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Enabling poor rural people
to overcome poverty

Report of the Consultation on the Eighth Replenishment of IFAD's Resources

Consultation on the Eighth Replenishment of IFAD's
Resources — Fifth Session
Rome, 18-19 December 2008

For: **Approval**

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The Consultation is hereby requested to consider the revised paragraphs shown herebelow for inclusion in the report.

B. IFAD's role in middle-income countries

45. Most of IFAD's operations are designed to benefit poor rural people in low-income countries. However, the Agreement Establishing IFAD, the Lending Policies and Criteria, and the Strategic Framework all require IFAD to address rural poverty in all developing member countries, including MICs. Moreover, about one third of all people living in absolute poverty live in middle-income countries (MICs) – a majority of them in rural areas.²⁰ Ensuring they receive the support they need to overcome poverty is crucial to meeting the MDGs. Of course, the primary responsibility for reducing levels of rural poverty in MICs – as in all countries – lies with the governments of those countries themselves, but IFAD continues to play a key role in complementing, reinforcing and helping to expand those national efforts.

46. IFAD lends to MICs on non-concessional terms, and they account for 20 per cent of IFAD loans committed. In Latin America most of IFAD's lending is to MICs, and with rising incomes in Asia and the Near East and North Africa, the same is likely to be true for these regions within the space of 5-10 years. IFAD's portfolio in MICs performs substantially better than the average of the portfolio as a whole: the 2006 ARRI reported that project performance in MICs was satisfactory in more than 80 per cent of projects, as compared to 67 per cent for the portfolio as a whole. IFAD's programmes and projects in MICs also generate valuable knowledge that IFAD captures and transfers to other countries.

47. The consultation recognized that the needs of MICs are varied, and are changing, and that to remain effective IFAD needs to better fulfil its mandate by improving the service that it offers them, ensuring its engagement with them is relevant, and enhancing the partnerships that these are built on. IFAD has already brought its interest rates into line with other IFIs, by adopting the London Interbank Offered Rate (LIBOR) as its reference rate for loans on ordinary and intermediate terms. Members agreed that IFAD should explore further actions (some of which may also be relevant to low-income countries) including:

- More actively promoting South-South cooperation, including by supporting MICs in their efforts to promote knowledge-sharing and innovation in low-income countries. Some MICs have developed leading-edge capabilities in agricultural research and are generating new technologies that are likely to prove essential to the interests of poorer countries. By supporting South-South cooperation, IFAD will increase its overall effectiveness and the sustainability of its efforts.
- Review the practices of other IFIs regarding application of lending terms and conditions, to identify practices and procedures that may be relevant for IFAD.
- Establishing voluntary modalities and instruments to enable those countries that may decide to cease sovereign borrowing from IFAD to continue to access its services – including, if demanded, reimbursable technical assistance. IFAD will consider the needs of MICs that have decided to cease sovereign borrowing in the design of the proposal for IFAD's role and instruments relative to private sector engagement (see paragraph 64).

²⁰ This assumes a measure for absolute poverty of US\$ 1 per day. It is possible that the proportion of the absolute poor living in MICs may change as a consequence of the new measure of US\$ 1.25 per day.

48. The consultation also recognised that while some MICs may have a declining need for IFAD's project financing, they still value the technical expertise and opportunities for learning that they gain from interacting with IFAD. At the International Bank for Reconstruction and Development (IBRD), once a MIC reaches a certain level of GNI per capita (currently US\$6,465) a dialogue is opened with the country concerned on the continuing need for that country to borrow²¹. IFAD will develop a graduation policy consistent with the voluntary practice of other IFIs. It will furnish a framework with objective and transparent criteria that provides for consideration of the interests and wishes of borrowing countries that reach a graduation point.

49. IFAD will present a policy paper on its engagement in MICs to the Executive Board by September 2010 on the issues raised in paragraphs 47 and 48 above.

²¹ It should be noted that no countries which have ceased to borrow from IBRD following such dialogue are currently borrowing from IFAD.

