Programme priorities for the Eighth Replenishment period based on US$3.3 billion in loan and grant operations
Note to Consultation members

This document is submitted for review by the Consultation of the Eighth Replenishment of IFAD’s Resources.

To make the best use of time available at Consultation sessions, members are invited to contact the following focal point with any technical questions about this document before the session:

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**Abbreviations and acronyms**

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<tr>
<td>FAO</td>
<td>Food and Agriculture Organization of the United Nations</td>
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<td>International Food Policy Research Institute</td>
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Programme priorities for the Eighth Replenishment period based on US$3.3 billion in loan and grant operations

I. Introduction

1. IFAD’s 2010-2012 loan and grant operations will be guided by: (a) the IFAD Strategic Framework 2007-2010, as approved by the IFAD Executive Board in December 2006 (EB 2006/89/R.2/Rev.1); (b) the resources at IFAD’s disposal for the three-year Eighth Replenishment period (proposed for the purpose of this paper at US$3.3 billion in the higher scenario); and (c) lessons of IFAD’s experience. IFAD’s overall goal continues to be that poor rural women and men in developing countries are empowered to earn higher incomes and improve their food security. IFAD has pursued this goal, and will continue to do so in the Eighth Replenishment period, through programmes and projects focused on assisting smallholder farmers, farm workers, small-scale rural businesses associated with agriculture, as well as other poor rural people (indigenous peoples, fishers, forest dwellers, herders, etc). IFAD finances projects and programmes that are developed jointly with governments, civil society, farmers’ organizations, the private sector and donors. The programmes and projects financed are not managed by IFAD, but rather by these other partners, primarily by governments.

II. The proposed US$3.3 billion three-year programme of loans and grants, in context

2. There are changes in the global agricultural scene that will affect IFAD’s programme in the Eighth Replenishment period. A new emphasis is being given to agriculture as a result of rapidly rising food and energy prices, and the associated food shortages. It is also increasingly recognized that agriculture and rural development are both major causes of environmental degradation and climate change, as well as victims of these phenomena. Finally, there is growing recognition that agriculture and rural development can be major contributors – sometimes even the main contributors – to the reduction of poverty and hunger. On this basis, significant increases are needed in resources for agriculture and rural development from the international community, from governments, and from the private sector. IFAD – which has given its undivided attention to these two issues for the past 30 years – has the capacity and experience to be part of the growth in international public investment destined for agriculture and rural development. Accordingly, IFAD is seeking a step increase in its programme of loans and grants of up to $3.3 billion for the three-year period, 2010-2012. This would require an increase in its replenishment to $1.5 billion (see separate paper on financial scenarios).

3. The Seventh Replenishment period (2007-2009) saw a rapid expansion in IFAD loans and grants, for a total of US$2 billion in new commitments, and a programme of work (operations) showing a growth of 10 per cent per annum in the amounts provided in loans and grants. IFAD programmes have been in increasing demand, in part because of the dramatic decline in official development assistance (ODA) directed to agriculture and rural development (see the World Bank’s World Development Report 2008, which documents a decline in ODA to agriculture and rural development from about 18 per cent of total ODA in the 1980s to less than 3 per cent by 2006). By late 2007, the confluence of: (a) the annually increasing demand for food and agriculture products in the world at large, due in turn to rising incomes and the growing population; and (b) the drop in the annual rate of productivity growth in agriculture, due in part to declining investment in agriculture, which caused a rapid increase in agricultural commodity prices (the subject of a separate Consultation paper).
4. The impact on IFAD’s operational programme is an increase in demand for IFAD resources from nearly every country in the developing world. An expansion of IFAD’s operational programme from US$2 billion for the three-year period 2007-2009 to US$3.3 billion for 2010-2012 would allow IFAD to respond to only a fraction of the expanding demand for its resources.

5. To put the proposed operational programme into context, it is necessary to look at the level of overall public investment and foreign assistance needed for agricultural and rural development in developing countries. An extraordinarily wide array of estimates are available from various sources, based on differing definitions of agriculture and rural development (depending, for example, on whether rural roads and energy are included or not). A discussion paper prepared by the International Food Policy Research Institute (IFPRI) on the subject\(^1\) calculated public investment (including aid) requirements – for Africa alone – as ranging from US$8.5 billion to US$62 billion per annum. The figures for the entire developing world will, of course, be much higher. A Task Force organized by the United Nations on the first Millennium Development Goal for Africa – MDG Africa Steering Group (www.mdgafrica.org) – estimated annual development assistance needs for African agriculture and rural development to be between US$7 billion and US$8 billion per annum. The United Nations Secretary-General has suggested that resource requirements for agriculture and rural development in all developing countries could be US$20 billion per annum. For comparison, the Food and Agriculture Organization of the United Nations (FAO) claims that US$3.4 billion was spent on aid to agriculture in 2004. The needs are increasing as incomes rise and as the global population (now at 6.7 billion) grows to an expected 7.2 billion by 2016 (FAO). IFAD’s higher scenario of US$6.6 billion for its loans and grants – including the proposed cofinancing of an equal amount – would constitute about 10 per cent of total needs (based on the Secretary-General’s estimate) in the 2010-2012 period. Final estimates on total foreign assistance needs are currently being prepared by the United Nations; the estimate will be refined over time.

6. Given that IFAD’s target groups are the rural poor, indigenous peoples and rural women, IFAD will ensure that at least its part of the expanding “aid pie” for agriculture goes to these groups. IFAD will also, through cofinancing, help channel other aid funds to these target groups, and find innovative solutions to their needs.

III. Characteristics of IFAD’s future loans and grants

7. IFAD has increasingly recognized that there is no “one-size-fits-all” approach to the projects and programmes that it finances, nor is there a set typology of countries into which its programmes can be conveniently fitted. For this reason IFAD’s operational model begins with a country strategy developed with each country’s government. The country strategy is prepared with the participation of other domestic and foreign partners interested in agricultural and rural development in the country.

8. IFAD foresees that during the Eighth Replenishment period, there will be increasing differentiation in the assistance requirements of countries seeking its loans and grants. Accordingly, during the second session of the Consultation on the Eighth Replenishment of IFAD’s Resources on 22-23 April 2008, presentations were made on operational priorities and approaches for each region in which IFAD works (Western and Central Africa, Eastern and Southern Africa, Asia and the Pacific, Latin America and the Caribbean, and Near East and North Africa). The outlines of the presentations – prepared in PowerPoint format – have been updated and circulated separately. Other typologies of country situations are possible; for example the World Development Report 2008 derives a typology for countries based on their stage of spatial transformation, i.e. whether they are agricultural, transition, or transition.

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urban-based economies. Another typology of countries useful for this brief discussion, and which was requested by several members at the April 2008 Consultation session, involves the degree of institutional and economic development of a country. This typology differentiates between fragile and post-conflict states (referred to as simply fragile states); middle-income countries; and low-income countries in terms of economic and institutional strength. None of these typologies have proved very useful, because countries within each grouping are so vastly different in their agricultural and rural development characteristics and issues. For the sake of discussion, however, the fragile-state/middle-income country/low-income country distinction is used here.

9. Of these groupings, IFAD focuses mainly on low-income countries. Some low-income countries have few natural resources and limited farming potential. Some have high farming potential, but have only recently emerged from fragile state status. Others have reasonable farming potential, but very weak rural institutions. The types of projects and programmes and policy advice will, accordingly, vary greatly, depending on the specific constraints faced. Building basic agricultural services, the private sector and farmer organizations often requires a great deal of work, even though such efforts are generally based on existing institutions. Typical interventions that IFAD will support include: agricultural extension, farmers’ field schools, farm input supply, agricultural research, forestry, veterinary services, food safety services. Similarly, IFAD will focus on support to farmers’ organizations and cooperatives; strengthening of existing rural finance organizations; assistance to governments on policy and on monitoring and evaluation; and promotion of small-scale rural enterprise for marketing and processing. The private sector is usually much less strong than in middle income countries, and requires support. Protection of the rural environment, support to rural women’s groups, and agricultural education are typically important. IFAD has introduced – and will continue to do so in the Eighth Replenishment period – successful innovations in low-income countries: private-public partnerships in value chain development and in agricultural services, rural finance services, environmental management, land reform, and involving women more effectively into each of these aspects.

10. IFAD supports agriculture and rural development in middle-income countries, with a focus on the poorest regions and the poorest rural people in these regions. These people share many characteristics with their counterparts in low-income countries. However, the needs of middle-income countries are so different that, based on a request by IFAD Member States, a separate paper will be submitted to the Consultation session scheduled for October 2008, summarizing IFAD’s approach. IFAD’s experience is that these countries have the financial and institutional resources to cofinance larger-scale and more complicated projects. Although there is considerable variation among middle-income states in terms of their agricultural and rural poverty situation, generally their agricultural institutions are relatively strong, local private-sector and government management capacity is large, and government policy relatively solid, permitting ambitious rural poverty reduction programmes. IFAD has been innovative in developing farmer-managed agricultural service organizations, introducing sophisticated soil and forest conservation programmes; irrigation systems managed by farmers’ groups; rural financial systems that serve more farmers; and value chain projects involving farm production through marketing, processing, and export or delivery to cities. The demand by middle-income countries for these types of specialized programmes and projects is considerable. IFAD allocates its loans and grants in such a way that most of the costs of projects sponsored by middle-income countries are borne by governments and by the private sector, rather than by IFAD. The project or programme is as much a vehicle for knowledge transfer as financial transfer. IFAD also gains from the middle-income countries the experience and knowledge needed to assist low-income countries more rapidly, as they move from basic agricultural and rural institution-
building towards middle-income country status. IFAD will increasingly be providing the knowledge management services critical for this transition.

11. Fragile states are found in each region in which IFAD operates, and have certain elements in common. There is as yet no agreed definition of a fragile state, although other international financial institutions use this category (it was a theme of the International Development Association’s replenishment). A paper on fragile states, with a definition for IFAD purposes, will be submitted at the October session of the Consultation. Most references include within the fragile state category, post-conflict states or states that have experienced a significant deterioration in public and private institutions, to the extent that the functioning of public institutions has come to a virtual stop. The agricultural and rural development needs of fragile states and post-conflict states include institution building, financial mobilization and drawing on the lessons of experience from other countries. Most fragile states require support for the creation of basic government institutions of agricultural extension, livestock services, agricultural research, government agricultural administration, agriculture policy, rural finance, natural resource management, as well as agricultural input supply, agricultural marketing, and small-scale rural enterprise. Supporting farmers’ organizations to manage irrigation water, or to market and process crops, or to supply inputs, or to manage microcredit will be important. Over half of IFAD’s projects and programmes in fragile states finance these kinds of activities, which provide benefits in terms of expanded income for farmers and labourers.

IV. IFAD’s global and regional programmes

12. IFAD’s experience has been that some programmes are best managed through regional or global organizations with the capacity to serve several countries. IFAD therefore builds regional and global partnerships that focus on rural and agricultural innovation and knowledge management, and finances them through global and regional grants. Currently about 200 IFAD grants support such programmes worldwide. A sample of these grant-funded programmes is presented below, to provide a sense of these activities. Similar initiatives will be undertaken over the Eighth Replenishment period.

13. One of the most important issues affecting public welfare globally is farmers’ access to improved agricultural technologies. IFAD will continue to be a sponsor of the Consultative Group on International Agricultural Research (CGIAR), and play a lead role in the reform of the system so that it attains greater effectiveness and efficiency, as well as greater relevance for smallholder farmers, in particular women. IFAD co-chairs the CGIAR Change Steering Team. In terms of access to natural resources, another key global public good, IFAD is part of the UN Water initiative, which addresses global water problems. IFAD is an executing agency of the Global Environment Facility (GEF), and the associated work is managed by IFAD’s Global Environment and Climate Change Unit. The unit brings together the focus on adaptation and mitigation of climate change in our operational programmes with GEF-financed environmental projects. With regard to land issues, IFAD supports a global organization called the International Land Coalition, and it works with the Global Mechanism of the United Nations Convention to Combat Desertification (UNCCD) on desertification and land degradation. IFAD also collaborates with the International Federation of Agricultural Producers and co-chairs the Global Donor Platform for Rural Development.

14. IFAD is an important source of funding for country-level rural financial services. It also supports a global rural finance programme providing knowledge services to country-level projects through the Consultative Group to Assist the Poor (CGAP). It also supports CGAP’s associates at the regional levels (ACCION, the Participatory Microfinance Group for Africa, the African Rural and Agricultural Credit Association, and the Asia/Pacific Rural and Agricultural Credit Association). IFAD is an active member of the Donor Committee for Enterprise Development and the associated
regional organizations, such as the Africa Enterprise Challenge Fund. Turning to insurance and remittance programmes, partners in global and regional programmes include the MicroInsurance Centre, the Microfinance Centre, the Inter-American Development Bank, the United Nations Capital Development Fund and various donors. IFAD’s focus on empowering poor rural people and targeting of programmes calls on a range of partnerships in the areas of gender, rural livelihoods and institutional analysis: the Inter-Agency Network on Women and Gender Equality, the United Nations Development Fund for Women, the World Bank, the Inter-Nations Standing Committee on Nutrition, the United Nations Committee on the Elimination of Discrimination against Women, and the Inter-Agency Working Group on Food Insecurity and Vulnerability Information and Mapping Systems. All of these global organizations and programmes are a source of knowledge and innovation, which IFAD taps when designing new country programmes and projects.

V. Changes in operational priorities expected during the Eighth Replenishment period

IFAD will provide project and programme vehicles through which other donors can increase cofinancing

15. Important trends will greatly influence the composition of IFAD programmes and the approaches that it uses, and will prompt greater differentiation in approach according to the country situation. The first is that in 2007 aid to agriculture and rural development began to increase in response to the realization that agriculture had been neglected by aid agencies and lending organizations. Announcements of increased aid for agriculture are coming from institutions that either greatly reduced or, in some cases, eliminated such aid in the past few years. As a result, these institutions have limited capacity to deliver the new increased aid amounts in the form of good agriculture and rural development programmes. IFAD will therefore greatly expand its cofinancing, providing project and programme vehicles in agriculture and rural development to which other donors can attach their expanded funding. IFAD plans to mobilize one dollar of cofinancing for every dollar it lends or provides in grant assistance to achieve a total programme of support of US$6.6 billion for the replenishment period. This target may turn out to be too modest, as many institutions are currently seeking to partner and cofinance with IFAD. These partnerships will also serve to help achieve another emerging objective, that of greater aid effectiveness, as part of the Paris Declaration to which IFAD is a signatory. The most effective vehicle for aid effectiveness in agriculture and rural development is the cofinancing of programmes and projects, aligned with government programmes and objectives, and implemented by governments and other local stakeholders.

IFAD to share its knowledge and experience widely

16. There has been a tendency for institutions re-engaging in agriculture assistance to appeal for greatly expanded financing and continue applying it to the models of the past. Some of these models, with appropriate adaptation to new realities and new situations, are indeed appropriate, and raise the hope that results can be obtained quickly in agriculture and rural development in poor countries. Thus there is much discussion about the need for a green revolution for African agriculture, applying the green revolution technologies that were so successful in Asia between the 1960s and the 1980s; the need for greatly increased farm input supply; the need for expanded irrigation programmes and rural finance; the need for larger budgets for ministries of agriculture; and the need for greater agriculture investment by donors and the private sector. IFAD, having been engaged in such programmes for 30 years, will share its experience on how to adapt such intentions to a changing global situation and changing national situations. For example, recent innovations in agricultural technology transfer using public-private partnerships are often more effective than exclusive support for government research and extension institutions. Building
private, cooperative or farmer-managed rural financial services is more effective than concentrating on purely government-managed agricultural credit projects. Farmer-managed irrigation is often more efficient than large-scale government-managed irrigation. A focus on women farmers often yields high dividends in places where most of the farming is done by women. Agricultural protection is often counterproductive, encouraging inefficiency and taxing consumers. IFAD has successfully introduced private-public partnerships to agricultural services, connected private and public agricultural research efforts, and supported women’s groups in managing microfinance systems and in participating more effectively in providing and benefiting from agriculture services of all kinds. IFAD has supported farmers’ organizations in bringing the farmers’ voice to agriculture policy. It will continue to innovate in these areas.

**IFAD will focus more on the global decline in agriculture productivity growth**

17. Another important trend is the decline in the rate of productivity growth in agriculture, indicated above to be one of the causes of the recent run up in global food prices. For the most important set of commodities – cereals – yields (production per hectare) are increasing worldwide at 1-2 per cent per annum. This rate of increase is not even keeping up with population growth, and not at all commensurate with income growth. For comparison, cereal yields increased at 3-6 per cent per annum during the 1960-1980 green revolution period. The rapid increase in crop yields during the green revolution was the single most important factor to reduce the blight of hunger in Asia so dramatically by the 1990s. Key to the green revolution was agricultural research, agricultural extension, farm input supply and irrigation. The current situation of increasing food scarcity and increasing food prices puts a premium on the strengthening of such services. But this will now have to be done in a situation in which governments in many countries are no longer the predominant suppliers of these services: rather it is the private sector, farmers’ organizations and civil society. New types of programmes and projects will be needed to work in partnership with these new actors. In fact, the private sector, which includes farmers’ organizations and cooperatives, is now often a more important source of investment financing for agriculture, agricultural inputs and marketing. IFAD’s programme of loans and grants during the Eighth Replenishment period will see an expanded volume of projects involving private-public and public-farmer organization partnerships, based on the lessons of its recent experience. These will often involve strengthening the government side of the partnership, or the farmers’ organization side, because they are often weaker institutionally and financially. Considerable innovation is required here, and IFAD’s experience as an innovator will be useful in developing new models and in sharing the knowledge that develops from these programmes across institutions and countries.

**Degradation of natural resources, and the impact of climate change**

18. Considerable environmental degradation is evident in rural areas of the tropics: deforestation, soil loss due to erosion and poor land management practices, declining soil fertility reflected in falling crop yields in some places, and – in the extreme – the abandonment of agricultural land. Many thousands of hectares of irrigated land have been lost to salinization, land degradation and the deterioration of irrigation infrastructure. Water shortage is a major constraint on agricultural productivity and rural poverty reduction, especially in Africa and parts of Asia. There has been considerable depletion of groundwater resources in countries such as China, Egypt, India and Pakistan. The vulnerability of rural people to water shortage remains considerable, owing to a combination of: highly variable and erratic precipitation in many countries; limited development of hydraulic infrastructure; ineffective water management; and non-conducive land governance. Indigenous peoples often suffer greatly as a result of this degradation since their livelihoods most often depend on natural resources (in forests, fisheries, rangelands). A recent atlas of African environmental change, produced by the United Nations Environment
Programme, paints a stark picture of environmental degradation, much of it in rural areas. IFAD will therefore expand its rural environmental work, through larger reforestation programmes, irrigation rehabilitation, adaptation to climate change and rehabilitation of degraded lands.

19. The above environmental trends will be accelerated in some countries, especially in the tropics, as a result of climate change. The Intergovernmental Panel on Climate Change (2007) underlines that developing countries will be in the front line confronting the extreme weather, drought, water stress and rising temperatures caused by climate change. IFAD’s portfolio will therefore emphasize resilient farming systems to cope with these challenges. For example, drought-tolerant cultivars, crop rotations and diversification, alternative tillage and erosion control techniques, more efficient use of agro-chemicals, and paid environmental services offer different strategies for adaptation to and mitigation of climate change. They will be backstopped by further emphasis on early warning systems, drought contingency plans and responses to flooding and related extremes of climate. The use by IFAD of the GEF in rural areas is an opportunity to contribute more in this area. IFAD is developing a partnership with IFPRI regarding climate change mitigation, specifically vis-à-vis developing carbon storage and using carbon markets for the benefit of smallholders.

20. In response to the new market signals (and without compromising food production or using land traditionally allocated for staple food crops), there is a need to explore the potential of renewable energies, and the role of pro-poor, non-food biofuels. Biofuels, such as sweet sorghum and Jatropha, are emerging as economically viable and environmentally friendly substitutes for fossil fuels that can also provide rural communities with local energy sources and alternative income-generation options.

**Land issues**

21. Environmental problems and associated poverty problems encountered in many developing countries are caused, in part, by land tenure and administration issues. In some countries, there is a large rural landless population. In others, the distribution of land is highly unequal contributing to an extremely skewed distribution of rural income and opportunity. In some, the lack of stable land tenure and ownership systems discourages investment and encourages “land grabbing”. The lack of legal protection for the land rights of indigenous peoples, women and other vulnerable groups facilitates the acquisition of land by commercial enterprises or the wealthy. And this may accelerate as farmland, forests and fisheries become more valuable due to higher agriculture prices. IFAD will expand its land programme and work with indigenous peoples, through its country projects, its global programme on indigenous peoples and knowledge sharing.

**International migration and remittances**

22. The phenomena of massive international migration and the huge increase in migrants’ remittances being sent back to families in home countries have the potential to positively affect rural development. An IFAD study, published in 2007, estimated such remittances to equal US$300 billion worldwide in 2006. Of this, US$100 billion is estimated to have gone to rural areas. That total is three times the level of all development assistance in 2006. IFAD estimates that 80-90 per cent of this money went to consumption. There is no reliable estimate of how much was channelled to agricultural investment, but expert judgment is that the amount was very little. If the international community, along with local governments, could find innovative ways of mobilizing even 10 per cent of this sum for private agricultural investment by the families of the migrants, the resulting amount could match or surpass international aid for agriculture. Several pilot projects are now under way in Latin America, supported by IFAD and the Inter-American Development Bank, to do just this. Such initiatives could become an important product line for IFAD.
VI. **What the expanded programme of work means in terms of project size and numbers**

23. IFAD will finance about 32 agriculture and rural development projects in 2008 and about 70 grants for global, regional or special country grant programmes. The intention for the 2010-2012 period is to concentrate more on expanding the average size of projects and programmes than the number of interventions. This is in keeping with the idea that scaling up recent successes and having a larger country impact – as reflected in the goals of most IFAD country strategies – will translate into larger projects and programmes covering greater areas and more people. The IFAD Innovation Strategy, approved by the Executive Board in 2007, is under implementation and IFAD will continue to innovate, often beginning with smaller-scale pilots. At the same time, IFAD will move into a scaling up mode, building on strong partnerships with governments and donors. Similarly, with regard to grants, based on experience to date, the programme will be more selective with larger, but fewer, grants that are likely to have a bigger impact, and will be easier for IFAD to supervise.

VII. **Can IFAD expand its operations while delivering increasingly high-quality results?**

24. The Consultation paper on the results of IFAD’s past lending documents a significant improvement in the impact of projects over the past two years (REPL.VIII/3/R.2). Part of this is due to IFAD simply learning from experience. Part is due to a more effective new “operating model” developed as part of IFAD’s Action Plan for Improving its Development Effectiveness, under its reform programme. The new operating model will be presented separately at the July Consultation session. Expanding the programme of work, at say 15 per cent per annum, will not require an expansion of the operating budget at the same rate. As IFAD’s operations programme becomes larger, in part through larger programmes and projects, in part through expanded partnerships, efficiencies will be introduced that do not compromise quality. Partners will cover some of the project design and supervision costs. Partnership agreements with the FAO Investment Centre, the World Bank and the African Development Bank are already registering savings for IFAD. It has also been found that bigger projects are less management-intensive than disbursing funds through a larger number of small projects.

25. A number of operational issues affecting the quality of IFAD operations in the past have been discussed at length by the Evaluation Committee of the Executive Board. The most important of these have been the object of requests by Members for separate papers to be presented at either the July or the October Consultation sessions. These include: IFAD’s approach to gender issues; IFAD’s approach to the private sector; IFAD’s approach to partnership; IFAD’s approach to sustainability; and IFAD’s approach to the performance-based allocation system (PBAS). Each of these papers should be considered as a complement to this paper.