

**REVIEW OF AUSTRALIA'S ENGAGEMENT
WITH IFAD**

REPORT

APRIL 2011

Review of Australia's Engagement with IFAD

Contents

| | |
|--|-----|
| Abbreviations | iii |
| Executive Summary | iv |
| 1. Background, context, and method | 1 |
| 2. Reasons Australia withdrew from IFAD and assessment of the current situation..... | 2 |
| 3. The business case for joining IFAD | 4 |
| 4. Opportunities to engage with IFAD..... | 10 |
| 5. Counterarguments to IFAD engagement..... | 11 |
| 6 Process for re-engagement..... | 15 |
| 7. Conclusion..... | 16 |

Charts

| | |
|---|---|
| Chart 1 : Geographic allocation of resources for IFAD and AusAID..... | 3 |
| Chart 2 : Value for money through UK funding to multilateral organisations | 3 |
| Chart 3: Overlapping strategic priorities for IFAD and AusAID | 6 |
| Chart 4 : Australia's current global investments in agriculture and rural development | 8 |
| Chart 5 : Pathways out of poverty | 8 |

Annex

Desktop Analysis of the International Fund for Agricultural Development - An assessment of development and organisational effectiveness

Abbreviations

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| ARRI | Annual Report on Results and Impact |
| COMPAS | Common Performance Assessment System |
| DFID | Department for International Development, UK |
| IEE | Independent External Evaluation |
| IFAD | International Fund for Agricultural Development |
| IOE | Independent Office of Evaluation |
| MOPAN | Multilateral Organisation Performance Assessment Network |

Executive Summary

Agriculture and rural development have always been important elements in economic growth, food security and poverty reduction in developing countries. The International Fund for Agricultural Development (IFAD), a specialised agency of the United Nations, was established as an international financial institution in 1977 to help respond to these challenges, especially in light of the then food crisis. Australia was a founding member of IFAD, but announced its intention to withdraw from the organisation in June 2004 over concerns about IFAD's development and organisational effectiveness, relevance to the Australian aid program and donor relationship management at that time. Analysis shows that those concerns, while valid at that time, have either been resolved, or are of less significance now. Both IFAD and the Australian aid program have changed and moved on since the decision to withdraw.

There is now a strong business case for Australia to re-join IFAD, supported by eight key arguments:

1. IFAD's work contributes directly to Millennium Development Goal 1 (MDG1) to halve the proportion of the hungry and extremely poor people in the world by 2015. IFAD's work also contributes to improving gender equality (MDG3), environmental protection and climate change mitigation and adaptation (MDG7).
2. Despite its relatively small size, IFAD is widely seen as a developmentally effective, results-focused, value for money partner in the increasingly important rural development sector.
3. There is now close alignment between IFAD and Australia's priorities for food security and rural development as a vehicle for economic growth and poverty reduction.
4. IFAD offers partnerships in regions and sectors where Australia wishes to expand but lacks deep technical or country knowledge and presence.
5. IFAD works with rural poor people in fragile and conflict-affected areas, sometimes in areas where Australia cannot go.
6. IFAD works to address large poverty concentrations in rural areas of emerging and middle income countries, all of which are members of the G20.
7. IFAD offers the opportunity for strong Australian influence and profile.
8. IFAD is a multilateral partner of choice that complements Australia's global investments in rural development, food security and poverty reduction more effectively than the alternatives.

However there are counter-arguments and risks to re-joining IFAD. Scaling up is "mission critical" to IFAD's overall development effectiveness, but is not yet being done systematically. Second, while IFAD has the potential to shape evidence-based policy dialogue at the international and country level, actual implementation has been mixed. IFAD also needs to further improve its human resource (HR) and financial management if it is to increase its impact. Finally, there is the risk that Australia does not adequately resource, sustain or focus its re-engagement with IFAD and so misses the opportunities for influencing IFAD's policies and programs and for drawing on IFAD's experience to inform Australia's approach to food security and rural development. It must also ensure it provides the financial and human resources required to support the level of engagement it seeks. These objectives would have to be pursued explicitly during negotiations with IFAD management to rejoin, as well as with other IFAD members. A timeline and summary of next steps for possible rejoining is provided as a guide.

This final report should be read in conjunction with the annexed Desktop Analysis.

1. Background, context, and method

1. Agriculture and rural development have always been important elements in economic growth, food security and poverty reduction in developing countries.¹ The food crisis of the early 1970s led the World Food Conference in 1974 to decide "an International Fund for Agricultural Development should be established immediately to finance agricultural development projects primarily for food production in the developing countries".² The International Fund for Agricultural Development (IFAD), a specialised agency of the United Nations, was subsequently established as an international financial institution in 1977. By 2010 it was supporting US\$2.4 billion worth of loans and grants to 92 countries and currently has 260 professional staff.³ Activities typically include rural financial services, including microfinance; linking smallholders to markets with higher value products; crop, livestock and fisheries improvement; and support for producers' associations.

2. Australia was a founding member of IFAD, but announced its intention to withdraw from the organisation in June 2004. Australia cited as its reasons for withdrawing "limited relevance to the Australian aid program's priority countries in South-East Asia and the Pacific; lack of comparative advantage and focus - other organisations are more strongly involved in rural development in our region; shortcomings in management and failure to respond to concerns that the Australian Government raised with IFAD senior management."⁴ Australia's withdrawal formally took effect in 2007, following payment of its final replenishment commitment. During its 30 years of membership, Australia provided A\$53 million (or US\$37 million) to IFAD. Australia is the only OECD country, and one of only two⁵ G20 countries, that is not a member of IFAD.

3. In November 2009, the then Minister for Foreign Affairs, the Hon Stephen Smith MP, agreed that Australia should undertake an assessment of the impact, cost-effectiveness and relevance of IFAD's operations in late 2010 to inform a decision on Australian participation in the Ninth Replenishment process commencing in 2011. This followed significant reforms undertaken by IFAD.

4. AusAID subsequently appointed a three person team, led by AusAID, to review Australia's engagement with IFAD in February-April 2011⁶. The Review Team did a Desktop Analysis of IFAD's corporate documents. It also analysed a wide range of external assessments of IFAD conducted by bilateral and multilateral development partners, independent institutions and other informed commentators, many of which included consultation with a broad range of stakeholders particularly governments of developing countries. The Review Team also:

- consulted with IFAD senior management and staff, other donors, and developing and middle income countries at IFAD's headquarters in Rome and in Hanoi where it has a country office;
- participated as observers in IFAD's 34th Governing Council and the first Consultation on the Ninth Replenishment of IFAD's resources for the three-year period 2013-2015; and
- consulted with whole-of-Government partners and AusAID staff in Canberra and overseas.

5. The IFAD Review Team also consulted with the Independent Review on Aid Effectiveness of Australia's overall aid program, being conducted concurrently. This included consulting the multilateral effectiveness adviser to the Independent Review of Aid Effectiveness on the methodology used to assess IFAD's effectiveness and the considerations for strategic engagement. AusAID will monitor the recommendations of the Independent Review on Aid Effectiveness and the Government's response to ensure they are reflected as relevant in responding to the recommendations of the IFAD review.

6. This final report should be read in conjunction with the annexed Desktop Analysis.

¹ World Bank *World Development Report 2008: "Agriculture for Development"*.

² <http://www.ifad.org/governance/index.htm>

³ *IFAD Draft Annual Report 2010* page 1.

⁴ http://www.ausaid.gov.au/hottopics/topic.cfm?Id=8056_225_1436_340_1548; Joint Standing Committee on Treaties report, *Withdrawal from the International Fund for Agricultural Development*, 2004.

⁵ Russia is a member of the G20 but, like Australia, is not a member of IFAD.

⁶ Ms Louisa Cass, Program Manager, Food Security and Rural Development, AusAID; Mr John Fargher, independent consultant; and Mr. Ian Anderson, independent consultant. Ms Caitlin Wilson, Counsellor, Australian Delegation to the OECD, led the Australian delegation for the 34th Governing Council.

2. Reasons Australia withdrew from IFAD and assessment of the current situation

7. Australia had three reasons for withdrawing from IFAD. In 2004 these were clearly valid and important enough reasons for Australia to take the significant (and protracted) step of withdrawing from a UN organisation. This section asks if those reasons for withdrawal are still valid today.

8. The first reason cited for withdrawal at the time was that **IFAD had limited relevance to the Australian aid program's priority countries in South-East Asia and the Pacific**. Developments in IFAD's - and Australia's - geographic focus since 2004 have overtaken those concerns. IFAD has adopted a performance-based allocation system to allocate resources to countries based on need including the extent of rural poverty and country performance. This has resulted in an increase in funding to South East Asia and the Pacific as per capita Gross National Income increases in many regions, as the proportion of populations in rural areas declines in other geographies due to urban migration and as middle income countries graduate to full loans.

9. However, IFAD's presence in the Pacific is still small and is not considered to be its strength. Rather, IFAD's long-term and deep engagement in Africa, the Middle East, South Asia and Latin America is seen as providing a potentially valuable partnership as Australia seeks to broaden its geographic reach and influence to these regions. In particular, Australia's investments in these non-traditional regions have a focus on food security and rural development. There is therefore now a better fit and level of complementarity than there was when Australia decided to withdraw from IFAD.

10. Chart 1 demonstrates how these complementarities have improved between 2004 and 2011, and also highlight the geographic strengths of IFAD and Australia. For the Eighth Replenishment covering 2010-2012, IFAD has allocated 43 per cent of its resources to Sub-Saharan Africa, 31 per cent to East and South Asia, 13 per cent to the Middle East and North Africa and 11 per cent to Latin America/Caribbean⁷. This compares with Australia's allocation to the Pacific of 38 per cent of its overall portfolio compared with 2 per cent for IFAD, and 38 per cent for East Asia, which is more than double IFAD's proportion at 16 per cent⁸. At the same time, while Australia is seeking more substantive engagement with regions (Africa, South Asia and Latin America) and countries (Afghanistan and Pakistan) its allocations remain low compared with IFAD. In 2011, IFAD has budgeted US\$940 million for rural development investments – compared with AusAID allocations of A\$292 million to food security and rural development in 2010-11. Geographic considerations are discussed further in Section 3.

11. The second reason cited for withdrawal was that **IFAD lacked comparative advantage and focus: other organisations were more strongly involved in rural development in our region**. This has demonstrably changed. The Desktop Analysis (see Annex) provides substantial independent evidence to show that IFAD is now seen as highly focused with a clear mandate to reduce rural poverty and hunger, particularly for poor smallholders. External reviews confirm IFAD now achieves development effectiveness, which has been enhanced as a result of institutional reforms following an Independent External Evaluation (IEE) in 2004. For example, the United Kingdom Department for International Development (DFID) recently reviewed 43 multilateral development organisations and concluded that IFAD “has a unique mandate and specialised knowledge, critical to reaching MDG 1⁹....IFAD has one of the strongest results frameworks in the multilateral system....Evaluation recommendations are followed up...its approach to economic growth is equitable through its pro-poor approach and focus on women...delivery is getting better in a challenging environment...it uses evaluation to improve results at country level, further improvement will ensure greater sustainability and efficiency”¹⁰. The value added by IFAD to UK ODA was benchmarked, favourably, against other multilateral organisations by DFID (see Chart 2). At the same time, other international financial institutions (IFIs), including the Asian Development Bank and African Development Bank, have shifted their priorities to other development sectors and away from agriculture per se. While the World Bank does invest heavily in the sector, it does not lend for agriculture in all countries and, where it does, it focuses less on smallholder producers at the grassroots level, often co-financing that work with IFAD.

⁷ IFAD (2011) *Progress report on implementation of the performance-based allocation system*. 34th Governing Council, 19-20 February 2011

⁸ AusAID (2010) *Agency resources and planned performance. FY11 Budget Papers*, Canberra Australia

⁹ Millennium Development Goal One seeks to halve the proportion of the hungry and extremely poor (those living below US\$ 1.25 a day).

¹⁰ DFID *Multilateral Aid Review: Ensuring Maximum Value for Money for UK Aid Through Multilateral Organisations*. March 2011 page 183

Review of Australia's Engagement with IFAD

2003 and 2004. It is not possible to say that the IEE and subsequent reforms were the *direct* consequence of Australia's decision to withdraw, as some within IFAD's management and other stakeholders were already conscious of the need for reform. However, the fact that an important OECD member would withdraw – and not just suspend – its membership was unquestionably a contributing factor to the overall reform agenda.

13. IFAD is now rated well by members for its attention to partnerships. IFAD has acknowledged that its response at the time Australia expressed its concerns contributed directly to Australia's withdrawal. In contrast, IFAD demonstrated a genuine approach to engagement throughout this review with a view to establishing strong mutual understanding. IFAD senior management consistently expressed to the Review Team a sophisticated and apparently genuine view about why they wanted Australia to return: it values Australia's specialist technical expertise in many areas of agriculture (such as dryland farming, fisheries regulation, biosecurity including livestock quarantine, water management and salinisation) as well as our unique and strong voice on policy issues (such as the impacts of agricultural protectionism on rural livelihoods). Given that IFAD can only use staff and consultants who are nationals of member countries, it advised that since Australia's withdrawal, it has not been able to recruit Australians it often considered the best candidates to meet the development need, or has resorted to engaging Australians by working around administrative procedures.

3. The business case for joining IFAD

14. **Australia's past concerns with IFAD have therefore been outgrown, resolved or are on a clear trajectory of improvement.** That is a necessary, but not sufficient, condition for re-engagement. A well-established business case is also required, framed with consideration of the alternatives available to the Australian Government. The need for such a business case for re-engaging with IFAD is especially strong at this time of fiscal constraint. Evidence is required that Australia is getting better value for money in choices it makes about the aid program. There is also a need for greater selectivity and focus as the aid program expands.

15. **The Review Team has found there is a business case for Australia to rejoin IFAD** and that it would be in Australia's national interest to do so. The business case is founded on eight key elements.

16. **First, IFAD's work contributes directly to achieving MDG1 to halve the proportion of the hungry and extremely poor people in the world by 2015.**¹¹ IFAD has a clear, focused – and perhaps even unique – mandate to reduce poverty and food insecurity in the rural areas of developing countries, working particularly with poor smallholders. IFAD notes that it is “the only international financial institution mandated to contribute exclusively”¹² to this objective. This conclusion is supported by other independent assessments. DFID concluded that “IFAD has a unique mandate and specialised knowledge, critical to reaching Millennium Development Goal 1 (reducing poverty and hunger).”¹³ Poverty is still a largely rural phenomenon: at least 70 per cent of those living below US\$1.25 per day, or over 1.1 billion people, live in rural areas.¹⁴ The ‘problem statement’ for international development as it relates to poverty, food insecurity, and rural development can therefore be framed as follows:

- Achieving MDG1 requires a focus on reducing rural poverty and hunger. The largest number of people living in extreme poverty on less than US\$1.25 a day are in Asia (687 million) followed by sub-Saharan Africa (306 million). However the incidence of rural poverty is higher in sub-Saharan Africa (75 per cent of all people in extreme poverty are rural) compared to Asia (70 per cent).¹⁵ Under-nutrition remains a stubborn problem: 43 per cent of children under 5 years of age are classified as underweight.¹⁶ IFAD, with its mandate of ‘enabling poor rural people to overcome

¹¹ Details on the Millennium Development Goals, adopted by the United Nations and arguably the single most important and comprehensive measure of international development, are available at <http://www.un.org/millenniumgoals/>.

¹² IFAD Strategic Framework 2007 – 2010 page 4

¹³ DFID (2011) *Multilateral Aid Review: Ensuring Maximum Value for Money for UK Aid Through Multilateral Organisations*. Page 183.

¹⁴ IFAD Rural Poverty Report 2011 page 16.

¹⁵ IFAD Rural Poverty Report 2011 pages 14

¹⁶ World Health Organisation, *World Health Statistics 2010* page 105.

Review of Australia's Engagement with IFAD

poverty' is in a unique position to respond to rural poverty, especially given its focus on smallholder producers who are disproportionately represented amongst the poor and vulnerable.

- International aid to agriculture and rural development declined over recent decades. Multilateral aid to agriculture peaked at US\$5 billion in 1981, but fell to US\$2 billion by 1995. Bilateral aid to the sector peaked at US\$7 billion in 1986 before falling to US\$3 billion in 2004.¹⁷ IFAD was one of the few organisations to retain its focus over the decades.
- The food (and fuel) price crisis in 2008 and more recent rises in the real price of food have drawn attention to the importance of agriculture and rural development and international aid is again increasing. IFAD has a strong program of not just improving agricultural productivity, but also increasing rural incomes (the key to food security and social protection).
- Agriculture is a cause, and a victim, of climate change and environmental degradation. IFAD increasingly mainstreams environmental and climate change programs into its programs.

17. Second, **despite its relatively small size, IFAD is widely seen as a developmentally effective, results-focused, value for money partner in the increasingly important rural development sector.** The DFID review concluded that IFAD is "strong" in terms of contributing to the UK development objectives (along with 17 other organisations); "good" in terms of value for money (along with 16 other organisations) and "satisfactory" in terms of organisational strengths (along with 15 other organisations). It also found that "IFAD makes an important contribution to MDG1 and has a good results framework that is used to push for continual improvement."¹⁸ The Multilateral Organisation Performance Assessment Network (MOPAN)¹⁹ Survey of 2010²⁰ found IFAD's key strengths included a clear link between its mandate and its result focused strategy; a good results measurement framework; transparency in its aid allocation decisions; and independence of the evaluation unit. IFAD's Results Measurement Framework was noted for the use of quality performance indicators and a clear hierarchy of results. IFAD believes these systems contribute to clear measures of success on the ground. For example, a snapshot of progress half-way through the Eighth Replenishment shows that in 2009, 36 million people were receiving services from IFAD, 51.49 per cent of whom were female; there were 4.8 million active borrowers (again, mainly female) from rural financial services; 4.9 million hectares of land was under improved management; 322,000 hectares of land was being rehabilitated; and 28,000 marketing groups had been formed.²¹ A comprehensive assessment of IFAD's development effectiveness is provided in the Desktop Analysis.

Box 1: AusAID outcomes for rural development

1. An increase in the rate of productivity growth for food crops, livestock and fisheries, using environmentally sustainable approaches
2. More efficient and effective international agricultural research;
3. An increased number of poor men and women accessing financial services;
4. Increased job opportunities with attractive wage rates for poor rural men and women;
5. Better returns on goods sold for poor rural men and women;
6. An increased number of poor men and women accessing resources to buy sufficient and diverse food;
7. Improved targeting of beneficiaries within social protection programs;
8. Reduction in the use of strategies to cope with food insecurity that entrench poverty.

18. **Third, there is now close alignment between IFAD and AusAID's priorities for agriculture and rural development as a vehicle for economic growth and poverty reduction.** More specifically, Australia and IFAD have complementary approaches to food security, agriculture and rural development that directly contribute to achievement of MDG1, MDG3 (promote gender equality and empower women) and MDG7 (ensure environmental sustainability). AusAID is seeking to achieve eight outcomes shown in Box 1.

¹⁷ Dethier J and Effenberger A (2011) *Agriculture and Development: a Brief Review of the Literature*. World Bank Policy Research Working Paper WPRS 5553.

¹⁸ DFID (2011). *Multilateral Aid Review: Ensuring Maximum Value for Money for UK Aid Through Multilateral Organisations*. Page 91.

¹⁹ MOPAN is an informal network of 16 donor countries, including Australia, that have a common interest in assessing the organisational effectiveness of the major multilateral organisations they fund.

²⁰ MOPAN (2011) *Common Approach Review of IFAD 2010*. Multilateral Organisation Performance Assessment Network, Helsinki, Finland.

²¹ Presentation by IFAD at Ninth Replenishment Meeting, Rome, 21 February 2011.

Review of Australia's Engagement with IFAD

19. AusAID seeks to achieve these outcomes through delivery of results in three focal themes or pillars²², which overlap significantly with the priorities of IFAD, as shown in Chart 3:

- improving agricultural productivity through more effective agricultural research;
- improving rural incomes, jobs and access to financial services through market development;
- increasing the resilience of the poorest through enhanced and expanded social protection.

Chart 3: Overlapping strategic priorities for IFAD and AusAID

| | | | | | |
|---|---|---|--|---|--|
| IFAD's other rural development priorities <ul style="list-style-type: none"> ✓ Improve the overall environment in rural areas ✓ Strengthen individual capabilities ✓ Strengthen collective capabilities of rural people ✓ Ensure that poor rural people have better access to, and the skills and organisation needed to take advantage of: <ul style="list-style-type: none"> ❖ Natural resources, especially secure access to land and water, and improved natural resource management and conservation practices ❖ Local and national policy and programming processes | <table border="1"> <tr> <td data-bbox="520 757 1029 1234"> Overlapping interests – AusAID – IFAD <ul style="list-style-type: none"> ✓ Contributing to achievement of MDGs 1, 3, 7 ✓ Increased number of poor men and women accessing a broad range of financial services ✓ More efficient and effective international agricultural research ✓ Improved agricultural technologies and effective production services ✓ Increased resilience of the rural poor through social protection and capacity to manage risk ✓ Transparent and competitive markets for agricultural inputs and produce to provide better returns on goods sold by poor rural men and women ✓ Increased job opportunities with attractive wage rates for poor rural men and women including opportunities for rural off-farm employment and enterprise development </td><td data-bbox="1029 757 1316 1516"></td></tr> <tr> <td data-bbox="520 1234 1029 1516"> Australia's other rural development priorities <ul style="list-style-type: none"> ✓ Increase the rate of productivity growth for food crops, livestock and fisheries, using environmentally sustainable approaches ✓ Increased number of poor men and women accessing resources to buy sufficient and diverse food ✓ Improved targeting of beneficiaries within social protection programs ✓ Reduction in the use of strategies to cope with food insecurity that entrench poverty </td><td data-bbox="1029 1234 1316 1516"></td></tr> </table> | Overlapping interests – AusAID – IFAD <ul style="list-style-type: none"> ✓ Contributing to achievement of MDGs 1, 3, 7 ✓ Increased number of poor men and women accessing a broad range of financial services ✓ More efficient and effective international agricultural research ✓ Improved agricultural technologies and effective production services ✓ Increased resilience of the rural poor through social protection and capacity to manage risk ✓ Transparent and competitive markets for agricultural inputs and produce to provide better returns on goods sold by poor rural men and women ✓ Increased job opportunities with attractive wage rates for poor rural men and women including opportunities for rural off-farm employment and enterprise development | | Australia's other rural development priorities <ul style="list-style-type: none"> ✓ Increase the rate of productivity growth for food crops, livestock and fisheries, using environmentally sustainable approaches ✓ Increased number of poor men and women accessing resources to buy sufficient and diverse food ✓ Improved targeting of beneficiaries within social protection programs ✓ Reduction in the use of strategies to cope with food insecurity that entrench poverty | |
| Overlapping interests – AusAID – IFAD <ul style="list-style-type: none"> ✓ Contributing to achievement of MDGs 1, 3, 7 ✓ Increased number of poor men and women accessing a broad range of financial services ✓ More efficient and effective international agricultural research ✓ Improved agricultural technologies and effective production services ✓ Increased resilience of the rural poor through social protection and capacity to manage risk ✓ Transparent and competitive markets for agricultural inputs and produce to provide better returns on goods sold by poor rural men and women ✓ Increased job opportunities with attractive wage rates for poor rural men and women including opportunities for rural off-farm employment and enterprise development | | | | | |
| Australia's other rural development priorities <ul style="list-style-type: none"> ✓ Increase the rate of productivity growth for food crops, livestock and fisheries, using environmentally sustainable approaches ✓ Increased number of poor men and women accessing resources to buy sufficient and diverse food ✓ Improved targeting of beneficiaries within social protection programs ✓ Reduction in the use of strategies to cope with food insecurity that entrench poverty | | | | | |

Sources: AusAID (2011) Food Security and Rural Development ATPR Snap-shot. AusAID Canberra; IFAD (2011) Rural Poverty Report 2011. IFAD, Rome, Italy; IFAD (2007) IFAD Strategic Framework 2007-2010. IFAD, Rome, Italy

20. **Fourth, IFAD offers partnerships in regions and sectors where Australia wishes to expand but lacks deep country or technical knowledge.** Australia has broadened the geographic reach of its aid program to sub-Saharan Africa, West and South Asia, and Latin America. Achieving substantial and sustainable development in rural areas in these regions requires deep country knowledge, especially where indigenous minorities are involved. Australia needs to partner with an agency with such knowledge and IFAD meets this need, based on more than 30 years experience of focusing on smallholder rural development in 117 countries. IFAD claims that during that time it has “empowered more than 370 million people to grow more food, better manage their land and other natural resources, learn new skills, start small businesses, build strong organisations and gain a voice

²² AusAID (2011) Food Security and Rural Development ATPR Snap-shot. AusAID Canberra.

Review of Australia's Engagement with IFAD

in the decisions that affect their lives.”²³ IFAD currently supports projects predominantly in Africa, the Middle East, Asia and Latin America. IFAD also partners with other donors focused on these regions. For example, it has a US\$1.5 billion co-financing agreement with the Islamic Development Bank, which may provide an avenue for Australia to engage well in countries such as Afghanistan, Pakistan, southern Philippines, and several countries in Africa. However, IFAD continues to have a smaller focus and less experience in working with Pacific Island Countries. The Review Team therefore recommends that Australia encourages IFAD to work in its regions of comparative advantage, and work in the Pacific only where its approach is best placed to meet a clear need.

21. Fifth, **IFAD works with rural poor people in fragile and conflict-affected areas, sometimes in areas where Australia cannot go.** IFAD has worked extensively to improve the incomes and productivity of poor rural people in fragile or conflict-affected countries including many sub-Saharan countries, Afghanistan, Pakistan, the West Bank, Nepal, Timor Leste and Solomon Islands. IFAD currently works in several border regions²⁴ of Pakistan where Australian Government officials are not permitted to enter because of security concerns. IFAD currently supports projects in Tunisia, Egypt and Yemen, where high food prices recently exacerbated social and political unrest and high unemployment.

22. Sixth, **IFAD also works to address large poverty concentrations in rural areas of emerging and middle income countries, all of which are members of the G20.** IFAD has a funding strategy to focus on large rural poverty concentrations in otherwise middle income countries such as Brazil, China, India and Indonesia. These countries made it clear to the Review Team that they value IFAD for its technical expertise in tackling persistent rural poverty, and are willing to co-finance programs and pay interest surcharges on concessional loans from IFAD appropriate to a middle income country.

23. Seventh, **IFAD offers the opportunity for strong Australian influence and profile.** The senior management of IFAD want to see Australia re-join IFAD because they value – and have missed – Australia's unique technical expertise held in the public and private sector. Australia is one of only a few OECD countries with world class technical expertise in both tropical agriculture and dryland farming. Australia also has unique and attractive policy and regulatory approaches, ranging from fisheries policy to biosecurity, including quarantine. Few other OECD countries bring Australia's perspective on international agricultural trade and market access to the policy table, including at the IFAD Executive Board. Australia is also well regarded by IFAD and development partners for its pragmatic contribution to governance in multilateral organisations and forums. Australia could also achieve high levels of impact and international profile for less ODA down-payment than would be the case in larger organisations such as the World Bank. Spain, for example, has achieved a very high level of visibility, international profile and leverage on policy and programming in IFAD and at the country level through a carefully targeted Spanish Food Security Co-financing Facility Trust Fund with IFAD, involving a loan of over €285 million (approximately US\$400 million). Equally, the UK has achieved a strong, well regarded voice in IFAD's governance by placing a highly skilled DFID officer in Rome to manage the relationship and policy campaigns with the IFAD Executive Board and Governing Council as well as with other members. Opportunities for Australia to pursue development effectiveness while achieving visibility in contributions to achieving MDG1 are identified in the following section. These considerations would be critical to ensure appropriate branding for any investment Australia might decide to make.

24. The final argument in the business case is that **IFAD is a multilateral partner of choice that would complement Australia's other investments in rural development, food security and poverty reduction more effectively than the alternatives.** Australia currently provides core funding for a number of multilateral organisations in this sector, as well as investing in major multi-donor trust funds that have global reach. These investments are outlined in Chart 4.

²³ <http://www.ifad.org/governance/index.htm>

²⁴ Khyber – Paktunkhwa, Balochistan, Gilgit – Baltistan.

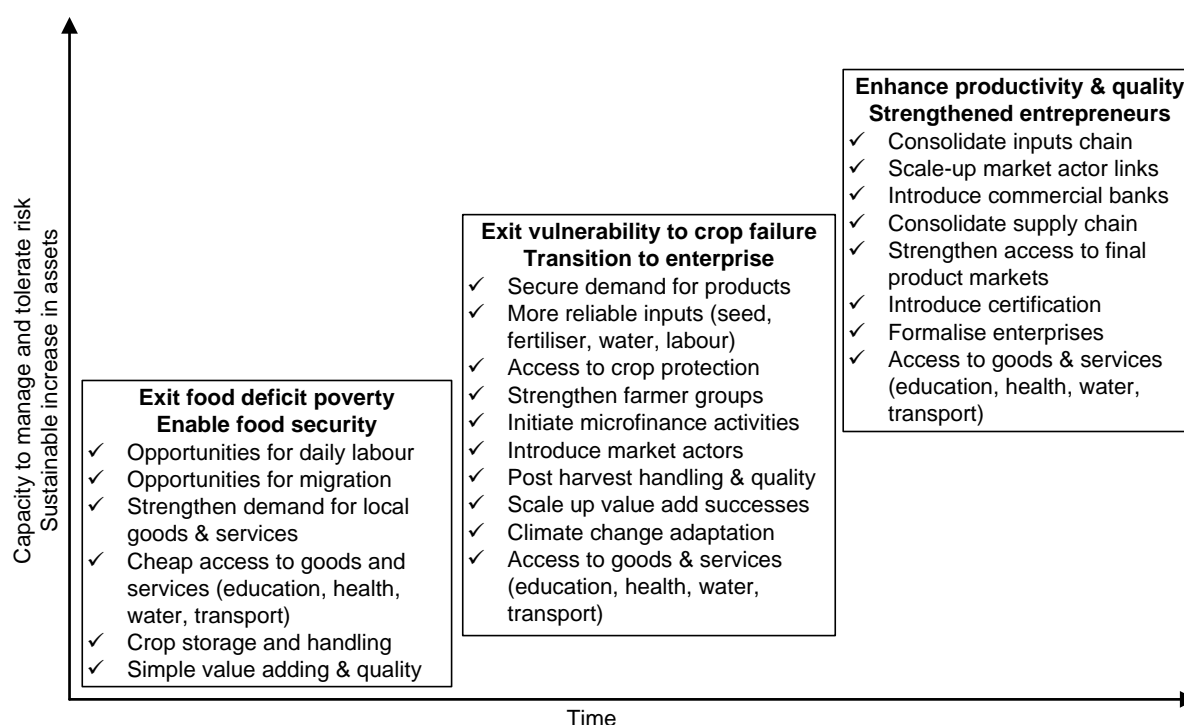
Review of Australia's Engagement with IFAD

Chart 4 : Australia's current global investments in agriculture and rural development

| Addressing the immediate needs of the most vulnerable at times of crisis | | Strengthening the medium- to long-term foundations for global food security | | | |
|---|--|---|---|--|---|
| World Food Program Humanitarian food assistance and school feeding programs | Global Food Crisis Response Program Agricultural inputs and social protection support during food crisis. Managed by the World Bank. | CGIAR Research and development for agricultural productivity growth, improved nutrition and climate change resilience | Global Agriculture and Food Security Program Address underfunding of country and regional agriculture and food security strategies through large grants. Managed by the World Bank. | FAO Standard setting for agriculture, food security policy analysis, and support to developing countries to improve agricultural productivity. | Global Crop Diversity Trust Protecting seeds for future production and the climate change resilience of genetic diversity |
| Underpinned by policy dialogue including in the G20, Committee for World Food Security (CFS), the UN High Level Taskforce on the Global Food Price Crisis (HLTF), and the L'Aquila Food Security Initiative. | | | | | |

25. While all of these investments seek to improve short to long-term food security and reduce poverty, none provide core funding for engagement with smallholder farmers and related on- and off-farm entrepreneurs across the value chain. Three quarters of the world's extreme poor live in rural areas²⁵. Evidence from AusAID analysis demonstrates that smallholder rural households transition from food insecurity through emerging enterprise to being rural entrepreneurs. This is a pathway out of poverty and into the mainstream economy, where it is possible to benefit from economies of scale (as illustrated in Chart 5). AusAID has prioritised this pathway in its approach to food security through rural development, emphasising the importance of access to markets to improve rural livelihoods and reduce poverty.

Chart 5 : Pathways out of poverty



Source: AusAID (in publication) Strategic Review of Assistance to Rural Development. Office of Development Effectiveness. Australian Agency for International Development, Canberra, Australia.

²⁵ World Bank (2008) Agriculture for Development – World Development Report; World Bank, Washington

Review of Australia's Engagement with IFAD

26. Against this backdrop, analysis of the alternatives to investing in IFAD is critical. It is important to note that this analysis considers funding that will become available through the doubling of the aid program and does not imply any changes to existing funding or partnerships, such as with the Consultative Group for International Agriculture Research (CGIAR) or the World Food Program (WFP). Nor does it imply that these existing partnerships should not receive separate, additional funding in future years as the aid budget grows. Nonetheless, even within a growing aid budget, there are “opportunity costs” (i.e. alternative, and possibly better, investments) to expenditure on IFAD. The alternatives to joining and investing in IFAD are outlined below:

- Provide funding to sectors other than agriculture and rural development: This would allow a tighter Australian focus and greater selectivity on sectors such as education and health, but would limit Australia's capacity to contribute to poverty reduction, because over 70 per cent of those in extreme poverty live in rural areas. Allocating aid funds that might otherwise have gone to IFAD to another sector entirely, such as education, would also reduce Australia's opportunities to engage in international analysis and policy dialogue on issues sustaining rural poverty, particularly the causes and consequences of food price increases.
- Provide funding to other international financial institutions engaged in agriculture and rural development: Australia could expand existing engagement with the World Bank. Global investments in the World Bank currently include the Global Food Crisis Response Program (GFRP) and the Global Agriculture and Food Security Program (GAFSP), which are considered important for addressing short-term (GFRP) and medium- to long-term food security (GAFSP). However, the World Bank's agriculture programming at country level does not focus on smallholders at the grassroots level, often co-financing IFAD to do this work. The Asian Development Bank (ADB) does not focus on the rural sector as such and the African Development Bank (AfDB) has tended to increasingly rely on cofinancing with IFAD to engage with the hard-to-reach rural poor. Australia is not currently a member of AfDB.
- Provide additional funding to the UN's World Food Programme (WFP) and/or Food and Agriculture Organisation (FAO): Australia is a member of, and has a strong partnership with, WFP. WFP is widely considered to be an effective and efficient organisation but is focused on humanitarian and emergency responses, rather than long-term rural development. Australia's relationship with FAO is managed by the Department of Agriculture, Fisheries and Forestry and has traditionally focused on FAO's normative, standard setting role for the sector. The FAO does, however, also have a significant development focus, particularly in terms of food security and agricultural development. AusAID provides some bilateral funding for FAO's work in developing countries. A larger investment would require an assessment of FAO's effectiveness in this role. For example, DFID's multilateral review found FAO does not provide value for money and needs further reform. MOPAN will review FAO in 2011.
- Provide co-financing with other bilateral donors (eg DFID, USAID) or philanthropies (eg Gates Foundation, Rockefeller Foundation etc): These are effective, efficient, and accountable partners. However none have the geographic reach of IFAD nor the UN status that affords IFAD access to some challenging environments including in Pakistan, Afghanistan, or fragile states. None of the bilateral agencies or large philanthropies has agriculture, let alone smallholder development, as the primary focus of their work. Funding and focus of bilaterals in particular tend to be more volatile than UN agencies.
- Provide additional funding to agricultural research, particularly the Consultative Group for International Agriculture Research (CGIAR) and the Australian Centre for International Agriculture Research (ACIAR): There is an established need for applied research such as to improve varieties for increased productivity and pest, disease and climate resistance and to improve farming techniques. Where such gaps exist, research is demonstrated to have a development impact (often with a long lead time). However, even the best research does not address all the binding constraints to rural development and poverty alleviation (eg market access, government policy and regulation, availability of credit and finance, post-harvest storage etc). Research is therefore not a sufficient solution on its own.

27. When compared with these alternatives, and drawing on the analysis in this report and the Desktop Analysis (see Annex), the Review Team considers that IFAD offers the most relevant package of reducing rural poverty and hunger, particularly among smallholders; development

Review of Australia's Engagement with IFAD

effectiveness; value for money; and opportunities for Australian leverage. It is the only organisation amongst the alternatives that has a single mandate for rural poverty (their ubiquitous mission statement is “enabling poor rural people to overcome poverty”). By focusing on rural smallholders, whether in low income or middle income countries, IFAD automatically reaches those who are disproportionately represented amongst the poor and vulnerable. This particularly includes women farmers, indigenous and tribal peoples, and those in remote and often environmentally stressed circumstances. As shown in the Desktop Analysis, IFAD is also now seen as a largely effective and efficient organisation in pursuing its targeted and specialised mandate, offering value for money to its members as an institution. Membership in IFAD can therefore be justified in its own right, compared to the alternatives, when measured against the goal of contributing to poverty alleviation through a value for money international organisation. Membership of IFAD would also complement the other global investments Australia is making in agriculture and rural development more broadly. It is important to note that investment in IFAD does not imply that these existing partnerships should not receive separate, additional funding in future years as the aid budget grows.

4. Opportunities to engage with IFAD

28. **IFAD's global reach provides choices and variety in the way Australia may wish to engage with countries and regions.** As a UN specialised agency, IFAD engages with very small (Burundi) and very large (Nigeria) developing countries, while also working with emerging and middle income countries such as Brazil, China, India and Indonesia to address large concentrations of rural poverty. It also engages with complex, fragile and conflict affected countries such as Afghanistan, Pakistan, and Sudan and provinces, including in the southern Philippines.

29. **Australia could generate a level of profile and identity by working with IFAD in priority countries, whilst simultaneously being relieved of much of the administrative burden, or security risk, in implementing the activities itself.** To do this, Australia could provide earmarked funds or co-financing to support activities tailored to the circumstances of priority countries. The following examples illustrate the type of geographically focused interventions Australia could support if it was a member:

- **Rural poverty and unemployment in conflict-affected regions** including Sudan, Afghanistan, Pakistan, West Bank, and several other countries and sub-regions;
- **Small countries and remote regions** where the unit costs of intervention are high. Australia could provide co-financing funds targeted at rural smallholders in target geographies such as the Indian Ocean rim; and
- **Poverty concentrations in middle income countries.** Australia could provide co-financing funds targeted at scaling up initiatives to address extreme poverty (less than US\$1.25 a day) and environmental degradation in emerging and middle income countries (for example, in eastern Indonesia, northern India, southern Philippines, central highlands of Vietnam, western China) knowing our intervention was reaching some of the largest concentrations of poor people in the world.

30. **Australia could also invest in analytical and sectoral work that is of direct interest to Australia's development and national security interests and which could inform its own approach to food security and rural development.** This could include commissioning or co-financing analytical work or funding programs, such as:

- **Analysis and targeted implementation to address poverty among vulnerable groups.** For example, Australia could commission IFAD to analyse employment opportunities for rural youth in conflict affected countries. IFAD also has strong approaches to working with poor women, indigenous groups and tribal minorities and Australia could co-finance activities targeted at their needs and addressing the constraints they face;
- **Collaborating through suitable IFAD programs and partnerships to share innovations and learnings from Australian agricultural research and other programs** as a means to achieve wider extension of research results and support scaled-up rural development impacts;
- **Scaling up initiatives to address thematic issues** known to be critical to smallholder development, such as access to markets, finance, social protection, weather/crop insurance;

Review of Australia's Engagement with IFAD

- **Targeting climate change** including in regions identified as most vulnerable to deforestation, desertification, water stress, salinisation and / or sea-level rise; and
- **Targeting issues directly related to Australia's agricultural interests**, such as co-financing to support biosecurity, including plant pest and disease control, and livestock quarantine in near neighbours such as PNG, Timor Leste, Eastern Indonesia and the Philippines.

31. **Australia could also support IFAD's institutional approaches to improve development effectiveness, including working with other members and donors.** This could include:

- **Supporting IFAD's approaches to scaling-up**, including analytical work and co-financing for IFAD activities demonstrated to deliver results. This could also be done in partnership with other donors, such as the Islamic Development Bank (possibly in Afghanistan, Egypt, Indonesia, Pakistan, or Bangladesh); and
- **Supporting IFAD to continually improve its development effectiveness and quality of operations.** This could include providing supplementary funds and/or Australia expertise to strengthen quality enhancement, implementation, supervision, monitoring and evaluation, and impact evaluation in IFAD's portfolio countries. Australia could also fund a number of Associate Professional Officers in IFAD sourced from Australia and targeted partner countries such as Indonesia.

32. **Investment in these potential opportunities could be based on performance and outcomes.** Opportunities would need to be agreed with IFAD's management and the Executive Board, as well as the developing countries concerned. This would include consideration of how Australia's contribution would be branded.

5. Counterarguments to IFAD engagement

33. There are counterarguments to and risks in any Australian re-engagement with IFAD. Four of these counter-arguments and risks lie with IFAD, and one with Australia. Each is discussed below.

34. **Scaling up is "mission critical" to IFAD's overall development effectiveness, but it is not yet being done systematically.** IFAD has often been a good incubator of innovative pilots and new approaches. However, the key to IFAD's ultimate development effectiveness cannot be judged by the quality of its own projects: it is simply too small by itself to have noticeable impact. IFAD has a large number of relatively small projects. In 2010 it had 234 projects under implementation in 92 countries, with the most common project size (n=75) falling within the range of US\$10-15 million. Only five IFAD projects were larger than US\$50 million; however, IFAD has been evolving towards larger projects in recent years. IFAD also acknowledges that "scaling up – broadly defined as replicating, expanding and adapting successful approaches and innovations – is key to effective development". It commissioned its own, and then an independent, review of the scaling up issue. As noted in the Desktop Analysis, that independent review by the Brookings Institute concluded:

"The notion that (IFAD's) existence needs to be justified on grounds of adding value through innovation and catalytic impact leading to multiplication and replication on a larger scale is firmly embodied in its lending policies and criteria as first laid out in 1978 and as subsequently amended. If successful, IFAD's projects were to be handed off to other, better resourced institutions for the scaling up of those innovations. As envisaged by its founders, IFAD was to play a proactive role in this hand-off process. Over the decades, since its creation, IFAD has tended to focus more on innovation, and less on the catalytic, scaling up dimension of its institutional mandate...

...While there are some examples of successful scaling up, the resources allocated for the purposes are insufficient and staff skills are not adequate. Up scaling has largely occurred in an informal and unsystematic manner largely due to individual initiatives."²⁶

²⁶ Brookings Institute. *Scaling up the Fight Against Rural Poverty: An Institutional Review of IFAD's Approach*.

Review of Australia's Engagement with IFAD

35. **IFAD management agree that scaling up must be made more systematic within IFAD if the organisation is to achieve substantial and sustainable development impact.** The Brookings review made several recommendations to which IFAD management is responding²⁷. For example, IFAD Management has²⁸:

- established the Office of the Chief Development Strategist to strengthen institutional capacity to promote innovation and scale-up;
- relocated IFAD's operational policy function to the Program Management Department to improve policy dialogue and thereby improve scaling up;
- opened more than 30 country offices to strengthen policy dialogue opportunities, with the criteria for selecting host countries including the presence of an enabling environment for scaling up;
- revised the IFAD Policy for Grant Financing to give higher priority to innovation and improve the synergy between loans and grants to improve scaling up of innovations;
- increased resources for non-lending activities such as policy dialogue, knowledge management and partnership building; and
- supported the Program Management Department to pay more attention to the cross-fertilisation of experiences on innovations across divisions and departments.

36. **The second counterargument concerns policy dialogue.** Governments' macroeconomic and sectoral policies for agriculture and food security will always have a larger impact on development than individual projects. Development partners can therefore have disproportionate impact on development by supporting governments to make good evidence-based public policy, drawing on well conducted pilots and trials; analytical research; and international experience. Development partners can also give voice to agriculture, rural development and food security issues at international fora, where the development agenda is always crowded with multiple problems.

While IFAD has the *potential* to shape evidence-based policy dialogue at the international and country level, its *implementation* has been mixed. On the one hand, IFAD acts as an incubator of important pilots and trials at the community level, generating evidence and insights that few others do. IFAD also undertakes useful analytical and policy related research on issues such as land grabbing, weather crop insurance, gender and agriculture, and the impact of remittances in rural areas.

IFAD also supports the formation of producer groups amongst smallholders whose voice could otherwise be ignored when governments set policies. IFAD has also had some success in shaping discussions on food security at the international level. On the other hand, as noted in the Desktop Analysis, IFAD's policy dialogue has mainly been limited to the project context. In most countries, IFAD has not engaged systematically and successfully at the national policy level or with donor coordination platforms. Nor does IFAD participate in Sector Wide Approaches, a common vehicle for policy dialogue at the country level. Analysis of IFAD's presence in Vietnam is provided in Box 2.

IFAD's management knows policy dialogue needs to be more systematic and effective. It is expected that the appointment of a permanent Chief Development Strategist in 2011 will strengthen this engagement.

²⁷ IFAD (2010) Management's response to the corporate-level evaluation of IFAD's capacity to promote innovation and scaling up. Executive Board 99th Session 21-22 April 2010. International Fund for Agricultural Development, Rome, Italy.

²⁸ IFAD (2011) IFAD Country Presence Policy and Strategy Executive Board 102nd Session 10-12 May 2011. International Fund for Agricultural Development, Rome, Italy.

Box 2: IFAD in Vietnam

Vietnam was a founding member of IFAD and has benefited from IFAD loans since 1993. Since that time 11 projects with a total value of US\$178 million¹ have been implemented in the country of which one is just starting, 4 are on-going and 6 are completed.

The Vietnam Ministry of Finance values the relationship with IFAD – it is a financier that aligns with government systems and works directly with provincial governments in the poorest regions of the country. The IFAD 2008-2012 country strategic opportunities programme (COSOP) for Vietnam aligns IFAD's support with the Government's Socio-economic Development Plan and with the principles of the Hanoi Core Statement on Aid Effectiveness. The focus is diversification of rural incomes in poor regions, improving market participation for rural entrepreneurs and economic empowerment of ethnic minorities in the central highlands.

Reflecting this, Vietnam contributes to IFAD replenishment – most recently pledging US\$500,000 for the 8th replenishment. The Ministry of Finance emphasised that "IFAD is a friendly organisation and its approach is more suitable for Vietnam". They also noted that disbursement and financial management processes were much more efficient since IFAD took over direct supervision and established its first country office with a locally-based Country Program Officer in Hanoi in 2007.

This has improved operational efficiency, disbursement processes, the quality of supervision and local ownership. However, the local presence highlights the tension between IFAD as an international financing organisation (IFI) and IFAD as a UN organisation. IFAD is not a member of the 6-Banks group of IFIs working in Vietnam – because it has a relatively small portfolio and is sector-specific. At the same time the One-UN reforms being implemented in Vietnam do not really suit IFAD since it is not integral to the One-UN Plan or One-UN budget for the country. IFAD is therefore in a space where it works directly with provincial governments and local communities but has limited policy dialogue with central agencies. The One UN Representative in Vietnam noted that the UN would benefit from making better use of IFAD's policy capacity – its practical experience in decentralised implementation and addressing the needs of the rural poor in Vietnam.

Despite this policy gap, the Ministry of Agriculture and Rural Development said that it learned from IFAD project experiences – for example, lessons learned in participatory planning and the role of markets and microfinance to enable rural enterprises to grow informed the Communist Party of Vietnam *Tam Nông* policy for rural development.

37. **IFAD needs to further improve its HR and financial management if it is to increase its impact.** There is widespread consensus, inside and beyond IFAD that the future efficiency and effectiveness of the organisation depends upon further substantive reforms in HR management. Amongst other things, IFAD needs to bed down and further expand its in-country presence; significantly streamline the support staff to professional staff ratio; have more flexible, performance based, procedures; and upgrade professional skills. The reform agenda extends to financial management as well. IFAD has demonstrated certain strengths as an IFI, including a track record in mobilising and leveraging additional financing for rural development. Independent assessments conclude IFAD has good systems for audit, anti-corruption, risk management and procurement. However it needs to improve the efficiency of its financial management; speed up disbursement rates; and better align its systems to that of an IFI with a rapidly growing portfolio, rather than that of a relatively small UN Specialised Agency. Further details are outlined in the Desktop Analysis.

38. **However, the fact that IFAD needs to continue reforms in HR and financial management is not sufficient reason for Australia to stay disengaged from IFAD.** All of the HR and financial challenges are manageable and IFAD has processes underway to implement reforms. IFAD's management has demonstrated a track record in implementing organisational change and has shown it is prepared to take the hard decisions: for example, unlike the other two Rome-based UN agencies, IFAD did not approve any increase in general staff costs during 2011. The Executive Board and management agree on the need for future reform and largely agree on how to get there, including through the IFAD Strategic Framework 2011–2015; Results Measurement Framework; and external appointment of a new Director of Human Resource Management.

39. There is always some **risk of political controversy, including corruption**, when investing in development. IFAD engages with some of the poorest – and most corrupt – countries in Africa and Asia. The Review Team is not aware of any evidence to suggest that IFAD has a systemic weakness with respect to corruption. To the contrary, independent assessments such as those by

Review of Australia's Engagement with IFAD

MOPAN rate IFAD well with respect to anti-corruption. Increasing use of direct supervision, and in-country presence, should also help reduce risks of corruption.

40. The President of IFAD attracted media criticism²⁹ recently over what was seen as extravagance in his private accommodation and allowances. The Review Team understands, and media commentary agrees, that this issue was one of poor judgement, rather than corruption, and new accommodation is being sought for the President. An Emoluments Committee has been re-established to review the overall emoluments and other conditions of employment of the President and develop guidelines regarding the President's housing.

41. **The Review Team considers that these risks are manageable.** IFAD's management has demonstrated leadership and commitment to implement reforms over a number of years and has articulated a vision for ongoing reform in its planning documents for the Ninth Replenishment. Donor member countries are committed to support IFAD to implement reforms and have demonstrated confidence in its progress (as evidenced in the Desktop Analysis), albeit noting a desire for this to be sustained to address the outstanding issues. Australia would need to work closely with other donors and with other like-minded member countries to ensure these risks are managed through IFAD's governance mechanisms.

42. There is one counter-argument and risk to possibly re-joining IFAD that rests with Australia. **If Australia does not adequately resource, sustain or focus its re-engagement with IFAD, it will miss the opportunities to influence and contribute to the improvement of IFAD's policies and programs. Australia's ability to draw on IFAD's experience to inform its own approach to food security and rural development would also be minimised.** While membership of IFAD represents good value for money³⁰, the Review Team considers that membership of IFAD is about much more than money. It is about the opportunity to engage in policy and programming with a partner who works in innovative, private sector-focused ways with poor smallholders, a target group for Australia's aid program. It also provides an opportunity to engage more deeply with regions (Africa, Middle East, Latin America) and with development partners (Islamic Development Bank, OPEC countries) with which Australian aid has not traditionally worked in development. This will require active, sustained, engagement from Australia with a good blend of technical, developmental and policy expertise. Australia would therefore need to ensure appropriate representation should it seek to rejoin IFAD.

²⁹ The Economist, *High life: Hard questions for a poverty buster*, p57, 29 January 2011

³⁰ This is the conclusion of DFID, as noted in paragraph 3.6 of the Desktop Analysis

6 Process for re-engagement

77. **If the Government decides, in principle, to seek to rejoin IFAD, Australia's treaty process will need to be followed.** Australia's case is unique – we were a founding member, but deposited an instrument of denunciation to withdraw from IFAD, and would now be seeking to re-join. IFAD has therefore advised it will need to seek advice from its Legal Department on Australia's status and the process involved. The following summary is therefore provided as a guide, based on an assumption that the treaty action would involve Australia preparing an instrument of accession to the Agreement Establishing the International Fund for Agricultural Development (the IFAD Agreement). The process involved will take at least 6-9 months to complete.

78. Following this process, Australia would need to seek the approval of the IFAD Governing Council, with the support of the Executive Board. The Governing Council meets annually and will next meet in February 2012, at which time the composition of the Executive Board for the following three years will also be determined. It would be ideal if Australia could be a member by this time as it allows Australia to pursue an active role in IFAD's governance over the next three years. To meet this timeline, Australia's application for membership would need to be tabled with the Executive Board no later than its meeting in December 2011. This timing is ambitious, but feasible subject to all steps proceeding to a very tight schedule.

79. AusAID will monitor the recommendations of the Independent Review on Aid Effectiveness and the Government's response to the review to ensure they are reflected as relevant in responding to the recommendations of the IFAD review.

80. **Mandate to negotiate:** A Ministerial Submission will be prepared for the Minister to approve the recommendations of the review and provide a mandate to commence the treaty action to rejoin IFAD. This will involve following Australia's treaty action process, as outlined below. Agreement is required to be indicated by relevant Ministers, including the Attorney General, Treasurer and Minister for Finance. When the mandate has been provided, the Government could announce that it intends to rejoin IFAD, subject to completion of Australia's treaty processes.

81. In the meantime, consultation would be undertaken with the States and Territories to seek their views on whether Australia should rejoin IFAD, subject to the Government's decision on the review process. This is being done through the Commonwealth-State-Territory Standing Committee on Treaties (SCOT), which next meets on 17 May. The States and Territories did not provide any comment at the time of Australia's withdrawal from IFAD.

82. **Negotiations and finalisation of the text:** As the treaty action would involve acceding to an existing Agreement, the text does not need to be negotiated. However, consultation must be undertaken with relevant agencies, interest groups and peak bodies, such as ACFID and the National Farmers Federation. Approval is then sought from the Minister to table the proposed treaty action in Parliament.

83. **Scrutiny by Parliament:** All treaty actions are tabled in both Houses of Parliament. As this would be a major treaty action, DFAT advises that it would need to be tabled for 20 joint sitting days of Parliament. Subject to the parliamentary calendar, tabling can last 3-7 months. A treaty action must be tabled with a National Interest Analysis (NIA), explaining why Australia should become a party to the treaty, including any impacts, obligations and financial costs for Australia. The consultations conducted by AusAID must also be detailed.

84. The Joint Standing Committee on Treaties (JSCOT) examines the treaty during the tabling period. It would likely hold a public hearing, which AusAID officials would be required to attend, and public comment would be invited. The JSCOT then reports to Parliament and makes recommendations to Government, to which a formal response may be required. Final treaty action is not usually taken until after the JSCOT's report is tabled.

85. **Executive Council approval:** Approval must be sought from Executive Council for accession to the Agreement to occur. Legislation must be in place at this point. The *International Fund for Agricultural Development Act 1977* (the IFAD Act) was not repealed at the time of Australia's

Review of Australia's Engagement with IFAD

withdrawal from IFAD. Advice will be sought from AGD; however, the IFAD Act will likely need to be updated to reflect amendments made to the IFAD Agreement (included in a schedule to the Act) since the legislation was enacted. While this should be relatively straight-forward, it will nonetheless need to be passed by Parliament.

86. Following approval from Executive Council the Minister would sign the instrument of accession to be deposited with the Secretary General of the United Nations. An announcement can be made at this time that Australia will join IFAD.

87. **Entry into force:** IFAD's membership process requires applicant countries to seek the support of IFAD's Executive Board. The application is then approved by the IFAD Governing Council, which includes all members. Australia's instrument of accession would be deposited after approval is given and the treaty would enter into force for Australia.

7. Conclusion

88. If Australia were to rejoin IFAD as a contributing member, the Australian Government should have a clear strategy for engagement with IFAD, based on consideration of the options for achieving greatest development impact and influence. It would also need to ensure it provides the financial and human resources required to support the level of engagement it seeks. These objectives would need to be pursued explicitly during negotiations with IFAD management to rejoin, as well as with other IFAD members.

ANNEX

**DESKTOP ANALYSIS OF THE INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT**

**AN ASSESSMENT OF DEVELOPMENT AND
ORGANISATIONAL EFFECTIVENESS**

MARCH 2011

Review of Australia's Engagement with IFAD

EXECUTIVE SUMMARY

Purpose

The Australian Agency for International Development (AusAID) is reviewing Australia's engagement with the International Fund for Agricultural Development (IFAD). Australia withdrew from IFAD in 2007 due to concerns over its relevance to the Australian aid program and its development and organisational effectiveness.

The review includes consultation with:

- IFAD senior management and staff and development partners at IFAD's headquarters in Rome and in Hanoi, where it has a country office;
- whole-of-Government partners in Canberra; and
- AusAID staff in Canberra and overseas.

AusAID commissioned this review of IFAD as a background paper to assist the Government to make a well informed decision on future engagement.

Scope and approach

This review summarises what is currently known about IFAD, providing a factual and where possible quantitative analysis of its development and organisational effectiveness. The review draws on IFAD's corporate documents and a wide range of external assessments of IFAD by bilateral and multilateral development partners, independent institutions, and other informed commentators. The main documents used in the literature review are cited in the References page at the end of this paper.

As a desktop review, this paper does not draw out options or implications for Australia possibly re-engaging with IFAD, nor make recommendations. Rather, this paper will be used to inform the final report of the review, which will include an assessment of the relevance and comparative advantage of IFAD and strategic opportunities for potential engagement.

Overview of findings

Agriculture and rural development have always been critical to development, but have suffered from under investment for many years. Poverty, rising food prices and climate change have all combined to put a much larger focus on agriculture and rural development in recent years. Despite its very small size, IFAD is particularly well placed to contribute to policy and programming responses to the current challenges. It has maintained a clarity of purpose and mandate around smallholder rural producers over several decades. IFAD has also adopted a strong 'managing for results' focus; has mobilised and leveraged financing for rural development; has increased its role in direct supervision of projects; mainstreamed gender and climate change issues; and developed good quality checks from quality at entry through to ex post evaluation.

However IFAD has challenges. IFAD needs to work more systematically to scale up its programs if it is to achieve substantial and sustainable development impact. IFAD also needs to strengthen its capacity for policy dialogue at the country, regional and international levels. It needs to continue its process of internal administrative reform, including to address unwieldy and inefficient financial and human resource management. IFAD's management acknowledges these challenges, has commissioned analyses to guide its responses and has documented implementation plans.

Review of Australia's Engagement with IFAD

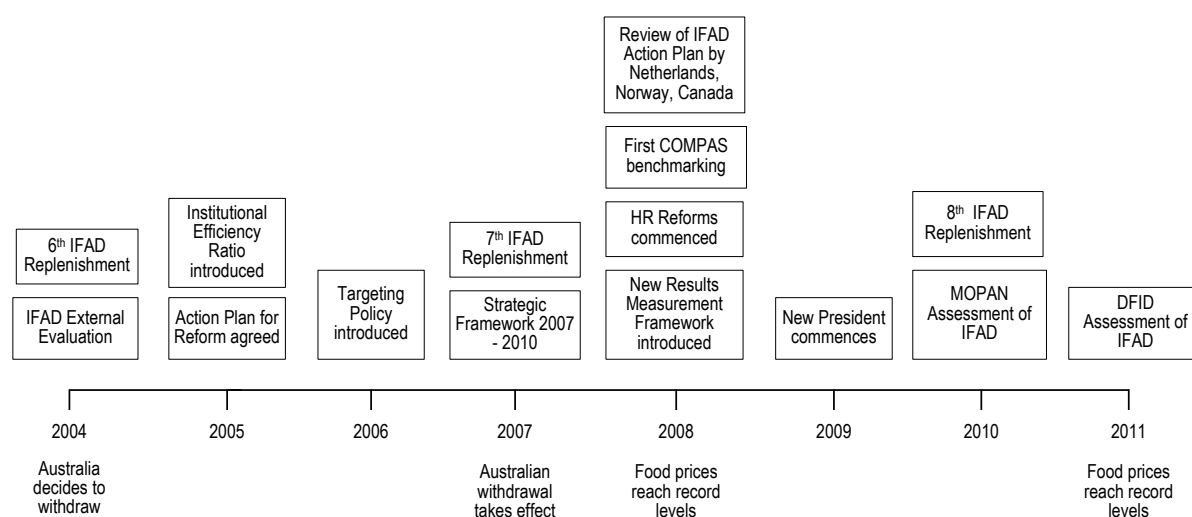
1. Background and context

1.1. Agriculture and rural development have always been an important element in economic growth, food security, and poverty reduction in developing countries.³¹ The food crisis of the early 1970s led the World Food Conference in 1974 to decide "an International Fund for Agricultural Development should be established immediately to finance agricultural development projects primarily for food production in the developing countries."³² IFAD, a specialized agency of the United Nations, was subsequently established as an international financial institution in 1977. By 2010 it was supporting US\$2.4 billion worth of loans and grants to 92 countries annually and currently has 260 professional staff.³³ Activities typically include rural financial services, including microfinance; linking smallholders to markets with higher value products; crop, livestock and fisheries improvement; and support for producers' associations.

1.2. Australia was a founding member of IFAD, but announced its intention to withdraw from the organisation in June 2004. Australia cited as its reasons for withdrawing "limited relevance to the Australian aid program's priority countries in South-East Asia and the Pacific; lack of comparative advantage and focus - other organisations are more strongly involved in rural development in our region; and failure to respond to concerns that the Australian Government raised with IFAD senior management."³⁴ Australia's withdrawal formally took effect in 2007.

1.3. IFAD initiated an Independent External Evaluation in 2004 to review its overall effectiveness. This led to a series of institutional and organisational reforms, summarised below.

Chart 1: Timeline of IFAD reforms



1.4. This paper examines the development and organisational effectiveness of IFAD in the light of those reforms and the changing environment for international aid to agriculture and rural development.

2. Analysis of IFAD's development effectiveness

2.1. This section of the report assesses IFAD's overall development effectiveness. While obviously related to organisational effectiveness – the subject of the next section – the focus here is on the role and contribution IFAD ultimately makes to development in the field. The review finds that IFAD has several strengths with respect to development effectiveness, but some ongoing challenges as well.

³¹ World Bank (2008) *World Development Report 2008: "Agriculture for Development"*.

³² <http://www.ifad.org/governance/index.htm>

³³ IFAD *Draft Annual Report 2010* page 1.

³⁴ http://www.ausaid.gov.au/hottopics/topic.cfm?Id=8056_225_1436_340_1548

Review of Australia's Engagement with IFAD

2.2. IFAD has a mandate focused on poor rural smallholders. IFAD has a clear, focused, targeted – and perhaps even unique – clarity of purpose and position engaging with poor smallholders in developing countries. IFAD notes that it is “the only international financial institution mandated to contribute exclusively to reducing poverty and food insecurity in the rural areas of developing countries.”³⁵ Part of the IFAD logo is the simple, clear, readily understood message “enabling poor rural people to overcome poverty”. IFAD states that it “has an absolute advantage when it comes to working with and advocating for smallholders. As an international financial institution and a United Nations specialized agency, we are the only such organization dedicated exclusively to reducing rural poverty in developing countries.”³⁶

2.3. This conclusion is supported by other independent assessments. The recent and comprehensive Multilateral Aid Review by the United Kingdom's Department for International Development (DFID) concluded that “IFAD has a unique mandate and specialised knowledge, critical to reaching Millennium Development Goal 1 (reducing poverty and hunger).”³⁷ A recent independent report by the Brookings Institute also noted that:

“IFAD has established a track record over 30 years as a reliable, steady supporter of community-based rural development, at a time when other donors substantially reduced their engagement; as a de facto “vertical fund,” IFAD benefits from the popularity that such funds enjoy in today's development assistance, where governments and the general public in donor countries value the thematic focus, results orientation and accountability of vertical funds.”³⁸

2.4. IFAD has responded to related development challenges, such as climate change, without losing its focus on smallholders. Agriculture is a cause, and a victim, of environmental stress and climate change. According to the Intergovernmental Panel on Climate Change, farming directly accounts for 13.5 per cent of greenhouse gas emissions, and land use changes (often cutting down jungle for fields) are responsible for a further 17.4 per cent.³⁹ IFAD has increased its program attention to issues such as natural resource management, desertification, multiple water use management, land tenure, and preserving and rehabilitating vast peat swamps (a cross border source of ecosystem degradation and loss of carbon sequestration in South East Asia). IFAD has recently created a new Environment and Climate Division within the organisation.

2.5. IFAD has a pro-poor focus at the country level, and engages well with fragile states. In 2010, 84.5 per cent of IFAD's program and project financing was to low income food-deficit countries as defined by the FAO and 56.3 per cent to the United Nations classified least developed countries.⁴⁰ IFAD also engages extensively with fragile or conflict-affected countries including Afghanistan, Pakistan, Sudan, Nepal, Mozambique, West Bank, Timor Leste and Solomon Islands. DFID concluded that “IFAD has strong performance in fragile states with evidence of impact in country.”⁴¹ IFAD's loan and grant financing instruments have four different levels of lending terms, calibrated to take account of specific country economic circumstances and capacity for developing countries to achieve debt sustainability.⁴²

2.6. IFAD also has a strong pro-poor focus within countries, including targeting women and indigenous peoples. Three quarters of the world's extreme poor live in rural areas.⁴³ By focusing on rural smallholders, whether in low income or middle income countries, IFAD automatically reaches those who are disproportionately represented amongst the poor and vulnerable. This particularly includes women farmers, indigenous and tribal peoples, and those in remote and often

³⁵ IFAD Strategic Framework 2007 – 2010 page 4

³⁶ Opening address by President of IFAD during his opening address to the 34th Governing Council of IFAD, February 2011.

³⁷ DFID (2011) *Multilateral Aid Review: Ensuring Maximum Value for Money for UK Aid Through Multilateral Organisations*. Page 183.

³⁸ Brookings Institute (2010) *Scaling up the Fight Against Rural Poverty: An Institutional Review of IFAD's Approach*. Page 3

³⁹ The Economist. The 9 billion – people question: A special report on feeding the world.

⁴⁰ IFAD Draft Annual Report 2010 page 69.

⁴¹ DFID (2011) *Multilateral Aid Review: Ensuring Maximum Value for Money for UK Aid Through Multilateral Organisations*. Page 183.

⁴² IFAD Draft Annual Report 2010 page 72 and 80

⁴³ IFAD Rural Poverty Report 2011 and http://www.ifad.org/sf/strategic_e.pdf

Review of Australia's Engagement with IFAD

environmentally stressed circumstances. There is evidence that IFAD has targeted, yet simultaneously mainstreamed, the poor, including women, into its policies, programs, and analytical work.⁴⁴ It works to give 'voice' to women's groups through forming and supporting women's producer associations. The DFID review concluded that IFAD's "approach to economic growth is equitable through its pro-poor approach and focus on women; IFAD has strong performance on genderwith evidence of impact in country."⁴⁵ IFAD also has a policy of investing about 20 per cent of its loan and grant programs in development for indigenous peoples.⁴⁶

2.7. IFAD emphasises strategic management, with a focus on results and outcomes. IFAD states that: "several results-oriented reforms have been implemented recently through IFAD's Action Plan⁴⁷ for its Development Effectiveness, including: the reformulation of IFAD's Strategic Framework, the establishment of results-based Country Strategies and Programmes, an enhanced quality-at-entry process, a new supervision policy, knowledge management and innovation strategies, and enhanced country presence."⁴⁸ IFAD also has a clear approach to Managing for Development Results.⁴⁹ It also has a Performance Based Allocation (PBA) system which seeks to balance country needs while rewarding good performance. In 2008, 94 per cent of IFAD's resources annual commitments were made in line with the PBA.⁵⁰ IFAD has a transparent Results Management Framework with indicators aimed at capturing better country program management; better project design; and better supervision and implementation, as well as a four tier results matrix used for results based budgeting.⁵¹ IFAD also assesses its impact on rural poverty using five "impact domains." It concludes around 80 per cent of projects now perform "moderately satisfactory or better" with respect to four⁵² of those impact domains. However, only around 50 per cent of projects have a "moderately satisfactory or better" rating when it comes to the fifth impact domain: natural resources and the environment.⁵³ IFAD believes all these various systems contribute to clear measures of success on the ground. For example, a snapshot of progress half way through the Eighth Replenishment shows that in 2009, 36 million people were receiving services from IFAD in 2009, 51.49 per cent of whom were female; that there were 4.8 million active borrowers (again, mainly female) from rural financial services; that 4.9 million hectares of land was under improved management; that 322,000 hectares of land was under rehabilitation; and 28,000 marketing groups formed.⁵⁴

2.8. Independent assessments confirm IFAD's strong focus on results. The Multilateral Organisation Performance Assessment Network (MOPAN)⁵⁵ Survey of 2010⁵⁶ found IFAD's key strengths included a clear link between its mandate and its result focused strategy; a good results measurement framework; transparency in its aid allocation decisions; and independence of the evaluation unit. IFAD's Results Measurement Framework was noted for the use of quality performance indicators and a clear hierarchy of results. Similarly, the results-based Country Strategic Opportunities Programs (COSOP) were acknowledged for aligning expected results to national development goals. The DFID review found that "IFAD makes an important contribution to MDG 1

⁴⁴ See for example: *Poverty targeting in IFAD – supported projects. Guidance Note and IFAD's Performance with regard to Gender Equality and Women's Empowerment.* IFAD Office of Evaluation 2010.

⁴⁵ DFID *Multilateral Aid Review: Ensuring Maximum Value for Money for UK Aid Through Multilateral Organisations.*

⁴⁶ *IFAD Medium Term Plan 2010 – 2012.* Page 24

⁴⁷ In 2005, IFAD's Executive Board approved an Action Plan for 2007 to 2009 to make IFAD's work more effective, efficient and relevant.

⁴⁸ <http://www.ifad.org/deveffect/mfdr.htm>

⁴⁹ "If you measure results, you can report success; If you can see success, you can reward it; If you can reward success, you are less likely to reward failure; If you can see success, you can learn from it; If you can recognize failure, you can correct it; If you can demonstrate results, you can win public support". Available at <http://www.ifad.org/deveffect/mfdr/index.htm>

⁵⁰ Common Performance Assessment System (COMPAS) Multilateral Development Banks 2008 Report. Page 30

⁵¹ *IFAD Medium Term Plan 2010 – 2012* page 26 and 40

⁵² The five impact domains are: household income and assets; food security and agricultural productivity; human and social capital and empowerment; natural resources and the environment; and institution and policies.

⁵³ *Annual Report on Results and Impact of IFAD Operations Evaluated in 2009.* IFAD. 2011. Page 22

⁵⁴ Presentation by IFAD at Ninth Replenishment Meeting, Rome, 21 February 2011.

⁵⁵ MOPAN is an informal network of 16 donor countries, including Australia, that have a common interest in assessing the organisational effectiveness of the major multilateral organisations they fund.

⁵⁶ MOPAN (2011) *Common Approach Review of IFAD 2010.* Multilateral Organisation Performance Assessment Network, Helsinki, Finland

Review of Australia's Engagement with IFAD

and has a good results framework that is used to push for continual improvement.”⁵⁷ DFID rates IFAD's overall contribution to UK development objectives “strong”, and its strategic / performance management at 3 out of 4.

2.9. An assessment of IFAD's Action Plan in 2008 by Canada, the Netherlands and Norway found that “Under the heading of Managing for Development Results (MfDR), IFAD has developed a system for monitoring and reporting on results at multiple levels. This system should allow for more effective results reporting and evaluation as it is more fully implemented.” A more recent desk study of IFAD by New Zealand found that “despite some initial difficulty IFAD has led a credible process of reform, delivered very solidly on the Plan of Action deliverables, including those added later to address difficulties on the human resources area, and are monitoring the development effectiveness results of this work transparently and robustly.” The Common Performance Assessment System (COMPAS) Multilateral Development Banks 2008 review⁵⁸ recorded generally positive findings for IFAD's strategic management and corporate governance.

2.10. **IFAD has an integrated, market-friendly, framework for understanding rural poverty.** IFAD recognises that food security is as much to do with economic development, employment, and raising rural incomes as it is about increasing crop productivity. Unlike some UN organisations, it has a market-friendly approach to development, and sees smallholders as legitimate and important parts of the private sector. IFAD's *Rural Poverty Report 2011* contains substantial and evidence-based insights into the challenges and opportunities facing rural smallholders.

2.11. **As a small organisation, IFAD invests heavily in partnerships and harmonisation.** IFAD is a signatory to the 2005 Paris Declaration on Aid Effectiveness. Harmonisation forms part of the context within which the IFAD Strategic Framework 2007-2010 was prepared. The Programme Management Division participates in harmonisation and alignment initiatives, as far as this involves coordination and streamlining of program activities with those of other donor agencies, and aligning these with agendas and systems of governments to whom loans are given through the IFAD portfolio.⁵⁹ IFAD tends to be rated well by other organisations in terms of its capacity for partnerships. DFID's Multilateral Aid Review, for example, gives it a score of 3 out of 4 for “partnership behaviour.” FAO claims it, WFP and IFAD work closely together and well, “delivering as one.”⁶⁰

2.12. **IFAD demonstrably achieves its core mandate of mobilising resources for agriculture and rural development in developing countries.** IFAD states that, since 1978, it has mobilised close to US\$20 billion in co-financing and funding from domestic sources for rural development, in addition to IFAD core funding contributions of more than US\$12 billion in loans and grants.⁶¹ IFAD further states that “for every dollar contributed to the Eighth Replenishment, IFAD mobilised another US\$6 more from its partners for rural development”.⁶² This will be an important foundation as IFAD strengthens its focus on scaling up successful implementation. Co-financing, especially with the World Bank, has grown from US\$67.3 million in 2006 to US\$578.9 million in 2010.⁶³ IFAD also has a US\$1.5 billion co-financing agreement with the Islamic Development Bank.

2.13. Despite these positive findings, there are areas where IFAD needs to improve if it is to leverage up its development effectiveness and impact.

2.14. First, **scaling up is “mission critical” to IFAD's development effectiveness.** IFAD has often been a good incubator of innovative pilots and new approaches. However the key to IFAD's ultimate development effectiveness cannot be judged by the quality of its own projects: it is simply too small by itself to have noticeable impact. IFAD acknowledges that “scaling up – broadly defined as replicating, expanding and adapting successful approaches and innovations – is key to effective

⁵⁷ DFID (2011). *Multilateral Aid Review: Ensuring Maximum Value for Money for UK Aid Through Multilateral Organisations*. Page 91.

⁵⁸ *Common Performance Assessment System (COMPAS) Multilateral Development Banks 2008 review*. However, it needs to be noted that COMPAS review essentially involves self – reporting and cannot be considered independent.

⁵⁹ <http://www.ifad.org/operations/pf/finance/role.htm#donor> accessed February 14, 2011.

⁶⁰ <http://www.fao.org/rome-based-agencies/en/>

⁶¹ *IFAD at a Glance*. IFAD publication.

⁶² Statement by IFAD President Nwanze to the 34th Governing Board on 19 February 2011.

⁶³ *IFAD Draft Annual Report 2010* page 1.

Review of Australia's Engagement with IFAD

development".⁶⁴ IFAD therefore commissioned its own Corporate Level Evaluation on innovation and scaling up.⁶⁵ IFAD then commissioned a similarly rigorous and independent review of the challenges and opportunities of scaling up - one of the first of its kind to be done - from the Brookings Institute. (It is worth noting in this context that the Brookings Institute has also been commissioned by AusAID to do a review of approaches to taking activities to scale in fragile and low capacity environments). The Brookings Institute report found, inter alia, that:

"IFAD is a relatively small player in the area of rural development. The notion that its existence needs to be justified on grounds of adding value through innovation and catalytic impact leading to multiplication and replication on a larger scale is firmly embodied in its lending policies and criteria as first laid out in 1978 and as subsequently amended. If successful, IFAD's projects were to be handed off to other, better resourced institutions for the scaling up of those innovations. As envisaged by its founders, IFAD was to play a proactive role in this hand-off process. Over the decades, since its creation, IFAD has tended to focus more on innovation, and less on the catalytic, scaling up dimension of its institutional mandate.

....."While there are some examples of successful scaling up, the resources allocated for the purposes are insufficient and staff skills are not adequate. Up scaling has largely occurred in an informal and unsystematic manner largely due to individual initiatives." ⁶⁶

2.15. IFAD Management said at the 34th Governing Board in February 2011 that they agreed scaling up was "mission critical" and that strategies for scaling up are now required in IFAD project design and country strategies.

2.16. Second, **IFAD makes low use of country systems**. MOPAN donors in-country rated IFAD as inadequate on four out of the five micro-indicators related to its use of country systems. Data from the 2008 Survey on Monitoring the Paris Declaration indicate the proportion of IFAD loans and grants that is captured in the budgets of client countries (Indicator 3) is low in relation to the target of the Paris Declaration. IFAD notes there are definitional issues that may limit the extent to which the data on this indicator can fully reflect IFAD operations. A similar situation arises with regard to the Paris Declaration indicator on the predictability of aid (Indicator 7). IFAD's performance on the Paris Declaration indicator on use of common arrangements or procedures (Indicator 9) will always be limited by its policy to not use Sector Wide Approaches (SWAs).

2.17. An independent review puts IFAD's reluctance to engage in SWAs and country systems in a broader context. The Brookings Institute found that:

While IFAD recognizes the potential of budget support operations for influencing the broader budgetary allocation mechanism—and hence a way to scale up the impact of its own limited financial resources—it is concerned that this will remove it too far from its main role of on the ground engagement with poor farmers. Hence, IFAD has generally not provided budget support.

2.18. While IFAD could be criticised for not using country systems more, another independent review rated IFAD highly for minimising the burden on national development managements.⁶⁷

2.19. IFAD also has a **mixed record with respect to policy dialogue**. On the one hand, IFAD has some strong formal statements in support of policy dialogue. For example, the IFAD Medium Term Plan states that "with most of the net food-deficit countries contributing less than 10 per cent of their fiscal allocations to the agricultural sector, IFAD's policy dialogue work at the country level is vital to developing a conducive environment and the conditions needed to generate the intended food security and rural development impacts." The draft IFAD Strategic Framework 2011-2015 prominently identifies "improved policy and regulatory frameworks at local national international

⁶⁴ IFAD Draft Annual Report 2010 page 53.

⁶⁵ IFAD's Capacity to Promote Innovation and Scaling Up. Office of Evaluation. June 2010.

⁶⁶ Brookings Institute. *Scaling up the Fight Against Rural Poverty: An Institutional Review of IFAD's Approach*.

⁶⁷ Birdsall, N. and Kharas, H., (2010) *Quality of Official Development Assistance*. Centre for Global Development. Washington DC, USA.

Review of Australia's Engagement with IFAD

levels.” IFAD has also produced useful analytical research that can form an evidence base for policy dialogue including on topics such as land grabbing, weather index insurance and the like. IFAD also argues that its support for farmer and producer associations, and rural women's groups, strengthens the voice of civil society in rural areas, which in turn strengthens policy dialogue by making government more accountable. IFAD also argues that its increasing staff presence in-country provides an opportunity for increased policy dialogue. This view is supported by partner governments and by other donors.

2.20. On the other hand, **IFAD does not yet systematically pursue policy dialogue**. The latest Annual Report on Results and Impact (ARRI) notes that “policy dialogue has mainly been limited to the project context. In most countries, IFAD has not engaged systematically and successfully at national at the national policy level or with donor coordination platforms.”⁶⁸ As noted above, IFAD does not participate in SWApS, a common vehicle for policy dialogue at the country level. The Brookings Institute also found that:

A key success factor will be the creation of a suitable policy space. So far, IFAD has not taken a strong role in financial sector policy analysis, dialogue and reform. If the conditions for a sustained and scaled up private sector to lend to rural producers is to emerge, policy and regulatory reform will have to play a major role. Partnerships, especially with the EU and the World Bank, could be developed to build a platform for reforms.

2.21. **IFAD has had some success at helping shape international agendas** and policy on agriculture. Examples include the President of IFAD chairing high level food security issues at the World Economic Forum, IFAD's role in the G8 Summit in l'Aquila, and contribution to OECD Ministers of Agriculture negotiations on food. The opportunities – and need – for IFAD to further contribute to international policy discussions will increase over coming years as food prices rise and become increasingly centre stage in a range of international economic and development forums. All the members of the G20, except Australia and Russia, are active members of IFAD.

3. Analysis of IFAD: Organisational effectiveness

3.1. This section of the report assesses IFAD's organisational effectiveness. While clearly linked to development effectiveness, the focus in this section is on the internal workings of IFAD and the way it conducts its business. Once again, IFAD has strengths but also challenges.

3.2. **IFAD's hybrid nature as a UN organisation and an International Financial Institution (IFI) is, on balance, a strength.** IFAD was intentionally set up as a hybrid: both a UN specialised agency and an IFI. This is therefore a logical starting point for assessing its organisational effectiveness. As a UN agency, IFAD is clearly valued by developing country members. It is seen by them as an essentially apolitical, technically focused institution, not prone to the potential unpredictability of bilateral partners financing or political overlays. However, as an IFI, IFAD also provides access to development finance on more concessional terms than poorer countries could obtain by themselves from the international capital market.

3.3. **The hybrid nature of IFAD does, however, impose constraints and challenges** for IFAD. Its UN character means it has reduced flexibility in areas such as staffing and procurement policies yet its IFI character means it must have especially strong financial expertise and processes. Its relatively small size as an IFI also means that it sometimes does not get included in policy or programming discussions alongside other IFIs such as the World Bank or the multilateral development banks. Its IFI character and operating model means it is sometimes less able to participate easily in the “one UN” activities.

3.4. **IFAD has been implementing organisational reforms.** An Independent External Evaluation of IFAD in 2004 led to formulation of a comprehensive Action Plan to strengthen IFAD's overall performance. The Action Plan was subsequently endorsed by the Executive Board in 2005. IFAD notes that “the Action Plan document defined more than 40 deliverables in the three broad areas of: strategic planning and guidance; project quality and impact; and knowledge management and innovation. As of the end of 2007, the Action Plan was very much on track: all 14 of the

⁶⁸ IFAD (2011) *Annual Report on Results and Impact of IFAD Operations Evaluated in 2009*. Page 9.

Review of Australia's Engagement with IFAD

deliverables to be presented to the Executive Board had been (met), a majority of the other deliverables had been completed, and the outputs of the Action Plan were already starting to transform the way IFAD goes about its business.”⁶⁹ IFAD has noted, including at the 34th Session of the Governing Council in February 2011, several actions it is taking to improve organisational effectiveness including a new Strategic Framework (2011 – 2015), a Strategic Workforce Plan, and a zero based budgeting exercise.

3.5. Independent assessments confirm progress is occurring, but more needs to be done. Three recent reviews of IFAD - the 2010 MOPAN review,⁷⁰ the DFID review,⁷¹ and a review commissioned by Canada, the Netherlands and Norway⁷² have each come to the conclusion that IFAD is making progress on reforms. This is especially so in areas such as project and program management, results management, and the shift to in- country direct supervision and engagement. However, the reports are unanimous that more needs to be done, especially in the areas of human resource management and financial management.

3.6. IFAD is generally judged quite favourably in comparison to other organisations. DFID's Multilateral Aid Review, released in March 2011, makes an assessment of 43 multilateral development agencies. IFAD is judged “strong” in terms of contributing to the UK development objectives (along with 17 other organisations); “good” in terms of value for money (along with 16 other organisations) and “satisfactory” in terms of organisational strengths (along with 15 other organisations). Chart 2, from the DFID Review, summarises IFAD's strengths and weaknesses alongside the World Bank's IDA for comparison.

Chart 2: Summary assessment of IFAD, by DFID

| | Contribution to UK development objectives | Organisational strengths | Strength and Areas for reform |
|---|---|--------------------------|---|
| IDA Very good value for money | | | IDA closely aligns with DFID's focus on poverty reduction and priority sectors. Its comparative advantage is the breadth and quality of its technical knowledge, expertise and global reach. Areas for reform under IDA 16 are improving its impact in addressing the needs of girls and women, delivery in Fragile States, and its partnership behaviour. |
| IFAD Good value for money | | | IFAD makes an important contribution to MDG 1 and has a good results framework that is used to push for continual improvement. It needs to reform its HR procedures to increase performance and flexibility. It needs to improve its financial management and streamline administrative procedures for greater operational efficiency |

3.7. Other assessments also rated IFAD, overall, relatively positively against its peers. IFAD was judged fourth best out of 31 bilateral and multilateral organisations when it came to “maximising efficiency” (especially because it focused selectively on one area: smallholder rural development) in a review published by the Centre for Global Development.⁷³ It was also judged best out of the 31 agencies for “reducing administrative burden on recipients” in the same survey (although this could simply reflect IFAD's low level of engagement at the country level until recently).

3.8. The MOPAN 2010 report gave IFAD scores of adequate or strong on all 19 MOPAN key performance indicators. The following areas of IFAD performance received generally high ratings in the MOPAN review: corporate focus on results; country focus on results; aid allocation decisions; financial accountability; monitoring external results; and presenting performance information. MOPAN concluded that areas for improvement in IFAD were linking aid management to performance; managing human services; and use of country systems. In general, development partners in-country

⁶⁹ <http://www.ifad.org/actionplan/index.htm>

⁷⁰ MOPAN (2011) Common Approach Review of IFAD 2010. Multilateral Organisation Performance Assessment Network, Helsinki, Finland.

⁷¹ DFID (2011) *Multilateral Aid Review: Ensuring Maximum Value for Money for UK Aid Through Multilateral Organisations*.

⁷² Freeman T and Bie S (2008) *An Assessment of IFAD's Action Plan*. Report commissioned by Governments of Canada, The Netherlands and Norway.

Review of Australia's Engagement with IFAD

appeared to be less positive about IFAD's organisational effectiveness than either donors at headquarters or developing Member States.

3.9. The COMPAS Multilateral Development Banks 2008 review⁷⁴ similarly recorded generally positive findings for IFAD's strategic management and corporate governance. (However, it is noted that the COMPAS review essentially involves self-reporting and cannot be considered independent.)

Specific issues of organisational effectiveness

3.8. This section looks more closely at several specific areas of operational effectiveness: effectiveness and efficiency of projects; in-country presence; financial management; human resources management; and knowledge management.

Quality and efficiency of project management

3.9. **IFAD projects rate reasonably well on quality, with "sustainability" being the lowest scoring indicator.** Overall, IFAD projects are rated "moderately satisfactory or better" at quality at entry in 2010. More specifically, over 90 per cent of projects were rated "moderately satisfactory or better" in terms of expected impact on poverty measures; gender equity and target population; and effectiveness of thematic areas. Almost 80 per cent of projects were rated moderately satisfactory or better with respect to innovation, learning and scaling up during quality at entry and 72 per cent were rated satisfactory or above with respect to sustainability.⁷⁵ IFAD projects are rated moderately satisfactory or better at completion, using assessments by IFAD's Independent Office of Evaluation (OIE) and IFAD management.⁷⁶ The OIE's latest ARRI report states that:

"in terms of overall project achievement (which is a composite of relevance, effectiveness and efficiency, and therefore a key evaluation criteria), performance has increased from 41 per cent moderately satisfactory and 17 per cent satisfactory in 2002-2004, to 55 per cent and 31 per cent respectively in 2007-2009."⁷⁷

3.10. **IFAD had 17 per cent of its projects classified as "at risk"**⁷⁸ in the latest COMPAS Report.⁷⁹ This is a higher proportion than the Islamic Development Bank (16 per cent), the Inter-American Development Bank (15 per cent), the World Bank (12 per cent), the African Development Bank (6.4 per cent) or the Asian Development Bank (6.4 per cent). However, as these figures involve self-reporting by agencies, it is unclear whether IFAD has a more "at risk" portfolio or is simply more stringent in its self-assessment (possibly even more candid) than others. What is perhaps important is management's response to projects at risk: the so-called 'pro-activity index'. The COMPAS review reports that 63 per cent of IFAD projects rated as "actual problems" in the previous year have been upgraded, restructured, closed, cancelled or suspended.

3.11. **Project level efficiency needs to improve.** IFAD uses the OECD DAC definition of project efficiency.⁸⁰ The 2010 ARRI focused on the efficiency of IFAD operations and found that around 59 per cent of projects evaluated in 2009 had a moderately satisfactory or better performance in terms of efficiency. One factor that may explain relatively low levels of project efficiency is the fact that IFAD

⁷³ Birdsall, N. and Kharas, H., (2010) *Quality of Official Development Assistance*. Centre for Global Development. Washington DC, USA.

⁷⁴ Common Performance Assessment System (COMPAS) *Multilateral Development Banks 2008 Report*

⁷⁵ *IFAD Draft Annual Report 2010*. Page 48.

⁷⁶ *IFAD Medium Term Plan 2010 – 2012*. Page 48.

⁷⁷ IFAD. (2011) *Annual Report on Results and Impact of IFAD Operations Evaluated in 2009*. Page 8.

⁷⁸ The definition, used by MOPAN, is the number and percentage of projects in execution as of the end of FY08 with unsatisfactory implementation progress and / or with development objectives not likely to be achieved".

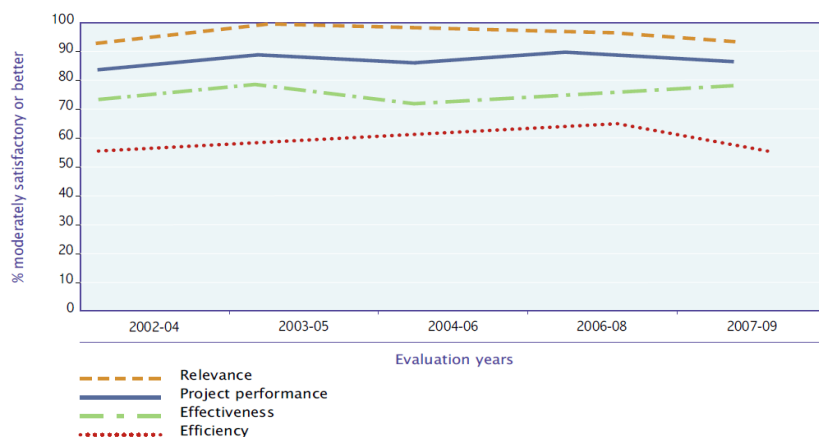
⁷⁹ Common Performance Assessment System (COMPAS) *Multilateral Development Banks 2008 Report*

⁸⁰ The IOE has issued an Issues Paper on Efficiency. It says "Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD DAC) defines efficiency as 'a measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to result'. IOE also uses the same definition in undertaking evaluations (see table 1 in the IOE Evaluation Manual). The key concept is a comparison of resources used to generate development results. The resources can be time or expertise, but are most commonly financial or economic. Results can be outputs or impacts, but efficiency is also sometimes assessed on the basis of outreach and activities (e.g. cost per training or cost per beneficiaries)."

Review of Australia's Engagement with IFAD

does tend to work in the most remote and hard to reach areas. This increases unit costs. (However, it could also increase *cost-effectiveness* of poverty reduction activities, because poverty concentrations are also usually higher in remote rural areas). Whatever the reason, as shown in Chart 3, the efficiency of IFAD operations has been the lowest performing criteria in evaluations undertaken by the OIE since 2002.

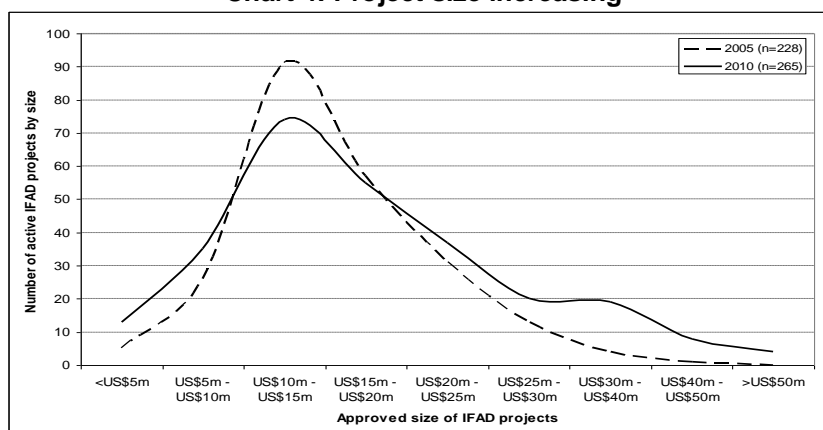
Chart 3: Project-level efficiency rated lowest of four criteria



3.12. IFAD management said at the 34th Governing Board in February 2011 that project economics, including especially project efficiency, are now analysed as a requirement in project design, and monitored during supervision; that project economics are a specific focus of quality assurance reviews; and that IFAD efficiency is addressed through internal operational effectiveness measures.

3.13. **Increasing the size of projects could improve efficiency and effectiveness.** One of the ways IFAD is working towards greater efficiency, as well as increased development impact, is to increase the size of its projects, and to move towards more programmatic approaches. Since the IEE, IFAD has been evolving towards larger projects, as shown in Chart 4.

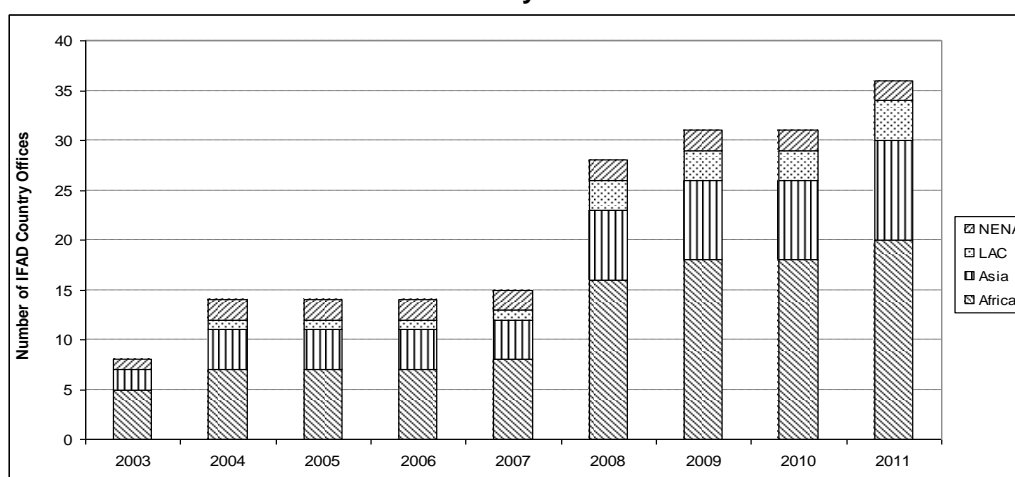
Chart 4: Project size increasing



Review of Australia's Engagement with IFAD

3.14 IFAD's increasing in-country presence has the potential to improve effectiveness and efficiency. The 2010 ARRI identified that IFAD's investments were more efficient and effective where in-country presence and direct supervision were tangible. For example, the recent India Country Programme Evaluation identified that the shift to direct supervision and implementation support with an enhanced role for the IFAD country office led to reduced supervision costs and increased efficiency. IFAD's in-country presence is increasing. IFAD now has 29 operational country offices and plans to open 5 more in 2011 and a further 6 by 2014 to bring the total to 40. By the end of 2011 10 offices will be in Asia/Pacific representing 16% of the budget and 23% of the staff FTE allocated to country presence⁸¹. Overall, in the countries now covered by country offices, IFAD finances a total of 135 projects – 125 ongoing and 10 that have yet to start work. These projects account for 51 per cent of IFAD's current portfolio in number terms, and 60 per cent in value terms.⁸²

Chart 5: IFAD Country Offices 2003 - 2011



Source: IFAD (2011) *IFAD Country Presence Policy and Strategy Executive Board 102nd Session 10-12 May 2011*. International Fund for Agricultural Development, Rome, Italy.

3.15. External independent reports support this conclusion. A review commissioned by Canada, the Netherlands and Norway concluded that:

"Increased country level engagement has also been one of the most advanced pillars of the Action Plan, not only through the work of out-posted Country Programme Managers but through the Country Presence Officers and the better support provided to Country Programme Management Teams, through corporate and division level resources..... Efforts to increase IFAD's country presence have been cost effective in strengthening the agency's policy engagement and influence at country level."⁸³

3.16. IFAD supports results based country programs. One of the key deliverables of IFAD's Action Plan for Improving its Development Effectiveness was an updated format for results-based Country Strategic Opportunities Programs (COSOPs) delivered in 2006. This provides a strategic framework for design and supports IFAD in making strategic choices about operations in a country, identifying opportunities for IFAD financing, and for facilitating management for results.

3.17. However more needs to be done to link activities to country programs. The 2010 review⁸⁴ by the Brookings Institute found that the COSOP plays a limited role in country program management. Most Country Program Managers and regional managers gave primacy to the preparation and implementation of projects. The lack of centrality of the COSOP instrument for most countries becomes evident during the project Quality Assurance review process. Projects reviewed often showed a lack of direct relationship between the COSOP and the project. As no mechanism

⁸¹ IFAD (2009) Progress report and activity plan for IFAD's country presence. Executive Board 98th Session 18-19 December 2009. International Fund for Agricultural Development, Rome, Italy.

⁸² IFAD Draft Annual Report 2010 page 49

⁸³ Assessment of IFAD's Action Plan. July 2008

⁸⁴ Brookings Institute (2010) *Scaling up the Fight Against Rural Poverty: An Institutional Review of IFAD's Approach*

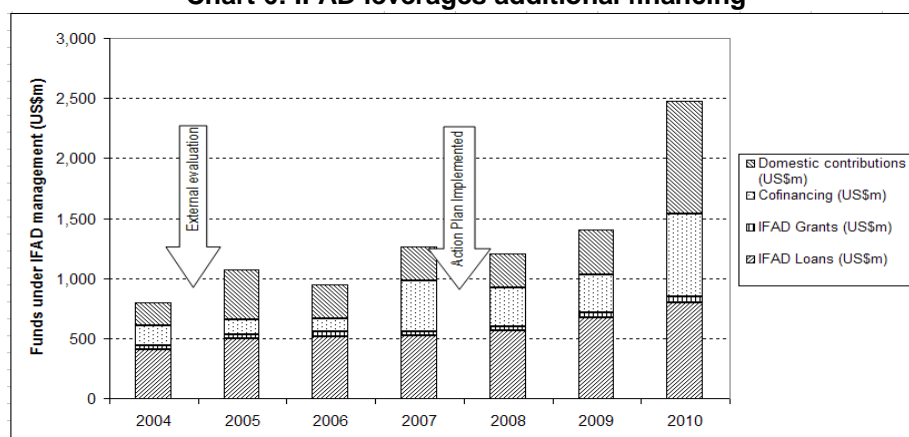
Review of Australia's Engagement with IFAD

exists to link the project review to the COSOP, including the Quality Enhancement project review, such lack of direct relationships typically go undiscovered.

Financial management

3.18. **IFAD has been successful at leveraging additional funding.** As shown in Chart 6, IFAD has leveraged core funds from the Eighth Replenishment with co-financing and domestic funds.

Chart 6: IFAD leverages additional financing



Sources: IFAD (2011) *Draft Annual Report 2010* [Table 1, p1 2006-10] & (2009) *Annual Report 2008* [Table 1, p5 2004-05]

3.19. **IFAD has some clear strengths in terms of financial accountability.** MOPAN assessed that IFAD performs very strongly on indicators related to financial accountability: audit, anticorruption policies, risk management, and procurement. It also commended IFAD for making transparent aid allocation decisions; for using performance information to plan and revise strategies and operations; and for introducing performance-oriented country/regional programming processes.

3.20. **But IFAD is benchmarked worse than peers for some aspects of financial management and administration.** The COMPAS review found that IFAD had the lowest disbursement ratio and one of the less satisfactory variances between planned and actual project duration.⁸⁵ MOPAN finds that withdrawal procedures to effect disbursement take much longer in IFAD than in the World Bank. The MOPAN review found that gaps remain in linking disbursements to reported results. Further details are in Charts 7 and 8 below.

Chart 7: Disbursement ratios

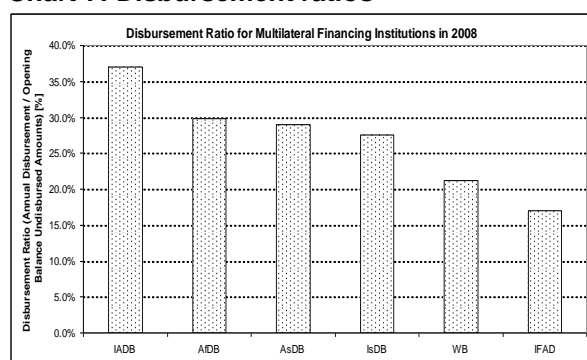
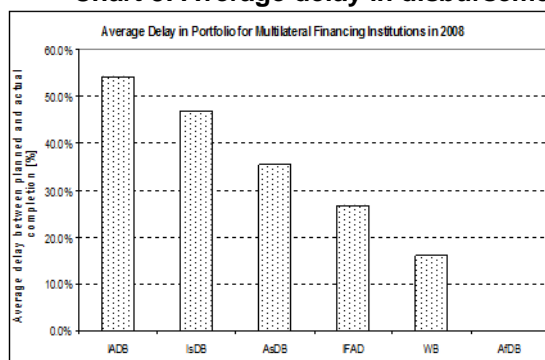


Chart 8: Average delay in disbursement



3.21. **IFAD is reducing the time taken to deliver finances.** The pace of actual delivery of the Fund's financial assistance has accelerated in recent years. The time between approval and first disbursement of resources from IFAD to the recipient was reduced by 25 per cent in 2010.⁸⁶

⁸⁵ World Bank (2010) Multilateral Development Banks' Common Performance Assessment System (COMPAS) – 2008 Report. Accessed from www.mfdr.org February 18, 2011.

⁸⁶ IFAD (2011) *IFAD at the mid-term of the eighth replenishment*. Note REPL.IX/1/R.2 to consultation members for the first meeting of the Ninth Replenishment 21 February 2011.

Review of Australia's Engagement with IFAD

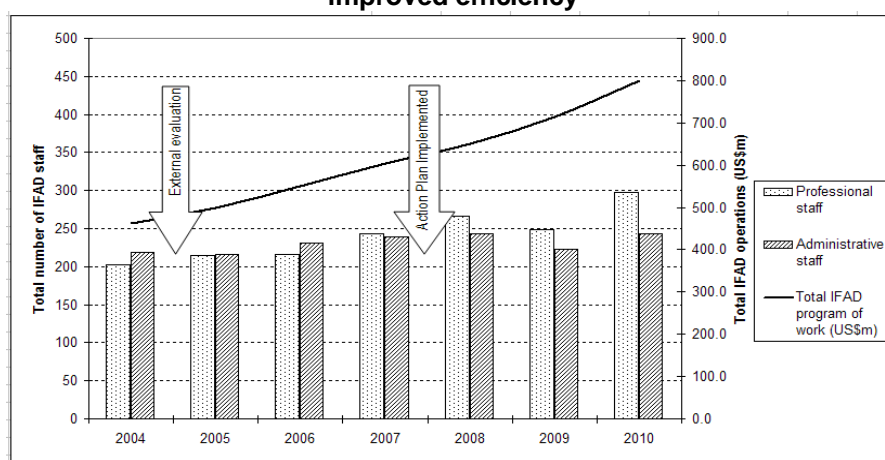
Similarly, the time lapse between receiving a withdrawal application from the recipient and the disbursement of funds is on track to being halved. Actual disbursements are also rising quickly – by 19 per cent in the four quarters to October 2010, and by 26 per cent relative to 2006. In principle, there is the potential that they will rise more rapidly in the future as commitments increase and improvements in efficiency in the processing of loans and grants are realised, including through implementation of a new financial system.

Human resource management

3.22. IFAD needs to further improve Human Resource (HR) and administrative management.

The DFID *Multilateral Aid Review* concludes that IFAD “needs to reform its HR procedures to increase performance and flexibility. It needs to improve its financial management and streamline administrative procedures for greater operational efficiency.”⁸⁷ Amongst other things, IFAD has relatively high levels of administrative support staff per professional staff, as shown in Chart 9. However, this ratio is improving gradually.

Chart 9: High levels of administrative support to professional staff, now being managed for improved efficiency



Source: IFAD (2011) *Annual Report on Results and Impact of IFAD Operations* [p18].

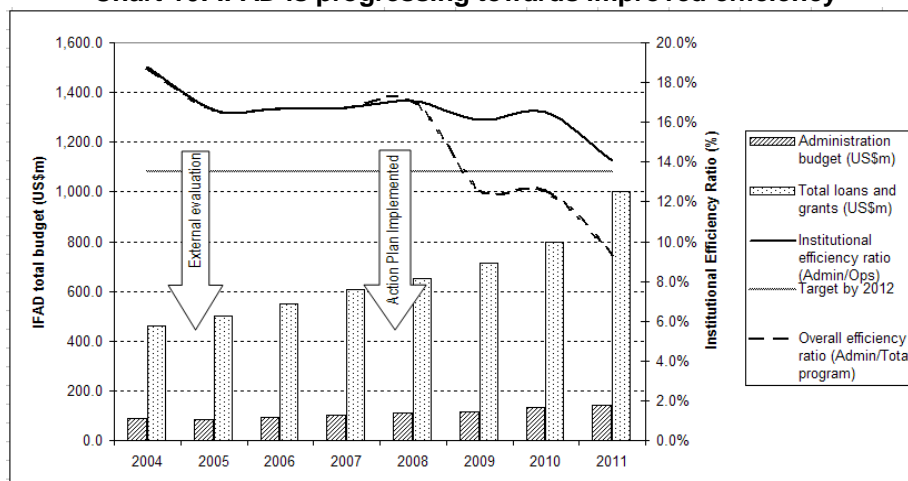
3.23. **In sum, IFAD faces a range of organisational challenges.** DFID judges IFAD's organisational strengths as only “satisfactory”. In essence, DFID notes IFAD has a strong results framework and partnership culture. However “administration costs are currently too high and project efficiency needs to improve”; IFAD “needs to build on its recently introduced country presence”. The DFID review also finds that “disbursement rates are low in comparison with other agencies and administrative procedures need to be streamlined.” Similarly, MOPAN respondents rated IFAD as inadequate for the length of time it takes to complete its administrative procedures.

3.24. **IFAD Management is responding to efficiency concerns.** To manage corporate overheads, the IFAD Executive Board introduced an institutional efficiency ratio in 2005. The ratio is calculated by determining the percentage of IFAD's annual administrative budget in relation to its program of work. It was decided that the percentage should not exceed 17.1 per cent and the Fund was required to work towards reducing the ratio to a target of 13.5 per cent by 2012 within the context of the corporate results measurement framework for the Eighth Replenishment (2010-2012). The efficiency ratio has been diminishing consistently and is expected to be around 14.4 per cent in 2011 and close to the 2012 target despite increases in the program of work and the administrative budget since 2005, as shown in Chart 10. If external resources directly managed and supervised by IFAD are included in the program, the institutional efficiency ratio is 9.4 per cent which is comparable to other multilateral development banks.

⁸⁷ DFID (2011) *Multilateral Aid Review: Ensuring Maximum Value for Money for UK Aid Through Multilateral Organisations*. Page 91

Review of Australia's Engagement with IFAD

Chart 10: IFAD is progressing towards improved efficiency



Sources: IFAD (2011) Draft Annual Report 2010 [Table 1, p1 for 2006 - 2010]; IFAD (2011) Consolidated financial statements at 31 December 2009; IFAD (2009) IFAD Financial Performance 2007-2010 [para 51 in EB 2009/98/R.2 4 November 2009]; IFAD (2009) Annual Report 2008. [Table 1, p5 for 2004 - 2005]

Knowledge management, monitoring and evaluation, and mainstreaming

3.25. IFAD performs strongly on knowledge management within the institution. MOPAN survey respondents provided a positive assessment of IFAD for consistently monitoring its delivery and external results and for involving stakeholders and beneficiaries in these activities. IFAD was also rated as strong for the quality of its reporting: its reports use data obtained from measuring indicators, note adjustments made to policies and strategies based on performance information, and identify lessons learned. However, IFAD's reporting on its Paris Declaration commitments could be improved.

3.26. IFAD also has an active program of knowledge management and dissemination to external audiences. IFAD has commissioned and published policy relevant research, often in partnership with other organisations, on topics such as land grabbing; remittances in rural areas; weather index insurance; indigenous peoples; community participation; and rural youth.

3.27. IFAD has strong evaluation processes. IFAD's Independent Office of Evaluation (IOE) is responsible for evaluating IFAD's operations and policies. The IOE reports directly to the Executive Board and is structurally independent of IFAD's management. IFAD received the highest rating in the MOPAN assessment for the independence of its evaluation unit. In 2011 the Governing Council approved a budget of US\$5.88m for IOE to conduct 3 corporate level evaluations, 8 country program evaluations, 25 project completion reports and 6 project performance assessments.⁸⁸ However, a review of documents also indicated that the percentage of evaluations subject to independent *ex-post* evaluations could be improved.

3.28. An assessment by the Swedish Agency for Development Evaluation concluded that IFAD management took its own evaluation results seriously. In particular, the report found that "The objective of enhancing transparency and holding IFAD management accountable for response actions (to evaluation findings) is largely fulfilled. An effective accountability mechanism ... is in place to ensure the accountability of IFAD management. The Executive Board can easily cross-check the extent to which the evaluation recommendations have been acted upon". The report also found, however, that "Partners show less interest in the evaluation, and their participation in the evaluation and response processes is often limited. The partner government is usually less committed to implement the agreed response activities, and the management response system has not succeeded in holding the partner accountable to the same extent as IFAD management."⁸⁹

⁸⁸ IFAD (2011) IFAD's 2011 results-based programme of work and administrative and capital budgets, and the IFAD Office of Evaluation's results-based work programme and budget for 2011 and indicative plan for 2012-2013. Governing Council document GC-34.

⁸⁹ Swedish Agency for Development Evaluation (2008). *IFAD's Management Response System*.

Review of Australia's Engagement with IFAD

3.29. **IFAD has a generally good record on mainstreaming.** IFAD has clear and explicit policies on gender: "Mainstreaming a gender perspective in IFAD's Operations" was developed to operationalise the gender mainstreaming principles contained in IFAD's Strategic Framework 2002-06. Gender mainstreaming/women's empowerment are part of IFAD's Targeting Policy and the Strategic Framework 2007-10.⁹⁰ Gender considerations are now largely integrated into IFAD's business processes related to the project/programme cycle,⁹¹ including Quality Enhancement Procedures and Supervision Guidelines. There is, however, still some variability in promoting gender equality and women's empowerment across projects and countries.⁹² IFAD also has specific policies on, amongst other matters: targeting the poor; indigenous peoples; climate change, environment and desertification; microfinance; land tenure, 'land grabbing' and rural finance. DFID's Multilateral Aid Review gave IFAD a rating of 3 out of 4 for both gender equality and climate change / environment.⁹³

4. Conclusion

4.1. This desktop analysis summarises key factual and quantitative data about IFAD, as background to any decisions the Australian Government may make about re-engaging with IFAD. The analysis shows an organisation with clear strengths including a clear mandate focused on smallholder rural development; a strong results management system; a capacity to mainstream poverty, gender and indigenous groups into programs; and an independent evaluation system. The paper also shows an organisation managing significant ongoing reforms, including development of a stronger presence in-country, as well as financial and human resource management. However, IFAD needs to manage other challenges if it is to reach its full potential: more systematically addressing issues of scaling up; strengthening its capacity for policy dialogue; and continuing its reform agenda for financial and human resource management.

4.2. The findings in this desktop analysis will be taken into account in the Review's final report

⁹⁰ IFAD (2008) *Framework for gender mainstreaming*.

⁹¹ IFAD pursues a three-pronged strategy for gender mainstreaming and women's empowerment aiming to: expand women's economic empowerment through access to and control over fundamental assets; strengthen women's decision-making role in community affairs and representation in local institutions; and improve the knowledge and well-being of women and ease women's workloads by facilitating women's access to basic rural services and infrastructures.

⁹² IFAD (2011) *Annual Report on Results and Impact of IFAD Operations*. Page 9

⁹³ DFID (2011) *Multilateral Aid Review: Ensuring Maximum Value for Money for UK Aid Through Multilateral Organisations*. Page 91.

Review of Australia's Engagement with IFAD

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