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INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Consultation on the Seventh Replenishment of IFAD's Resources – Fourth Session
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IFAD'S CONTRIBUTION TO REACHING THE MILLENNIUM DEVELOPMENT GOALS:
REPORT OF THE CONSULTATION ON THE SEVENTH REPLENISHMENT
OF IFAD'S RESOURCES (2007-2009)

DRAFT

1.   At its Third Session, the Consultation on the Seventh Replenishment of IFAD's Resources reviewed a draft outline of the Consultation Report as contained in document REPL.VII/3/R.7.

2.   The Consultation is now invited to consider the attached first draft of the Consultation Report, which is based on the draft outline reviewed, the suggestions made during the review, and preliminary discussions that took place during previous sessions.

3.   The Consultation is reminded that this draft report constitutes a work in progress and reflects the current stage of the Consultation's discussions. The report will be further developed to take into account the Consultation's deliberations at its October session.

4.   Finally, the Consultation is invited to note that IFAD's Action Plan for Management's Response to the Independent External Evaluation (IEE) of IFAD was reviewed by the Fund's Executive Board at its Eighty-Fifth Session in September 2005 (document EB 2005/85/R.6). The document has been made available to the Members of the Consultation. The Seventh Replenishment (IFAD VII) Plan of Action would include the decisions taken by the Consultation as well as appropriate elements of IFAD's action plan. In this context a presentation will be made to the Consultation on the road map for the implementation of the action plan.

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ABBREVIATIONS AND ACRONYMS

ARRI	Annual Report on Results and Impact
COSOP	country strategic opportunities paper
CPM	country programme manager
CPMT	country programme management team
ICSC	International Civil Service Commission
IEE	Independent External Evaluation
IFI	international financial institution
MDG	Millennium Development Goal
PBAS	performance-based allocation system

I. INTRODUCTION

1.   The purpose of this report is to record the decisions and directions provided by the Consultation on the Seventh Replenishment of IFAD's Resources to guide IFAD during the Seventh Replenishment period (2007-2009), including the level of resources needed to finance IFAD's work programme during the period. The Consultation's deliberations were conducted against the backdrop of the international commitment to achieve the Millennium Development Goals (MDGs) and of IFAD's evolving focus, role and comparative advantage in the global poverty reduction effort.

2.   This paper summarizes the Consultation's conclusions with regard to the Fund's operating model, debt sustainability framework, fiduciary responsibilities, governance structure and role of its Executive Board. The report concludes with a recommendation to the Governing Council on a replenishment target of USD …. million to support an annual programme of work of USD …. million during the Seventh Replenishment period.

II. CONTEXT AND BACKGROUND

3.   Global wealth has gone through a period of robust expansion. Much of this growth has been spurred by rising global economic integration and trade. Increased integration underlines not only the economic interdependence of countries, but also their social and political interdependence – and the fact that peace and security depend on securing the basic economic and social conditions of life for everyone, everywhere.

4.   The adoption of the MDGs in September 2000 represented a clear affirmation of common goals – and a commitment to address urgently the conditions of poor peoples and countries that had not enjoyed the benefits of development and growth. Five years after the adoption of the MDGs, 1.1 billion people still live on an income of less than USD 1 per day – and 2.7 billion on less than USD 2 per day.

5.   The need to do more and to do it quicker is widely recognized among governments but also among ordinary citizens worldwide who are looking to their governments, as well as the United Nations and other multilateral organizations, for action. There has been a strong response in terms of domestic reform, commitments to raise official development assistance, reduction of the debt obligations of poor countries, increased replenishments of international financial institutions (IFIs), and major regional initiatives to give a thrust to achieving the MDGs.

6.   Progress towards achieving the MDGs has been uneven, and in some countries in sub-Saharan Africa there has even been retrogression. It is clear that achieving the MDGs will require not only greater but better-targeted support. Three quarters of the world's 1.1 billion extremely poor people live in rural areas and depend on agriculture and related activities for their livelihood. In many low-income countries, more rapid agricultural and rural development holds the key to achieving the MDGs. In sub-Saharan Africa, for example, it has been estimated that agriculture accounts for 30% of GDP, 40% of exports and 70% of employment. Yet agricultural development has not been the focus of major institutions at either the international or national levels. At the same time, where it has been pursued consistently by national governments, the dividends in terms of rural and national poverty reduction have been substantial. Vigorous support for agricultural and rural development in which the poor can fully participate and benefit must be a central priority for reaching the MDGs. World leaders at the United Nations summit held in September 2005 reiterated their commitment in this regard stating, "We reaffirm that food security and rural and agricultural development must be adequately and urgently addressed in the context of national development…We deem it necessary to increase productive investment in rural and agricultural development to achieve food security."[1]

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[1]   Draft outcome document of the High-level Plenary Meeting of the General Assembly of September 2005 (document A/59/L.70, paragraph 46).

7.   Rural poor people in developing countries face specific and severe obstacles in their efforts to improve their livelihoods. Sustained progress can be made only if these constraints are addressed and overcome. Women, indigenous peoples and other marginalized groups are often especially disadvantaged because of exclusion processes. Overcoming these is vital for the rural poverty reduction effort. Economic development and poverty reduction approaches must address these special problems if the rural poor are to be able to increase their productivity, output and incomes, and work their way out of poverty.

III. IFAD'S ROLE AND FOCUS

8.   IFAD's founders gave it a specific mandate: to increase food production in the poorest food-deficit countries, improve the nutritional level of the poorest populations in developing countries and improve the conditions of their lives. Thus three themes – agricultural development, food security and poverty eradication in rural areas – form the basis of the Fund's operations. IFAD's target group consists of smallholder farmers, poor herders, artisanal fishers, the landless, indigenous peoples and other marginalized groups and, cutting across all these, rural poor women. These groups represent the bulk of the poor, often the poorest of the poor. The Fund uses the reference of national poverty lines and the dollar-a-day level to target its operations on the poorest. Its key aim is to enable the rural poor to overcome poverty and achieve food security, the latter either by growing more food themselves or earning income to acquire adequate food. IFAD is not a relief agency but rather an institution supporting greater production by the poor to promote more rapid growth and development in rural areas.

9.   Responding to different agroecological, social, economic and institutional conditions, IFAD has supported a variety of interventions in pursuit of its mandate. The Fund works with the rural poor seeing them as partners – i.e. the subject rather than the object of development – and seeks to create conditions in which the rural poor can be the main actors in overcoming poverty and hunger. Fund-supported projects and programmes are community-based, formulated with a careful consideration of the potential opportunities and constraints that affect its target groups. They are demand-driven, responding to the poor's view of their technical, financial and institutional needs and priorities. They seek to help the poor, especially women, to organize themselves in self-help groups and similar community-level associations, enabling them to deal with officials, market agents, bank staff and others on fairer terms and to articulate their needs more effectively. IFAD's experience has consistently shown that, whenever given the opportunity, the rural poor have the capacity and skills to raise their productivity significantly and sustainably.

10.   The recent Independent External Evaluation (IEE) of IFAD noted that the Fund's "mandate continues to be relevant and it is further legitimised by the importance recent progress reports on the MDGs attach to the development of the rural sector. Indeed the problem that IFAD was created to tackle continues."

11.   In supporting the productive capacities of very poor rural people, IFAD complements the larger IFIs that finance sector programmes and large-scale infrastructure development. IFAD-supported projects often finance small-scale infrastructure, feeder roads to link villages to main roads, small-scale water control schemes and tertiary canals to give poor farmers access to irrigation systems. At the same time, these projects that help the rural poor to raise their productivity and incomes benefit from and contribute to the sustainability of social-sector programmes of other United Nations agencies and IFIs. In the United Nations organizations, IFAD has an especially strong and mutually supportive partnership with the other two Rome-based agencies, with the Food and Agriculture Organization of the United Nations (FAO) providing technical expertise in food security and agricultural development, the World Food Programme (WFP) providing food aid and emergency relief, and IFAD providing financing for rural poverty eradication and food security.

12.   Rural production and income issues faced by people living in extreme poverty vary among countries and regions. Central among these issues are: secure and adequate access to land and water and sustainable management of the natural resource base; access to financial services for credit and savings, and increasingly for micro-insurance; effective and equitable access to markets for their produce as well as for the inputs and services they require; and access to information and technology relevant to their conditions.

13.   These are the issues that IFAD-supported projects address. IFAD has a portfolio of about 200 ongoing projects and programmes with a total investment cost of USD 6.3 billion, of which IFAD has provided financing for USD 2.9 billion. These projects are reaching about 100 million poor women and men. Currently, IFAD's programme of work of USD 500 million finances projects with an investment cost of about USD 1 billion, reaching more than an additional 10 million people a year.

14.   In some countries, especially in sub-Saharan Africa, IFAD is one of the largest sources of assistance for agricultural development. Elsewhere, it focuses on specific sectors and themes. In both cases, major elements of IFAD programmes include microfinance and microenterprise development; access and title to land; water, crop and rangeland management; combating desertification; agricultural research and extension; and enhancing market access and commodity value chains. Strengthening appropriate institutions to become more responsive to poor producers is a cross-cutting element.

15.   IFAD's comparative advantage is to develop innovative modalities to focus support in these areas for smallholder farmers and other poor rural groups with core priority given to reaching rural poor women. Such innovations are then mainstreamed within the institution and sought to be replicated and scaled up in collaboration with the host government and development partners. Special efforts are made to reach indigenous peoples and other marginalized groups who, for lack of physical or institutional access, have benefited little from development processes. Sometimes these groups are at the physical margins, in remote, degraded and resource-poor areas, often under the shadow of hunger and conflict. Elsewhere, they may be at the social and economic margins of areas with high physical potential. The Fund's targeting mechanisms are based on income and asset levels, household surveys and identification through community-level consultations. Self-targeting is another effective modality in which particular activities and crops most relevant to the target groups are selected.

16.   IFAD focuses on poverty and food security as experienced by rural poor people and promotes solutions relevant to their interests and capabilities. In this regard, apart from helping rural poor households directly, IFAD also helps strengthen local organizations and associations of the poor that can play a vital role in linking poor producers and consumers to larger economic and social systems of finance, marketing and technology supply. Such organizations range from farmer, water user, and herder associations to marketing and credit groups.

17.   Farmers' organizations are one of many partnerships IFAD has developed in supporting poverty reduction programmes. In fact, IFAD's modus operandi is based on partnerships – with governments with whom the Fund formulates projects, with the public institutions that implement them, with civil society organizations, with financial institutions and with the private-sector entities involved in them. IFAD has also established partnerships with a variety of research and development institutions at the country, regional and global level, including, for example, international research centres supported by the Consultative Group on International Agricultural Research (CGIAR) with whom IFAD has long-standing partnerships. But within the "specificity" of IFAD, the most important of its partnerships is with the rural poor themselves.

18.   Sustainable rural poverty reduction must be based on the efforts of the rural poor. It cannot be delivered by IFAD or other outside agencies. The Fund's role is to strengthen the capacities of these

poor producers and the institutions relevant to their needs at the local and national levels, and to help them develop linkages with larger market agents and private-sector entities. Indicators of progress of these efforts are simple: less poverty and vulnerability, more food security and better nutrition in rural areas; more active participation by rural poor people in development processes with a stronger voice in decision-making; and programmes and policies that make a significant difference to their ability to raise incomes and build food security.

19.   Fund-supported projects have always been owned by the borrowing country and implemented by its institutions. Thus it is natural that IFAD operations are consistent with the performance indicators for harmonization and alignment expressed in the Paris Declaration. The Fund, in developing its country strategy seeks to align the country strategic opportunities paper (COSOP) for the country with the Poverty Reduction Strategy Paper (PRSP), sector-wide approaches (SWAps), where these are applicable in terms of IFAD's policy on SWAps, and other national poverty strategies and programmes. Projects financed by IFAD are fully incorporated within the national budget framework. Building on the lessons of its own projects and the experience of its development partners, IFAD is strengthening its systems to capture, validate and disseminate the knowledge gained to mainstream it in wider country poverty-reduction policies and programmes. The aim in this regard is for IFAD to become a key source of knowledge about rural poverty reduction and to promote national and regional capacities to support a mutually reinforcing process of understanding and addressing rural poverty.

20.   More rapid agricultural and rural development and poverty eradication require additional resources to implement, on a growing scale, new and effective operational and policy approaches. Innovative approaches to address the constraints that hold back the productivity of the poor are needed to enhance the impact of greater investment on rural poverty. At the same time, unless substantially larger investments, both domestic and external, are made in the rural sector, there will not be enough impact on poverty to achieve the MDGs. IFAD is well placed with its 27 years of ground-level poverty experience to make these two parts – more resources and more effective and innovative approaches to overcome rural poverty and hunger – mutually reinforcing.

IV. IFAD'S NEW OPERATING MODEL

21.   IFAD was established in 1977 and adopted an operating model common to all IFIs. What distinguished IFAD was its mandate: an exclusive focus on agriculture and rural poverty reduction. However, the overall system of development initiatives and assistance has changed considerably since then, and IFAD's added-value now lies in: developing new, country-specific approaches to the concrete obstacles that rural poor people face as agricultural (and agriculture-related) producers and income earners; promoting the integration of these approaches into adequately resourced national policies, strategies and programmes; and fostering capacities and partnerships to ensure that these approaches build on country-level priorities and understandings, especially those of rural poor people, including women and minority groups.

22.   The current imperative that assistance be based upon specific and varying country conditions and at the same time oriented to national priorities and processes, coupled with the evolution of IFAD's role and focus, does not lead IFAD into completely new areas. Nonetheless, taken together, the new directions represent a qualitative turn that must be supported by a revised operating model that is suited to task.

A. Emerging Features of a New Operating Model

23.   The IEE underscored the need for the new operating model to embrace: a country programmatic approach; sharpened strategic selectivity reflecting IFAD's focus and role; improved innovation performance; enhanced quality assurance and quality control; institutionalized knowledge

management; systematic linkages to policy change and the scaling up of processes; and broader partnerships in all areas of work.

24.   This should be achieved through an operating model that is based on a stronger country presence with a differentiated approach tailored to the size, nature and status of the country programme, and on a more hands-on approach by IFAD in the context of supervision and implementation support, broader inclusion of stakeholders (in-house and in-country) within country programme management teams, and a stronger results management framework driven by horizontal accountability.

B. Objectives of the New Operating Model

25.   IFAD's new operating model will address five main objectives:

(a)   **Improving the effectiveness of IFAD's contribution to development results in the area of rural poverty.** IFAD must improve its **organizational** performance and use its resources more effectively, striving for greater and more sustainable development results. Its institutional objectives must be consistent with country priorities. Its operations must be well targeted and lead more systematically to replication or scaling up by the government through strategic partnerships at the outset of project/country programme design.

(b)   **Improving IFAD's ability to account for and demonstrate development results.** IFAD has to be able to demonstrate concrete results on a more systematic and comprehensive basis. It should develop better mechanisms for planning and setting priorities, managing for results, and measuring performance to achieve impact. This includes new and improved ways of managing staff resources, developing and managing partnerships, and working with governments.

(c)   **Becoming a learning organization.** IFAD needs to improve its ability to generate and share knowledge about rural poverty reduction It must successfully innovate in its well-defined niche, testing and piloting new approaches for rural poverty reduction, while identifying policies in need of change and advocating for these changes.

(d)   **Improving IFAD's ability to contribute to the advancement of the global development agenda.** Drawing on the knowledge gained through its **innovative** operations and strategic partnerships, IFAD must play a larger, but focused and targeted, role in global dialogue and become a more vocal supporter of the rural poor in partnership with others.

(e)   **Improving IFAD's country interface.** In a context in which **developing** country governments have taken ownership of the development agenda and most development agencies have decentralized their operations, the "centre of gravity" of IFAD's operations needs to be brought closer to country realities.

26.   To pursue these objectives better, the new operating model will entail significant changes in IFAD under the headings of: **country programme approach; country programme cycle;** and **country programme management team with country presence.**

C. Country Programme Approach

27.   IFAD staff no longer manage simple processes and projects. And such new complex processes need to be managed for multiple results. The range of products and services offered by IFAD in any

country are diverse and need to be mutually supportive: a concept commonly defined as a **country programme**.

28.   Within this approach, projects funded by loans and grants remain central. They may arise as a result of a specific policy development or they may result from an innovative learning product.

29.   The country programme will be developed and delivered through partnerships, most critically with governments, organizations of the rural poor and development agencies, but also with **service providers** such as cooperating institutions and centres of excellence.

30.   With an eye to delivering an enhanced range of products and responding to the recommendations of the IEE, IFAD should **improve essential features of design on which successful implementation depends**. Design should become more of a management tool for implementation, with greater focus on concrete implementation aspects developed with in-country stakeholders. The linkage to strengthened **quality assurance** is essential and should be extended to include not just the design process but also all other implementation processes, such as supervision, annual programme planning and mid-term review.

31.   **Key principles for the country programme approach**. The country programme approach is underpinned by the following key principles:

(a)   **Country leadership and working in partnership with others.** The country programme approach entails working within the country – with development partners – in defining the country's strategic framework for rural poverty reduction. A vital role for IFAD under this approach is to ensure and support the participation of rural poor organizations – together with civil society and the private sector – and to establish true partnerships with them.

(b)   **Strategic alignment of IFAD's goals and priorities at the corporate, regional and country levels.** Under the new operating model, IFAD's new strategic results framework for the period 2007-2009 should provide clear and focused strategic directions for the definition of regional and country-level strategies.[2]

(c)   **Innovation leading to replication and scaling up.** The focus on innovation should be strengthened to increase potential for replication and scaling up. To the extent possible, innovative projects should be planned from the outset with the participation of prospective cofinancing partners.

(d)   **Pro-poor policy development and dialogue.** A country programme should contribute to changing policies that create an enabling environment for sustained poverty reduction. A country programme should: (i) identify key policies, laws and regulations constraining the rural poor in their pursuit of sustainable improvement in their livelihoods; and (ii) define and promote a credible process that can lead to positive change – typically through some sort of partnership arrangement.

The requirement to engage in policy dialogue does not represent an arbitrary or significant "addition" to established country programme activities or "project work", but

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[2]   The issue here is not an attempt by IFAD to predetermine what it will seek to achieve at the country level, for its operations must respond to specific country conditions and priorities. The strategic framework defines the areas in which IFAD will seek to build up its comparative advantage (its focus and role), and in which it will have special expertise and knowledge to offer in support of the national rural development strategy.

rather is a way to provide systematic attention to policy issues bearing on the programme and its objectives.

Under the new operating model, the performance-based allocation system (PBAS) should be used as an entry point for identifying key policy areas in need of reform or improvement and for initiating an informed policy dialogue with the government concerned. Policy performance assessments (e.g. the rural sector performance assessment of the PBAS, the country strategic opportunities paper [COSOP] and the respective regional strategy) should be made fully consistent with one another.

(e) **Flexible products and services.** Depending on the country-specific conditions and IFAD's experience in the country, pre-investment activities may be required before loans are provided or they may be implemented in parallel to loans. Pre-investment activities may include, for example, the establishment of innovative partnerships or grant financing for specific initiatives. In countries with more conducive environments or where IFAD has greater experience, a more comprehensive set of products and services may be offered.

(f) **Partnerships and networking.** To improve country programmes and empower rural people, IFAD needs to develop a more effective partnership and networking system as part of its operating model. This includes different types of partnerships, ranging from local and context-specific initiatives at the community level to country programmes, policies and strategies at the national, regional and global levels.

D. Country Programme Cycle

32.   In order to implement the country programme approach, a new country programme cycle will need to be defined. The main changes required would be:

(a) **Results-oriented COSOP.** The development of a country programme strategy should be linked to a country's strategic framework process (poverty reduction strategy programme or similar) and articulated within a **results-oriented COSOP,** which is central to guiding the country programme in the medium term and measuring its effectiveness in collaboration with the country's government and other partners.

The results-oriented COSOP should: clearly outline the policy, learning and partnership agenda; contain performance-based scenarios for development of the country programme; and be supported by a country programme results management framework, which should spell out multi-annual and annual performance targets, resource requirements and a set of performance indicators.

(b) **Results management framework.** The country programme results management framework should be the basis for an upward cascade of accountability for results, from the country programme to the regional and corporate level. The **managing-for-results approach** is a three-tier framework[3] that integrates planning, managing and reporting for results as follows:

(i) **Planning for results.** Under the new operating model, the new strategic results framework for the period 2007-2009 should be the starting point of an essentially **iterative** planning process that extends to the country programme level. It should

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[3]   See Framework for a Results Management System for IFAD-Supported Country Programmes (document EB 2003/80/R.6/Rev.1).

provide strategic directions for regional and country strategic plans and an effective filter for country programme selectivity.

(ii) **Managing for results.** The managing-for-results approach aims at promoting accountability for results and learning. At all levels, strategic planning documents are translated into programmatic documents (e.g. annual programme of work and budget) that include specific annual qualitative and quantitative targets, performance indicators and budget items, which serve as a basis for monitoring organizational and development effectiveness.

(iii) **Accounting for results.** This function will be fulfilled through self-reporting on the achievement of development results through the preparation of annual reports on organizational development effectiveness. Complementary to this, the Office of Evaluation will report on outcomes of selected country programmes and on regional and thematic evaluation processes in its Annual Report on Results and Impact (ARRI). These combined efforts will embody the institutional accountability for development effectiveness and enhance institutional learning in order to improve the performance of future operations and policies.

(c) **Programme supervision.** Arrangements for supervision should be better integrated within a comprehensive country programme context, and the accountability framework should be tightened.

Capitalizing on the lessons learned from current supervision arrangements and practices, and drawing on conclusions of recent corporate supervision evaluations, future IFAD supervision arrangements should be based on a differentiated approach that responds to country- and programme-specific requirements and situations. The concept of supervision as a continuum of operationally linked key tasks consists of supervision of fiduciary elements and supervision of programme/project implementation.

(d) **Learning, knowledge-sharing and quality assurance.** Learning is a fundamental dimension of the country programme. A learning agenda should be defined from the stage of COSOP development, in close cooperation with the government and other partners, and should be enriched throughout the country programme cycle.

IFAD should develop further and draw heavily on knowledge partnerships to catalyse knowledge development on rural poverty reduction (at all three levels). In synthesis, this should achieve the "outward-oriented, network-based approach to knowledge management" highlighted in the IFAD management response to the IEE.

The independent Office of Evaluation is an integral part of this corporate learning system through the ARRI and all the other evaluation products (e.g. the country programme evaluations and their respective agreements at completion point).

Existing quality control and assurance approaches will be reviewed and strengthened, and attention will be paid to enhancing country programme-related technical advisory functions and backstopping during the design and implementation phases of the programme cycle.

Quality assurance for design should be integrated with in-country processes and supported by lessons learned from country programmes to improve future design and implementation. Policies, Learning Notes and procedures should be developed on the basis of knowledge and experience from country programmes.

Quality assurance for better implementation support may be achieved by: linking more proactively with key in-country partners through strategic partnerships, country presence, and project development and implementation partnerships; redefining the role of cooperating institutions and supervision; incorporating more and better "learning" features in country programmes, project monitoring and evaluation, portfolio management (self-evaluation), the Results and Impact Management System (RIMS) and associated knowledge management; and increasing participation by IFAD headquarters and field staff during key redesign points.

(e) A **new accountability framework** can be defined as an understanding among all partners in programme delivery as to what they aim to achieve, how they will work together to achieve it and how they will measure and report on outcomes. It should rest on a set of guiding principles, including openness and transparency, consistency, comparability and comprehensiveness. It should generally consist of: a clear articulation of the institution's mission, objectives and expected measurable results in a coherent hierarchical order; appropriate staff capabilities to ensure accountability, adequate monitoring and quality assurance measures at entry and during implementation; and a clear definition of roles and responsibilities with the corresponding authority.

Within IFAD's corporate structure, corporate-level accountability (self-evaluation) should be linked coherently with departmental, divisional and staff accountability and ultimately accountability at the country programme level. IFAD's corporate accountability framework will also include the function of independent evaluation by the Office of Evaluation that encompasses not only country programme and IFAD's performance but also that of borrowers and cooperating institutions. It will equally include IFAD's disclosure and oversight policies.

E. Country Programme Management Team and Country Presence

33. **Country programme management team.** A complex country programme cannot be offered cost-effectively and at the quality required by an individual country programme manager (CPM) or by the current, limited project development team. Moreover, this would also be undesirable from the perspective of ownership, partnership and scaling up.

34. Such wide-ranging programme activities as policy dialogue, innovation, learning, results and impact management, quality assurance and loan administration require IFAD to harness all relevant capabilities and roles into a country programme management team (CPMT). The point of gravity must be in-country, centred on key local stakeholders and partners (the "virtual IFAD"), proactively supported by service providers and headquarters-based resource teams – and managed by the CPM. The composition of the CPMT will vary at different points in time, reflecting both the country-specific context and the country programme cycle.

35. The main functions to be fulfilled by the CPMT include: strategic and programmatic planning; loan and grant administration; implementation; evaluation; learning; knowledge-sharing; fostering scaling up and replication; and advocating policy changes.

36. **Enhanced country presence.** As strongly suggested by the IEE, to improve its performance, IFAD must address one of the fundamental areas of weakness in the way it operates: **the headquarters-to-field relationship**. IFAD's current organizational structure – heavily centralized with no systematic, in-country representation – represents a serious bottleneck for IFAD's future efforts to improve its development effectiveness, establish strategic partnerships and improve policy impact. For IFAD to deliver more effectively, it must be closer to its key stakeholders and partners.

37. The rationale for an expanded country presence was presented in detail in the Field Presence Pilot Programme paper (document EB 2003/80/R.4). Improving IFAD's country presence means first and foremost moving away from the current consultant-mission engagement model and delegating responsibilities, authority and resources to an in-country structure in an enhanced country-presence mode. The country presence may be further strengthened by a regional presence, rooted in thematic programmes (e.g. the Latin America and Caribbean experience) financed by IFAD through strategic partnerships with centres of excellence.

38. The challenge for IFAD lies in how to enhance the in-country element of its country programme management in a cost-effective manner, while also ensuring participation of the rural poor and their organizations, securing ownership of the strategy and the programme by country authorities, working in effective partnership with other in-country stakeholders, maintaining a strategic alliance with service providers (e.g. cooperating institutions), and promoting accountability for results by country team members located inside and outside the country.

39. IFAD should have options for country presence. The intention would be for a norm of **limited decentralization**, with more extensive decentralization in a much smaller number of countries where it is warranted. Field staff would normally be recruited locally. The country-based CPM could, on an exceptional basis, be part of an enhanced country presence option in countries with large country programmes or where the CPM manages several countries with complex portfolios.

F. Implementation of the New Operating Model

40. The new operating model should be developed within a holistic approach to change. However, the changes will be implemented through a phased delivery approach, mainstreaming critical elements but tailored to the specific characteristics of a country programme. It would not be effective to adopt a one-size-fits-all approach.

41. The implementation of the new operating model will require additional and adequate levels of financial, human and management resources. It will also require a comprehensive human resources management agenda that encompasses new competencies, a new accountability management framework, career development, incentive systems, proactive human resources management, and improved management skills for all managers. IFAD needs to continuously develop organizational capability, improve performance by empowering staff, reward risk-taking and innovation, and invest in continuous improvement through sharing and training (see section V, below).

V. DEBT SUSTAINABILITY AND NON-REPAYABLE ASSISTANCE

42. *This section will be drafted once the Consultation has completed its consideration of document REPL.VII/4/R.3 – Debt Sustainability and Non-Repayable Assistance: Adoption of a Debt Sustainability Framework for IFAD.*

VI. HUMAN RESOURCES MANAGEMENT

A. Ongoing Reform

43. IFAD's staff represents a unique asset in terms of experience with the design and implementation of projects and programmes and of policies and partnerships for effective rural poverty reduction within the framework of IFAD's evolving role and focus. It is imperative that this asset be strengthened, managed and motivated to support IFAD's development effectiveness −

especially with regard to new roles and responsibilities arising from the further elaboration of the Fund's role and focus and the adoption of the new operating model.

44.   In 2001 IFAD established an internal review committee to look at modernizing its human resources (HR) policy and procedures with the objective of proposing a modern, clear and transparent set of rules, policies and procedures to support achievement of the Fund's overall objectives. The committee was mandated to review four distinct areas of HR policy and procedures: recruitment; career development; performance evaluation; and recourse and appeals. It concluded that the modernization of HR practices should be organized along three lines of thrust: (i) developing a dynamic and strategic HR function; (ii) modernizing HR policies and procedures; and (iii) enhancing the quality and leadership capacity of managers. Given the many changes experienced by staff over the past decade, an incremental approach was taken to implementing the reforms recommended by the committee.

45.   The following actions have already been taken or are currently ongoing to address these three thrusts:

(a)   **Developing a dynamic and strategic HR function** to facilitate strategy implementation and provide policy advice to senior management on recruitment, induction, performance management, training and development, and disciplinary matters by:

(i)   building strategic competencies and coaching HR professionals to align and focus behaviour to strategy;

(ii)   reducing the administrative transactions processed by the Office of Human Resources in order to free up time to perform the strategic role. This will be done by automating HR subsystem processes for work flow, performance management, competency inventory and the leave management system and by simplifying processes; and

(iii)   rotating staff in the Office of Human Resources.

Results will be measured in terms of: process efficiency and effectiveness; service satisfaction by staff; ease of working; and enhancement of the image and reputation of the Office of Human Resources.

(b)   **Modernizing HR policies and procedures** to provide equitable, consistent and transparent procedures for selecting, managing, retaining, developing and separating staff, specifically:

(i)   the Executive Board approved IFAD's Human Resources Policy in September 2004;

(ii)   IFAD's new human resources procedures went into effect in July 2005; and

(iii)   implementation of the policy and procedures, as part of the transformation process to the corporate culture, will be a continuous process.

Results will be measured in terms of: enhanced efficiency and increased productivity; pleasant and enabling working environment; work-life balance considerations; and ability to attract and retain the right staff.

(c)   **Managing a sound recruitment process** to obtain at minimum cost the number and quality of staff required to satisfy IFAD's needs, through:

    (i)   recruitment policy and procedures being finalized in 2004/05; and

    (ii)   16 staff members already trained in targeted selection interviewer skills, and plans are to train more so as to create a large pool of interviewers.

Results will be measured in terms of the ability to have the right quality of staff at the right time.

(d)   **Creating, managing and monitoring a career development system for all staff** in order to develop highly competent staff that will readily achieve objectives and maximize the contribution to IFAD's development impact.

A management competency framework has been developed for IFAD. The competencies covered include: recruitment and selection, and performance management. Work is under way to design, develop and implement an IFAD-wide training programme in all competencies.

Results will be measured in terms of: improved organizational competencies and positive growth in IFAD capabilities; the value, motivation and contribution of staff thanks to career progression, recognition and self-esteem; and use of competencies in all HR applications.

(e)   **Managing a sound recourse and appeals procedure** to maintain cordial staff relations and minimize disputes. A backlog of 18 cases in 2000 is being resolved in 2004/05. Results will be measured in terms of: number of disputes reported; staff satisfaction levels; and time taken to resolve disputes/grievances.

(f)   **Performance-based evaluation for all staff** in order to evaluate the collective performance of all staff, provide feedback, foster staff development and assess the extent to which IFAD has achieved set objectives and, hence, its impact. Specifically:

    (i)   in 2004, all staff participated in performance management workshops on setting SMART objectives (i.e. **s**pecific, **m**easurable, **a**chievable, **r**elevant and **t**imely) conducting an effective appraisal, and providing and receiving feedback;

    (ii)   a new performance management guide was issued in December 2004;

    (iii)   performance management tools would be enhanced by creating a separate intranet site for performance management by the end of 2005;

    (iv)   a client feedback mechanism is being developed as part of the staff evaluation process; and

    (v)   key performance indicators are being defined as the workload analysis is being conducted.

Results will be measured in terms of: increase in response rate of appraisals; performance rating distribution; perceived fairness of performance ratings; adequacy of performance feedback and communication of expectations; linkage of individual plans to strategic objectives; and trust in supervisors.

(g) **Pilot study** to modernize the pay and reward system and thus create incentives for high performers, through:

(i) the new job classification tool adopted and in use since January 2004;

(ii) definition of job descriptions in the new format, which is in progress;

(iii) the first issue of the staff survey of the International Civil Service Commission (ICSC), which was completed in January 2005; and

(iv) implementation of broad-banded pay scales.

Results will be measured in terms of: perceived fairness of the classification methodology; ease of use of the new system; staff perception of supervision quality; pay-performance correlations; pay progression by performance rating; and turnover by performance rating.

(h) **Enhancing the quality and leadership capacity of managers** in order to develop managerial capability for effective HR management so as to maximize the contribution of IFAD staff to the organization's development impact.

The three Rome-based United Nations agencies have established a common management development centre to build managerial competencies of their staff (with initial assistance from the Department for International Development of the United Kingdom of Great Britain and Northern Ireland). The centre's objectives are to: assess staff competency levels; determine staff development needs; plan and implement the relevant development; and facilitate the building of a more effective management style. Coaching will be provided to all managers so as to improve their approach to addressing complex managerial situations.

Results will be measured in terms of: perceived accountability and supervision quality of managers by staff; and trust in supervisors.

B. Conducting a Workload Analysis to Determine Optimum Staffing and Consultant Levels

46. Determining the optimum volume and structure of resources is critical to supporting the implementation of the new operating model and process redesign to eliminate waste and non-value-adding activities. It will also play a large part in the budgeting and management of human resources. Workload analysis consists of an independent analysis of work to: confirm that it needs to be done to fulfil the objectives of IFAD; identify what changes have occurred since the last analysis; see that the organizational structure in which the work is done is conducive to its most efficient and economical performance; check that staff and consultant numbers, grades and levels of responsibility are correctly related to the needs of the work; and help managers to improve their organization and work methods by advising them from a basis of experience. The work will involve the following steps:

(a) Communicate the intention to conduct a workload analysis to all staff, including the level of staff involvement entailed, work involved, who the analysts will be and the expected outcomes.

(b) Train the analysts.

(c) Conduct a desk-top review of the Strategic Framework 2002-2006; *The Way Forward*; the country programme approach; organization chart; staff list; existing complement by grade, current strength and proposed increases or reductions.

(d) Collect comparative information from other IFIs.

(e) Design a questionnaire to be completed by staff, recording responsibilities, reporting relationships, fluctuations of work, overtime worked, duplications, measures of work and current targets, and any suggestions on how to improve efficiency.

(f) Conduct face-to-face interviews (by analysts) with job holders to obtain the most and best information about the post.

(g) Analyse data (to be done by the analysts) to establish: whether the work being carried out is within the terms of reference or essential; whether staff are working smarter not harder; simplicity; productivity; quality; speed; and whether the number of posts is appropriate to the workload.

(h) Discuss findings with managers and staff association members.

(i) Prepare a report and present it to senior management.

(j) Implement recommendations.

47. Documenting current processes develops team skills and supports process analysis, the results of which motivate team members to make fundamental changes in practices.

48. At completion of this analysis, the Fund will establish optimum staffing levels, formulate staffing norms, determine staff and consultant surpluses, and determine whether there is efficient pursuit of objectives.

C. Human Resources Management Structures and Systems to Support Implementation of the New Operating Model

49. Staff management structures play a crucial role in defining how effectively staff work together and influence momentum for change through formal and informal networks. IFAD will align its structure with the requirements of the new operating model specifically to ensure that: required outcomes are defined, outputs are redesigned, activities are determined and job responsibilities are defined; multi-skilled teams are supported; responsibilities and accountabilities are defined; responsibility and authority are well matched; and resources are allocated and organized according to the priorities. Progress in these areas will proceed pari passu with the fine-tuning of the new operating model itself, supported by the results of the workload analysis.

50. Achieving this will require the development of: job descriptions; policies and procedures to guide performance in the new processes; training in functional competencies to ensure staff know how to execute processes; effective planning processes (work, human resources and finance); budget management according to plan; timely and effective staff communication systems; forums for exchanging and sharing knowledge; proactive people and performance management by all managers; and awards, sanctions and reinforcement.

D. Building an Organizational Culture to Support the New Operating Model

51.   Aligning the organizational culture to the required behaviours, attitudes, norms and values is a major objective that IFAD will pursue during implementation of the new operating model: it will require continuous and full commitment from all staff.

52.   At the heart of this cultural transformation are the organization's policies, procedures and competencies. These are supported by the President's agenda, informal practices, teams, personal accountability, role modelling and physical symbols. HR management facilitates cultural transformation through talent management, performance management, role/job description, formal recognition and rewards. Many of these support pillars have already been established and now need to be institutionalized.

53.   The challenging complexity of the required changes will also necessitate a sustained process of cultural evolution that includes the following steps:

(a)   Inasmuch as a survey has already been conducted by independent external evaluators and by the ICSC for the pilot study, this process will not be repeated. The next step will be to involve staff in analysing the survey findings to produce a diagnosis of the cultural issues facing IFAD and foster their participation in the development of plans. Specific objectives for measuring success in achieving the desired organizational culture will be agreed with staff and senior management.

(b)   Staff will be involved through workshops to test aspects of the new culture.

(c)   Critical organizational culture influences will be modified or introduced by:

(i)   altering the staff composition through recruitment, selection and early retirement. Staff will be selected on the basis of their fit with the new organizational culture and provided with an induction clearly indicating required attitudes and behaviour;

(ii)   reorganizing to ensure that staff and managers with the required traits occupy positions of influence;

(iii)   communicating new organizational culture perspectives using one-to-one interviews, briefing groups, quality circles and internal newsletters; and

(iv)   using performance reward systems and sanctions, training and orientation, policies and procedures, and budgets to communicate reinforcement messages to shape the organizational culture.

54.   In implementing the above, IFAD's managers will be key players in ensuring success by assuming a visible commitment to guiding IFAD in the shift of its culture from a bureaucratic, administrative, entitlements-controlling and risk-averse culture to one that is more performance-driven, risk-oriented and responsive to change, less bureaucratic, and an effective contributor to the operation of the Fund.

E. Managing the Change

55.   IFAD will explicitly address the challenge of change management as a process of aligning IFAD's staff and culture with changes in strategy, systems and processes in order to achieve: ownership of and commitment to change; sustained and measurable improvement; and improved capacity to manage future change. It should specifically address the questions of how to: have staff

abide by the required changes; involve and motivate staff; manage communications; and ensure better planning of the change to avoid change overload and loss of focus. Key steps will include:

(a)   analysing what needs to be changed and why, thus establishing a vision for change and raising awareness and commitment;

(b)   carefully integrating all aspects of the change by ensuring linkage with an overall IFAD plan having clear milestones, timescales, definition of deliverables, responsibilities, confirmation of team leaders and quality assurance measures;

(c)   assessing the behavioural risk factors and planning change processes to overcome them (managing resistance, recruiting, realigning or releasing);

(d)   defining an effective communication plan;

(e)   establishing teams to involve staff actively in the change process by diagnosing problems and developing solutions;

(f)   implementing rigorous project management techniques and discipline in order to deliver the change programme on time, with quality and within budget; prioritizing change initiatives; and phasing the changes;

(g)   leading the change and offering role models for change leadership;

(h)   building skills, mindsets and motivations; and

(i)   appraising and rewarding performance by having annual objectives include change targets and clear performance measures.

56.   Critical success factors in managing staff include: treating staff fairly; focusing on culture change; providing quality training; realigning policy and procedures; and building teams after the change.

F. Associate Professional Officer Programme and Reinforcing the Diversity and Geographic Distribution of IFAD's Staff

57.   IFAD's Human Resources Policy recognizes the need for the Fund to secure the highest levels of competence, technical ability and integrity and it does so by hiring on the basis of competitive arrangements. The recruitment of professional staff is the result of selecting the individual judged to be the best person for the position, taking into account criteria of geographic distribution and gender balance. With respect to the latter, 44% of IFAD's professional staff were women as at 31 December 2004.

58.   Geographic distribution promotes diversity in ideas, an asset the Fund recognizes. It strives to ensure representation of as many nations as possible in the interest of universality, and is committed to approaching gender and geographical diversity in an explicit way to enhance innovation, creativity, problem-solving and more collaborative modes of working.

59.   With regard to geographic diversity, 41% of IFAD's professional staff and higher categories under the regular budget and 51% of consultants, extra-budgetary and Chapter X professional staff are from Member States that are not members of the Organisation for Economic Co-operation and Development (OECD). These percentages are currently higher than those at IFAD's sister agencies in Rome, and IFAD will soon have opportunities for wider geographic outreach. Twenty expected

retirements between 2005 and 2010 at the professional level will provide one such opportunity for IFAD to engage in proactive recruitment in this respect.

60.   *This section will be further elaborated once the Consultation has completed its consideration of document REPL.VII/4/R.9 – Associate Professional Officer Programme.*

VII. FIDUCIARY RESPONSIBILITIES

61.   Resources are provided to the Fund by its Member States for the sole purpose of furthering the Fund's mission: enabling the rural poor to overcome poverty. In this fiduciary capacity, IFAD is required by the Agreement Establishing IFAD "to ensure that the proceeds of any financing are used only for the purposes for which the financing was provided, with due attention to considerations of economy, efficiency and social equity". In investing its resources the Fund is required by Regulation VIII of the Financial Regulations of IFAD to "be guided by the paramount considerations of security and liquidity. Within these constraints the President shall seek the highest possible return in a non-speculative manner... ." Financial Regulation X further requires the President of IFAD to "establish detailed financial rules and procedures in order to ensure the effective financial administration and the exercise of economy [and] effective custody of the physical assets of the Fund" and to "establish and maintain appropriate internal financial control and audit systems". The Fund's effective discharge of its fundamental fiduciary responsibilities in safeguarding and using the resources placed at its disposal by the membership, as clarified and formalized in the referenced provisions of the Basic Documents is of fundamental importance and depends crucially on the effectiveness of its internal control framework and management of risk. These, in turn, should reflect the evolution of IFAD's work and the emerging standards of the international development system, of which IFAD is an integral part, as these relate to the management of assets and the effectiveness of their application.

62.   *Measures taken in recent years to strengthen IFAD's internal control framework and risk management systems are elaborated in document REPL.VII/4/R.5 – Management of Risk at IFAD. After the Consultation has reviewed these issues, its conclusions will be incorporated in this section.*

VIII. ROLE OF THE EXECUTIVE BOARD

63.   *This section will be drafted once the Consultation has completed its consideration of document REPL.VII/4/R.4 – Role of the Executive Board.*

IX. IFAD'S GOVERNANCE STRUCTURE

64.   *This section will incorporate the outcomes of the discussions organized by Convenors and Friends within the framework of the Consultation.*

X. PROGRAMME PRIORITIES AND FINANCING REQUIREMENTS FOR THE SEVENTH REPLENISHMENT PERIOD

65.   *This section will be drafted once the Consultation has completed its consideration of document REPL.VII/4/R.2 – Programme Priorities and Financing Requirements for the Seventh Replenishment Period (2007-2009).*

XI. RECOMMENDATION

66.   The Consultation on the Seventh Replenishment of IFAD's Resources (2007-2009) recommends to the Governing Council that it adopt the draft resolution attached as Annex I to this report.

DRAFT RESOLUTION ON THE SEVENTH REPLENISHMENT
OF IFAD'S RESOURCES

To be inserted at a later stage, upon completion of the discussion of document REPL.VII/4/R.7/Add.1.

IFAD VII PLAN OF ACTION (2007-2009)

To be inserted at a later stage, upon completion of the Consultation's deliberations.

ANNEX III

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

(Definitive listing to be compiled once the report is finalized; the following list comprises only that documentation presented to the first three sessions of the Consultation)

Consultation Documents:

Document No.	Title
REPL.VII/1/R.2	Sessions and Workplan of the Consultation on the Seventh Replenishment of IFAD's Resources
REPL.VII/1/INF.2	Closing Statement by the Chairman
REPL.VII/2/R.2	The Way Forward
REPL.VII/2/R.3	Asset Liability Management Framework
REPL.VII/2/C.R.P.1	Proposals of Lists B and C
REPL.VII/2/C.R.P.2	List of Issues Resulting from the Second Session of the Consultation on the Seventh Replenishment of IFAD's Resources
REPL.VII/2/INF.2	IFAD VI Objectives, Actions and Outputs
REPL.VII/2/INF.4	Closing Statement by the Chairman
REPL.VII/3/R.2	Rural Poverty Reduction: IFAD's Role and Focus
REPL.VII/3/R.3	Overall Structure and Components of IFAD's Operating Model
REPL.VII/3/R.4	Geographic Distribution of IFAD Staff and Enhanced Associate Professional Officer Programme
REPL.VII/3/R.5	Information Paper – Grants and Debt Sustainability
REPL.VII/3/R.6	Voting Rights of Member States and Membership of the Executive Board
REPL.VII/3/C.R.P.1	Voting Rights of Member States and Membership of the Executive Board – Proposal of Lists B and C
REPL.VII/3/R.7	Consultation Report – Draft Outline
REPL.VII/3/INF.2	Human Resources Management
REPL.VII/3/INF.4/Rev.1	Closing Statement by President Båge to the Third Session of the Consultation on the Seventh Replenishment of IFAD's Resources

Reference Documents:

Document No.	Title
EB 2005/84/R.2[1]	Report on the Independent External Evaluation of IFAD – Submitted by the Director, Office of Evaluation

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[1] Revised, subsequent to the session, as EB 2005/84/R.2/Rev.1.