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Enabling poor rural people
to overcome poverty

Programme of loans and grants for IFAD9

Note to Consultation members

Focal points:

Technical questions:

Kevin Cleaver
Associate Vice-President, Programmes
Tel: +39 06 5459 2419
e-mail: k.cleaver@ifad.org

Dispatch of documentation:

Deirdre McGrenra
Governing Bodies Officer
Tel: +39 06 5459 2374
e-mail: gb_office@ifad.org

Consultation on the Ninth Replenishment of IFAD's Resources —
Second Session
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For: **Review**

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Annex

Programme of loans and grants for IFAD9

I. Introduction and summary

1. This report presents the case for increased investment in and donor support for agricultural development and rural poverty reduction in developing countries. The literature on rural development does not definitively answer the question of how much investment is needed to achieve the Millennium Development Goal (MDG) targets of halving poverty and hunger by 2015.¹ However, all analysis concludes that considerably more will be needed than is now available. The level of IFAD's programme of loans and grants for IFAD9 is thus constrained not by developing country needs but by the availability of funds and IFAD's capacity to use them efficiently.
2. IFAD's capacity to manage larger programmes has been demonstrated by the combination of a growing programme of work (at 18 per cent per annum), rapidly expanding cofinancing, and the improved quality of project outcomes. This report proposes four scenarios for the programme of work for IFAD9. The preferred scenario – the scenario that aims at a decisive step-up in the global effort to reduce food insecurity, ill-nutrition and rural poverty – is for a US\$4.5 billion work programme combined with US\$6.75 billion in cofinancing, covering the 2013-2015 period of IFAD9. This scenario corresponds most closely with developing country needs and the global food situation, and is constrained only by IFAD's medium-term capacity to both manage a major increase and ensure results. The second is a medium-case scenario consisting of a US\$4.0 billion IFAD work programme (and US\$6.0 billion in cofinancing). A lower-case US\$3.5 billion scenario (with US\$5.25 billion in cofinancing) is then considered, representing a simple maintenance of the annual level of loans and grants planned for the last year of IFAD8. Finally, a low-case scenario of US\$3.2 billion loans and grants (and US\$4.8 billion cofinancing) reflects the level of IFAD8, adjusted for anticipated inflation.
3. The way in which financing requirements would be satisfied through additional donor contributions and internal resource mobilization is described in a separate IFAD9 consultation paper, Financing requirements and modalities for IFAD9 (document REPL.IX/2/R.5). Based on the scenario eventually agreed in the IFAD9 Consultation, a detailed Results Measurement Framework will be prepared, setting new targets for 2015.

II. The need of developing countries for assistance in agriculture and rural development

4. Replenishment document REPL.IX/2/R.2, on IFAD's strategic vision, documents the need for expanded international assistance to developing country agriculture and rural development. In the past three years, reports from many organizations have concluded that nearly 1 billion people in developing countries (about one-sixth of humanity) are hungry and poor worldwide. The latest estimate from the Food and Agriculture Organization of the United Nations (FAO)² shows the number in 2010 to be 925 million. An additional 1 billion people suffer from some form of malnutrition.
5. The data suggest that about 70 per cent of poor people live in rural areas of developing countries and most depend directly or indirectly on agriculture and its associated industry (input supply, agriculture, processing and marketing). Though poverty rates are coming down in some developing countries (particularly in East Asia), they have increased in others. Higher agricultural commodity prices are

¹ The first Millennium Development Goal (MDG 1) is to "eradicate extreme poverty and hunger". Two of this goal's targets are to: "Reduce by half the proportion of people living on less than a dollar a day" (1.A) and "Reduce by half the proportion of people who suffer from hunger" (1.C) by 2015.

² *The State of Food and Agriculture 2010-11* (Rome, 2011), p. 66.

contributing to increased hunger, because the world's poor spend 50-70 per cent of their income on food.³ The result is that the global figures on hunger and poverty are falling much more slowly than envisaged when the Millennium Development Goals were established. The consensus is that, although they will be met in some countries, the targets for poverty and hunger will not be met globally by 2015.⁴

6. There is now broad consensus regarding the causes of the failure to meet the MDG 1 targets – including those for food insecurity and undernutrition. They include structural factors and market failures, such as inequality in access to and control of land and water; underinvestment in agriculture (particularly smallholder agriculture); underinvestment in agricultural markets and agroprocessing; and lack of support for safety nets and social protection. Price volatility in agriculture has also increased, and some studies have found that this has contributed to increased levels of food insecurity among poor people.
7. The output of small-scale food producers, of which there are some 500 million households in developing countries, and of millions of agricultural wage workers is key to food security and nutrition in many developing countries, and exercises an influence over the global food system. It is vulnerable to volatile prices, climate shocks and land loss. Women's access to land, agricultural technology, finance and education in rural areas is often severely constrained, much more so than that of men. As women make up just under 50 per cent of the agricultural labour force, this has constrained agricultural production.² Governance for food and nutrition is often poor, seeking to subsidize food consumption by urban consumers rather than investing in rural areas, with correspondingly low allocations of public resources to agriculture and rural areas.
8. The studies generally find donor assistance to be fragmented – and subject to a long-term decline, which has only recently begun to be partially reversed. Eighteen per cent of development assistance went to agriculture in 1979, falling to less than 3 per cent by the beginning of the last decade.⁵
9. Countries that have been successful in reducing rural poverty and hunger, most notably China and other East Asian countries, generally overcame many of the structural and policy failures and invested in agriculture. Donor-financed projects tended to do better in these countries.
10. In the context of the lack of agricultural investment in many developing countries and the frequently poor policy environment, agricultural productivity growth has declined. Cereal yields are increasing in developing countries at only 1-2 per cent per annum, on average, compared with 3-6 per cent per annum in the 1960s-1980s.⁶ There is also evidence that land degradation and climate issues are constraining the growth of agricultural production.⁷ According to this report, by 2020 yields from rainfed agriculture could be reduced by 10-20 per cent in much of sub-Saharan Africa and South Asia owing to unfavourable climate change.
11. Contrasting the relative neglect of agricultural development among smallholders and agricultural wage labourers, both men and women, is the finding that agricultural development and investment have the highest impact of all possible interventions in terms of poverty reduction in most developing countries, while also contributing to food security and to reduced agricultural prices:

³ 2010 *Global Hunger Index* (Washington, D.C.: International Food Policy Research Institute, 2010).

⁴ World Bank, *World Development Report 2008: Agriculture for Development* (Washington, D.C., 2007); IFAD, *Rural Poverty Report 2011* (Rome, 2010); IFPRI (2010); United Nations High-level Task Force on the Global Food Security Crisis, *Updated Comprehensive Framework for Action* (New York, September 2010); and World Economic Forum, *Realizing a New Vision for Agriculture* (Geneva, 2010).

⁵ World Bank (2007).

⁶ *The Economist*, The new face of hunger: Global food shortages have taken everyone by surprise. What is to be done?, 17 April 2008.

⁷ *Food Policy Report: Climate Change Impact on Agriculture and Costs of Adaptation* (Washington, D.C.: International Food Policy Research Institute, October 2009).

- A 1 per cent per annum increase in agricultural growth on average leads to a 2.7 per cent increase in income in the lowest three income deciles in developing countries.⁵
 - Agricultural growth is 2.5 to 3 times more effective in increasing the incomes of poor people than is non-agricultural investment.⁵
 - Agricultural growth, as opposed to growth in general, is typically found to be the primary source of poverty reduction.⁸
12. The case for the centrality of smallholder agriculture in shaping the achievement of food security, nutrition and income growth objectives has never been so broadly accepted. The issue is how much investment in agricultural development will be needed to achieve the MDG targets of halving poverty and hunger by 2015. Nowhere in the literature has this question been answered definitively. The United Nations High-level Task Force on the Global Food Security Crisis attempted to provide estimates of the development assistance needed to address the hunger objective, but found only “general agreement on the need to reverse the rapid decline in investment in agriculture, food and nutrition security over the past 25 years”.⁹ Some very broad estimates of investment needs for developing country agriculture are shown below, with actual ODA for agriculture and rural development shown for comparison.

Table 1

Global estimates of investment needs for developing country agriculture to meet MDG 1 targets for poverty and hunger

	<i>US\$ billion per annum</i>
World Bank (2007)	14
IFPRI	16
FAO	83
L'Aquila ^a	7

^a The L'Aquila declaration promised US\$7 billion per annum incremental donor investment in agriculture.

Table 2

ODA for agriculture and rural development

	<i>US\$ billion</i>
2002	4
2007	6
2010	8

13. The World Bank and IFPRI figures in table 1 show total need per annum in ODA. The FAO figure includes public investment by developing countries themselves. The L'Aquila figure shows the donor pledges made for agriculture and rural development, reflecting a different conception of need.
14. International goals regarding food security, hunger and poverty reduction will be difficult to meet in any case, but would be more fully met with expanded investment and policy attention to agriculture and rural development. The resource needs are far beyond what is likely to be provided (see table 2): all conceivable levels of resources that can be channelled through IFAD can be absorbed by developing countries and are necessary to achieve global food security and nutrition objectives.

⁸ *Update: Setting Priorities for Public Spending for Agricultural and Rural Development in Africa*, by Shenggen Fan, Tewodaj Mogues and Sam Benin. IFPRI policy brief, 12 April (Washington, D.C.: International Food Policy Research Institute, 2009).

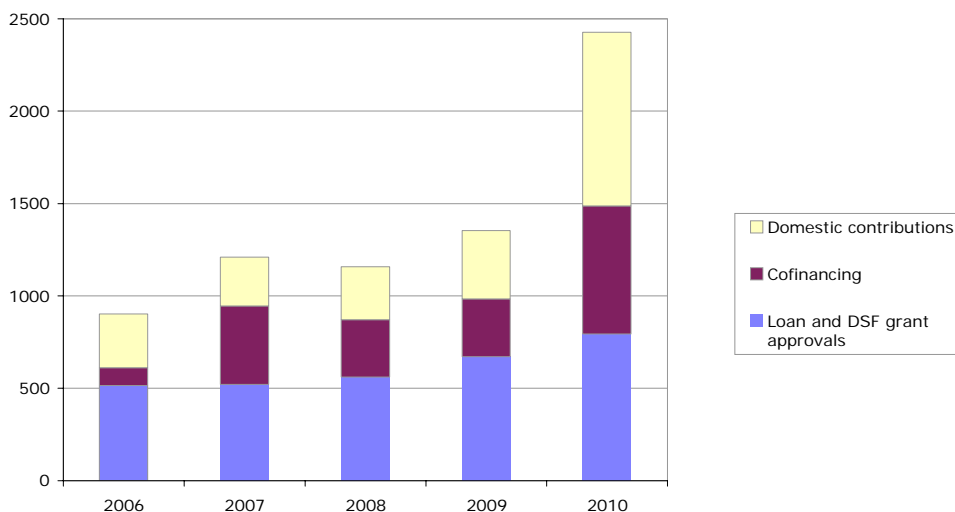
⁹ United Nations High-level Task Force on the Global Food Security Crisis (2010), p. 42.

III. IFAD's capacity to manage an expanded programme

15. Replenishment document REPL.IX/2/R.3 demonstrates that IFAD's business model is proven and capable of responding to the challenge of agricultural and rural development, particularly in the vital area of the smallholder economy, where IFAD's advantage in the international development architecture is increasingly recognized as absolute. IFAD is achieving delivery of the results promised in the IFAD8 Consultation – to a level that suggests its ability to deliver an expanded programme. Its programme of loans and grants has grown, reaching US\$855 million in 2010. IFAD surpassed its cofinancing target in 2010, as well as those of the previous four years. The quality of the projects financed by IFAD has also improved. The paper on the business model documents a dramatic improvement in the success of IFAD-financed projects in reducing rural poverty, achieving development objectives, and promoting innovation and knowledge-sharing.
16. These improved results, along with the huge needs summarized in section II above, provide the rationale for an expanded IFAD programme in IFAD9: as a direct contribution to food security and better nutrition, but also as a means of raising the quality of the broader national and international effort. Because IFAD is able to leverage its resources through cofinancing, the high quality of IFAD-financed programmes helps improve the quality of other donor and domestic investments, just as the policy dialogue involved in the formulation and implementation of country programmes contributes to the strengthening of the policy and institutional framework that affects the success of smallholder farmers' own efforts.

Figure 1

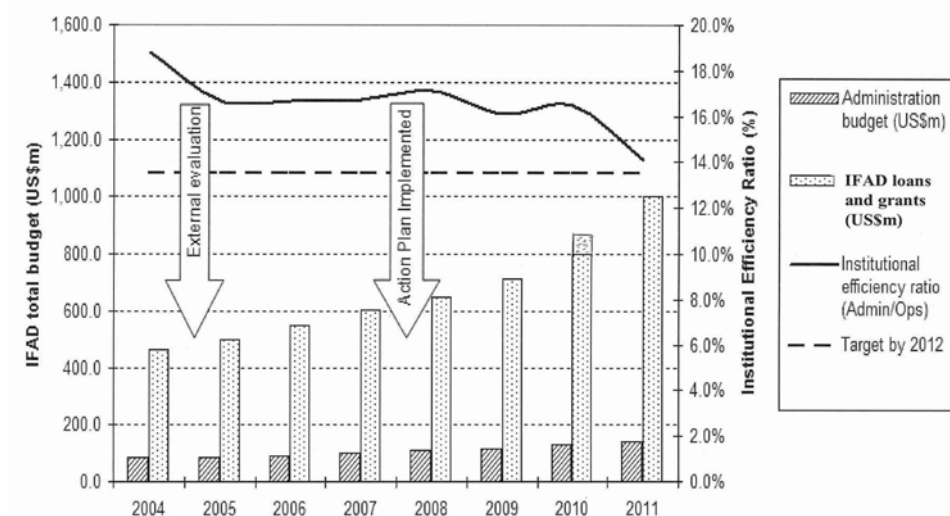
IFAD loans and Debt Sustainability Framework grants, cofinancing and domestic contributions (2006-2010) (millions of United States dollars)



17. IFAD's expanded development results have also been achieved within the framework of greater organizational efficiency. Figure 2 shows that IFAD's administrative budget is expanding at about one third the rate of expansion in the programme of work, even excluding cofinancing.

Figure 2

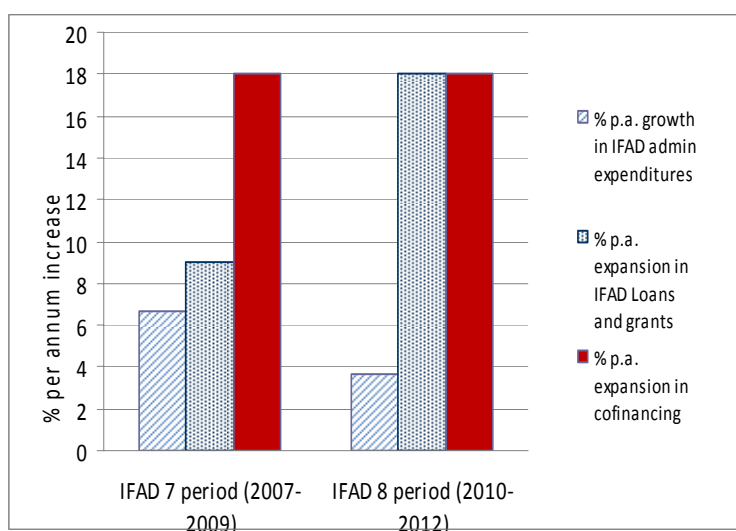
IFAD is progressing towards improved efficiency



- IFAD accomplished a much more rapidly expanding programme of work, compared with its administrative budget, by keeping expansion in headquarters staffing in check, reducing its payments to cooperating institutions and relying more on staff recruited in field offices (see document REPL.IX/2/R.3). When the expenditure for administration is converted into growth rates per annum, the data in figure 3 emerge. The growth rate in IFAD’s programme of work has increased from 9 per cent per annum during IFAD7, to 18 per cent per annum in IFAD8. The growth rate in cofinancing has also been very rapid, though beginning at the end of IFAD7. IFAD’s administrative expenditures have been growing much more slowly. This is particularly marked in IFAD8, where administrative expenditures are growing at one fifth the rate of the programme of work.

Figure 3

Growth rates in IFAD administrative expenditure, programme of work and cofinancing



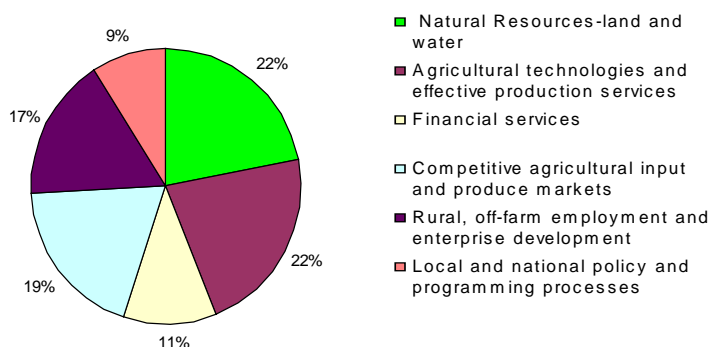
IV. Raising the response to poverty and hunger in IFAD9

- IFAD’s current programme and that proposed for IFAD9 in the paper on IFAD’s strategic vision (document REPL.IX/2/R.2) respond to global targets for poverty and hunger reduction, and to emerging problems of food production and environmental impact requiring more focused attention to targeting, nutrition and gender. The strategic vision and the new strategic framework, approved by the Executive Board

in May 2011, propose an expanded impact for IFAD programmes in IFAD9 underpinned by key business model changes, for which IFAD is preparing in the IFAD8 period:

- (a) **Scaling up.** At the heart of the strategy of expanded and sustained impact will be a major scaling-up effort to ensure that the innovations IFAD introduces have a significant impact on poor rural people. Partnership-building and scaling up will involve efforts to mobilize financial and technical resources from domestic partners (governments, civil society, farmers, the private sector) and other donors. The objective is to raise US\$1.50 for each US\$1.00 of an IFAD loan or grant. IFAD country strategies and projects will need to plan for scaling up when being prepared. Expanded partnerships will be developed, mobilizing a wider array of technical and institutional capacity. Policy advice and capacity-building will constitute a larger part of the package, in order to expand impact beyond that obtained from projects.
 - (b) **Making value chains work for smallholders.** One area that will be emphasized more in IFAD9 is systematic support for programmes involving interventions along commodity value chains. Since a great part of the value chains for most agricultural commodities engages the small-scale private sector (farm input supply, processing, marketing and retail), cofinancing with the private sector will be more important.
 - (c) **Boosting investment in responses to climate change and resource degradation.** Work on the environment and climate change will also be stressed much more in IFAD9, given that rural environmental and climate change issues are having increasingly negative impacts on smallholder farmers. Agriculture is both a cause and a victim of environmental problems. The issues confronting farmers include: deforestation, groundwater depletion, salinization of irrigation areas, destruction of rural biodiversity, and soil loss. These problems, however, are caused largely by farmers themselves. Agriculture contributes 14 per cent of greenhouse gas emissions and is the main driver of forestry emissions (another 18 per cent). Environment and natural resources management requirements suggest a greater emphasis on “multiple-win” sustainable agricultural approaches, which IFAD will pursue in the IFAD9 period. The Fund will build on its new policies in this area, its experience as an implementing agency of the Global Environment Facility (GEF), and the possibility of mobilizing additional cofinancing for environment- and climate-change-related programmes.
 - (d) **Strengthening measurement of results and evidence-based policy dialogue.** IFAD will devote more of its work to providing policy advice, promoting knowledge-sharing and seeking scalable innovations. It will devote more staff and financial resources to building effective monitoring and evaluation systems, including impact evaluation. It is through the assessment of the impact of policy and investments that improvements can be identified and worthwhile programmes scaled up and, when successful, introduced to other countries. This effort will be part of IFAD’s work to facilitate South-South learning (see document REPL.IX/2/R.3 on the business model).
20. The results of these shifts can be seen in the indicative IFAD9 allocation of IFAD resources by strategic objective. Figure 4 shows the indicative allocation in 2015.

Figure 4
Planned distribution of 2015 lending and DSF grants by IFAD strategic objective



21. IFAD will accomplish these IFAD9 goals while increasing its efficiency by: eliminating internal processes that require large numbers of administrative staff; financing larger projects (IFAD costs for project preparation and supervision are relatively insensitive to project size); and decentralizing staff (recruiting nationals in country offices is less expensive than maintaining a large centralized international staff in Rome that visits countries on long missions).

V. Programme of loans and grants for IFAD9

22. There is an enormous unsatisfied need for a much higher level of investment in smallholder development, on the one hand, and for effective channels to put such resources to work, on the other. IFAD has demonstrated its capacity to work with partners to develop and implement highly effective investment programmes and to handle rapid increases in resources. A significant expansion in IFAD's programme of loans and grants offers an effective response, at scale, to the issues of food insecurity, ill-nutrition and rural poverty underlying the ongoing food crisis. IFAD has elaborated four scenarios for the programme of loans and grants in IFAD9 (see table 3).
23. The preferred scenario consists of US\$4.5 billion in IFAD loans and grants and US\$6.75 billion in total cofinancing for 2013-2015. It reflects the maximum that IFAD is likely to be able to handle, and more closely matches the needs of developing countries. The low-case scenario consists of US\$3.2 billion in IFAD loans and grants and US\$4.8 billion in cofinancing, and represents the level of the IFAD8 programme of loans and grants in real terms (adjusted for inflation). The range of replenishment needs under each of the four scenarios is discussed in a separate financing requirements and modalities paper (REPL.IX/2/R.5).

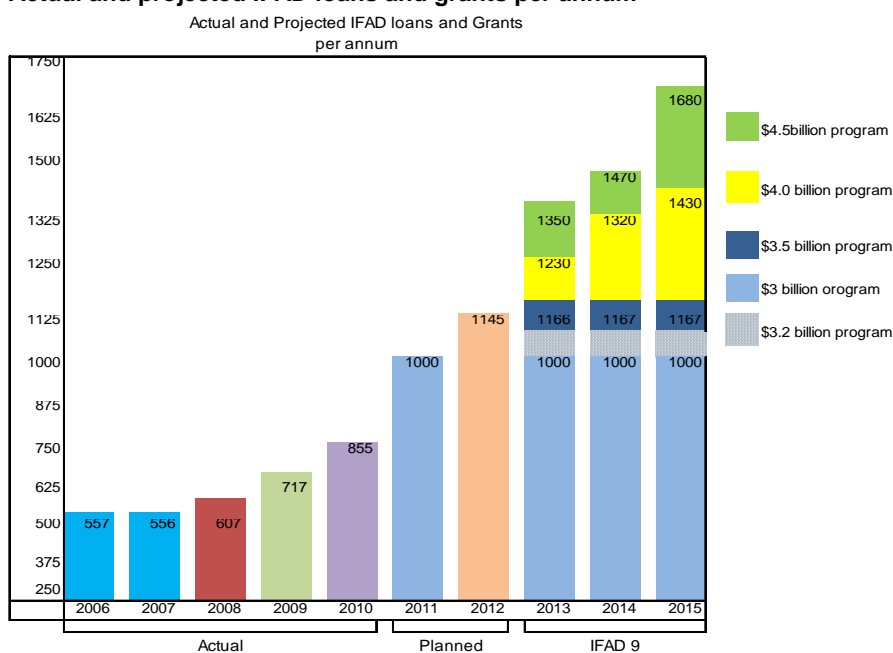
Table 3

Scenarios for the IFAD9 programme of loans and grants and cofinancing

<i>Replenishment period</i>	<i>IFAD loans and grants</i>	<i>Additional cofinancing</i>
IFAD7 (2007-2009)	1 919	1 980
IFAD8 (2010-2012)	3 000	4 500
IFAD9 (2013-2015)	4 500	6 750
High-case scenario		
IFAD9 (2013-2015)	4 000	6 000
Medium-case scenario		
IFAD9 (2013-2015)	3 500	5 250
Medium-low-case scenario		
IFAD9 (2013-2015)	3 200	4 800
Low-case scenario		

24. These various loan and grant scenarios are depicted graphically below, on an annual basis. Up to the year 2010, the bars show actual total IFAD loans and grants (excluding cofinancing), culminating in the US\$855.0 million programme of 2010. Years 2011 and 2012 show current plans, which IFAD is on track to meet. A US\$3.2 billion programme in the IFAD9 period would maintain the 2012 loans and grants programme only slightly below the 2012 level each year (shown as US\$1,070 million in loans and grants for each year from 2013 to 2015). A US\$3.5 billion programme would allow a small increase. A US\$4.0 billion programme would allow a modest annual increase in the programme at about 8 per cent per annum. The preferred US\$4.5 billion programme, the step-change scenario involving a rate of increase of 14 per cent per annum, would maintain the same growth rate achieved in IFAD8.

Figure 5

Actual and projected IFAD loans and grants per annum

25. The argument for the preferred scenario is, first, that the need for funding and programmes of the type supported by IFAD is extremely high, and far in excess of what would be delivered even under this scenario. Second, given IFAD's success in leveraging other resources, domestic and international, a large programme would leverage more in a sector where IFAD satisfies a crucial need to bring together public and private investment. Under this scenario, IFAD's weight in allocating other resources to agriculture and rural development increases as its own size increases. Its policy prescriptions are taken more seriously, and its successful programmes can be scaled up more easily. In essence, the preferred loan and grants scenario is a major change scenario for smallholder development in all of its food security, nutrition and income dimensions. It is also the scenario in which IFAD can best capitalize on the capacity and experience gained in IFAD7 and IFAD8 to play a lead role in putting together large investment packages that bring public and private actors together in generating self-sustaining change directly involving a significant portion of the world's poor rural people.

Table 4

Number of poor rural people directly reached under each programme scenario compared with IFAD7 and IFAD8

	<i>Million people</i>
IFAD7	33
IFAD8	65
IFAD9 projections	
Preferred scenario	120
Medium-case scenario	100
Low-medium-case scenario	90
Low-case scenario	75

26. Under the preferred scenario, the number of people that IFAD would directly support in achieving sustainable improvements in food security, nutrition and income would be 120 million. Estimates based on Results and Impact Management System data show IFAD currently reaching about 32 million people through 202 active projects with an investment of US\$3.5 billion. These projects additionally benefit from domestic financing of US\$2.2 billion and international cofinancing of US\$1.5 billion. Since about half the amount approved is yet to be disbursed, total outreach with this investment level is expected to reach about 65 million people. In other words, for each person to be reached, projects mobilize about US\$55-US\$110 as IFAD investment, US\$33 from domestic financiers, and US\$22 from cofinanciers. IFAD's assessment is that this level of investment can put these beneficiary households on a trajectory that can take them above the poverty line over a reasonable period of time. Within the framework of the performance-based allocation system, the likely distribution of IFAD loan and grant resources by region under the three higher scenarios (excluding cofinancing) is found in table 5. The principal focus would be Africa.

Table 5
Project loans and grants by region (2013-2015)

	IFAD8 allocation ^a	Project loans and grants (2013-2015)		
		Preferred case	\$3.5 billion scenario	\$4.0 billion scenario
<i>Millions of United States dollars</i>				
West and Central Africa	560	850	660	755
East and Southern Africa	630	970	755	860
Asia and the Pacific	920	1 350	1 050	1 200
Latin America and the Caribbean	320	490	380	435
North Africa, Middle East, Europe	380	570	445	510
Global and regional grants	190	270	210	240
Total	3 000	4 500	3 500	4 000

^a Rounded; based on performance-based allocation system coefficients as of 2010.

27. Cofinancing would be substantial in all four scenarios, but clearly greater in the high case. Major international cofinanciers include the World Bank, OPEC Fund for International Development, Islamic Development Bank, European Commission, regional development banks, FAO, GEF and the bilateral donors. Domestic cofinanciers include governments, farmers, NGOs and the private sector. IFAD has been successful in leveraging significant additional funds during IFAD8. The cofinancing scenarios for IFAD9 are based on continued success at US\$1.50 per US\$1.00 of IFAD's own resources.

VI. IFAD can improve quality of programmes while expanding

28. IFAD can deliver its programme of loans and grants under the preferred case scenario, while improving quality, by maintaining 35-40 country projects per annum in the 2013-2015 period, and maintaining the number of global, regional and country grants at 45-55 per annum. This would require larger projects and programmes. Larger projects require about the same level of IFAD management and administration as smaller projects, while committing and disbursing more funds. Larger cofinanced programmes also save IFAD administrative resources because country strategy, project design and supervision costs are shared with partner institutions. IFAD's scaling up agenda for IFAD9 does not necessarily require larger projects and programmes, but this is likely to be one outcome, and should facilitate the move to greater operational efficiency.
29. The low-case scenario is to continue with a slightly smaller programme than in year 2012 of IFAD8; easy to achieve in terms of IFAD administrative capacity, but with negative implications for reaching strategic targets (scaling up would be more difficult, policy dialogue more constrained and IFAD less attractive as a partner).

VII. Conclusion

30. The returns to investment in agriculture and rural development are significant in developing countries in terms of poverty reduction, food security and nutrition. However, investments by donors, governments and the private sector have not met the need, and are not likely to do so in the next several years. One result is a recent imbalance in agricultural product supply (growing more slowly) and demand (growing more rapidly), which, along with climate shock, is pushing up agricultural prices. Another result is continued widespread rural poverty and hunger. The need for the types of investments successfully supported by IFAD is great – and supports a maximization of IFAD's programme of loans and grants and its scaling up (including through expanded cofinancing). This argues, in turn, for a substantial replenishment.

Table 1
IFAD's actual administrative expenditure growth^a

	<i>IFAD6</i>		<i>IFAD7</i>			<i>IFAD8</i>
	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
	90.0	104.4	118.1	119.6	126.7	131.4
Percentage of annual growth in IFAD expenditure		16.0	13.1	1.2	5.9	3.7

^a These are actual year-end expenditures, rather than budgeted expenditures at the start of the year.

Table 2
Growth in IFAD's programme of work compared with its administrative cost

	<i>IFAD7 period (2007-2009)</i>	<i>IFAD8 period (2010-2012)</i>	<i>IFAD9 projected (2013-2015)</i>		
	<i>Percentage of annual growth rate</i>				
			<i>Preferred option</i>	<i>Low scenario</i>	<i>Medium scenario</i>
IFAD loans and grants	9	18	14	1.6	7.8
Cofinancing	18	18	14	1.6	7.8
IFAD administrative Expenditures	6.7	3.7	a	a	a

^a To be projected in a separate IFAD9 consultation paper on managing for efficiency.