IDA
Replenishment	Seventh	Fourteenth
Programme of work	USD 2.0 billion	SDR 22.5 billion
Internal resources (A)	USD 1.2 billion (60.0%)	SDR 10.0 billion ^a (44.4%)
Member State contributions (B)	USD 0.8 billion (40.0%)	SDR 12.5 billion (55.6%)
Ratio of A:B	1.50	0.80

*SDR = special drawing right

^a Including net income transfer from the International Bank for Reconstruction and Development.

47. Apart from the USD 2 billion required to finance the work programme in 2007-2009, the administrative budget and the Project Development Financing Facility (PDFF) also need to be financed. These latter costs are estimated to total USD 290 million over the three-year Seventh Replenishment period.

48. In addition, there would be costs related to IFAD's participation in the Debt Initiative for Heavily Indebted Poor Countries (HIPC), which are projected to total USD 137 million over the period 2007-2009.

49. Table 2 provides a breakdown of resource inflows and resource requirements over the Seventh Replenishment period. Loan reflows are projected to total USD 635 million, investment income USD 230 million, funds released by loan cancellations USD 223 million, and approximately USD 32 million from the balance of Sixth Replenishment contributions, for an overall total of USD 1.12 billion.

Table 2: Resource Flows for the Seventh Replenishment Period
(Assuming 10% annual growth in the programme of work over the three-year period)

Projected resource requirements	(USD million)
Programme of work (loans and grants)	2 000
Administrative budget and Programme Development Financing Facility	290
Total resource requirements	2 290
HIPC costs	137
Projected inflows and loan cancellations	
Loan reflows	635
Investment income	230
Loan cancellations	223
Balance of Sixth Replenishment contributions	32
Total inflows and loan cancellations	1 120
Seventh Replenishment contributions	800
Total Seventh Replenishment resources	1 920
Seventh Replenishment financing requirement	
If HIPC costs are covered by the World Bank HIPC Trust Fund and special contributions	370
If HIPC costs are not covered	507

50. A Seventh Replenishment level of USD 800 million would leave a shortfall of USD 370 million, which would be financed by using future reflows under the asset liability management (ALM) framework. In addition, if the HIPC costs of USD 137 million are not covered fully through access to the World Bank HIPC Trust Fund and special contributions, the balance would add to the shortfall requiring financing.

51. Under the ALM framework, it is proposed to include five years of loan reflows, net of HIPC costs and a 5% discount as a measure of prudence, as part of the committable resources of the Fund. Thus, an amount of USD 370 million, or about USD 507 million² if HIPC costs are not met through other sources, would need to be financed through this modality. By the end of the Sixth Replenishment period, the projected utilization of advance commitment authority (ACA) would be USD 455 million. Together with the USD 507 million needed for the Seventh Replenishment period, the total would represent the use of an estimated 4.5 years of future loan reflows (as indicated in Table 4).

52. In this context, it has been proposed that a liquidity policy for IFAD would be developed over the Seventh Replenishment period that would provide means of monitoring and ensuring that the Fund has adequate liquidity available at all times.

53. For purposes of a sensitivity analysis, projections have been made to show the implications of a replenishment level higher or lower than USD 800 million, namely USD 900 million and USD 700 million. These are shown in Tables 3 and 4 below.

² This figure is based on the current USD/SDR exchange rate.

Table 3: Resource Comparison for the Seventh Replenishment under Three Different Replenishment Levels^a
(Assuming 10% annual growth in the programme of work over the period)

Projected Resource Items	Seventh Replenishment Level		
	Scenario A: USD 700 million	Scenario B: USD 800 million	Scenario C: USD 900 million
Programme of work (loans and grants)	2 000	2 000	2 000
Administrative budget and Programme Development Financing Facility	290	290	290
Seventh Replenishment resource requirements	2 290	2 290	2 290
Seventh Replenishment HIPC costs	137	137	137
Seventh Replenishment contributions	700	800	900
Balance of Sixth Replenishment contributions	32	32	32
Investment income	227	230	234
Loan reflows	635	635	635
Loan cancellations	223	223	223
Seventh Replenishment resource inflows	1 817	1 920	2 024
Seventh Replenishment financing requirements:			
Before HIPC costs	473	370	266
After HIPC costs	610	507	403

^aFigures calculated on basis of USD 1.45 = 1 SDR.

Table 4: Financial Indicators Comparison under Three Different Replenishment Levels^a

Projected Financial Indicators	Seventh Replenishment Level		
	Scenario A: USD 700 million	Scenario B: USD 800 million	Scenario C: USD 900 million
Average annual programme of work (USD million)	668	668	668
Liquidity level (USD million) at end of Seventh Replenishment period	2 016	2 085	2 155
Approximate number of years of future loan reflows used for commitments ^b	4.9	4.5	4.1

^aFigures calculated on basis of USD 1.45 = 1 SDR.

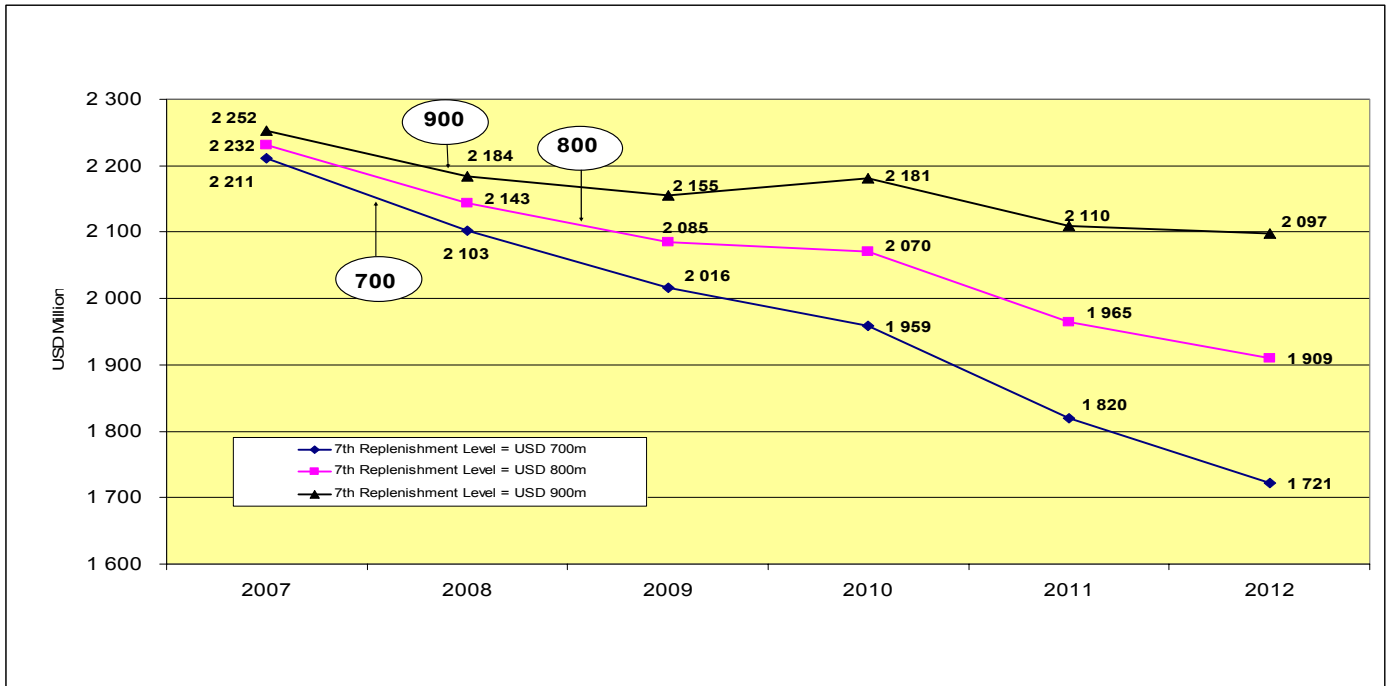
^bEach year included as 95% of loan principal and interest, net of forgone HIPC reflows.

54. With a replenishment level of USD 700 million, the financing shortfall naturally increases and the number of years of future loan reflows required under the ALM framework at the end of the Seventh Replenishment rises to 4.9 years, as compared with 4.5 years under a USD 800 million replenishment. In the case of a USD 900 million replenishment, the number of years of future reflows drops to 4.1. In all three scenarios, if the HIPC costs are financed through the World Bank HIPC Trust Fund or special contributions, the use of future reflows would be reduced by USD 137 million, representing just over half a year of future reflows.

55. Figure 1 shows the movement of changes in liquidity for the three scenarios through the Eighth Replenishment period (for illustrative purposes, a neutral assumption has been made of maintaining the Eighth Replenishment level and the programme of work constant in real terms, i.e. growing only at the rate of inflation of 2% per year). As would be expected under a USD 900 million replenishment, liquidity would be significantly higher than under the base scenario. However, in the USD 700 million scenario, liquidity would be about USD 69 million lower than the base scenario by the end of the Seventh Replenishment and USD 188 million lower by the end of the Eighth. This decline in liquidity will compound over time. Thus, a lower Seventh Replenishment level either would require a substantially higher level for the Eighth Replenishment or would lead to a substantial reduction in IFAD's programme of work in the Eighth Replenishment period. To make the best use of

IFAD's tested capacity to enable the rural poor to overcome poverty, a Seventh Replenishment level of USD 800 million would be warranted in order to finance, in a sustainable way, a work programme of USD 2 billion in 2007-2009.

Figure 1: Liquidity Projections



IV. RECOMMENDATIONS

56. The Consultation is requested to endorse a work programme of USD 2 billion for IFAD over the Seventh Replenishment period (2007-2009) and to endorse a Seventh Replenishment level of USD 800 million with the use of up to USD 507 million³ from future reflows under the ALM framework.

³ Figure is based on the current USD/SDR exchange rate.

ANNEX

1. A work programme in the Seventh Replenishment period of USD 2 billion, 33 percent higher than that during the Sixth Replenishment period, would allow IFAD to intensify significantly its support to overcome key constraints that limit the productivity of the rural poor. The strategic thrust of the Fund's operations over the Seventh Replenishment will be elaborated in the Strategic Framework to be developed for 2007-2009 and the Regional Strategies that will flow from the Framework. A major aim of the Strategic Framework would be to strengthen IFAD's contribution to achieving the MDGs.

2. Fund-supported projects will build on its extensive experience in designing, and supporting the implementation of, poverty programmes over its 27 years of operations. During this period, IFAD has provided financing of more than USD 8.7 billion for 676 projects whose total investment cost was about USD 23.9 billion. These projects are estimated to have benefited over 250 million poor men and women.

3. The wide diversity of IFAD's borrowing members in terms of economic structure, income levels and natural resource base calls for varied strategies in the different regions and countries to reflect specific rural poverty conditions, opportunities and partnerships. However, there are cross-cutting themes for IFAD's enhanced programme of work in the Seventh Replenishment. In all regions, the Fund will focus on building the capacities of the rural poor, their organisations, and their communities. Without concerted efforts on targeting to create more opportunities for the poor, socio-economic and gender inequalities will persist.

4. The lack of access to financial services represents a major constraint to improving the socio-economic choices available to the rural poor. IFAD is the only financing institution with a specific focus on rural finance and will leverage this comparative advantage to help build rural financial systems that provide not only credit, but also access to saving, insurance and remittance services. To enable rural enterprises to use financial services effectively, IFAD will foster rural enterprise promotion and access to markets through regionally specific approaches. Improving access to natural resources and technology for the rural poor is central to IFAD's mission of rural poverty reduction. Major features of IFAD's work programme include agricultural intensification and diversification, supported by engagement in land and water issues, and the focus on knowledge management to help the rural poor to innovate, experiment and share experiences with one another. All of these will be underpinned by building stronger partnerships with national, regional and international institutions.

Western and Central Africa

5. A higher programme of work will provide the Fund's Western and Central Africa Division an opportunity to leverage the considerable experience it has accumulated regarding the constraints and opportunities for rural poverty reduction in this region. Building on the results achieved, IFAD will increase its investments in the areas of its comparative advantage in order to build on the renewed focus on agricultural development in this region. Four strategic objectives are being pursued in the region, namely: (i) strengthen the capacity of rural poor and their organizations; (ii) improve access to financial services and to markets; (iii) raise agricultural and natural resource productivity; and (iv) reduce vulnerability to major threats of rural livelihoods.

6. With regards to strengthening the capacity of the rural poor and their organizations, IFAD has monitored the important decentralization efforts ongoing in the region and gathered lessons from highly participatory projects. As a result of these efforts, the Fund developed during the last three years a community-driven local development approach, validated with processes undertaken in the region and with the development community. This approach will guide all future grass-roots development initiatives. Participatory planning, implementation, monitoring and evaluation

approaches were tested and will be further refined and their use expanded. Massive efforts are needed to anchor grass-root participation into evolving decentralisation processes. IFAD investment will, at local level, complement efforts in institutional transformation as well as locally-managed social and productive infrastructures. Investment in social infrastructure, such as potable water, schools, healthcare centres will be enhanced.

7. A dynamic micro-finance sector is emerging in western and central Africa. Significant lessons have been learned in improving access to financial services and as a result IFAD developed a Rural Finance Strategy and an Action Plan for the Western and Central Africa region. The Action Plan focuses on the response of the growing needs in new MFIs, medium term credits with increased emphasis in building viable national network, and new products. The coming programme will support the preparation of business plans, performance contracts, research and development of innovative approaches, and sound monitoring and reporting systems. In this context, MFIs will be supported to participate in the MIX and organize regular reporting on a mutually agreed minimum set of indicators. An Implementation Support Facility (ISF) will be supported to provide technical backstopping, trouble shooting, etc. on a sustainable basis to IFAD supported rural finance operations in the region. This facility will also be used to foster networking and strengthen linkages along the rural finance institutional continuum.

8. Regarding access to markets, based on the lessons learned from two innovative market access projects, the Inclusive Private Sector Partnership Programme has been initiated. The objective is to develop effective linkages between small producers and the small scale as well as the larger scale private sector for the production and marketing of cocoa, millet and sorghum, cassava, gum arabic, mango and green beans. The promotion and development of small enterprises initiatives started in Senegal and Burkina Faso will also be pursued and expanded. Furthermore, in order to take advantage of the market opportunities offered from the growing urban populations, substantial investments will be required in the construction of feeder roads, transport and storage facilities. Furthermore, at least 20-25% of all new projects will help to strengthen business capacities in order to enhance private-sector development.

9. In order to raise agricultural and natural resource productivity in the region, the Fund will focus on improved planting material, small-scale processing, post-harvest technologies and the multiplication and dissemination of the new nerica rice as well as improved cassava varieties. IFAD will foster the adoption of improved natural resource management (especially soil and water conservation in semi-arid areas) and community-based seed multiplication. Emphasis will be put on village-managed micro-irrigation schemes to reduce vulnerability of harvests. Efforts will also be directed to developing farmers' field fora/schools as well as village-based veterinary services with special attention to the promotion of best local practices combined with the introduction of new and innovative technologies. In this context, the Fund will continue its collaboration with the research centres including the CGIAR in fighting plant diseases, locust and the screening of adapted varieties. Livestock productivity will be raised through promoting and supporting private village viable network for the provision of veterinary services with emphasis on small livestock. Fish production will be enhanced through strengthening and supporting village community and farmer organizations.

10. With regard to knowledge management and innovation in the region, IFAD will implement an action plan for improving programme performance and impact through strengthening M&E systems as well as improving information, communication and knowledge sharing. To respond to this challenge, a regional communication strategy is being prepared. Furthermore, Fidafrigue will continue to be an important conduit for networking between regional project staff and other regional stakeholders. It will play a central role in information dissemination and exchange on key rural development topics and issues related to improving project management, thereby enhancing the effectiveness of IFAD operations in the region. The field presence initiative will also facilitate

knowledge generation and dissemination between regional stakeholders and between the field and headquarters.

11. Finally, there is an opportunity to learn, based on field experience, the modalities to reduce the rural poor's vulnerability to major threats (HIV/AIDs, disease, disaster, drought, and conflict).

12. The corporate objective of a 10 percent lending increase will permit an increase of the programme of work in the Western and Central Africa region to lending level to USD 330 million with USD 100 million in 2007, USD 110 million in 2008 and USD 120 million in 2009.

13. The above programme will be carried out in partnership with other development institutions through co-financing and strategic partnership arrangements. In this regard, the Fund will continue to take advantage of the donor forum on collaboration and harmonization for Western and Central Africa. At the regional level, IFAD will support the Common Agriculture policy of ECOWAS to improve local and regional market access for smallholders. In this context, support will continue to the regional policy hub in identifying priority policy issues emanating from loan and grant field experience and initiating policy dialogue at national and regional levels. The NEPAD and the African Union will continue to receive support in the areas of farmer capacity building and inclusion in the decision-making process. A joint cassava marketing and processing initiative will be launched in the context of NEPAD.

Eastern and Southern Africa

14. In eastern and southern Africa IFAD is one of the principal sources of development assistance for rural poverty reduction and particularly for the economic activities of the rural poor. The Fund is a major financier in the agricultural sector, and indeed, in a number of countries it is the largest development financier. It is a region in which poverty reduction is most clearly dependent upon rural development and it is here that the greatest acceleration is needed if the MDGs are to be achieved. Therefore, the proposed increase in funding for the Seventh Replenishment provides IFAD with a special opportunity to make a significant impact on rural poverty.

15. In this context, through its projects, IFAD will contribute to government efforts to implement programmes at the sector and sub-sector level that respond to the needs of poor rural people. Participation in SWAps, in terms of the SWAps policy adopted by the Executive Board in April 2005, is a significant part of that engagement in those countries where they have been implemented. In other countries the Fund will contribute to programmes covering sub-sectors such as rural finance, water management, market access, or specific commodities.

16. The nature, depth and spread of poverty are changing within the region. Building on the results achieved and the lessons learned in eastern and southern Africa, IFAD will increase its activities in four areas: (i) strengthen the capacity of rural poor and their organizations; (ii) improve access to financial services and to markets; (iii) raise agricultural and natural resource productivity; and; (iv) reduce vulnerability to major threats (disease, disaster, drought, conflict) of rural livelihoods.

17. The emergence of autonomous farmers' organizations in eastern and southern Africa has been slower than in western Africa. However, it is evident that they have a potentially important role to play as service providers to poor rural farmers. The Fund is currently conducting a preliminary exercise to screen farmers' organizations across the region.

18. In the area of market linkage the lessons point both to the difficulties in finding qualified service providers and the need to focus support on market linkage relative to specific commodities, rather than to local and national markets in general. In this regard, IFAD's recently-approved Private Sector Development and Partnership Strategy provides a basis for engagement throughout the value

chain, rather than solely at the level of primary production. Additional opportunities for IFAD include enhanced knowledge management for farmer groups using the internet and social capital building as a result of the decentralization of government.

19. Apart from its social and health dimensions, HIV/AIDS is now a critical development issue in the region. In this context, IFAD will also seek to address the linkages among HIV/AIDS, land tenure, and resource management. The Fund will strengthen its engagement in all three areas over the coming period so that the impact of issues can be incorporated more effectively into the design and implementation of IFAD-supported projects.

20. For the eastern and southern Africa region, the enhanced programme of work for 2007-2009 will allow a projected total amount (loans and grants) of USD 321 million, with USD 100 million in 2007, USD 110 million in 2008, and USD 121 million in 2009.

Asia and the Pacific

21. While the greatest advances in achieving the MDGs are taking place in Asia, the number of extremely poor people remains vast: 270 million in East Asia and 430 million in South Asia. And extreme poverty remains overwhelmingly a rural problem; 79.6 % in East Asia and 77.2 in Asia of the people living on less than USD 1 per day in rural areas. The Asia and Pacific region has a number of strengths (democracy, decentralization, and sound macroeconomics) that create a window of opportunity for achieving significant reductions in rural poverty in the coming years. For its part, the Fund has acquired considerable experience in the design and implementation of projects and programmes for rural poor groups, especially women and indigenous peoples.

22. To maximise the impact of the increased level of financial assistance on rural poverty reduction, efforts will be made to sharpen the enhanced and evolving focus on development effectiveness, in particular the innovation and policy agenda, the knowledge management and partnership objectives, the pursuit of the donor harmonisation agenda, and the replication and up-scaling of successful innovations in larger programmes and in the policy frameworks at the broader national and regional level.

23. IFAD will continue to implement its strategy for Asia and the Pacific⁴ with four major pillars: development of less-favoured areas; enhancing women's capabilities to promote economic and social transformation; enhancing the capabilities of indigenous peoples and other marginalized groups; and, building coalitions of the poor.

24. For the less-favoured areas, the experience to date has sharpened the focus on: the dissemination of sustainable agricultural technologies; promotion of high-value niche products (horticultural crops, medicinal plants, organic agriculture); promotion of non-farm employment and income generation (micro-enterprises, food-for-work) increasing the value added of agricultural outputs; enhancing access to productive assets; development of rural infrastructure (feeder roads, markets); and rewarding the poor for provision of environmental services.

25. Two-thirds of the Asia and Pacific region country programmes are focussed on the less favoured areas (uplands and mountains, marginal coastal areas and dry-lands). Technology development for these areas emphasizes: agro-forestry innovations; innovations for uplands/mountains; and technology dissemination. The production of high-value niche products such as horticultural crops and medicinal and aromatic plants is being promoted.

⁴ PI requested the Office of Evaluation to evaluate its 2002 regional strategy in 2005. PI will also carry-out a self-assessment of the same strategy. This is expected to lead to a review of the regional strategy in early 2006.

26. For women's empowerment, the strategy is to concentrate on enhancing their access to financial services and technology and on increasing their representation in village level institutions and building women's organizations. All new Fund projects have women as a major target group for project activities. An overwhelming majority of self-help groups formed under micro-finance schemes are women.

27. Likewise, for the development of the marginalized groups of rural poor, the emphasis is on enhancing their access to resources and social empowerment. One-third of new projects will be focused on the development of indigenous peoples and other marginalised groups of rural poor. Project priorities include facilitating collective action by the poor (self-help groups, user groups); participation of the poor in local, self-governing institutions, and enhancing their involvement in the design, implementation and monitoring of projects and programmes.

28. There are emerging strategic issues. Asian countries are reengaging in active agricultural development, with the emphasis on new development models. This involves new models for agricultural organisations (ministries of agriculture and rural development, the private sector, CBOs and CSOs, pluralistic institutional models for research and extension, etc.), a greener agricultural development strategy focusing on the value chain, including agro-processing. In addition, agriculture in many Asian countries is likely to face a water crisis in the near future. There is thus a need to develop and disseminate water management techniques that can improve water use efficiency and conservation technologies.

29. Biotechnology offers significant potentials in addressing the problems faced by poor farmers, such as drought tolerance, pest and disease resistance, improved nutritional quality, and others. An important challenge is to attract investment for research on problems faced by poor farmers in marginal areas.

30. The micro-finance agenda is also set for expansion and its next generation of innovations include: the rural poor's demand for a wider range of credit and savings services; micro-insurance; and the productive harnessing of remittances. To complement these will be innovations to promote rural small and micro-enterprises for them to become engines of employment generation and entrepreneurship for the poor.

31. Poverty is not just a matter of deprivation, but also of vulnerability to exogenous shocks, which can trigger downward mobility of the vulnerable. Therefore, the next major challenge in sustainable development will be the pursuit of poverty reduction strategies and policies that pay careful attention to risk reduction, mitigation and coping mechanisms. One example is the incidence of HIV/AIDS which is increasing rapidly in many Asian countries. The overwhelming majority of the people with HIV/AIDS are the rural poor, and among them women figure disproportionately. Another potentially serious emerging vulnerability is the risk of an avian flu pandemic that could wipe out livelihoods of large numbers of Asia's rural poor and generate health risks for the world community.

32. The phenomenon of natural and human induced crisis, such as the 2004 Indian Ocean tsunami, extreme weather conditions, and civil conflict in many countries of the region, cause major disruption to productive economic activity and delivery of basic services. Therefore, innovative crisis prevention and post-crisis reconstruction and development approaches are needed to assist low income countries under stress and conflict-affected countries: (i) mitigate the impact of natural disasters, violent conflict, and state fragility; and (ii) enhance the rule of law, good governance and community-based approaches for the benefit of rural poor communities.

33. The higher programme of work in 2007-2009 would allow the Asia and Pacific region to have a work programme over the Seventh Replenishment period of USD 558 million, with USD 169 million in 2007, USD 185 million in 2008 and USD 204 million in 2009.

Near East and North Africa

34. Since its establishment in 1977, IFAD has maintained a strong presence in the Near East and North Africa (NENA) region and the proposed increase in the work programme for 2007-2009 will allow the Fund to play an enhanced role. According to the Millennium Development Goals Report, economic development in the region has stagnated since the 1990s, and 62.9% of the extremely poor live in rural areas.

35. IFAD anticipates that the revised strategy for NENA will focus the Fund's role in the region, both thematically and geographically⁵. Four main themes will be addressed in this region: (i) a new threshold in managing land and water resources for poverty reduction; (ii) addressing youth unemployment as an integral part of rural poverty reduction programmes; (iii) achieving a breakthrough in rural micro-finance; and (iv) linking smallholder farmers and the rural poor with international markets. The challenging and innovative nature of these themes, in the context of the NENA region, will require increased support to the borrowing member states and expanded resources.

36. The NENA region remains one of the driest in the world. Water scarcity is perhaps the single most binding constraint on the rural poor in the NENA region and poses a serious challenge to agricultural development. IFAD has supported successful land reclamation and water conservation programmes targeted to smallholders in many countries in the region, as well as programmes related to different aspects of water-resource management. IFAD aims to consolidate and widely apply emerging research findings under more challenging conditions. For the effective application of these research solutions, IFAD will intensify its engagement in policy dialogue related to better land and water governance, and in regional and international fora to promote more appropriate policies for managing water scarcity.

37. Very high unemployment rates, especially among the educated youth, is one of the biggest challenges facing the NENA region today. According to 2004 World Bank estimates, average official unemployment rates in the region are over 15%, with some countries reaching over 20%. Jobless rates among youth are twice the regional average in some countries, requiring the region to create about 4 million jobs a year in the next few years to accommodate new entrants into the labour market. Given the scarcity of suitable land and water resources, the ability of the agricultural sector to significantly employ additional labour is limited. To address this issue, IFAD will initiate a new large regional grant to support an action research programme, which will characterize the causes of rural unemployment and identify effective targeted interventions. Using the outcomes of the research, the Fund will design new 2007-2009 programmes to address rural unemployment and include it as a major component of IFAD support to its rural poverty reduction programmes in the region.

38. Despite the crucial importance of micro-finance for the rural poor in the area, the micro-finance sector in the region is one of the most recent among developing countries. Due to strong state involvement in the financial sector and lack of adequate micro-finance legislation and regulation, millions of rural poor people remain without access to adequate financial services. IFAD has recently succeeded in working with some state-owned agricultural banks in the region to extend some services to the rural poor. However, a major breakthrough is needed in this sector to expand outreach in the rural areas. The region as a whole is poised for a potential massive expansion of financial services to poor people, and IFAD is well positioned to grasp this opportunity to build institutional capacity to provide these services to the rural poor.

39. This year, IFAD started collaborating with leading international organizations, such as CGAP (The Consultative Group to Assist the Poorest) and ACCION (a non profit international network in

⁵ PN requested an Evaluation of its on-going strategies by the IFAD's Office of Evaluation in 2005-06 and is currently undertaking an internal review of these strategies. Thereafter, new regional strategies will be developed.

micro-finance), for the development of a responsive rural financial sector. ACCION will engage commercial banks in down-scaling their services to the rural areas and adjusting their financial instruments to reach out to the rural poor. With increased resources this aspect can become a major feature of IFAD's operations in the region. Some regional funding institutions, e.g. the AGFUND (Arab Gulf Programme for UN Development Organisations) have shown interest in partnering with IFAD, and this will increase IFAD's scope of work in this area.

40. The rural poor in the region have difficulty accessing markets for their agricultural commodities, and IFAD would assist NENA countries in developing export markets for non-traditional products. There are already existing NGO initiatives linking small farmers in the region to European markets, for organic and medicinal products. IFAD will work with these NGOs and the private sector to upscale their initiatives or replicate them in other countries or for other products. In partnership with major research institutions, IFAD has already begun research on the impact of trade liberalization with the EU and the export potential of small farmers in NENA. IFAD plans to hold a workshop bringing together trade and marketing experts, as well as trade and agricultural policy-makers from the region to develop an action plan for interventions in export-market promotion for small rural producers.

41. Geographically, the NENA strategy will target the poorest rural areas of the region. Cross-cutting elements of both the NENA and CEN regional strategies are expected to include: gender mainstreaming that builds on lessons learned and experience from the two on-going technical assistance grants programme for gender; playing a more pro-active role in donors harmonisation fora, establishing partnerships with the private sector and civil society; and a knowledge management approach to scale-up successful innovations, enhance outreach, visibility and share lessons learned within IFAD country programmes and with its partners.

Central and Eastern Europe and the Newly Independent States Region

42. The eight Central and Eastern Europe and Newly Independent States (CEN) sub-region countries are a relatively new addition to IFAD's portfolio. The poverty situation in the region is unusual and represents a challenge for the Fund. The collapse of the former Communist system has resulted in a dramatic increase in the rate of poverty in recent times. In the CIS countries, the proportion of people living on less than USD 1 per day rose from 0.4 in 1990 to 5.3% in 2001. Much of this increase has occurred in rural areas, where 52.6% of the extreme poor live. For the CEN region, poverty tends to be concentrated in the mountainous and remote areas, and among elderly people, youth, and women-headed households.

43. IFAD's overall strategic objective in the CEN region is to support the transition process with sustainable agricultural programmes that contribute to rural poverty reduction. Private-sector development and public-private partnerships will drive most interventions. The emphasis will be on improving the access of small-scale farmers to domestic, regional and international markets, using the commodities supply-chain approach in a selected manner that stresses linkages with the poorer farm-households.

44. In some CEN countries, several initiatives have already been undertaken to link farmers to markets through the development of supply-chain investment programs, where the whole chain from production to consumption is analyzed and the weak points are identified and supported through investments, technical assistance, capacity-building, and policy dialogue. At the production level, for example, farmers are trained in marketing skills or are assisted in forming farmers' associations to improve their marketing potential. These initiatives will be replicated and up-scaled in the remaining CEN countries. In this context, development of the rural financial sector, by working with both member-based organizations and commercial banks, will become a central element of the strategy for this sub-region.

45. In these regions, the higher IFAD work programme in the Seventh Replenishment period will allow a total work programme (loans and grants) of about USD 285 million, with USD 86 million in 2007, USD 95 million in 2008, and USD 104 million in 2009.

Latin America and the Caribbean

46. Poverty reduction continues to be one of the major challenges facing the Latin America and the Caribbean region, particularly in rural areas, where 64% of the population live below the poverty line. To tackle the region's challenges, IFAD will build its operations around four major pillars: (i) development of social capital; (ii) taking advantage of market opportunities; (iii) promoting policy dialogue; and (iv) harmonisation of investments.

47. The formation of social capital will focus on ensuring the participation of the most marginalised groups in community based initiatives: (i) indigenous groups who represent the largest group of rural poor in the region. IFAD would also develop innovative approaches for including afro-latino in its operations; (ii) women, through mainstreaming the gender approach in all activities. A further regional programme to this end will be developed; and (iii) the rural young, whose perspectives and initiatives will be supported by IFAD operations.

48. IFAD will continue developing cost-effective ways to support farmers to access markets, both for selling their produce and for purchasing productive assets. Regional emphasis will be placed on the development of comprehensive productive chains, in line with private sector development and sustainable rural finance services. New methods of improving market access will be explored with specialised ICT organisations.

49. In view of the region's undermined institutional structures, policy dialogue will further national institution-building. Activities for supporting national policy development in favour of the rural poor will draw on project experience and ensure the participation of: (i) IFAD project beneficiary group representatives; (ii) representatives of legitimate rural organisation movements; and (iii) project directors and specialists. Special attention will be granted to the increasingly important context of regional trade agreements, which offer opportunities but also introduce new challenges for small rural producers. For example, IFAD will continue supporting the livelihoods of producers in countries of the MERCOSUR, and will give high priority to following effects of CAFTA. Decentralisation of public instances will be encouraged and assisted.

50. IFAD will seek to further the goal of the Paris Declaration on Aid Effectiveness through harmonisation of investments in the region. Coordination and cooperation with other aid agencies in the region is already operational and will be reinforced, especially with the World Bank and the Inter-American Development Bank.

51. The higher work programme in 2007-2009 will allow loans and grants in the Latin America and Caribbean region totalling USD 307 million with USD 93 million in 2007, USD 102 million in 2008 and USD 112 million in 2009.

