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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)**

TABLE OF CONTENTS

I	
I. INTRODUCTION	1
II. THE DEVELOPMENT CONTEXT FOR AGRICULTURE AND RURAL DEVELOPMENT	1
III. SITUATING IFAD: FOUNDATIONS, COMPARATIVE ADVANTAGE AND ASSETS	3
IV. MEETING THE CHALLENGES: A FRAMEWORK OF ACTION FOR THE SEVENTH REPLENISHMENT PERIOD	7
A. The Action Plan	9
B. Allocation and Forms of IFAD's Financial Assistance	14
C. Fiduciary Responsibilities and Asset Liability Management.....	16
D. The Associate Professional Officer (APO) Programme	18
V. THE ROLE OF THE EXECUTIVE BOARD AND IFAD'S GOVERNANCE STRUCTURE.....	18
A. Role of the Executive Board.....	18
B. IFAD's Governance Structure	19
VI. FINANCING REQUIREMENTS FOR THE SEVENTH REPLENISHMENT PERIOD	19
A. Programme of Work 2007-2009	19
B. Financing Requirements for the Seventh Replenishment Period.....	20
VII. RECOMMENDATION.....	20
ANNEXES	
I. DRAFT RESOLUTION ON THE SEVENTH REPLENISHMENT OF IFAD'S RESOURCES	21
II. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS OF THE CONSULTATION ON THE SEVENTH REPLENISHMENT OF IFAD'S RESOURCES	22
III. LIST OF DOCUMENTS PROVIDED TO THE CONSULTATION AND OTHER REFERENCE DOCUMENTS MADE AVAILABLE	24

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 and guidance on key policy issues for the Fund. The report concludes with a recommendation to the Governing Council on a Seventh Replenishment target of USD 800 million.

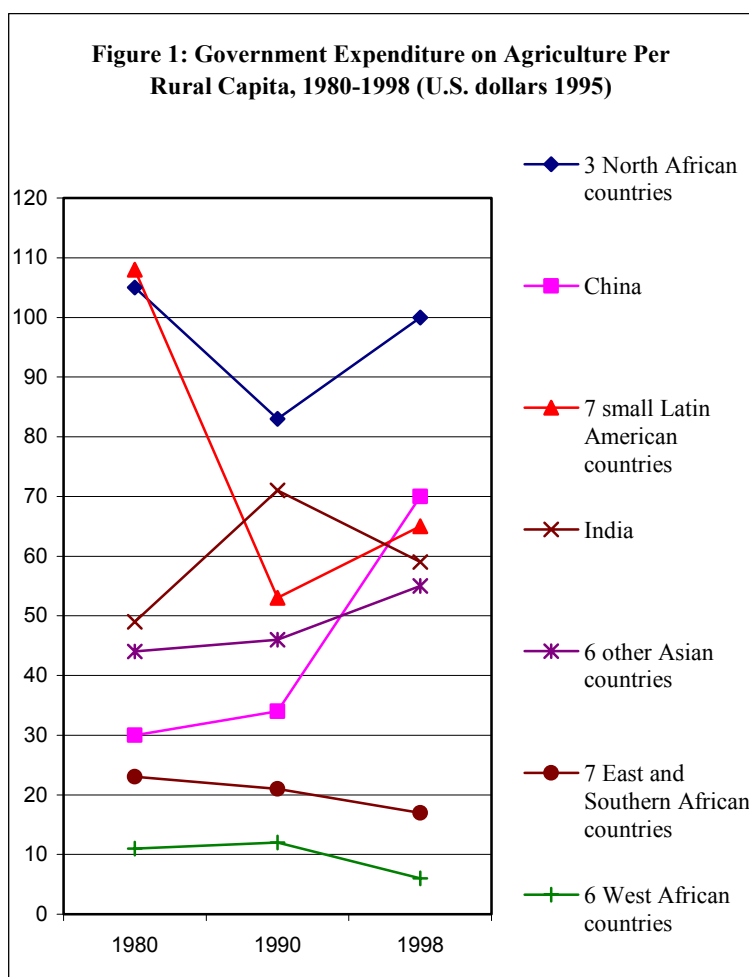
II. THE DEVELOPMENT CONTEXT FOR AGRICULTURE AND RURAL DEVELOPMENT

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 new financing instruments aimed at front-loading the investments required to achieve the MDGs.
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

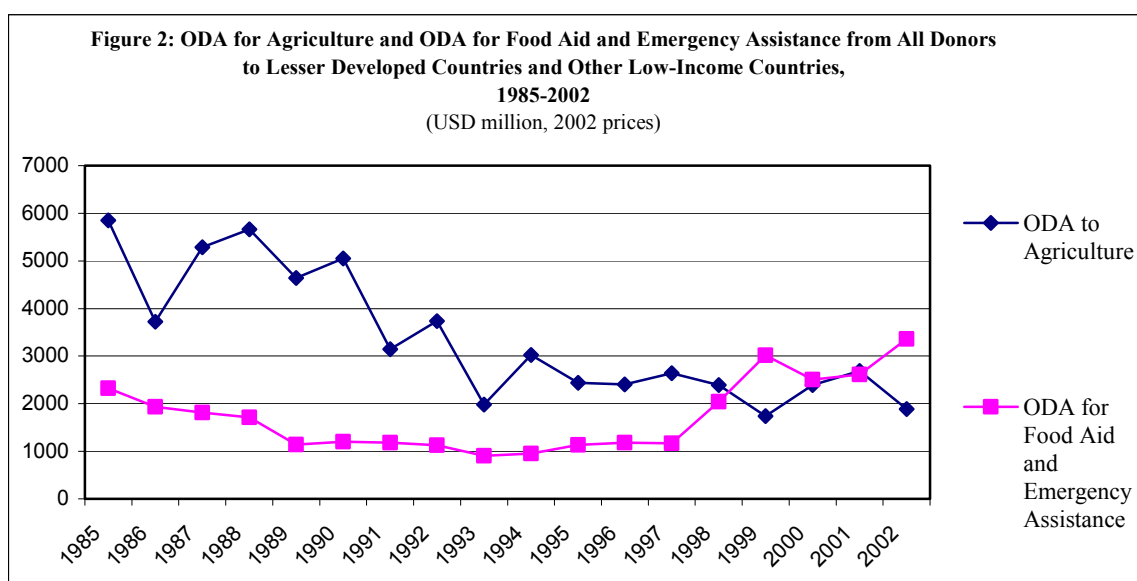
¹ See: United Nations Development Programme. 2005. *Human Development Report 2005, International cooperation at a crossroads* (pages 39-48, chapter 1 in section 2 "Scenario 2015 – Prospects for the Millennium Development Goals", figures 1.17 to 1.23); World Bank. 2005. *World Development Report 2006, 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").

² 2005 World Summit Outcome, paragraph 46.

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. In addition, the shift towards very broad development assistance instruments such as general budget support may tend to deflect attention and effort away from the efforts required for successful rural support strategies unless these are more vigorously promoted within national policy, budgeting and programming processes. Furthermore, 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.



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 – revival of international concern with the broad field of rural development, IFAD does not work in a crowded field. While other international financial institutions (IFIs), including the World Bank and the African Development Bank, work in rural settings in poor countries (and, for example, IFAD has contributed to the elaboration of the World Bank's Rural Development Strategy), their strategic and programmatic emphasis centres on physical infrastructure (e.g. roads, water supply, electrification) and is framed within national sectoral schemes, such as sector-wide approaches (SWAs), to ensure that the delivery of public goods such as educational and health services includes rural populations. 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.

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. This is precisely what IFAD was set up to deal with and what it has worked on for more than 25 years.

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 production 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 issues, 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 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, and works within the framework of PRSPs and other national development strategies.

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 projects is on par with project performance in comparable but much larger institutions, including the International Development Association (IDA). This parity with the “industry leader” has been achieved in spite of the fact that IFAD concentrates on one of the most difficult development sectors (agriculture), on a target group with the fewest development assets (the extremely poor, women, indigenous peoples and minority groups), and on some of the most physically and socially marginal areas (e.g. drylands and uplands).
 - (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 knowledge development and innovation to the status of main corporate objectives underpinned by adequate resources and appropriate planning and monitoring frameworks.
- (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) 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.

A. The Action Plan

14. The principal vehicle for internal change in IFAD over the Seventh Replenishment period will be the IFAD Action Plan for Improving its Development Effectiveness and to implement the IFAD management response to the IEE. This Action Plan embraces the IEE's recommendations, the views of the Executive Board on change priorities, and IFAD management's own views on change requirements. The detailed elaboration and implementation of the Action Plan and the actual achievement of objectives outlined in the above paragraph will be organized in three main action areas: strategic planning and guidance; a new operating model; and knowledge management and innovation. Each of these will fully integrate the human resource management dimension of change and will mobilize the necessary information and communication technology support.

15. Through the multiple components of the Action Plan, **IFAD will concentrate its resources** in the critical areas of food security and increased income for the rural poor. The Action Plan **will** focus IFAD much more clearly on areas where national and international systems are weak and must be strengthened. Under the Action Plan, 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. 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.

16. 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). 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. 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.

17. 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. In the context of its sharpened methodology for targeting that is currently under development, 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.

18. 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;
- (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.

19. The Action Plan will assign priority to **new approaches to sharpen and raise the effectiveness of national and international policies and programmes for rural poverty reduction**. Stagnation in rural development and poverty reduction in many countries calls for new solutions, and it is IFAD's role in the international system – as the specialized multilateral agency for reducing rural poverty and food insecurity – to help provide them. It will strengthen rural development strategies and assistance by generating and testing innovative and better answers to the key income and food-security challenges facing rural poor people, and by mobilizing resources and partnerships to implement these approaches on a large scale. IFAD will invest in devising approaches that unlock both international assistance and the resources of developing countries themselves. A key function of knowledge management under the Action Plan will be to consolidate the lessons learned from successes – as well as failures – in such areas as microcredit, the role of international buyers in integrating rural producers into global supply chains, and organizational entities such as farmers' organizations, women's organizations and civil society. "Learning notes" will become an integral component of IFAD operations and these will be made available in easily accessible and useable form within IFAD and to all IFAD partners.

20. A **revised and updated strategic framework** will provide enhanced clarity to the **what** and the **how** of IFAD operations, including the thematic areas in which IFAD will be able to offer support and IFAD's modus operandi with regard to partnerships and both national and international processes. It will

give guidance on coordination with national governments, farmers, women's organizations, and harmonization systems through PRSPs and other key national development planning processes. Placing partnership and comparative advantage at the centre of IFAD's planning and operations, IFAD's key strategy documents (including the strategic framework) will be produced in consultation with major partners and other groups.

21. The operationalization of IFAD's definition of its role, focus and intended impact will be underpinned by a new planning and monitoring (for performance and impact) instrument. The major corporate **performance and impact indicators** relative to IFAD's role and focus will be incorporated in a new medium-term plan (MTP). The MTP will be the framework for implementing a results-based management approach to planning and budgeting. It will identify IFAD's monitorable targets for impact and supportive activities, and it will provide the broad guidelines for the allocation of IFAD's overall resources.

22. The first IFAD Programme of Work and Budget reflecting the annualized tranche of operations under the MTP will be presented in September 2007. An upgraded strategic planning, budgeting and monitoring system will review and report on compliance and performance, supported by benchmarking with other comparable multilateral institutions. Drawing on MTP targets and progress monitoring mechanisms, as well as upon the Office of Evaluation's findings on the sustainability of project benefits, IFAD will provide its Executive Board with **regular reporting on IFAD's development effectiveness**, combining quantitative and qualitative indicators and drawing upon the results of the RIMS. The corporate objectives articulated in the strategic framework and elaborated in the MTP will provide the framework for IFAD's country-level planning and reporting, which will reflect its corporate focus and comparative advantage through incorporation of the corresponding performance and impact indicators (including the Action Plan target indicators of 100% of projects having high or substantial congruency with country development priorities, 80% of projects having satisfactory outcomes and being sustainable, and 60% of projects having a high or substantial level of efficiency). **A new quality assurance system, drawing heavily on the experience of other IFIs, including the World Bank**, will ensure policy coherence and improved quality at entry of all major operations.

23. The quality assurance system will capitalize on both the stronger technical and thematic capacities to be developed in IFAD and the active mobilization of special and complementary expertise in external organizations. With regard to quality at entry, and consistent with the spirit of the Paris Declaration on Aid Effectiveness, project and programme designs will be subject to review with key national and international partners at the country level, and documentation of this consultation will be an element of the project and programme approval process. In this context IFAD will coordinate closely with its UN system and IFI partners, particularly in the framework of the Resident Coordinator system. IFAD-level entry processes will be upgraded within the framework of a more systematic external peer review process, already piloted in IFAD's rural finance operations.

24. **The Action Plan will elaborate processes, policies and instruments to bring about and to reinforce the harmonization of development efforts by the international community and to strengthen national and international processes for policy development.** IFAD's task is not only to support national priorities and international coordination systems but also to make these work better for the rural poor. IFAD will help improve national approaches to rural poverty reduction by working in and through national systems. It will contribute to the key Paris Declaration progress indicator of having effective country development strategies in place. It will support joint analytical work. It will promote common systems of technical support. And it will operate within national budgets through local public financial management systems, supporting the effective implementation of national policies of decentralized budgeting and planning in rural areas.

25. Through **systematic engagement in PRSPs and SWAps, as specified in IFAD's policy on SWAps**, IFAD will selectively pursue opportunities for dialogue – derived from IFAD's field experience or required for project success. IFAD will promote the integration of lessons learned in exploratory

projects seeking equitable access of the rural poor to the assets, services, information, technology and markets required for their economic and social advancement into mainstream poverty reduction policy and programming, and through the new operating model it will support the participatory and consultative processes that allow other local development partners, especially the organizations of the poor, to bring their knowledge and experience to the poverty reduction policy “table”.

26. Effective participation in PRSPs and other forms of aid coordination will require the development of more concise and transparent country programme documentation. **Results-based country strategic opportunities papers (COSOPs)** will be IFAD’s country-level planning instrument. The new COSOPs will be the interface between IFAD’s corporate objectives and modalities, on the one hand, and country specificities and processes, on the other. They will incorporate and integrate priority programme, policy, partnership and knowledge-management objectives reflecting country conditions. They will be developed among IFAD, government, farmers’ organizations, national stakeholders and assistance coordination mechanisms; and will represent the agreed medium-term plan of work for IFAD to support the development, implementation and enrichment of national rural poverty reduction strategies and programmes (including PRSPs and SWAps).

27. **IFAD’s Action Plan will also seek to identify the most cost-effective means by which IFAD can enhance its country-level presence and constructive engagement in country dialogue and donor collaboration as well as in implementation support and knowledge management.** As a first step, the pilot programme launched under the Sixth Replenishment will be carefully examined with a view to identifying the approaches that are most suitable, flexible and cost-conscious, as well as those offering the most effective forms of integration with the processes and facilities of the United Nations system and other partners at the country level (the majority of country presence initiatives under the pilot programme are housed within the local United Nations Development Programme framework, and none are stand-alone operations). As a second step, the results of this exercise will be integrated into individual country COSOPs so that decisions may be reached on the basis of specific needs, the scope and requirements of individual programmes, and the availability of appropriate resources, both financial and human. The nature and focus of IFAD’s in-country capacity will vary from country to country according to local needs and opportunity, but they will serve the common purpose of anchoring IFAD’s activities in country priorities and country processes. This investment in and mobilization of local processes and capacities will also be supported by IFAD’s adoption of an approach to project supervision and the systematic capture and sharing of experience in innovation that opens participation to qualified in-country organizations.

28. IFAD will strengthen integration, mutual learning and strategic convergence in country programming. **The Action Plan will introduce collaborative country programme management approaches involving in-country teams working in collaboration with country programme management teams at headquarters drawing on experience and capacity across the Fund and linked to new knowledge management and quality assurance processes.** This will be underpinned by country results targets and indicators that will be an obligatory part of all COSOPs and will be aligned with corporate level targets, performance and impact indicators.

29. **IFAD’s future knowledge management and innovation strategy** will be defined and implemented as part of the Action Plan. Innovation mainstreaming is already the subject of a major ongoing programme in IFAD (the Initiative for Mainstreaming Innovation), but a more clearly defined strategy is essential if this is to achieve the application that is required. IFAD’s knowledge management role will not be that of a strategic studies or policy analysis centre, such as the International Food Policy Research Institute (IFPRI). The knowledge management challenges are to ensure that continuous and effective learning derives from IFAD activities and that this learning is linked integrally to the learning of others in its areas of activity and focus, first and foremost through the system of knowledge development and exchange behind the Learning Notes and IFAD’s Rural Poverty Portal.

30. IFAD's strategy for knowledge management and innovation will be guided by the basic principles of:

- (a) Focusing IFAD's engagement on the thematic issues and areas of its comparative advantage that will be identified in the strategic framework.
- (b) Mobilizing loan- and grant-based activities as platforms for knowledge development through explicit inclusion of knowledge development objectives and mechanisms in them.
- (c) Raising the level and quality of IFAD staff time in internal knowledge management.
- (d) Providing incentives for IFAD staff to innovate and share knowledge.
- (e) Building long-term knowledge development and dissemination partnerships with a limited number of global and regional centres of excellence (including in programme design and development).
- (f) Investing in the capacity of regional and national centres to explore selected agricultural and rural poverty reduction issues and options in partnership with organizations of the rural poor.
- (g) Reaching out to development partners through a targeted programme of knowledge and information-sharing.

31. **Under the Action Plan, IFAD will develop staff capabilities to support changing functions and roles**, and create an assessment and incentives framework ensuring that corporate objectives are effectively and consistently pursued by all employees. IFAD will review and revise its key staff competencies in the light of the revision of IFAD's operational model. It will recruit according to required competencies, and will expand staff training to build up capacity of existing staff to respond to new tasks. IFAD will conduct a staff competency and workload analysis as the basis of a programme of staff rotation and reallocation to meet new operational requirements.

32. In line with greater corporate accountability (through the adoption of a results-based management system and the review of development effectiveness), individual and group staff accountability will be increased on the basis of clearer individual and group definitions of objectives and outputs cascading from corporate objectives, and regular performance monitoring. As part of this, human resource management instruments and modalities will be introduced to enhance the skills, performance orientation and openness of management through:

- (a) A staff pay-for-performance system.
- (b) Increasing accountability for development results to the Executive Board.
- (c) Benchmarking institutional performance against performance of comparable multilateral development institutions.
- (d) Mobilizing high-level external assistance in corporate performance assessment.
- (e) Extending assessment and coaching under the Management Development Centre initiative with the World Food Programme (WFP) and the Food and Agriculture Organization of the United Nations (FAO) to all levels of management.

33. The Action Plan outlined above will allow IFAD to seize the new opportunities and challenges outlined in the IEE, to address its shortcomings and, most importantly, to achieve enhanced development

effectiveness. In most countries, IFAD's resources will be modest compared with investment requirements for a comprehensive response to even a subsectoral problem. Therefore, IFAD's programme and scaling-up path will be worked out in close collaboration with national governments and assistance coordination mechanisms. IFAD's comparative advantage of addressing the specific requirements of poor people will be rooted in partnerships with and investments in farmers', women's and community organizations making it possible for the organized views of the IFAD target group to be brought more to bear in local and national policy and programme processes.

B. Allocation and Forms of IFAD's Financial Assistance

Implementation of the Performance-Based Allocation System

34. The Consultation reiterated that the PBAS should be extended as a uniform system of comparison and allocation across the lending programme as a whole, taking into account the need both to reflect priorities in terms of the regional distribution of development assistance (in particular regarding the share for Africa) and to maintain at least a two-thirds share of highly concessional borrowers in the IFAD lending programme. The Consultation noted that, in order to achieve this, further careful analysis and consultation is required to ensure that the PBAS fully reflects the strategic orientations, priorities and mandate of the Fund. To this end, the Consultation requests the Executive Board to establish a working group to review the relevant issues and submit a proposal by September 2006 to enable IFAD's Programme of Work for 2007 to be undertaken on the basis of a uniform system of comparison and allocation.

Adoption of a Debt Sustainability Framework

35. Major donors are committed to increasing flows of official development assistance and reducing obstacles to the implementation of poverty reduction strategies in the poorest countries (including containment of the influence of debt). IFIs, too, are key actors in the global development assistance strategy. Nonetheless, it is evident that a drive on their part to substantially increase assistance threatens to conflict with the objective of containment of the impact of debt distress on poverty reduction. The Multilateral Debt Relief Initiative (MDRI) is being developed as one of the key responses to this issue. The MDRI is intended to provide very substantial further reduction of the public-sector debt of HIPC-eligible countries by their principal public-sector creditors – the IDA, the International Monetary Fund and the African Development Bank. Its details are currently being formulated and the scale and full implications of the MDRI will become clear only thereafter.

36. However, the challenge will remain of avoiding adding to debt distress through lending to countries that continue to be debt-distressed or near the debt-distress threshold even after implementation of the MDRI. The response to this challenge has been the adoption of a debt sustainability framework (DSF) for providing assistance to poor countries eligible for highly concessional assistance under the respective windows of a number of major IFIs (African Development Fund, Asian Development Fund and International Development Association, to date) within the context of each of their replenishment negotiations. The DSF, like the HIPC Initiative, is intended by the international community to provide a comprehensive and common framework for IFI assistance to poor countries through which individual IFIs will provide assistance on similar terms,³ taking into account the results of country debt-distress risk analysis. It involves a major projected increase in the grant component of new assistance to vulnerable poor countries to ensure that new development assistance does not exacerbate high and medium debt-distress risks.

37. The DSF is not intended to change the purposes for which assistance is given; it governs the form in which assistance is provided (i.e. grants, loans, or a mix of the two). The country allocation (of

³ This similarity of terms of assistance has long existed with regard to highly concessional lending. IFAD, the African Development Fund and the International Development Association apply the same service charge (0.75%) and offer the same grace period (10 years) on highly concessional loans.

assistance) made by each IFI will continue to reflect its performance-based allocation system (PBAS), and the content of the assistance programme will be ruled by the IFI's own country strategies and programmes agreed with each country within the framework of the country's own poverty reduction strategies.

38. The DSF provides for full compensation to participating IFIs in order to sustain their capacity to service future poverty reduction and development needs and preserve their development assistance resources. This purpose is served by two mechanisms: full compensation for service charges forgone through (in the case of IDA) retention and management of part of the resources governed by its Modified Volume Approach (MVA); and full compensation for principal repayments forgone through the agreement of donor members to provide resources equivalent to the forgone amounts through separately identified and additional contributions in the context of future replenishments on a pay-as-you-go basis.⁴

39. IFAD subscribes strongly to the principle of the harmonization of assistance mechanisms to eliminate the problems for its developing country partners arising from a multitude of aid delivery mechanisms and conditionalities. IFAD has also been a full participant in the HIPC Initiative as an instrument for reducing the debt burden on poor countries. This participation has involved complete subscription to the common criteria and mechanisms. In order to maintain and enhance its ability to effectively pursue its specific role and focus relative to rural poverty reduction in debt-distressed countries where there is a need for a coordinated effort to ensure that development assistance does not overburden debt-service capacity, IFAD should join other IFIs in adopting and implementing a DSF providing for the delivery of assistance in the form of non-repayable assistance (NRA) or a mix of NRA and loans to countries with high to moderate debt-distress risk. As in the case of other IFIs, the combined operation of the pay-as-you-go mechanism to compensate for principal repayments forgone and the MVA-linked approach to compensation for service charges forgone would result in the adoption of the DSF in IFAD having no overall impact on the Fund's resource position. In the light of the above, the Consultation recommends that:

- (a) IFAD should adopt a debt sustainability framework to govern the allocation of assistance to countries eligible for highly concessional assistance and with high to moderate debt-distress risk, within the framework of allocations determined by the PBAS and as modified by an appropriate modified volume approach.
- (b) The relevant articles of the Agreement Establishing IFAD should be amended to allow the operation of the debt sustainability framework.
- (c) The debt sustainability framework adopted by IFAD should be based on technical economic country analyses of debt-distress risk (and, eventually, forward-looking analyses of debt sustainability) produced and revised from time to time by the relevant international institutions competent in that area, i.e. the International Monetary Fund and the World Bank.
- (d) The provisions of the debt sustainability framework relative to the proportion of assistance offered in the form of grants and loans to eligible countries should be consistent with the practices of comparable IFIs with a global development assistance mandate.
- (e) IFAD Member States, and particularly those who are major contributors of official development assistance, agree to compensate IFAD fully for principal repayments forgone as a result of application of the debt sustainability framework in the form of separately identified and additional contributions to each IFAD replenishment subsequent to the

⁴ By way of illustration, an IDA table on contributions to the Fourteenth Replenishment of IDA 14 contains a column for recording donors' separate and additional contributions to compensate for the costs of IDA 13 grants beyond basic contributions.

adoption of the framework in the amount of the principal repayments forgone in the previous replenishment period.

- (f) Within the general provisions stipulated above, IFAD's Executive Board should be responsible for determining the detailed provisions for operation of the debt sustainability framework, making amendments to the same as the situation requires; and overseeing its implementation.
- (g) IFAD's Executive Board should decide on an appropriate modified volume approach to be applied by IFAD as part of the debt sustainability framework for the purpose of securing full compensation for service charges forgone.
- (h) IFAD management should submit to the Executive Board in September 2006 proposals for the operation of the debt sustainability framework, including provisions for: reporting on progress; the overall non-repayable assistance (NRA) share and implications for IFAD's finances; the implementation of an appropriate modified volume approach; generation of compensation for service charges forgone; and IFAD's participation in the collaboration among MFIs for refining and reviewing methodologies used under the debt sustainability framework, as well as calibration of IFAD's approach with the approaches of other IFIs.

40. The Executive Board will review – and if necessary modify – the IFAD Policy for Grant Financing in the light of the adoption of the debt sustainability framework, taking into account the impact of the Multilateral Debt Relief Initiative on the number of countries eligible for non-repayable assistance and the probable consequent reduction of the percentage of the Fund's programme of work that would be provided on those terms significantly below the initial estimate for the DSF of 20.8% (see document REPL.VII/4/R.3, Debt Sustainability and Non-Repayable Assistance: Adoption of a Debt Sustainability Framework for IFAD).

C. Fiduciary Responsibilities and Asset Liability Management

Fiduciary Responsibilities

41. Consistent with the policies of most other United Nations organizations and IFIs, IFAD's approach to internal control is largely founded on the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in New York in 1992 (commonly referred to as the COSO model).

42. Actions taken by IFAD that bear on financial soundness and the safeguarding of assets include:

- (a) Implementation of the asset liability management framework to focus on identifying, understanding and managing financial risks while pursuing the institution's financial objectives; the implementation of a more conservative investment policy; and the formal issuance of a treasury manual.
- (b) The Strategic Change Programme and the implementation of the PeopleSoft integrated financial system, including further development of its reporting capabilities for management information concerning all areas of the organization.
- (c) Establishment of a separate strategic planning and budget function; the introduction of activity-based budgeting; the decentralization of budgetary decisions and management; and the introduction of standard reporting on budgetary performance combined with periodic reporting on the achievement of divisional objectives.
- (d) Establishment of an Oversight Committee to coordinate investigations into alleged irregular practices; the issuance of policies and procedures to cover investigations, including

provisions for the protection of staff from retaliatory actions and from malicious accusations; and the issuance to staff and to the Audit Committee of an annual report on the results of investigations (including sanctions).

- (e) Development of an anti-corruption policy and procedures.
- (f) Strengthening of the internal audit function.
- (g) Strengthening of the IFAD security function and the restructuring of the IFAD insurance cover.
- (h) The organization-wide definition of business continuity plans, involving emergency and recovery plan definition for the critical areas of information technology and headquarters facilities.

43. IFAD has made significant progress in improving its internal procedures and controls and will expand and refine this approach to match evolving best practices in the IFI and United Nations environments. This will include the:

- (a) Establishment of confidential facilities for the communication of allegations.
- (b) Strengthening of the IFAD investigation function.
- (c) Creation of an IFAD debarment process for contractors involved in its projects.

44. IFAD will proceed with the further documentation of its internal control framework and will evaluate options for providing formal management reporting on the effectiveness of controls, taking into consideration the cost/benefit implications for IFAD and evolving best practices. IFAD will seek to incorporate the assessment of control effectiveness and risk management into the management decision processes of the Fund without creating new permanent structures and positions, by building on existing resources, tools and practices.

Asset Liability Management

45. All financial institutions, including IFAD, are exposed to a series of financial risks on their balance sheets. Asset liability management (ALM) focuses on identifying, understanding and managing those risks while pursuing the institution's financial objectives. The 2003 ALM review provided an overview of IFAD's overall ALM and risk exposures; the overall conclusion reached was that, in general, IFAD was adopting risk aversion policies similar to other IFIs, except for its approach to liquidity management which differs considerably from that of other such institutions.

46. As a result of the 2003 ALM review and further ALM analyses, the following improvement actions were implemented:

- (a) A separate ALM group was established in the Office of the Treasurer to help improve the efficiency and effectiveness of IFAD's asset liability management.
- (b) A portion of the IFAD investment portfolio was designated as "held to maturity" and the equity portfolio was liquidated so as to further reduce market risk.
- (c) IFAD's investment guidelines were modified to eliminate the possibility of unhedged currency exposures.

47. With regard to liquidity risk, the ALM review highlighted that, compared with other IFIs, IFAD's level of liquid assets was high in relation to the lending programme and the level of annual loan disbursements. The ALM review therefore suggested an alternative strategy to better utilize IFAD's liquid assets and, at the same time, increase resources available for commitment under loans and grants to Member States. In line with these findings, IFAD will define the term "committable resources" to include five years of future loan reflows (net of HIPC costs and a 5% discount) and instrument of contribution receivables (excluding qualified instruments subject to necessary appropriations by Member States) to make more resources available for loans and grants while still retaining a very low liquidity risk as compared with other IFIs. In December 2006, IFAD management will submit for the approval of the Executive Board a liquidity policy that will provide means of monitoring and ensuring that the Fund has adequate liquidity available at all times.

D. The Associate Professional Officer (APO) Programme

48. IFAD recruits its staff based on merit. It does not have a formal country quota system, although it does take the objective of equitable geographical distribution into account. IFAD will proactively promote applications from underrepresented countries and regions. Staff from countries that are not members of the Organisation for Economic Co-operation and Development (OECD) represent a larger percentage of the total than at FAO (which does operate a country quota system) and WFP. Similarly, IFAD has performed well in improving the gender composition of its staff – including professional staff – without a formal quota system. The area in which IFAD has been less successful in achieving equitable geographical distribution is the Associate Professional Officer (APO) Programme, under which individual staff members are sponsored by IFAD Member States; to date, APOs have come almost exclusively from OECD member countries. Given the significant level of retention of former APOs in IFAD after they have left the APO programme, the regional imbalance thus created puts the equitable distribution of staff at risk. Recognizing both that the APO Programme is important for IFAD's operation and that equitable distribution of staff posts and opportunity is an important principle for the functioning of the Fund, IFAD will explore further ways to implement an enhanced APO Programme. The Consultation expressed support for the concept of an enhanced APO Programme offering broader and equal opportunities for candidates from all Member States according to merit. At the same time, it recognized that a proposal along these lines would have significant financial implications, and in this context it requested the Executive Board to review in September 2006 the scale and financial implications of an enhanced APO Programme and explore ways that would enable it to be implemented during the Seventh Replenishment period.

V. THE ROLE OF THE EXECUTIVE BOARD AND IFAD'S GOVERNANCE STRUCTURE

A. Role of the Executive Board

49. IFAD was founded as a partnership between member countries of OECD, members of the Organization of the Petroleum Exporting Countries (OPEC) and developing countries. This broad base of participation in the financing and effective governance of the Fund has been a vital element of IFAD's specificity and comparative advantage. The structure and composition of the Executive Board has enabled this dimension of IFAD to be reflected in the guidance given to IFAD management. This engagement is a development asset that IFAD will capitalize upon to enhance its effectiveness.

50. In the Seventh Replenishment period, IFAD will use this asset to even greater effect for oversight, ensuring effectiveness and decisions on policy. For example, IFAD will facilitate focus on strategic and policy issues and develop a new format for project documents and new results-based COSOPs. The Executive Board will review all of IFAD's new planning and monitoring instruments, including the strategic framework, the medium-term plan and the report on IFAD's development effectiveness. IFAD will make provision to support longer Executive Board meetings as required on a case-by-case basis in

agreement with the Executive Board, and will provide documentation in such a form as to enhance the engagement of the Executive Board in policy and strategic issues.

51. The Executive Board will also review the IFAD Policy on the Disclosure of Documents in 2006, taking into consideration the Consultation's deliberations on the current policy and a comparison with the disclosure policies and procedures of selected IFIs and United Nations agencies.

B. IFAD's Governance Structure

52. *This section will incorporate the outcome of the deliberations of the Working Group of the Seventh Replenishment, established by the Consultation at its Fourth Session, to explore proposals on voting rights, Executive Board representation, and the role and effectiveness of the Executive Board.*

VI. FINANCING REQUIREMENTS FOR THE SEVENTH REPLENISHMENT PERIOD

A. Programme of Work 2007-2009

53. IFAD's programme of work from 2007 to 2009 will reflect the evolution of the global system of development assistance and the global effort to reach the MDGs. There is a growing appreciation of the significance of rural and agricultural development for reaching the MDGs, and especially for halving hunger and extreme poverty. This was clearly reflected in the outcome of the 2005 World Summit. There is also an understanding that accelerating rural and agricultural development will require substantially greater investments. These will primarily be delivered through national and international mechanisms more focused on the resource **transfer** role. IFAD's role is to take the lead in projects and programmes to explore new and better approaches, ensuring that broad policies and programmes of rural development and poverty reduction are in a stronger position to reflect the income and food-security concerns of rural poor people, embody best practice in sustainable solutions, and **catalyse** investments from more purely financial institutions. In some countries, particularly those with few development resources of their own and where the focus of external assistance lies in other areas, IFAD's financial support for rural poverty solutions may be decisive in getting progressive approaches off the drawing board and into the field.

54. Turning a general global interest in rural development into a practical engagement of greater resources within better approaches is a major challenge. It is one that IFAD was designed to meet, and adoption of a tighter focus and an explicitly catalytic role (underpinned by a new operating model) will make it a more efficient and effective protagonist. IFAD will increase its work programme to respond to the need for specialized inputs into a global system of expanded – and higher-quality – support for rural development. IFAD will expand its catalytic capacity in line with the expansion of the interest and commitment of others to respond to the rural poverty crisis through larger resource flows.

55. The expansion of IFAD's programme of work will be commensurate with the availability of resources and its capacity to put resources to effective use. That capacity was improved during the Sixth Replenishment period, and this enabled IFAD to increase its programme of work by 10% annually in 2004-2006 while at the same time implementing a reform programme including the Sixth Replenishment tasks (see paragraph 10, above) and the comprehensive Strategic Change Programme (Phase I). IFAD will build on its track record of change and take the same approach in the period 2007-2009, i.e. gradually expand its work programme as capacity, efficiency and effectiveness are enhanced through implementation of the Action Plan. The target would be to maintain the growth of 10% a year achieved in the Sixth Replenishment period. This would allow the Fund to have a target for its overall work programme for the Seventh Replenishment period of USD 2 billion. At the same time, it is noted that the actual programme of work for each year will be determined by the Executive Board. In doing so, the Board will take into account both the availability of resources and the capacity of the Fund to carry out the agreed programme of work.

B. Financing Requirements for the Seventh Replenishment Period

56. In the context of this target of USD 2 billion for IFAD's work programme during the Seventh Replenishment period, total resource requirements would be about USD 2.427 billion, which includes USD 290 million for the administrative budget and the PDFF⁵ and USD 137 million for HIPC costs (excluding contributions from the World Bank HIPC Trust Fund). This figure for administrative expenses reflects IFAD's commitments to ensuring that the ratio between administrative expenses and the programme of work does not increase over the Seventh Replenishment period, and to actively explore opportunities for efficiency gains through the implementation of the Strategic Change Programme (Phase I) and the Action Plan. Projected inflows and loan cancellations are calculated at USD 1.12 billion. Taking into account utilization of resources under the ALM framework of about USD 507 million, the Consultation noted that a Seventh Replenishment target of USD 800 million would be necessary to finance the target work programme over the period 2007-2009. The Consultation further noted that such a replenishment level would be consistent with IFAD's retaining its share of overall official development assistance and thus its role in the global effort to eradicate hunger and poverty and contribute to achieving the goals set by world leaders at the Millennium Summit.

VII. RECOMMENDATION

57. The Consultation on the Seventh Replenishment of IFAD's Resources welcomed the efforts being made to enhance IFAD's capacity to deliver an enhanced work programme while achieving higher impact and sustainability to improve food security and reduce the poverty and vulnerability of the world's poorest citizens. In this context it noted the target of maintaining an increase of 10% a year over the Seventh Replenishment period, implying a work programme for 2007-2009 of USD 2 billion. The Consultation further noted that the Executive Board will determine and approve the actual programme of work on an annual basis taking into account the availability of resources and the growth of capacity in the institution. The Consultation agreed in this context to a Seventh Replenishment target of USD 800 million and recommends to the Governing Council that it adopt the draft resolution attached as Annex I to this report.

⁵ The USD 290 million for the period 2007-2009 comprises USD 228 million for the administrative budgets for the three-year period and USD 62 million for the portion of the PDFF allocated to the budget. It should be noted that an equivalent portion, approximately USD 20 million per year, of the PDFF is included in the programme of work.

DRAFT RESOLUTION ON THE SEVENTH REPLENISHMENT OF IFAD'S RESOURCES

To be inserted upon completion of the discussion of document REPL.VII/5/R.2/Add.1.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS OF THE CONSULTATION ON THE SEVENTH REPLENISHMENT OF IFAD'S RESOURCES

Issue	Conclusions and Recommendations	Next Steps
Action Plan	IFAD will implement an Action Plan for Improving its Development Effectiveness as approved by the Executive Board.	See IFAD's Action Plan for Improving its Development Effectiveness.
Performance-Based Allocation System (PBAS)	The Consultation reiterated that the PBAS should be extended as a uniform system of comparison and allocation across the lending programme as a whole, taking into account the need both to reflect priorities in terms of the regional distribution of development assistance (in particular regarding the share for Africa) and to maintain at least a two-thirds share of highly concessional borrowers in the IFAD lending programme. The Consultation noted that, in order to achieve this, further careful analysis and consultation is required to ensure that the PBAS fully reflects the strategic orientations, priorities and mandate of the Fund. To this end, the Consultation requests the Executive Board to establish a working group to review the relevant issues and submit a proposal by September 2006 to enable IFAD's Programme of Work for 2007 to be undertaken on the basis of a uniform system of comparison and allocation.	The Executive Board should establish a working group to review the relevant issues and submit a proposal by September 2006
Debt Sustainability Framework (DSF)	<p>IFAD will adopt a Debt Sustainability Framework to govern the allocation of assistance to countries eligible for highly concessional assistance with high and moderate debt-distress risk, within the framework of allocations determined by the PBAS and as modified by an appropriate Modified Volume Approach.</p> <p>The relevant Articles of the Agreement Establishing IFAD should be amended to allow the operation of the Debt Sustainability Framework.</p> <p>IFAD Member States, and particularly those who are major contributors of ODA, will provide full compensation to IFAD for principal repayments forgone as a result of the application of the Debt Sustainability Framework in the form of separately identified and additional contributions to each IFAD replenishment subsequent to the adoption of the Debt Sustainability Framework in the amount of the principal repayments forgone in the previous replenishment period</p> <p>IFAD will secure full compensation for service charges foregone through the application of a Modified Volume Approach to its programme of assistance on terms determined by the DSF.</p>	<p>IFAD will submit to the Executive Board in September 2006 a proposal for the operation of the debt sustainability framework.</p> <p>The Consultation on the Eighth (and subsequent) Replenishment of IFAD's Resources should take this into consideration in its deliberations.</p>

ANNEX II

IFAD Policy for Grant Financing	IFAD will modify, as necessary, its Policy for Grant Financing after the adoption of the Debt Sustainability Framework	The Executive Board should review the IFAD Policy for Grant Financing in September 2006.
Asset Liability Management	<p>IFAD will define the term “committable resources” to include five years of future loan reflows (net of HIPC costs and a 5% discount) and instrument of contribution receivables (excluding qualified instruments subject to necessary appropriations by Member States).</p> <p>IFAD will develop and implement a liquidity policy that will provide means of monitoring and ensuring that the Fund has adequate liquidity available at all times.</p>	IFAD will submit a liquidity policy for the approval of the Executive Board in December 2006.
Associate Professional Officer (APO) Programme	IFAD will explore opportunities for an enhanced APO programme offering broader and equal opportunities for candidates from all Member States according to their merit.	IFAD will report to the Executive Board on the scale and financial implications of an improved APO Programme in September 2006.
Disclosure Policy	IFAD will revisit its Policy on the Disclosure of Documents taking into consideration the deliberations of the Consultation on the Fund’s current policy and the comparison with the disclosure policies and procedures of selected international financial institutions and United Nations agencies.	IFAD will submit its Policy on the Disclosure of Documents for review by the Executive Board in 2006.
IFAD’s Governance Structure and the Role of the Executive Board	<i>This section will incorporate the outcome of the deliberations of the Working Group of the Seventh Replenishment, established by the Consultation at its Fourth Session, to explore proposals on voting rights, Executive Board representation, and the role and effectiveness of the Executive Board</i>	<i>To be decided subsequent to the report of the Working Group.</i>

**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 the documentation presented to the first four 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
REPL.VII/4/R.2	Programme Priorities and Financing Requirements for the Seventh Replenishment Period, 2007-2009
REPL.VII/4/R.3	Debt Sustainability and Non-Repayable Assistance: Adoption of a Debt Sustainability Framework for IFAD
REPL.VII/4/R.4	Role of the Executive Board of IFAD
REPL.VII/4/R.5	Management of Risk at IFAD
REPL.VII/4/R.6	IFAD's Disclosure Policy
REPL.VII/4/R.7	IFAD's Contribution to Reaching the Millennium Development Goals: Report of the Consultation on the Seventh Replenishment of IFAD's Resources (2007-2009)
REPL.VII/4/R.7/Add.1	Draft Resolution on the Seventh Replenishment of IFAD's Resources
REPL.VII/4/R.8	Fixed Reference Exchange Rates for the Seventh Replenishment of IFAD's Resources
REPL.VII/4/R.9	Associate Professional Officer Programme
REPL.VII/4/R.10	Human Resources Management Reform Time Frame
REPL.VII/4/C.R.P.1	Proposal for a Working Group of the Seventh Replenishment

ANNEX III

REPL.VII/4/INF.3/Rev.1

Closing Statement by Mr Lennart Båge, President of IFAD and Chairman of the Consultation on the Seventh Replenishment of IFAD's Resources, to the Fourth Session of the Consultation

Reference Documents:

Document No.	Title
EB 2005/84/R.2 ⁶	Report on the Independent External Evaluation of IFAD – Submitted by the Director, Office of Evaluation
EB 2005/85/R.6	IFAD's Action Plan for Management's Response to the Independent External Evaluation

⁶ Revised, subsequent to the session, as EB 2005/84/R.2/Rev.1.