

# Regional Strategy Paper

CENTRAL AND EASTERN EUROPE AND  
THE NEWLY INDEPENDENT STATES



**IFAD**  
INTERNATIONAL  
FUND FOR  
AGRICULTURAL  
DEVELOPMENT

# Regional Strategy Paper

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## IFAD STRATEGY FOR RURAL POVERTY REDUCTION IN **CENTRAL AND EASTERN EUROPE AND THE NEWLY INDEPENDENT STATES**

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## INTRODUCTION

This paper presents IFAD's multiyear strategic programme for the countries of Central and Eastern Europe and the Newly Independent States (CEN) currently borrowing from IFAD: Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Georgia, the Republic of Moldova, Romania and The Former Yugoslav Republic of Macedonia (hereafter the CEN countries or the CEN region). The paper builds on IFAD's Strategic Framework 2002-2006. Its analysis is based on a detailed subregional poverty assessment and strategic opportunities paper presented in a validation workshop for key government stakeholders, held in Bucharest in December 2001. This paper is considered a 'living document' that evolves over time. The present version incorporates comments received from participants in IFAD's Governing Council Roundtable Discussions, held on 20 February 2002, during which the current strategy was presented and discussed.

The poverty situation in the CEN region is unusual and represents a unique challenge for IFAD. On the one hand, the poor in CEN countries, like the poor elsewhere in the world, lack assets and access to basic services; they have a low standard of living; and they feel powerless and insecure. Unlike many other parts of the world, however, widespread poverty is a relatively new phenomenon in the region. Presently, most people in transition countries are literate; many are well educated and, until recently, enjoyed secure employment and guaranteed pension benefits. Since the collapse of the former Communist system, poverty has increased at a pace unparalleled elsewhere in recent times. According to recent data, nearly one person in five in the region now lives on less than USD 2.15 per day. Just over a decade ago, at the start of the transition to a free market economy, less than one person in 25 lived in such absolute poverty.

Importantly, rural people in the CEN region often have a higher risk of poverty than urban residents do. Since the beginning of the transition, the rural situation has deteriorated throughout the region,

and inequality between rural and urban areas has greatly increased in most countries. In Albania, for example, almost 90% of the poor live in rural areas, with 60% of the heads of poor households self-employed in agriculture. Similarly, in the Republic of Moldova more than 21% of the rural population now fall below the official poverty line compared with less than 7% in the capital city. Although rural people produce much of their own food, which keeps many out of extreme poverty, the depth of poverty and the extent of inequality among the poor are significantly worse in most rural areas.

While rural poverty in the CEN region has many complex dimensions, a common underlying factor is the institutional vacuum created by the collapse of central planning and state socialism. Many heads of rural households are new farmers who turned to agricultural production to cope with the loss of employment after the collapse of the former economic system. Despite extensive land reform and other important policy changes, rural incomes have remained stagnant, primarily because of limited access to essential inputs and technologies, barriers to land consolidation, poor market access, scarcity of rural credit and limited off-farm earning opportunities. As farmers across the region have come to realize, access to markets, credit, fertilizers, appropriate technologies and other productive assets are critical for success. These services, once provided by the state, now simply no longer exist or are inappropriate for the needs of newly privatized smallholder agriculture. A fundamental challenge to the process of poverty reduction, therefore, is to build new institutions adapted to the current reality.

## REGIONAL OVERVIEW

The eight CEN countries are a relatively new addition to IFAD's portfolio. Together they form a diversified region with a population of 53.3 million people, including an estimated 23.2 million rural inhabitants who derive their livelihoods mainly from agriculture. Although conditions vary greatly from country to country, transition economies are set in the context of an abrupt termination of central planning and state services, including a reduc-

tion in public-sector spending and the dissolution of production, marketing and distribution channels at regional, national and local levels.

#### Macroeconomic Considerations

The scale of economic collapse alone distinguishes the experience of the CEN region from that of other parts of the world, with a decline in economic output and living standards rivalling that of the Great Depression of the 1930s. As shown in the table below, total gross national product (GNP) and per capita incomes are now well below the levels recorded at the outset of transition in most countries. The impact of transition has been especially severe in the Newly Independent States of the former Soviet Union (Armenia, Azerbaijan, Georgia and the Republic of Moldova), which were relatively more dependent on the guaranteed markets provided by the former state system. Individual incomes have fallen by more than 60% in some countries, and total economic output is now below pre-transition levels in all countries except Albania and The Former Yugoslav Republic of Macedonia.

The figure on page 4 analyses the evolution of economic performance. It shows that CEN countries typically experienced a large drop in GNP at the start of transition and that recovery has been both slow and difficult to sustain. The only exceptions to this pattern are Albania, where recent growth has been impressive, mainly a result of emerging from virtual autarky under the former regime; and Romania, which has had fairly steady growth since 1992. In The Former Yugoslav Republic of Macedonia, the large increase in GNP

in 1999 mainly reflects increased spending on construction and services connected to the war in Kosovo and the influx of refugees.

One very important consequence of the economic collapse is that all countries of the CEN region experienced a sharp decline in the demand for labour. The jobs once guaranteed by the state simply ceased to exist, and new private-sector activities that could absorb these workers have been slow to emerge. Given the lack of alternatives, many families have turned to subsistence agriculture and other forms of small-scale self-employment for basic survival. As CEN countries look to the future, therefore, one of the main challenges in agriculture is to help farmers move beyond agriculture as a way of coping with poverty to agriculture as a route out of poverty.

#### Historical Context

As large as the collapse in economic output and living standards is, what truly sets poverty in the CEN region apart is that it has emerged in the context of profound and far-reaching systemic changes in political, economic and social life. On the political front, inhabitants of most CEN countries find themselves living within new state borders, in nations that are fundamentally redefining their identities and in political systems that have opened new avenues for freedom of expression and expanded other civil rights. On the economic front, while the transition to a market economy has created new opportunities for growth and private investment, it has also caused a degree of material hardship and insecurity previously unknown.

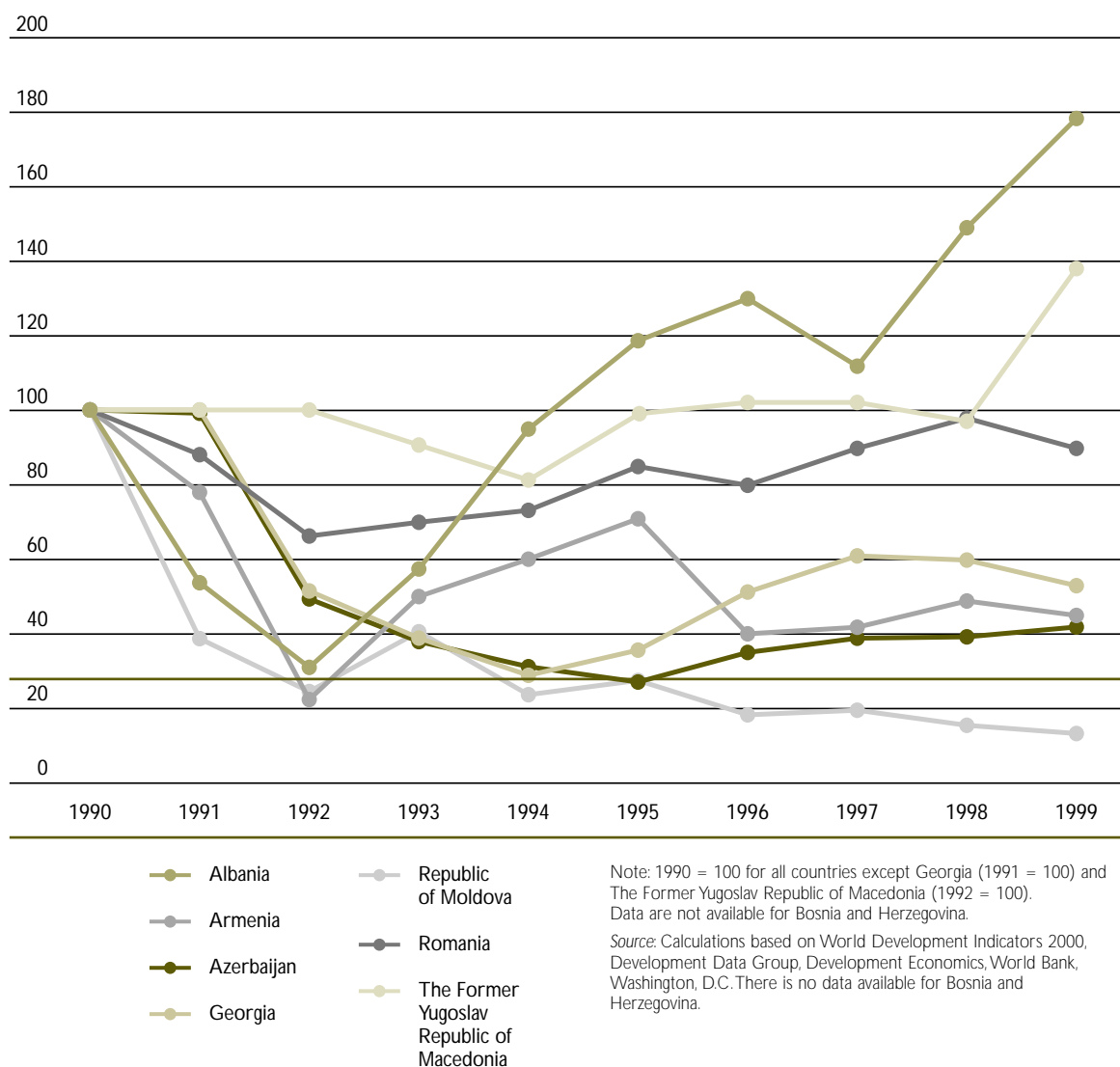
#### Gross National Product and Per Capita Income in Transition Economies

	GNP at Market Prices (USD billion)		Per Capita Income, Atlas Method (USD)	
	1990	1999	1990	1999
Albania	2.11	3.11	845	870
Armenia	3.97	1.90	2 168	490
Azerbaijan	9.84	3.70	1 351	460
Bosnia and Herzegovina	10.60	4.52	1 980	1 147
Georgia	8.82	3.41	1 967	620
Republic of Moldova	10.58	1.50	1 056	410
Romania	38.46	34.14	1 585	1 520
The Former Yugoslav Republic of Macedonia	2.56	3.30	1 195	1 690

Note: Data for 1999 are preliminary estimates; figures in italics are for years other than those specified.

Source: 1990 data, except for Bosnia and Herzegovina, from World Development Indicators 2000, Development Data Group, Development Economics, World Bank, Washington, D.C. For Bosnia and Herzegovina data are from EIU 2000 Country Report, Economist Intelligence Unit, London. For 1999, all data are from World Bank 2000, Country at a Glance Data Sheet.

## Index of Economic Performance Measured by GNP at Market Prices



Successive economic shocks, including the loss of jobs, prolonged non-payment of salaries, hyperinflation and the drastic erosion of accustomed supports (such as low-cost or free social services, subsidies and discounts on goods and services), have made people feel unusually vulnerable, powerless and incapable of planning for the future.

From the social perspective, transition has brought not only unaccustomed material hardship, but also the destruction of normal social patterns. In contrast to the majority of poor people in developing countries, most of the poor in transition countries are literate, and many are well educated; before the transition, they had secure employment and anticipated receiving regular pensions and allowances from the state after retirement. As jobs are lost and unemployment grows, social cohesiveness is break-

ing down. Male suicide rates have increased by more than 50% in some countries; trafficking in young women is on the rise; and young men in poor rural areas are increasingly being recruited into the drug trade. These trends presage the emergence of major social problems that threaten to complicate future poverty reduction efforts.

### Agriculture in Transition

Since the start of transition, significant progress has been achieved in all CEN countries in terms of the liberalization of markets and trade, privatization of small and medium enterprises (SMEs), enterprise restructuring, commercialization of infrastructure, and legislation to allow the expansion of private financial services. A wide range of legal reforms have been enacted, among which are new civil and tax

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codes, laws on commercial banks, laws on ownership of agricultural land and privatization laws. Land privatization programmes have reallocated to small private farmers a large portion of lands once assigned to state-owned farms and collectives.

Despite good progress in laying the foundation for market-led economic growth, agricultural privatization now urgently needs to be supported by institutional reform to encourage investment and allow farmers better access to markets, input supplies, finance and technical assistance. Government institutions have generally not adjusted to the needs of small-scale private farmers. Moreover, they lack the resources and trained personnel needed to develop suitable sector policies or to provide public goods and services nationwide. As mentioned, many of the new poor have turned to agriculture as a way of coping with the loss of employment following the collapse of state industries. These new farmers tend to be cash-poor and, because of non-existent or inappropriate institutional support, have few opportunities to obtain credit, which would allow them to branch into more profitable crops. Considerably more progress is also needed to develop effective input supply and output markets and associated support services, including extension, veterinary and agro-processing services.

**Land reform.** In principle, the privatization of agricultural land is complete or nearly complete in all countries considered here. In practice, however, this process has resulted in extremely small and fragmented plots and ownership by the elderly or others with little interest in farming, so that the poverty-alleviating impact has not been nearly as great as expected. Rather, in terms of growth and improved rural incomes, the impact has been mixed, depending largely on the type and quality of the land reform process implemented by each country. Although the specific approach to land reform varied from country to country, there was generally an underlying concern for equity in the initial distribution process. This emphasis, however, has left the CEN region with another problem in that an *equitable* distribution of land is not necessarily the most *efficient*. The development of a properly functioning land market, therefore, is vital to the promotion of future investment in agriculture.

**Buildings and machinery.** The privatization of farm buildings and machinery posed a different set of problems in that these assets were largely indivisible and geared to use by large-scale operations. Regardless of how these fixed assets were divided,

buildings and machinery intended for large-scale state farms are generally unsuited to the needs of small-scale independent producers. As CEN countries look to the future, therefore, they will need to make considerable efforts to recapitalize the agriculture sector with machinery and infrastructure that are more appropriate to the needs of today's new farmers. Because of severe liquidity problems and limited access to financial services, most independent producers have been unable to undertake these investments on their own.

**Crop and livestock production.** Throughout the region, there has been a dramatic shift from large-scale rotational farming to the cultivation of subsistence crops for household food security. Only basic grains and potatoes are now grown in greater abundance than before, whereas the production of higher-value crops such as citrus fruits, tea, vegetables, wine and tobacco, which require specialized skills and dedicated processing equipment, has declined sharply. Quite simply, with only a small area for cultivation, most family farmers have little choice but to plant the whole area to basic foods just to meet their subsistence requirements. Then, once their food security needs have been met, farmers have limited incentive to intensify production because of poor market access. Livestock production has also had to adjust to new market conditions, and herd sizes have decreased significantly due to the lack of imported feed and forced sales by smallholders needing cash for subsistence purposes.

**Input markets.** Since the start of the transition, good overall progress has been made in privatizing input markets. Recent IFAD studies in Azerbaijan and Georgia, for example, indicate that private suppliers now dominate input markets, especially those relating to stock feed, seeds, fertilizers and agrochemicals. On the other hand, many newly privatized input dealers are still geared to the needs of large agricultural producers (including some remaining state farms and other large operations) and are only now developing the types of services and product lines suitable for today's small-scale producers. In all countries, supply and cost considerations are further compounded by the lack of available guidance on chemical applications and management (including integrated pest management) adjusted to the needs of small-scale farmers. For these and other reasons, many private farmers now find it very difficult to access the inputs they need, and crop yields are well below what might realistically be expected with more intensive management.

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**Output markets.** Since the collapse of the former system, the lack of reliable output markets is proving to be an even greater hindrance to agricultural development than access to inputs. Problems relating to crop marketing begin at the farm level where the redistribution of land in small parcels has created isolated production units. This contrasts sharply with the situation prior to transition, when large volumes were produced and gathered in a central location. Consequently, many smallholder farmers now travel long distances at considerable expense and inconvenience to market small quantities of product. New market outlets are only starting to develop, and the monopsonistic power of the few existing wholesale firms (including some remaining state-owned firms) leaves farmers with little leverage with which to negotiate favourable prices. In addition, there is general mistrust of new forms of collective action, such as producer associations and cooperatives, that could be used to negotiate more favourable terms: for many, they are too reminiscent of the Communist era.

**Rural finance.** Overall, experience in the CEN region with bank restructuring has been poor, largely due to continued government interference and support for state enterprises, inadequate regulation, and problems with the settlement of debts of former collective farms. True rural financial service institutions are still lacking, and many banks remain unwilling to loan to farmers, regarded as low-return, high-risk borrowers. Furthermore, because reliable output markets have not yet developed, farmers are uncertain what prices they will receive and are therefore reluctant to borrow. Clearly, the continued absence of institutions to supply working capital (both for farmers and private traders) and to finance investments in farm infrastructure and machinery inhibits agricultural growth.

## **DIMENSIONS OF RURAL POVERTY**

To measure the number of people living in absolute poverty, a recent World Bank study turns to the so-called two-dollar-a-day poverty line, which is actually USD 2.15 per person per day in 1996 purchasing power parity (PPP). Although the one-dollar-a-day line is used to measure absolute deprivation in many other parts of the world, the two-dollar-a-day line is more appropriate for the CEN region where the very cold climate demands additional expenditure on heat, winter clothing and food. This measure is also at the bottom end of the range of national poverty lines, expressed in PPP terms, of the poorer countries in the region.

In terms of the IFAD target group, simple calculations based on poverty headcount indices and population data for each country suggest that around 4.0 million rural people in the CEN region (excluding Bosnia and Herzegovina for which data were not available) live on less than USD 2.15 per day. When a slightly higher poverty line of USD 4.30 per day is used (which is more appropriate for medium-income countries such as Romania and The Former Yugoslav Republic of Macedonia), the number of rural poor climbs to around 12.3 million, equal to roughly half of the total rural population. Although these are imprecise estimates, the large difference between the number of people living on USD 2.15 and those living on USD 4.30 per day clearly indicates that while many people have not fallen into absolute poverty, large numbers live at the margin and lack secure livelihoods.

These estimates also overlook the significant differences that often exist in the severity and incidence of poverty between rural and urban areas. Indeed, poverty cannot be measured by income indicators alone, and alarming trends are starting to emerge in the farm areas of all countries in terms of increased malnutrition, rising levels of disease and reduced standards of education. The situation is aggravated by the fact that rural roads, health centres, schools and clean water supplies were mainly developed to suit the needs of former state and collective farms and are no longer appropriate for today's more dispersed population. In this respect, even the figure of 12.3 million rural poor is likely to understate the true extent of poverty.

Rural poverty is found to be most severe and widespread for the following groups:

- **Farmers in upland and mountainous areas.** Often entire mountain communities live in extreme poverty with insufficient food to meet their biological needs. Farmers in these areas have few opportunities to generate off-farm income and face severe marketing constraints because of their isolation.
- **Rural wage earners.** Due to the small size of farm holdings, most rural people must generate a large share of their income through off-farm activities. Depending on the assets they possess, families that rely on wage income are often poorer than farmers are because they do not produce their own food.
- **Rural women.** Transition has had a marked negative effect on gender equality, and women now make up a large percentage of the rural poor. Whereas men often migrate to the cities in search

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of employment, women are left to care for children on the farm and become trapped in subsistence production.

- **The elderly.** Elderly and retired people also account for a large share of the rural population in most countries. Although elderly people were often the prime beneficiaries of land restitution programmes, many are no longer capable of farming and find themselves in a particularly tragic situation.
- **Ethnic minorities.** New state borders, the creation of new majority-minority relations and sharp competition for reduced resources have together served to divide societies along ethnic lines. Especially for minorities who worked in collective agriculture, access to land was often lost through the reform process.

### IFAD EXPERIENCE IN CEN COUNTRIES AND IMPORTANT LESSONS

By end-2001, IFAD had supported a total of 17 investment projects in the CEN region, of which 14 were still ongoing. Total IFAD lending amounted to USD 177.6 million, while the total value of all projects, including cofinancing and government and beneficiary contributions, equalled USD 379.5 million. In other words, for every dollar IFAD has invested, an additional USD 1.14 in total project financing has been mobilized.

In terms of project spending per capita, IFAD has invested USD 3.33 for every individual in the countries it lends to in the region and USD 7.65 for every rural inhabitant. In terms of the rural poor, this works out to a total per capita investment of USD 14.48 (based on a poverty line of USD 4.30 per day), or just USD 1.61 per person per year in the nine years since the first loan to the region was approved. Although individual projects can still have a direct and significant impact on specific groups of project beneficiaries, these calculations suggest that IFAD projects alone are unlikely to have a major impact on the overall incidence of rural poverty. Rather, as a relatively small financing institution, IFAD has a comparative advantage in the region in its ability to identify new approaches and demonstrate successful measures for broader application.

Several lessons with important implications for the subregional strategy stand out from IFAD's experience in CEN countries:

- The *institutional vacuum* caused by the collapse of central planning contributes substantially to the

problem of rural poverty. Successful projects must therefore be based on a long-term strategy for building and strengthening institutions, and designed with sufficient flexibility to cope with current weaknesses.

- To address the challenge of *mountain area development*, IFAD has found that a systemic approach, built on an awareness of how mountain communities interact with other parts of the national economy, is essential. This approach often requires close cooperation with other donors to help finance investments in rural roads, schools and health centres, needed for sustainable, market-led growth.
- The development of *rural financial services* requires a long-term institutional focus and clear separation from government as a service provider. Considerable effort is also needed to strengthen local capacities to appraise individual loan applications. Bank officials in the region have almost no experience with the evaluation of small-scale investment loans, which can be a serious constraint to the uptake of credit and its effective use by project beneficiaries.
- The lack of reliable *output markets* is proving to be an even greater constraint to agricultural development than is the lack of crop inputs. An explicit recognition of the opportunities to involve private traders and other commercial investors in IFAD project strategies is therefore needed to support the transition process.
- Many of the rural poor in CEN countries do not depend on agriculture for their main source of livelihood. Support for agricultural services, agro-processing and other areas of the *non-farm rural economy* is critical for a sustainable reduction in the incidence of rural poverty.
- People of the CEN region are sometimes sceptical about the potential benefits of *group formation*, finding it difficult to separate collective action, with its many advantages, from the legacy of Communism. In this context, IFAD experience shows that groups formed with a clear financial objective and/or to manage a shared resource are often the most successful.
- Most governments of the region, and especially those borrowing on intermediate terms, are reluctant to use IFAD loan money for capacity-building and farmer training. Because these services are often essential to target the poorest social groups, priority must be given to mobilizing *grant cofinancing* for agricultural training and extension components.

- Since the skills needed to support rural development and commercialization in agriculture are very different from those needed in the former command system, adequate attention must be given to *human resource development* at the institutional level.
- Given the needs of today's more dispersed populations, *poorly developed infrastructure* (including roads, schools, health centres, electrical power and telecommunications) is often a major constraint to growth in the remote areas where IFAD operates.

## SUBREGIONAL STRATEGY FOR POVERTY REDUCTION

### Strategic Framework for IFAD

**Main objectives.** IFAD's overall strategic objective in the CEN region is to support the transition process with sustainable agricultural programmes that contribute to rural poverty reduction. Progress in this regard can be measured at the macro level by agricultural growth rates, trends in household expenditure, reduced income inequality and other indicators of rural living standards and human development. Within this context, however, it is important to recognize that IFAD investments alone are unlikely to have a major impact on overall sector performance and the incidence of rural poverty. As noted, total IFAD lending to the region to date averages slightly less than USD 14.50 per rural person living below the poverty line. IFAD's strategy must therefore depend on building effective partnerships with others to achieve meaningful growth in the rural economy.

As a member of the international development community, IFAD is also guided by the need to contribute to the Millennium Development Goals (MDGs), endorsed at the United Nations Millennium General Assembly in September 2000. MDGs set targets for reductions in poverty, improvements in health and education, and the protection of the environment. They are a formidable challenge to IFAD and the international development community, especially in the CEN region where the incidence of poverty has increased sharply since the start of the transition, with a corresponding deterioration in health status, education and gender equality.

As a small and specialized financing institution, IFAD needs to address the MDGs by concentrating its resources on a few areas of strategic importance. Although IFAD investments alone are unlikely to

have a major effect on the objective of halving the total number of rural poor in CEN countries, individual projects can still have significant impact and demonstrate replicable approaches for wider application. IFAD's main contribution to the MDGs, therefore, will stem from its ability to devise and test innovative approaches for rural poverty reduction and to promote dialogue at national, regional and international levels on effective development strategies. IFAD projects in the region can also make a significant contribution to gender equality and natural resource management, even though they may not directly address the specific criteria set out in the MDGs.

**Operational approach.** To achieve these broad development objectives, IFAD will focus on a few areas in each country where it has a distinct comparative advantage, and where it can leverage its resources for maximum impact. In this respect, success will be measured more by the impact of specific projects on targeted beneficiaries than by macro-economic change and an overall reduction in the number of rural poor. At this level, the impact of IFAD projects can be measured by changes in on-farm productivity and cropping patterns, by the volumes of produce sold for cash, and by growth in the non-farm rural economy (including agricultural services and commodity trade relevant to the rural poor). Success can also be measured by the uptake of project strategies by governments and other donors, thus enhancing impact and allowing for wider coverage.

In implementing this strategy, IFAD will continue to use a variety of instruments. These will include traditional project loans, technical assistance grants for agricultural and economic research, IFAD/NGO Extended Cooperation Programme (ECP) grants to foster new partnerships and the growth of civil society, and Special Operations Facility grants to speed implementation and improve impact. IFAD's technical assistance programme, for example, is not a stand-alone instrument. Rather, it mirrors the Fund's broad development strategies and has been designed to support the regional lending programme by promoting relevant research and knowledge transfer. IFAD's experience also demonstrates the need for flexibility and technical and managerial support in project design and implementation. This often requires intensive follow-up by country portfolio managers and/or consultants, which implies that special attention must be paid to technical assistance requirements at the project design stage.

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Future programme activities will also seek to build on past successes and continue to target neglected areas where IFAD can ensure maximum visibility and establish a platform for dialogue with borrower governments, other donors and civil society on topics of critical importance to the rural poor. In this respect, mountain areas afford a special opportunity as they are often neglected by other donors even though some of the poorest and most vulnerable people in the region are found in these locations. IFAD has also gained considerable experience with the development of rural financial services and is helping to pioneer new institutional approaches that ensure improved access of the rural poor to the working capital and investment resources they need for increased productivity and market participation. Likewise, the Fund has successfully worked with water users' associations and other beneficiary groups formed with the clear objective of improving local access to development resources.

Although the specific focus of IFAD operations will vary from country to country, each programme will seek to address the underlying causes of poverty for the poorest and most vulnerable rural groups in the region. In the case of mountain communities, for example, project experience shows that this will require recognition of the unique challenge of working in these areas and special consideration of both the opportunities for interaction with other parts of the national economy and possible constraints. Because of the physical isolation of these areas, close cooperation with governments and other donors is likely to be necessary to develop the physical and social infrastructure needed to support economic participation at regional, national and international levels. IFAD operations must also be guided by recognition that many of the rural poor in CEN countries do not depend on agriculture for their main source of livelihood. Support for agricultural services, agro-processing and other areas of the non-farm rural economy, therefore, will be critical for a sustainable reduction in the incidence of rural poverty. Finally, with regard to the unique role played by women in rural households, and in an environment where male migration for work is an important household coping mechanism, IFAD operations must also seek to ensure that women have access to the proposed investments and are adequately represented in all relevant rural associations and institutions.

#### **Opportunities for IFAD Investment**

In terms of specific areas for project intervention, the preceding analysis shows that a focus on long-term institutional development and support for new market linkages offer some of the best opportunities to leverage IFAD resources for maximum impact. Again, project strategies will vary from country to country, but these two areas are of almost universal importance throughout the CEN region since inadequate institutional support and poor market access limit the opportunities to move out of poverty for the vast majority of rural people. Other strategic areas for IFAD intervention may include support for improved on-farm productivity, development of the non-farm rural economy and creation of sustainable natural-resource management systems. The Fund will address these areas in part through the development of rural financial services that channel resources directly to activities that benefit the rural poor or support relevant trade and investment.

**Institutional development.** While the specific priorities to be pursued depend on individual country circumstances, a fundamental element of IFAD's strategy throughout the CEN region will be to strengthen the institutional capacity of government departments, private financial institutions and civil society to address the needs of the rural poor. Within this context, IFAD will place considerable emphasis on helping beneficiary groups create their own institutions to address local needs and harness essential development resources. This focus requires a long-term commitment and programmatic approach, both to give existing institutions a sharper pro-poor focus and to build new institutions when needed.

An important part of IFAD's strategy, therefore, is to build awareness at national and international levels of the importance of agriculture for economic growth and poverty alleviation. Depending on country circumstances, this is likely to involve strengthening the capacities of ministries of agriculture to lobby (a) other branches of government for legal reform benefiting the rural poor and (b) the donor community for additional development resources. As the transition experience makes abundantly clear, legal reform is only the starting point of institutional development. Considerable work is now needed to build essential services and capacities that support the region's new farmers and create market opportunities.

**Market linkages.** Within the broad framework of institutional development, the principal emphasis

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of future IFAD loans will be to foster the new market linkages needed to support the transition process and to help rural people use agriculture for more than mere subsistence. This will include support for private extension networks, rural financial services, input supply arrangements, contract farming, and producers' associations that improve the bargaining power of isolated smallholder farmers and other rural producers.

As the CEN portfolio matures, it is becoming increasingly evident that a more explicit recognition is needed of the opportunities for private traders and other commercial investors to become involved in IFAD project strategies. The private sector clearly has an important role to play in developing the markets that are crucial for poverty reduction, but it is unlikely to work with the rural poor unless this represents a secure investment. In this respect, IFAD's strategy will be to serve as a catalyst for change by helping to create the linkages and financial services required to foster the development of new relationships between the private sector and small-scale producers. IFAD can also help to put in place appropriate institutional arrangements that facilitate the establishment of more efficient, transparent and well-regulated crop and livestock markets.

Partnership-building is another key element of the IFAD strategy for market development. This is particularly important in isolated mountain areas where the resources available to IFAD simply do not allow for investments in major infrastructure (such as rural roads, telecommunications, schools and health centres) needed to support long-term economic growth and market participation. IFAD projects do, however, provide a platform to identify the specific needs of targeted communities and to demonstrate replicable approaches. Especially by targeting neglected areas, IFAD has been able to increase its visibility and ensure a role in helping to coordinate development policy in partnership with governments, other donors and civil society.

**On-farm productivity.** As a precondition for economic growth and market participation, IFAD will also continue to support selected investments in improved on-farm productivity. Although many farmers have already met their basic subsistence needs, access to improved seeds, veterinary services and extension advice is still needed to support woman-headed households and other new farmers. As discussed, the transition experience clearly underscores the need for new supply channels to ensure that farmers have access to the seasonal

inputs and other institutional services they require. Investments to help develop private ploughing and hay-baling services, for example, can contribute to the improved efficiency of smallholder agriculture and create jobs for rural workers. In addition, the development of small-scale, community-managed irrigation systems, another area where IFAD has enjoyed particular success, can help increase the production of food crops for home consumption and new commodities for cash sale.

**Non-farm rural economy.** IFAD investments will focus not only on primary agriculture production but also on other areas of the rural economy. This emphasis is justified by the large number of rural people who depend on activities other than farming for their main source of livelihood. Indeed, support for small- and medium-scale agro-processors, agricultural service providers and other types of rural businesses offers some of the best opportunities to stimulate growth and build the new markets needed for poverty reduction. IFAD will target these enterprises through provisions for appropriate financial services and technical assistance to develop business plans and identify new market opportunities. Partnerships with local and international non-governmental organizations (NGOs) capable of providing these services will also be an important practical element of this strategy.

**Natural resource management.** Protecting the region's fragile natural resource base is another important crosscutting theme that future IFAD projects will need to address. The general neglect of and lack of respect for the environment during the era of central planning have led to severe pollution of agricultural land. The uncontrolled exploitation of forests for fuel wood and communal land for grazing, together with the lack of land preservation measures, has caused significant soil erosion and degradation, seriously threatening crop and livestock production. Future projects, therefore, will work to create incentives to encourage communities to protect their local environment and undertake remedial action to arrest further water and land contamination and soil erosion. Again, these investments will be market-driven and focus on the financial benefit that local communities can expect to derive from improved natural resource management.

**Rural financial services.** To support its programmes in the above areas, IFAD will continue to give high priority to the development of rural financial services as a fundamental precondition for sustainable economic growth. This emphasis is also an

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important part of IFAD's strategy for institution-building. Future projects, therefore, will work with private banks and other service providers to develop seasonal credit and long-term investment facilities and to build necessary support for enabling legal reforms. IFAD has considerable experience with different approaches to rural credit and will continue to use various mechanisms to target specific beneficiary groups. Depending on country circumstances, these may include village credit associations that are aimed at new rural producers and help ensure repayment through joint liability, or other more formal arrangements that target larger-scale SMEs and support new market linkages and growth in relevant areas of the non-farm rural economy. Within this context, the Fund will emphasize new channels of credit distribution targeting not only individual family farmers but also commodity traders, agricultural service providers, agro-processors and other rural entrepreneurs.

#### **Non-Lending Activities**

In addition to IFAD's lending programme, future interventions will also focus on partnership-building, policy dialogue and knowledge management as mutually reinforcing elements of IFAD's subregional strategy. To reach its overall objective of a sustainable reduction in rural poverty, IFAD must focus on selected areas to achieve maximum impact. This in turn depends on successful knowledge management of proven strategies, dialogue with borrower governments and other stakeholders on policy reform, and partnership-building to allow wider coverage than IFAD could achieve on its own. These areas correspond with IFAD's corporate plan of action.

**Partnership-building.** IFAD has so far enjoyed considerable success in forging new partnerships with bilateral and regional donors in CEN countries. A major challenge, therefore, is to cement these relations and introduce a more programmatic approach. Thus far, most partnerships have focused on traditional cofinancing of individual projects. IFAD now needs to explore new avenues of cooperation that build on the long-term priorities and strategic interests of each donor. IFAD will also seek to develop and strengthen its relations with bilateral and multilateral donors in the region, including the European Bank for Reconstruction and Development, the Council of Europe Development Bank, the European Union, the World Bank and the OPEC Fund.

IFAD will, moreover, continue to support a variety of ECP grants to enhance project impact in strategic areas and build partnerships with civil society. To the extent possible, these initiatives will continue to be cofinanced by participating NGOs and other donors, and by project beneficiaries themselves to ensure local ownership and long-term sustainability. This approach to partnership-building contributes to the overall sustainability of IFAD's investments and provides an opportunity to leverage additional resources for the cofinancing of future projects.

**Policy dialogue.** IFAD's strategy for policy dialogue in the CEN region will be to lead by example through the projects it supports. On this basis, future operations will work to build consensus on policy issues by sharing lessons learned through partnerships with local and international stakeholders. IFAD is already helping to influence mountain area development policy in several countries, and has made good progress with respect to dialogue on the legal arrangements for land privatization and institutional approaches to the development of rural financial services.

IFAD will also pursue dialogue with other donors to draw attention to the importance of rural development, identify possible synergies and agree on areas of operational responsibility. Such dialogue is especially relevant in the CEN region since most other donor programmes have up to now focused far more on enterprise restructuring, industrial development, democratization and urban services than on agriculture. Even when agriculture has been the focus, attention has been directed mostly to high-potential farm areas without specific regard to the poorest and most vulnerable groups. By focusing specifically on these groups and on the underlying causes of their poverty, IFAD is well positioned to build a platform for dialogue on strategies that truly make transition work for everyone including the rural poor.

**Knowledge management.** The main objective of IFAD's strategy for knowledge management in CEN countries is to document proven strategies that can be adapted for wider application and to identify key lessons from ongoing projects and new approaches that help maximize impact. In addition to detailed project completion reports, mid-term evaluations and other normal reporting channels, a key element of IFAD's strategy for improved knowledge management is to develop impact-oriented monitoring and evaluation systems for the projects

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that it funds. At the national level, country strategic opportunities papers will continue to be one of the most important tools of knowledge management. Technical assistance grants will also be used to generate new knowledge on the opportunities for market development and to help channel existing knowledge to the benefit of ongoing and future projects.

**Impact management.** To achieve more impact, IFAD will (a) explore avenues to become more involved in the implementation and supervision stages; (b) initiate grants to support project implementation and strengthen project areas where governments are reluctant to invest (for instance, gender mainstreaming and supporting the development of civil society); (c) become more involved in policy dialogue and long-term negotiations with govern-

ments on the best practices to help the rural poor; and (d) focus on participatory development projects with more potential for long-term sustainability and ownership by beneficiaries.

While it has been difficult to measure IFAD's impact in the past, more effort will be made in future programmes to assess the impact of development projects on their beneficiaries and derive lessons from experiences. These objectives can be achieved by (a) conducting evaluations based on feedback from participants and beneficiaries; (b) monitoring policy change and the evolution of local institutions and their capacity to take over the development process; and (c) working closely with other stakeholders in the development community to develop better tools and indicators to measure and manage impact.



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