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IFAD**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT****Consultation on the Seventh Replenishment of IFAD's Resources – Fifth Session**

Rome, 14-15 December 2005

**IFAD'S CONTRIBUTION TO
REACHING THE MILLENNIUM DEVELOPMENT GOALS:
REPORT OF THE CONSULTATION ON THE SEVENTH REPLENISHMENT
OF IFAD'S RESOURCES (2007-2009)**

CONTEXT, ROLE AND FOCUS

The Consultation is hereby requested to consider the revised version of Parts II to IV of the report.

II. THE DEVELOPMENT CONTEXT FOR AGRICULTURE AND RURAL DEVELOPMENT

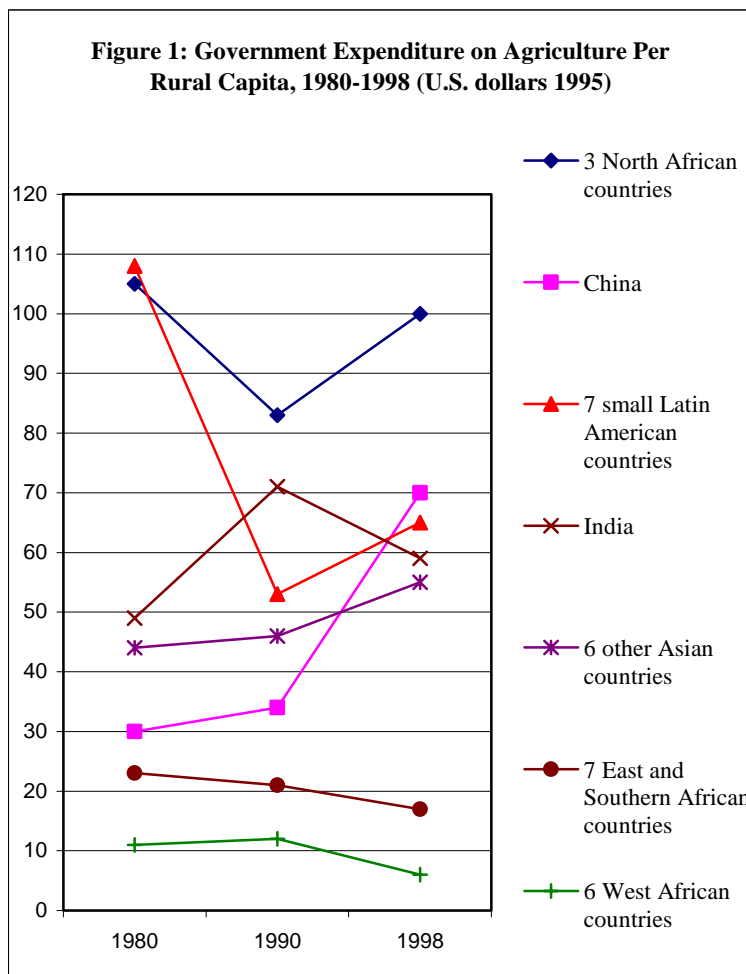
3. Since the onset of the twenty-first century, the Millennium Development Goals (MDGs) have been the driving force in international development efforts. The goals include time-bound (to 2015) commitments by the international community for the reduction of global poverty. Recent assessments of current data and trends¹ confirm, however, that the MDG targets will not be met without urgent new actions and major additional efforts. In recognition of this, 2005 witnessed new instruments for debt reduction of poor countries, commitments to very large increases in official development assistance, including increased replenishments of international financial institutions, measures to increase aid effectiveness through harmonization of efforts (as expressed, for example, in the Paris Declaration on Aid Effectiveness and the Triennial Comprehensive Policy Review (TCPR)) and new financing instruments aimed at front-loading the investments required to achieve the MDGs.

¹ See: United Nations Development Programme. 2005. *Human Development Report 2005, International cooperation at a crossroads* (pages 39-48, chapter 1 in section 2 "Scenario 2015 – Prospects for the Millennium Development Goals", figures 1.17 to 1.23); World Bank. 2005. *World Development Report 2006, Equity and Development* (pages 294-295; Table 2 presents most recent statistics on the MDGs by country); United Nations. 2005. *The Millennium Development Goals Report 2005*; UN Millennium Project. 2005. *Investing in Development, A Practical Plan to Achieve the Millennium Development Goals* (pages 13-27, chapter 2: "Where we stand with only a decade to go").

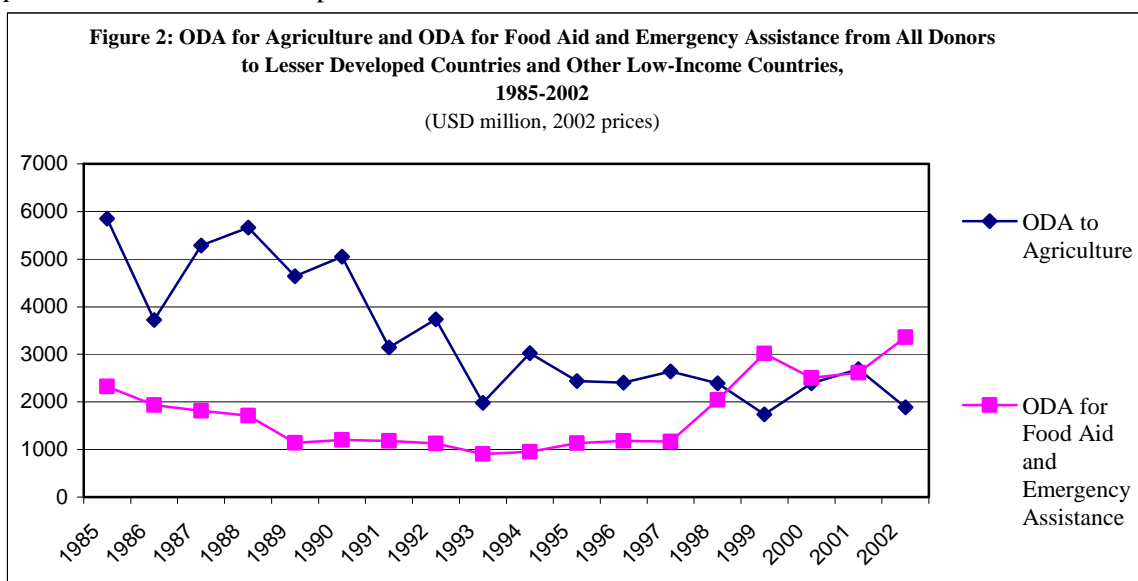
4. Yet, as concluded at the recent meetings of the Group of Eight in Gleneagles and at the United Nations World Summit in New York, these new measures and commitments are necessary but not sufficient conditions to the achievement of the MDGs. The goals of halving hunger and extreme poverty are matters not only of increased resources but also of a much improved targeting of policies, actions and interventions. This is especially the case for the three quarters of the world's extremely poor and food-insecure people who live in rural areas, most of whom make their living in and around agriculture, as small-scale farmers and landless workers. Where rural development strategies with a focus on the small farm have been well targeted and pursued consistently, poverty reduction has been substantial (e.g. China, India and Viet Nam), but consistent strategies and careful targeting have been either absent or inadequate in most countries. Across the range of developing countries whose national incomes are most dependent on smallholder agricultural production, fiscal outlays per rural capita declined over the period 1980-2000 (see Figure 1). Over roughly the same period, official development assistance to agricultural development experienced a dramatic decline (see Figure 2). The imperative of redressing this situation was specifically acknowledged in the final communique of the 2005 World Summit which stated that: "We reaffirm that food security and rural and agricultural development must be adequately and urgently addressed ... We deem it necessary to increase productive investment in rural and agricultural development to achieve food security."²

5. Increasing productive investments in smallholder agriculture in order to achieve the poverty reduction goal of the MDGs, however, will pose great challenges to the international development community. To date, for example, Poverty Reduction Strategy Papers (PRSPs) have generally not addressed adequately the role of agriculture and rural development and, equally, these areas have not yet featured strongly in donor efforts to improve assistance harmonization mechanisms. There is a need for the vigorous promotion of rural poverty reduction strategies in the context of national policy, budgeting and programming processes. However, in recent years several of the major development assistance agencies have reduced or eliminated their rural policy and technical support capacities. Finally, in many developing countries fiscal and structural reforms have impacted with particular severity on agricultural ministries, reducing their technical, professional and leadership capabilities.

² 2005 World Summit Outcome, paragraph 46.



Source: Fan, S. and N. Rao. 2003. *Public spending in developing countries: trend, determination and impact*. EPTD Discussion Paper n° 99, IFPRI.



ODA = official development assistance

Source: Organisation for Economic Co-operation and Development.

III. SITUATING IFAD: FOUNDATIONS, COMPARATIVE ADVANTAGE AND ASSETS

6. Although there has been a recent – and very welcome – renewal of international concern with the broad field of rural development this remains a relatively neglected area of international effort. Other international financial institutions, including the World Bank and the AfDB, work along side IFAD in rural settings. The World Bank’s 2003 rural development strategy confirms the imperative of much greater attention to rural development, especially in Africa, but the Bank will function here as the “donor of last resort”. The bilateral agreement between the WB and AfDB assigns to the AfDB the lead role in African rural development but in general terms the programme portfolio of the AfDB places its emphasis on physical infrastructure (e.g. roads, water supply) and on the delivery to rural populations of public goods, such as education and health services. IFAD functions far more through direct linkages with farmers’ groups and associations and through grass-roots change in socio-economic systems aimed at improving rural and agricultural livelihoods and increasing rural incomes. IFAD also occupies a position of relative uniqueness in working in support of the integration of rural agricultural smallholders into international supply chains, thereby affording to rural producers the benefits of globalization. While the overall portfolios of other IFIs have been characterized over the past two decades by reduced levels of financial support to agriculture and rural development and by reductions in the availability of specialized human resource for these sectors, IFAD has increased its technical and professional human resources capacities, and has actively collaborated with FAO and the FAO Investment Centre in leveraging the contribution of its technical skills in, for example, designing projects for agronomic improvements.

SOME DEFINING FEATURES OF IFAD

- IFAD's resources go to rural and agricultural development, and to that alone.
- IFAD's experience is attuned to today's issues of globalization and market-based development.
- IFAD's activities are rooted in local and community-level problem diagnosis and reflect national priorities. It is not a blue-print organization, but one highly responsive to differences in development context.
- IFAD has a demonstrated commitment to, and ability to work in, isolated areas and in response to the needs of rural women, indigenous groups and ethnic minorities.
- IFAD has a stock of partnerships and ongoing operations that link it directly to farmers' organizations, women's organizations and the rural private sector in poor countries.
- IFAD's governance structure reflects the views of both developing and developed countries, furnishing it with a broad-based legitimacy.
- IFAD has a highly experienced staff representing one of the highest concentrations of practical expertise in rural and agricultural investment for development anywhere in the multilateral system.

7. IFAD's mode of operation is consultative and participatory with the aim of raising the income and food security of rural poor people **within their own systems of agricultural production**. A livelihoods focus serves, therefore, as the foundation for all IFAD activities and this requires that **specific** solutions be sought for **specific** needs in **specific** locations. The issue is not solely the meagre assets and opportunities of the rural poor, but also the reasons why their assets and opportunities are so restricted. Women, indigenous and minority groups are a majority of the world's extremely poor rural people – because of special, and often discriminatory, exclusion mechanisms. Overcoming these mechanisms is vital for the rural poverty reduction effort.

8. The predominant economic contribution of agriculture in poor countries and the crucial role of small farms in most poor developing countries determine that raising the incomes of poor people and of countries as a whole requires increasing production and incomes at the small rural producer level. According to the Report of the Commission for Africa, in sub-Saharan Africa agriculture accounts for 30-40% of GDP, 40% of exports and 70-80% of employment. Other sectors and forms of production will doubtless be important in the long run, but the immediate answer to poverty must start from where poor people are, and that is on very small farms and in rural employment. Raising agricultural production and productivity among poor rural people is essential to poverty reduction. This is precisely what IFAD was set up to deal with, what it has worked on for more than 25 years, and what will be its key objective in the future.

9. IFAD has established a clear focus on the economic systems of poor rural people – in agriculture, but also in linked non-agricultural activities. This has been embedded in a portfolio that has encompassed about 700 projects with a total investment value of approximately USD 24 billion. Nearly 200 of these projects are ongoing (with a further 39 already approved and preparing to start)

reaching approximately 100 million poor people. This represents a significant effort in directly reducing poverty, building knowledge and institutions, and bringing informed analysis and recommendations to the policy process. As a result of a quarter century of experience in substantive areas of development in the agricultural systems of the rural poor, IFAD:

- (a) Participates in the crucial effort to build poor people's access to financial services, through microfinance but also in **going beyond** microfinance in creating linkages between upstream financial centres (including private-sector groups) and local organizations serving rural poor people. This is expressed in a sizeable portfolio of projects and programmes, as well as an internationally recognized position in policy dialogue, normative development and experience-sharing (including in association with the Consultative Group to Assist the Poor (CGAP), but also with regional institutions).
- (b) Is one of the few multilateral institutions with an active programme and policy dialogue engagement in making globalization work for the poor through exploiting opportunities for small farmers in new market systems and supply chains. Further evidence of this engagement is the expanding project and programme portfolio for market linkages in all of IFAD's operating regions.
- (c) Has a large portfolio in the area of small-scale irrigation and water management organized by small farmers, and strong partnership relations in dialogue about national and regional approaches to water use in agriculture. In the area of land management and conservation, it hosts the Global Mechanism of the Convention to Combat Desertification and is an executing agency of the Global Environment Facility, with a corresponding operations unit within IFAD.
- (d) Develops and supports programmes aimed at increasing and consolidating the access of poor and small-scale producers to agricultural production and post-harvest technology – in the context of the international trend towards diversification of technology suppliers and an increased role for the private sector.
- (e) Has an extensive portfolio of grants for technology development relative to small-farmer agricultural production and productivity challenges, a portfolio that has delivered technical innovations for smallholders and has had an acknowledged impact in strengthening the pro-poor orientation of IFAD's partners in key technology development, including the Consultative Group on International Agricultural Research (CGIAR) system as a whole.
- (f) With regard to its target population, IFAD's entire portfolio implements more explicit, direct and exclusive targeting of rural poor people's income and food security issues and resources than any other IFI. In the development and implementation of a gender-based approach and in addressing the situation of indigenous people, ethnic minorities and tribal groups in Latin America and Asia, IFAD is recognized as an innovator.
- (g) With regard to participation, IFAD builds institutional linkages to the community level, especially through partnerships with poor people's and farmers' organizations and by concentrating its institutional development work on organizations maintained by the poor themselves (e.g. rural finance and savings groups, marketing associations, self-help groups and water users' associations).
- (h) With regard to the private sector, IFAD has an explicit strategy on private-sector development and partnership reflecting and guiding the integration of the private sector into major operations in its focus areas, including rural finance, technology and market linkage.

- (i) With regard to integration within national systems under national priorities, IFAD develops and validates its country strategies in consultation with governments, multilateral and bilateral donors, and local development partners. It also contributes on an increasing scale to strengthening both the development and implementation of pro-poor agricultural development dimensions of PRSPs and other national development strategies, including through joint work on poverty and social impact analysis and support to the participation of rural communities in PRSP consultation processes.

10. Building on the above foundations and acquired features of comparative advantage, during the Sixth Replenishment period IFAD advanced beyond its project-oriented capabilities to raise its overall development effectiveness by:

- (a) **Rationalizing allocation of development resources according to both need and prospects for effective use at the country level.** IFAD was the first United Nations agency to adopt a performance-based allocation system (PBAS), which is now fully operational with regard to both the loan and grant programmes.
- (b) **Strengthening institutional focus and introducing a more strategic perspective into country assistance programmes.** Resources allocated under the PBAS are applied within an overarching institutional strategic framework (Strategic Framework for IFAD 2002-2006) and against six specific and approved regional strategies. New policies on gender, rural finance, rural enterprise, sector-wide approaches and the development of and partnership with the private sector have been elaborated and adopted, and a new policy for grant financing and an expanded grants programme have tightened the relation among IFAD's different assistance instruments.
- (c) **Experimenting with new forms of project supervision and country presence; improving performance reporting and evaluating impact.** IFAD has pilot-tested direct project supervision, and has had the experience evaluated by its independent Office of Evaluation. It is also midway in piloting approaches to enhanced presence in the field. At the level of assessment of impact, IFAD has launched a new Results and Impact Management System (RIMS). The first results are entering the portfolio reviews shared with the Executive Board. IFAD's Office of Evaluation is now completely independent and is producing, inter alia, annual reports on the results and impact of IFAD operations; and IFAD's operational responses to evaluation findings are now explicitly and separately reported.
- (d) **Communicating results and engaging in policy dialogue.** IFAD has a programme of support for its own engagement in PRSPs and Poverty and Social Impact Analyses (PSIAs), as well as for enhanced coordination with other partners. IFAD's organizational structure has been changed to accommodate the establishment of a new Policy Division and a new Communications Division within a new External Affairs Department, tasked with strengthening communication, policy dialogue, advocacy and relationships with Member States.
- (e) **Mainstreaming innovation.** The Initiative for Mainstreaming Innovation (IMI) launched under the Sixth Replenishment has passed from its pilot phase into full implementation. With a complementary contribution of USD 10 million from the United Kingdom of Great Britain and Northern Ireland, the main phase of the IMI started in February 2005 with three funding modalities: (a) specially earmarked funds for organization-wide activities not appropriate for competitive funding; (b) competitive funds to be used over a three-year period to finance innovative pilots; and (c) a small pilot funding facility to provide rapid funding for innovative activities.

- (f) **Modernizing financial and human resource systems.** IFAD has put in place a new asset liability management system allowing for greater use of internal resources for an expanded programme of assistance and better risk management. IFAD has also adopted a new Human Resources Policy, completed a fundamental revision of its human resource management procedures, established personnel performance evaluations, embarked on an intensive management assessment and training process and taken a pioneering role in the United Nations system in piloting pay-for-performance. IFAD has developed an industry-standard policy on preventing fraud and corruption in its activities and operations, and the first phase of its Strategic Change Programme has resulted in administrative streamlining, decentralization of responsibility and accountability, and a more analytical, results-oriented approach to resource planning and monitoring.
- (g) **Adopting a new evaluation policy, including establishing a fully independent evaluation function and undergoing a comprehensive independent external evaluation.** With the Independent External Evaluation (IEE), IFAD joined the ranks of the few international organizations that have graduated from self-reporting to the operation of an independent “internal” evaluation system and to openness to evaluation by a completely independent and external group. The findings of the IEE, while identifying certain weaknesses (see paragraph 12 and following, below), confirmed the assessment provided above, drawing particular attention to the fact that:
- (i) IFAD’s mandate is highly relevant to achievement of the MDGs, to the rural poor and to country poverty reduction strategies.
 - (ii) The performance of IFAD’s overall portfolio is comparable to that of other IFIs, including IDA.
 - (iii) IFAD has a sound and effective model for a project-based approach to rural poverty reduction – and is tangibly contributing to the reduction of poverty through the projects it supports.

11. IFAD’s cumulative experience over more than twenty-five years, complemented and strengthened by the reform measures initiated under the Sixth Replenishment period, is furnishing it with an enhanced capability for mounting projects and programmes focused on strengthening capabilities to respond to the income and food-security needs of rural poor people. These assets will allow IFAD to scale up and expand its operations in meeting new challenges of rural development while at the same time undertaking a programme of institutional reforms in order to confront those challenges.

IV. MEETING THE CHALLENGES: A FRAMEWORK OF ACTION FOR THE SEVENTH REPLENISHMENT PERIOD

12. While the IEE drew attention to IFAD’s strengths, it also underscored that there was no room for complacency, that a range of challenges needed to be addressed, and that there were serious shortcomings and weaknesses that required urgent attention if the full potential of IFAD was to be realized. At the general level, the IEE challenged IFAD to increase its development effectiveness by: strengthening performance and enhancing the sustainability of its impact at the project and programme level; and by extending its impact through catalysing better solutions within national and international rural development policy and programme processes. More specifically, the IEE highlighted the need to overcome institutional weaknesses in four areas:

- (a) **Focus.** Partly because agricultural and rural development has been a sparsely populated field (notwithstanding the recent increase in attention), IFAD has been obliged to spread

its resources and attention over too many issues in rural areas.

- (b) **Engagement in country processes.** IFAD's development model has been one of supporting national project-based efforts rather than country-level presence and dialogue. This has resulted in insufficient engagement in ongoing country-level processes of rural policy and programme development. Consequently, IFAD's activities have been heavily focused on the immediate objectives of stand-alone projects, to the detriment of exploitation of emerging opportunities for collaboration in broad change processes.
- (c) **Knowledge management and innovation.** IFAD has accumulated vast country experience in hundreds of projects in areas that are essential to making a change in the condition of small farmers and the landless. Much of that experience remains tied up in implicit knowledge that is not rigorously validated nor synthesized and shared for policy development and dialogue. While known for innovation in some areas, IFAD has yet to make innovation a systematic element of all its activities.
- (d) **Staff capabilities.** IFAD staff has skills appropriate to a project-focused set of operations developed on a country-by-country basis. It is less strong in team work, in knowledge development and sharing, and in policy dialogue.

13. These four areas configure key challenges that will necessitate further expansion and deepening of the reform process launched during the Sixth Replenishment period. Over the Seventh Replenishment period, therefore, IFAD will grasp the opportunities and challenges identified by the IEE and will meet the following objectives:

- (a) Tightening IFAD's strategic focus and implementing management systems to ensure that resources and activities are anchored in its selected focus areas, that performance is measured against objectives, and that costs are tightly controlled without prejudicing what is necessary to pursue an innovation mandate involving a high percentage of relatively small operations (compared with other IFIs) in remote areas and among exceptionally vulnerable populations.
- (b) Building on the experience of the Field Presence Pilot Programme, enhance country-level engagement to ensure full and proactive participation in PRSPs and aid harmonization and coordination processes.
- (c) Promoting IFAD's catalytic role as an incubator to develop and test innovative projects to benefit the rural poor in areas where it has proven to be effective.
- (d) Guaranteeing quality through quality assurance anchored in peer review and advice involving external centres of excellence.
- (e) Building a human resource management system capable of producing new competencies for new objectives.
- (f) Bringing IFAD's financing instruments into line with emergent international practice relative to debt sustainability.
- (g) Ensuring that IFAD's risk management and corruption prevention activities are aligned with relevant international standards.
- (h) Identifying opportunities for improving efficiency as well as containing and reducing IFAD's ratio between administrative costs (including PDFF) and the programme of work.

- (i) Developing the role of the Executive Board so as to draw maximum benefit from IFAD's governance structures as assets for guidance relative to priorities and diversity in approaches.

14. IFAD **will** focus much more clearly on areas where national and international systems for strengthening poor people's assets and capacities for income growth and food security through agriculture are weak and must be strengthened. IFAD **will not** engage in areas where it can bring little value-added. IFAD is not mandated to provide relief: its food-security mandate involves providing neither the rice nor the bowl, but the means of growing rice and making a living from it to those most vulnerable to malnutrition and extreme poverty. Its specificity lies in addressing the long-term causes of rural poverty. It **will** coordinate and collaborate with institutions having a relief mandate and expertise; it **will not** duplicate their efforts. The details of IFAD's future operational focus will be developed in close consultation with development partners, including governments, international and bilateral development organizations, and civil society. Nonetheless, IFAD's mandate, experience and strengths already dictate the general outlines of its focus, just as its position within the development system already suggests its role.

15. IFAD will focus on reducing extreme poverty and hunger among the poorest rural people, including those on the physical and social margins who will never be included unless a deliberate and special effort is made. With regard to the MDGs, IFAD's contribution will principally be to MDG #1 – in the context, however, of a strong orientation to gender issues (MDG #3) as well as to innovation for replication and upscaling in larger national programmes and strategies. IFAD will **not** address macroeconomic and non-rural issues except where they bear directly on rural development issues and where IFAD's experience provides insights that can make a material contribution to key decision-making processes. It will not, on the whole, address the social-sector issues that are the focus of other donors. Thus, where previously IFAD engaged in local social infrastructure and basic social service issues to respond to the needs of its target group, in the future it will focus on its own core competencies, promoting complementary engagement by other actors. Through its projects and programmes IFAD will go straight to the community level and straight to the issues that are directly and immediately critical for the livelihoods of most of the poor: small scale agriculture and rural employment. These include:

- (a) Securing adequate access to land and water.
- (b) Managing and conserving the natural resources underpinning rural livelihoods.
- (c) Accessing local rural financial services for investment and saving.
- (d) Building and maintaining equitable access to evolving markets for their products and the material inputs they require.
- (e) Commanding the information and technology they need for production and marketing.
- (f) Strengthening the organizations of the rural poor.

16. Concentrating IFAD's resources will necessarily require **target group clarity and specificity**. As indicated previously, a crucial dimension of rural poverty reduction is overcoming the special obstacles faced by rural poor women and men as earners and producers. Macroeconomic management has difficulty in coming to terms with these because of its exclusive engagement with the **general** conditions of economic life. Social-sector investments, on the other hand, do not deal with elements of the production and employment situation of the rural poor that have a crucial impact on what even healthier and better educated rural poor people can achieve in terms of improved incomes and food security. IFAD's comparative advantage and role is to address these issues from the perspective of

poor people and in collaboration with their organizations and institutions. IFAD's Action Plan will ensure the development and application of clear and precise metrics to the selection of target groups and will prioritize the extremely poor rural men and women, minorities and indigenous groups who have the potential to benefit from improved opportunities for agricultural production and income generation. IFAD will focus on rural people beneath the national poverty line, which in the poorest countries is typically even below the extreme poverty threshold of USD 1 a day established for MDG #1. Included here will be small-scale farmers with few assets, the landless, small-scale traders and artisans, herders, fishers and others who are extremely poor but have the potential to improve their condition. IFAD will not impose a universal poverty reduction blueprint on its work. It will respond to the unique nature of rural poverty in each of the countries in which it operates. IFAD will develop improved methodologies for ensuring that the poorest rural women and men are the beneficiaries of its projects and programmes, and will monitor the effectiveness of project design and implementation in this regard. IFAD will submit its policy and strategy for enhanced targeting of the poorest to the Executive Board in September 2006.

17. The overarching principle of the Action Plan will be **to support the capacity of poor people and countries to generate their own sustainable answers to their poverty**. IFAD will approach rural poor people as full and active partners in finding and building the solutions that are relevant to their interests and capabilities. IFAD's programming, planning and operations will aim explicitly at expanding the capacity and assets of poor people and their organizations, including their relations with more powerful actors and upstream processes. The broad metrics that will be employed to measure IFAD's success include:

- (a) less poverty and better nutrition in rural areas through increased agricultural production, productivity and incomes;
- (b) higher level of organized participation by rural poor people in development processes;
- (c) more national and international resources dedicated to solving basic rural livelihood challenges; and
- (d) programmes and policies that poor people and governments together agree make a significant difference to their ability to raise rural incomes and lower food insecurity.