



ANNUAL REPORT 2003

Enabling the rural poor
to overcome poverty



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SUMMARY



IFAD works with rural poor people, governments, financial and development institutions, non-governmental organizations, the private sector and other partners to design and implement projects and programmes that are innovative, cost-effective and replicable.

Most of IFAD's resources are provided to low-income countries on highly concessional terms, repayable over 40 years, including a grace period of ten years and a yearly service charge of 0.75 per cent. Since its founding, IFAD has financed 653 projects and programmes in 115 countries and territories for a total commitment of approximately USD 8.1 billion (see Table 1).

But this represents only part of the total investment in IFAD projects and programmes. In the past 25 years, a further USD 14.8 billion in cofinancing was contributed by partners. Governments and other financing sources in recipient countries have contributed more than USD 8.0 billion, while another USD 6.7 billion has been contributed by external cofinanciers, including about USD 1.1 billion from bilateral donors and about USD 5.3 billion from multilateral donors. This represents a total investment of about USD 22.8 billion, and means that for every dollar IFAD has invested, it has been able to mobilize almost two dollars in additional resources.

Membership in IFAD is open to any state that is a member of the United Nations or its specialized agencies or the International Atomic Energy Agency. The Governing Council is IFAD's highest decision-making authority, with 163 Member States represented by a Governor and Alternate Governor. The Council meets annually. The Executive Board, responsible for overseeing the general operations of IFAD and approving loans and grants, is composed of 18 Members and 18 Alternate Members. The President, who serves for a four-year term (renewable once), is IFAD's chief executive officer and chair of the Executive Board. The current President of IFAD is Lennart Båge, who is serving his first four-year term.

IFAD provides financing
and mobilizes additional
resources for programmes
and projects that enable
rural poor people
to overcome poverty

TABLE 1
IFAD at a glance 1978-2003

		1978-1992	1993	1994
Operational activities^{a, b}				
Loan approvals				
Number of projects		337	32	28
Amount of loans	USD million	3 777.8	338.8	349.3
Grant approvals				
Number		385	45	71
Amount	USD million	176.8	14.4	16.8
Total IFAD loan and grant operations^a	USD million	3 954.6	353.2	366.1
Cofinancing^c				
	USD million	4 042.3	292.7	122.4
Multilateral		3 307.0	244.7	91.3
Bilateral		712.9	40.4	30.1
Non-governmental organization		12.4	0.5	0.9
Foreign private sector				
Domestic contributions	USD million	5 141.5	211.3	184.4
Total project cost^d	USD million	12 984.4	845.7	656.0
Project enumeration				
Number of effective projects under implementation			157	168
Number of projects completed		156	23	14
Number of projects in pipeline			127	131
Number of approved projects initiated by IFAD		240	27	25
Number of recipient borrowers		95	101	104
Loan disbursements	USD million	2 077.6	193.7	185.2
Loan repayments	USD million	228.3	81.7	89.1
General reserve				
At end of period	USD million	80.0	90.0	95.0
Membership and administration				
Member States – at end of period		145	150	157
Professional staff – at end of period ^e		111	105	107
Operating expenses	USD million		47.9	47.7
– Provision for after-service medical benefits	USD million			

^a Amounts as originally approved. Excludes fully cancelled projects.

^b 1986-95 figures include the Special Programme for Sub-Saharan African Countries Affected by Drought and Desertification.

^c The total does not correspond to the breakdown as it includes amounts of proposed cofinancing for which sources have not yet been confirmed.

^d Includes project component grants but not non-project-related technical assistance grants.

^e Approved positions (excluding those of the President and Vice-President). Six general service posts were converted to professional posts, thus the overall staffing levels remain unchanged from 1998 to 2002.

IFAD loans are denominated in SDR (a unit of account defined by the International Monetary Fund). However, for the reader's convenience, the tables show lending figures in USD equivalents, converted at the time of loan approval.

Any discrepancy in totals in all tables is due to rounding of figures.

1995	1996	1997	1998	1999	2000	2001	2002	2003	1978-2003
33	32	30	29	30	27	25	25	25	653
391.7	395.1	397.7	407.9	432.7	409.0	403.1	365.9	403.6	8 072.7
132	212	258	110	124	120	106	85	70	1 718
23.6	28.3	35.4	30.2	29.6	32.8	30.8	23.9	20.3	463.0
415.3	423.4	433.1	438.1	462.3	441.8	433.9	389.8	424.0	8 535.7
261.4	286.5	448.5	293.0	116.8	276.0	270.3	155.7	124.9	6 690.2
215.8	250.7	323.8	249.7	89.2	151.3	203.1	96.0	124.5	5 347.1
45.7	19.0	109.4	20.2	20.9	57.7	16.9	51.2		1 124.3
	1.5	9.3	2.7	2.5	0.1	0.4			30.2
						7.2			7.2
262.7	306.7	338.5	319.8	207.5	326.7	323.1	289.9	184.1	8 096.1
915.9	989.3	1 187.4	1 021.5	757.8	1 012.5	996.8	814.6	712.6	22 894.5
186	190	188	204	211	199	206	203	195	
13	27	29	19	23	33	25	27	30	389
107	98	94	89	68	60	54	56	54	
28	26	21	24	28	25	24	24	24	516
107	111	113	114	115	115	115	115	115	115
193.7	261.9	259.8	298.9	284.0	285.1	299.6	267.3	288.3	4 895.1
110.0	110.7	115.6	123.4	133.2	132.9	128.0	126.8	140.1	1 379.7
95.0	95.0	95.0	95.0	95.0	95.0	95.0	95.0	95.0	
158	158	160	161	161	161	162	162	163	
111	126	126	126	132	132	132	132	132	
49.7	50.7	50.5	52.2	52.9	47.1	49.9	40.3	49.1	
				2.6	4.3	4.3	7.9	4.3	



TABLE OF CONTENTS

FOREWORD	11
CORPORATE, REGIONAL AND COUNTRY STRATEGIES	14
Strategic Framework for IFAD 2002-2006	16
Regional and country strategies	16
PROGRAMME OF WORK 2003	18
Africa I Division: Western and Central Africa	20
Overview	20
Strategy and approach	21
Special initiatives	23
Africa II Division: Eastern and Southern Africa	24
Overview	24
Strategy and approach	24
Asia and the Pacific Division	27
Overview	27
Strategy and approach	27
Special initiatives	30
Latin America and the Caribbean Division	30
Overview	30
Strategy and approach	31
Special initiatives	34
Near East and North Africa Division	35
Overview	35
Strategy and approach	35
Special initiatives	38
Technical support	39
Learning and knowledge-sharing	40
Thematic groups	40
Evaluation Knowledge System	41
Alternative Voices seminars	42
Evaluation activities in 2003	42
Work programme and budget for 2004	43
MAJOR CORPORATE INITIATIVES IN 2003	44
Sixth Replenishment initiatives	46
Field presence: enhancing IFAD's presence in the countries it serves	46
Performance-based allocation system	46
Measuring results and impact	47
Institutional independence of evaluation	47
Grant financing policy	48
Private sector	49
Review of IFAD's investment policy	50
Independent external evaluation	51
Strategic change programme	51
RESOURCE MOBILIZATION IN 2003	52
Financing the Debt Initiative for	54
Heavily Indebted Poor Countries	54
Supplementary funds	55

POLICY DEVELOPMENT, DIALOGUE AND PARTNERSHIP	58
Policy development	60
Rural finance policy	60
Rural enterprise policy	60
Gender Plan of Action 2003-2006	61
Policy dialogue	61
Partnerships	62
Global Forum on Agricultural Research	62
Consultative Group on International Agricultural Research	62
Belgian Survival Fund Joint Programme	63
Partnership with intergovernmental agencies	65
Partnership with civil-society and non-governmental organizations	67
Links with other non-governmental	70
organizational groups and events	
International Land Coalition	70
Global Mechanism	72
Interaction with global and regional policy forums	74
High-Level Committee on Programmes	74
Summit of the Heads of State of the African Union	74
High-Level Segment of the United Nations	74
Economic and Social Council	
Sixth Session of the Conference of the Parties	75
of the Convention to Combat Desertification	
Tokyo International Conference on African Development	75
Summit of Islamic Heads of State and Governments	76
World Summit on the Information Society	76
OPERATIONAL ASPECTS	78
Project portfolio management	80
Project supervision and cooperating institutions	80
The project portfolio and lending trends	81
Regional and priority country lending	83
Allocation of lending by lending terms	85
Disbursements	85
Cofinancing of IFAD projects	85
SUMMARY OF 2003 PROJECTS, PROGRAMMES AND GRANTS	90
Projects and programmes	94
Western and Central Africa	94
Eastern and Southern Africa	98
Asia and the Pacific	102
Latin America and the Caribbean	104
Near East and North Africa	106
Grants	109
FINANCIAL AND INSTITUTIONAL ASPECTS	112
Investments	114
Implementation of a new investment policy	114
Organization and staff	114
Organizational chart	116
Membership and representation	117
List of Governors and Alternate Governors of IFAD Member States	118
as of 31 December 2003	
List of Executive Board Directors	125
CONSOLIDATED FINANCIAL STATEMENTS	127

TABLES

1.	IFAD at a glance 1978-2003	4
2.	HIPC: donor contributions received, pledged or under consideration	54
3.	IFAD cooperating institutions entrusted with loan administration and project supervision	81
4.	IFAD projects by region under the Regular Programme and SPA, 1978-2003	82
5.	Summary of grant financing under the Regular Programme and SPA, 1978-2003	83
6.	Summary of IFAD project lending in priority countries under the Regular Programme and SPA, 1978-2003	84
7.	Summary of IFAD loans by lending terms under the Regular Programme, 1978-2003	86
8.	Summary of loans by region and lending terms under the Regular Programme, 1978-2003	86
9.	Annual loan disbursement by region under the Regular Programme, 1979-2003	87
10.	Loan disbursement by region and lending terms under the Regular Programme, 1979-2003	87
11.	Cofinancing of IFAD projects under the Regular Programme and SPA, 1978-2003	88

CHARTS

1.	Projects approved in 2003: direct beneficiaries	81
2.	Regional distribution of loans approved in 2003	82
3.	Lending to priority countries, 1990-2003	84
4.	IFAD loans approved in 2003 by lending terms	86
5.	Cofinancing of IFAD-initiated projects under the Regular Programme and SPA, 1978-2003	87
6.	Cofinancing of IFAD-initiated projects by multilateral donors under the Regular Programme and SPA, 1978-2003	89
7.	Cofinancing of IFAD-initiated projects by donor Member States (bilateral) under the Regular Programme and SPA, 1978-2003	89

MAP

Number of effective projects by region and country (end 2003)	92
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ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AFESD	Arab Fund for Economic and Social Development
AFRACA	African Rural and Agricultural Credit Association
AsDB	Asian Development Bank
BCIE	Central American Bank for Economic Integration
BOAD	West African Development Bank
BSF.JP	Belgian Survival Fund Joint Programme
CAF	Andean Development Corporation
CEN	Central and Eastern Europe and the Newly Independent States
CGIAR	Consultative Group on International Agricultural Research
COSOP	Country Strategic Opportunities Paper
DFID	Department for International Development (United Kingdom)
ECOSOC	Economic and Social Council of the United Nations
ECP	Extended Cooperation Programme
FAO	Food and Agriculture Organization of the United Nations
GEF	Global Environment Facility
GTZ	<i>Gesellschaft für Technische Zusammenarbeit</i> (German Agency for Technical Cooperation)
HIPC	Debt Initiative for Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development (World Bank Group)
ICARDA	International Center for Agricultural Research in the Dry Areas
IDA	International Development Association (World Bank Group)
IDB	Inter-American Development Bank
ILC	International Land Coalition
IsDB	Islamic Development Bank
LDCs	Least Developed Countries
NENA	Near East and North Africa
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organization
OPEC Fund	Organization of the Petroleum Exporting Countries Fund
PBAS	Performance-Based Allocation System
PRSPs	Poverty Reduction Strategy Papers
ROPPA	Network of Farmer's Organizations and Agricultural Producers in Western Africa
SPA	Special Programme for Sub-Saharan African Countries Affected by Drought and Desertification
TAG	Technical Assistance Grant
UN	United Nations
UNCCD	United Nations Convention to Combat Desertification
UNDP	United Nations Development Programme
UNIFEM	United Nations Development Fund for Women
UNOPS	United Nations Office for Project Services
WFP	World Food Programme

FOREWORD



In 2003, IFAD celebrated its 25th anniversary. The Governing Council and other events during the year highlighted IFAD's growth over the past quarter century into a mature development institution focused on eradicating rural poverty. The timely and successful completion of the Sixth Replenishment at the 2003 Council underlined the commitment of Member States to IFAD's mission. The Governing Council also agreed to initiatives to strengthen the institution in the coming years.

We were honoured at the Governing Council in February by the presence of the President of the Italian Republic, Carlo Azeglio Ciampi, and the Secretary-General of the United Nations, Kofi Annan.

There is a promising new context for IFAD's efforts created by the Millennium Development Goals (MDGs), which are the agreed framework for international cooperation for development. The development community now recognizes the eradication of poverty as its overarching goal and most development agencies have adopted poverty reduction as a major aim. Yet few give priority to the rural sector, where most of the world's 1.2 billion extremely poor people live. Approximately 900 million men, women and children live in poverty in rural areas, where they depend on agriculture and related activities for their livelihoods. IFAD focuses on enabling rural poor people, especially women, to overcome poverty. We do this through projects and programmes that reach the poorest and most marginalized people in some of the world's most remote and fragile places. In this respect, our work complements the efforts of other international financial institutions and United Nations agencies.

Unfortunately, the present rate of progress in eradicating poverty is well below the level needed to achieve the MDGs, especially in Africa. In many low-income countries, agriculture generates a significant proportion of gross domestic product and exports and is the primary source of employment. More rapid agricultural and rural development are therefore key to achieving higher overall growth and reaching the Millennium Development target of reducing by half the proportion of people living in extreme poverty by 2015. The reality is that this target cannot be met unless the world addresses rural poverty.

During most of the 1990s agriculture and rural development were given a low priority by both developing countries and the development community. Domestic public investment in agriculture decreased, and official development assistance to the sector fell by nearly half.

There are now welcome signs of a renewed recognition of the centrality of rural poverty and the role of rural development in achieving the MDGs. Participants in the G8 Summit in 2003 pledged to increase productive investment in rural and agricultural development. Developing countries are also increasing budget allocations for rural development. Participants in the African Union Summit in 2003 made commitments to raise allocations for agriculture to 10 per cent of national budgets. Discussions by the Economic and Social Council of the United Nations (ECOSOC) in 2003 reflected this trend. For the first time, ECOSOC selected rural development as the theme for its High-Level Segment. Developing and developed Member States strongly endorsed the Secretary-General's call in his opening statement "to bring rural development back to the centre of the development agenda".

The renewed recognition of the centrality of rural development and agriculture is underpinned by the pledge of increased resources made at the International Conference on Financing for Development at Monterrey, Mexico and the promise of the Doha Development Round. This creates significant opportunities for IFAD in coming years to develop and intensify its partnerships with a wider range of multilateral and bilateral development agencies. We will work to develop these partnerships to their full potential, as well as to strengthen our links with civil-society institutions and the private sector.

IFAD has long worked closely with non-governmental organizations (NGOs) and other civil-society institutions including local organizations of poor people, such as savings groups, range and water users' associations, and producers' marketing groups. We have also built collaborative arrangements with civil-society organizations to support innovative programmes and share knowledge and experience. The International Land Coalition, which is hosted by IFAD, brings together multilateral and bilateral development agencies with a large number of civil-society organizations in a unique partnership to promote secure access to land for poor people.

It is also increasingly important to work with market-related institutions. Today, the number of households that farm purely for subsistence are decreasing: almost all need to engage in markets, both as producers and as consumers. As a result of the reforms adopted by many developing countries over the past decade, prices are determined by market factors rather than by governments or commodity boards. Moreover, local and national markets in agricultural products are increasingly linked to international markets that strongly affect prices and quality. This is why a successful outcome of the Doha Round is critically important for more rapid poverty reduction in rural areas.

This growing role of markets in the lives of rural poor people has major implications for poverty eradication. Poverty programmes now need to help poor farmers not only raise productivity, but also gain skills and get access to information that will enable them to deal with market agents, traders and processors on a fair and more equitable basis.

We also have to look beyond individual programmes. On the basis of the knowledge and insights gained from projects, IFAD needs to promote policy and institutional changes that mainstream poverty reduction in today's market-based economies. Current IFAD projects are giving increasing attention to these critical issues.

Conflict and HIV/AIDS have emerged as major threats to the livelihoods of rural people in recent years. Recognizing that HIV/AIDS seriously affects agriculture and rural development, we are addressing the epidemic through our rural investment projects and programmes. We are preparing a new policy on conflict prevention and post-conflict reconstruction that will provide a more systematic approach to rural development in conflict-prone and conflict-affected areas.

Indigenous peoples continue to be an important focus of our work. IFAD has invested USD 736 million in projects in support of indigenous peoples mainly in Asia and the Pacific and Latin America and the Caribbean. As part of our 25th anniversary celebrations, we were pleased to be associated with the production of a documentary on indigenous peoples in north-eastern India, *Still, the children are here*. The documentary allowed indigenous peoples to speak for themselves about their daily concerns and challenges, as well as about their culture and traditions.

In 2003, IFAD provided approximately USD 403.6 million to finance 25 projects, and an additional USD 20.3 million in grants. At full development, these projects are expected to benefit significantly and directly about 10 million rural poor people, totalling the same number of direct beneficiaries as in recent years.

To take full advantage of new opportunities for enhancing poverty eradication efforts, we have undertaken a number of initiatives to enhance further the institution's work processes. This includes the development of a performance-based allocation system and the strengthening of IFAD's presence in borrowing countries. This will help IFAD play a stronger role in the preparation of poverty reduction strategy papers (PRSPs) and other strategy processes at country level.

IFAD is also working to mainstream innovation into its project development process. In this context, the USD 10 million pledged by the United Kingdom to support innovation will be especially important.

Improving understanding of the results and impact of IFAD operations is another key priority. A new results and impact management system will apply a methodology to help achieve this. Moreover, the independence of IFAD's Office of Evaluation, decided by the Governing Bodies, will ensure authoritative evaluations of our operations.

IFAD's financial and human resource management is also being modernized. A new activity-based budget is being implemented and human resource procedures are being strengthened.

Finally we look forward to a major initiative that will take place in 2004: the independent external evaluation of IFAD. The independent external evaluation will assess IFAD's contributions to poverty reduction and the efficacy of its operations. I look forward to this initiative, as I am sure it will provide many valuable insights that will help IFAD become even more effective in its aim to build a world without poverty.



LENNART BÅGE
President of IFAD

CORPORATE, REGIONAL AND COUNTRY STRATEGIES





IFAD believes that rural poor people must be empowered to shape and direct their own destinies

Strategic Framework for IFAD 2002-2006

IFAD's activities are guided by the *Strategic Framework for IFAD 2002-2006: Enabling the Rural Poor to Overcome their Poverty*. The framework's three strategic objectives are:

- strengthening the capacity of the rural poor and their organizations
- improving equitable access to productive natural resources and technology
- increasing access to financial services and markets

Underlying these strategic objectives is IFAD's belief that rural poor people must be empowered to shape and direct their own destinies if poverty is to be eradicated. Poor people must be able to develop and strengthen their own organizations, so they can advance their own interests and dismantle the obstacles that prevent many of them from creating better lives for themselves. They must be able to have a say in the decisions and policies that affect their lives, and they need to strengthen their bargaining power in the marketplace. All of IFAD's decisions in 2003 – on regional, country and thematic strategies, poverty reduction strategies, policy dialogue and development partners – were made with these principles and objectives in mind.

As reflected in the strategic framework, IFAD is committed to achieving the Millennium Development Goals, in particular the target to halve the proportion of hungry and extremely poor people by 2015.

Regional and country strategies

IFAD's regional strategies build on the three strategic objectives, taking into account the causes and nature of poverty in the areas they cover. The strategies were developed in consultation with IFAD's Governing Council and with partners at country level.

IFAD also prepares country strategic opportunities papers (COSOPs) for countries intending to borrow funds to finance poverty eradication projects and programmes. A COSOP establishes strategies for IFAD operations in a country for a period of five to six years.

In 2003, IFAD developed or updated COSOPs for 13 countries: Argentina, Armenia, Azerbaijan, Burundi, Colombia, the Democratic Republic of the Congo, Ecuador, The Gambia, Georgia, Guatemala, Sierra Leone, the United Republic of Tanzania and Zambia.

Among other things, a COSOP considers:

- government strategy for rural poverty reduction and growth
- IFAD corporate and regional strategies
- country policy and institutional framework for rural poverty eradication
- institutional transformations required to ensure the effectiveness of IFAD support
- ways of building and strengthening partnerships
- issues and methods for policy dialogue
- allocation of regional lending shares to specific country programmes

PROGRAMME OF WORK 2003





IFAD's programme
of work for 2003
was approved at a level
of USD 450.0 million

At the Seventy-Seventh Session of the Executive Board, the programme of work for 2003 was approved at a level of USD 450.0 million, with the understanding that the programme would be adjusted during the year based on the available resources, and bearing in mind the planned overall limit for Advance Commitment Authority in 2003 of USD 400.0 million.

The Executive Board also approved a Programme Development Financing Facility of USD 27.6 million and recommended an administrative budget of USD 45.2 million, which was approved by the Governing Council. The programme of work by year end totalled USD 424.0 million, comprising an approved loan programme of USD 403.6 million and a grant programme of USD 20.3 million.

Africa I Division: Western and Central Africa

24 countries: Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Congo, Côte d'Ivoire, D.R. Congo, Equatorial Guinea, Gabon, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Sao Tome and Principe, Senegal, Sierra Leone and Togo

OVERVIEW

Western and Central Africa continues to experience rapid political change, with both positive and negative implications for development and poverty reduction. On the positive side, the peace processes in a number of countries continued – for example in the Democratic Republic of the Congo, The Congo and Sierra Leone – and are bringing greater stability and the return of donors. However, the challenge of national reconciliation in these countries remains huge, and political instability remains a regional threat.

On the negative side, the volatility that emerged in Côte d'Ivoire in September 2002 has shown few signs of abating, and this continues to have major political, social and economic consequences for the West African subregion.

In the economic sphere, the failure of the Cancun trade meetings bodes ill for regional exports. The stance taken by four West African cotton-exporting nations at Cancun is an important step towards recognition of the position of developing countries in international trade forums. However, the collapse of the talks means that agricultural protectionism in developed countries will continue to have a negative effect on African economic development and debt relief.

Deep-rooted structural concerns need to be addressed in the region if progress is to be made in reducing rural poverty. Supporting the design and strengthening of more effective rural development institutions is a critical challenge if, in the context of increasing urbanization, food availability is to be boosted while maintaining the natural resources base. Continued growth of competent civil-society organizations will be a crucial factor in making such institutions more responsive to the needs of rural populations, as will the rapid spread of information technology.

Infrastructure investment with meaningful decentralization is beginning to benefit the rural poor in a handful of countries. Decentralized decision-making systems are often more accountable to local populations, improving the appropriateness and effectiveness of rural infrastructure provision. Thus, in combination with centralized institutions maintaining regulatory functions and conducive policies, they have a strong enabling effect on rural populations.

STRATEGY AND APPROACH

In response to development challenges facing rural poor people, the design and implementation of programmes in the region correspond to the three objectives of IFAD's strategic framework and to a fourth, regional-specific objective.

These objectives are to:

- strengthen the capacity of the rural poor and their organizations and improve the pro-poor focus of rural development policies and institutions
- raise agricultural and natural resource productivity and improve access to technology
- increase rural incomes through improved access to financial capital and markets
- reduce vulnerability to major threats to rural livelihoods

Strengthen the capacity of the rural poor and their organizations. Illiteracy and lack of strong social organizations make it difficult for the region's poor people to gain access to resources and knowledge beyond their communities and to develop links with external partners. Providing organizational training and assistance for community action is leading to imaginative development solutions far more effective than those identified by even the most talented outsiders. Functional literacy training is crucial to ensuring truly participatory group action and transparent decision-making. Such 'software' investments are critically important for poverty reduction since, in their absence, 'hardware' investments in infrastructure and technology invariably fail to deliver full and sustainable benefits.

Capacity-building is a major pillar of IFAD's strategy in the region. The community-driven development approach, which reinforces the capacities of rural communities, is a major part of many IFAD-supported projects. In order to build on shared experience and reinforce knowledge management, the Western and Central Africa Division launched a study on enhancing the representativeness and sustainability of local organizations in community-driven development projects. Further, a clear exit strategy was put in place in IFAD projects to ensure transfer of activities to these organizations. For the transfer to be successful, the organizations must be fully functioning and owned by rural poor people.

The Agricultural Development Project in Matam – Phase II, in Senegal, for example, will help rural populations increase their incomes and improve their living conditions. Similarly, the Support to Rural Development in North Lower Guinea Project will improve food security by raising the productivity of crop and livestock systems, diversifying incomes and strengthening the capacity of rural poor people and their organizations.

Localized interventions such as these are the basis of IFAD efforts to shift the focus of rural development policies, institutions and service providers in favour of rural poor people. During the year, IFAD continued grant support for capacity building to farmer organization networks such as the Network of Farmer's Organizations and Agricultural Producers in Western Africa (ROPPA), and assisted in the creation of a similar network in Central Africa (Agriculture, Peasant and Modernization Network – APM).

Raise agricultural and natural resource productivity. IFAD continued to work on the generation and dissemination of improved agricultural technologies to sustainably increase productive use of natural resources, particularly in areas where population pressure and increased agricultural intensification have led to alarming levels of natural resource degradation. In this context, diversifying food and income sources helps farmers reduce risk and use their assets more efficiently.

The Community Investment Programme for Agricultural Fertility in Burkina Faso takes a community-based approach to natural resource management, stressing the need for genuine participation by rural poor people in identifying, planning, implementing, monitoring and evaluating their own solutions. The role of support services and technicians is to assist rural poor people in analysing the advantages and drawbacks of their solutions. Participants will also be supported in identifying and undertaking more environmentally sound, alternative economic activities.

Increase rural incomes through improved access to financial capital and markets. Regional demographic trends clearly provide opportunities to strengthen market linkages between urban and rural areas. Indeed, efforts to raise agricultural productivity and rural incomes can only be effective if they are linked to an appreciation of market potential. Integrated approaches along the continuum of production, processing and marketing are needed, as well as diversification of income sources.

The Kanem Rural Development Project in Chad is designed to achieve lasting improvement in the incomes and food security of poor households through microfinance services. The Roots and Tubers Market-Driven Development Project in Cameroon focuses on improving incomes through sustainable development of the roots and tubers sector by the use of improved technologies, post-harvest and increasing market access through capacity-strengthening for producers, processors and their organizations.

Reduce vulnerability to major threats. In recent years, conflict and HIV/AIDS have emerged as major regional threats to the livelihoods of rural people. IFAD is developing strong partnerships with donors, NGOs and community-based organizations to develop a systematic response to these threats.

The Rehabilitation and Community-Based Poverty Reduction Project in Sierra Leone seeks to reduce poverty and food insecurity caused by conflict. Livelihoods in rural communities will be improved through support to short-term recovery and preparation for long-term rehabilitation and participatory development. It is expected that the project will help restore and improve agricultural production and household food security, as well as strengthen participatory community and farmer-based organizations. Rural infrastructure will be rehabilitated and expanded.

The project builds on the experiences of IFAD's post-conflict assistance programme for Western and Central Africa, established with a grant from Italy approved in late 2001.

Activities to address the impact of HIV/AIDS are increasingly being integrated into IFAD projects in the region. IFAD's approach is to: support prevention; reinforce local adaptation mechanisms and sustainability of rural livelihoods; and adapt IFAD-assisted activities to take into account demographic and social changes.

The development of partnerships with health-focused donors and specialized NGOs is a necessary first step. IFAD-funded projects offer the advantage of extensive outreach in rural communities, enabling them to function as efficient platforms for HIV mitigation. Activities addressing HIV/AIDS have been included in a number of ongoing projects, such as the Microfinance and Marketing Project in Benin and the Marketing and Local Initiatives Support Project in Côte d'Ivoire.

SPECIAL INITIATIVES

In 2003, IFAD continued to support involvement of key stakeholders in the New Partnership for Africa's Development (NEPAD) agricultural component. ROPPA organized a workshop, supported by IFAD that led to the presentation of a farmers' proposal to the West African heads of state. Further assistance for regional consultations and capacity strengthening enabled ROPPA and similar networks to participate in formulating the NEPAD agricultural development agenda. Their input has been synthesised and presented to the NEPAD Secretariat in Johannesburg, South Africa in February 2004. As a result, NEPAD will consult farmers' organizations more systematically on its future orientation and activities.

During the year, IFAD also made significant progress in the settlement of arrears and was able to begin portfolio reactivation in selected countries. An arrears-settlement agreement had been reached in late 2002 with the Democratic Republic of the Congo, which enabled development of a COSOP for the September 2003 Executive Board. IFAD was also able to initiate portfolio reactivation in Sierra Leone following an arrears-settlement agreement, and a new project was approved at the Eightieth Session of the Executive Board in December 2003. In two cases – Gabon and The Congo – arrears were settled without the need of a settlement plan, and portfolio reactivation was initiated in both countries. For the Democratic Republic of the Congo, The Congo and Gabon, it is anticipated that projects will be presented to the Executive Board in 2004.

IFAD held a workshop in June 2003 to finalize IFAD's regional strategy for rural finance in Western and Central Africa. Central to the strategy are the strengthening of finance systems, extension of their coverage to unserved areas, development of financial services in response to demand, and dissemination of experience in the sector. IFAD initiatives in the region have consequently been given a new focus, with rural finance activities centred on promoting the emergence and development of autonomous decentralized financial systems, and on supporting national development of the rural finance sector.

IFAD organized a project implementation workshop in Cotonou, Benin in October 2002, with the aim of linking its regional strategy to concrete action. The workshop produced a plan of action to improve project management and thus the effectiveness of IFAD's loan and grant operations in the region. These measures are currently being implemented. They include modified project staff recruitment procedures, the introduction of incentives for increased performance, the development of a communication strategy, closer research linkages to real project needs and capacity strengthening for project management staff.

The Gender Plan of Action 2003-2006 was approved by the Executive Board in April 2003. All new COSOPs for the region now identify gender-related constraints and opportunities and contain gender-related information when available (both the gender empowerment and gender development indexes are difficult to obtain for the region). Project design is required to be gender-sensitive. During implementation, gender issues are being mainstreamed more effectively into project activities through annual programmes of work and budget, monitoring and evaluation indicators that are broken down by gender, and through sensitization of project staff. The first sensitization workshop was held in Senegal in May, in collaboration with the Food and Agriculture Organization of the United Nations (FAO), to train staff from IFAD-financed projects in Cape Verde, Guinea and Senegal. A second was held in November in Ghana for anglophone project staff. Three additional workshops are planned for 2004.

Finally, the Western and Central Africa Division and IFAD's Technical Advisory Division organized a sustainable livelihoods approach workshop in Cotonou, Benin in May 2003. The workshop, involving 15 participants from IFAD and regional consultants, sought to improve participatory project programming. Increasingly, this approach is also being used in policy dialogue.

Africa II Division: Eastern and Southern Africa

21 countries: Angola, Botswana, Burundi, Comoros, Eritrea, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Uganda, Zambia and Zimbabwe

OVERVIEW

Two challenges dominated in Eastern and Southern Africa in 2003: the poor food-security situation and the impact of HIV/AIDS. Both are increasingly seen as results of the underlying vulnerability of rural poor people and the fragility of the smallholder economy and a society in transition.

STRATEGY AND APPROACH

In seeking to bring about an enduring shift in the relationship between rural poor people and larger economic and political systems, IFAD focused on four key areas:

- development of rural financial systems accessible to and sustainable by the poor
- improved market organization and linkages among smallholders
- elaboration of rural technology systems that respond to smallholder concerns as they face new market challenges and opportunities
- improved smallholder access to and control over land and water resources

Activities in these areas were based on two principles: maximizing the contributions of poor people's organizations; and establishing lasting collaboration between rural poor people and the private and public sectors.

Making improvements in these areas that lead to poverty reduction involves activities on three levels: policy; investment programmes; and implementation support and knowledge management. The policy level is critical to subsectoral development, and policy dialogue has therefore become an important part of IFAD's engagement in the region, addressed both in its investment programmes and through involvement in sector-wide approaches to agricultural development support. IFAD is active in all the sector-wide programmes being developed or implemented in the region.

In a number of countries, IFAD's involvement in these programmes was facilitated by some form of field-presence arrangement, and in response to demand from governments and development partners, further field presence options will be tested in 2004.

At the investment programme and implementation support and knowledge management levels, IFAD increased its experience and contribution in key strategic areas.

Regarding the investment programme, in the area of rural financial systems, the Mozambique Rural Finance Support Programme joined a portfolio of similar activities in Ethiopia, Tanzania and Uganda. A similar programme is also being developed for Zambia. Together, these represent an investment in building systems based on poor people's organizations, linked to financial markets, and properly regulated by national authorities.

With regard to non-project-based activities in support of subsectoral development and programme implementation, IFAD awarded a new technical assistance grant (TAG) to the African Rural and Agricultural Credit Association (AFRACA). An African-owned organization with membership drawn from some 60 financial institutions, including central, commercial and development banks and microfinance institutions, AFRACA both provides a forum for its member institutions to exchange experience, knowledge and skills, and promotes enabling policy and legal frameworks for rural financial service development in its member countries. IFAD is also working with MicroSave-Africa and the International Cooperation Centre on Agrarian Research for Development to establish a jointly owned, rural finance knowledge-management centre in Nairobi, Kenya. This centre will enable IFAD to strengthen its implementation support to ongoing rural financial service programmes in the region, as well as undertake research on critical issues relative to rural finance.

Two new programmes intensify IFAD's support to a **changed relationship between rural small-scale producers and microproducers and markets**, as was already addressed in Mozambique, Tanzania, Uganda and Zambia and with further programmes in preparation for Ethiopia and Uganda. The Rural Small and Microenterprise Promotion Project – Phase II in Rwanda builds on the successes of the first phase. It extends activities to new areas to exploit opportunities for small-scale private-sector development in a country rapidly recovering from internal conflict. The Rural Income Promotion Programme in Madagascar directly addresses the linkage of special crops with international markets, such as pepper, cinnamon and cardamom, and seeks to forge new market chains through direct collaboration between organized farmers and the large-scale, private trading and processing sector.

The ongoing TAG support to PhytoTrade Africa represents another important and innovative approach in this area: here, a member-owned association is seeking to develop the supply chain, which will enable rural communities in Southern Africa to establish commercial relations with cosmetic and pharmaceutical markets in the north and supply them with natural products. Such market-linkage development programmes now form an important part of the portfolio in the region, despite the fact that this thematic area is a relatively new one for IFAD. With backing from the Italian Trust Fund, IFAD initiated a series of activities to support programme implementation and promote enhanced knowledge in this area.

The establishing of **responsive technology supply systems** for smallholders is a pressing issue across the region. It involves setting up organizational and managerial arrangements that can identify and respond to the technical development needs of rural poor people. Supply systems deliver technical goods and services that can improve standards of living and are accessible and affordable to poor people. IFAD played an important role in supporting the elaboration of the first of a new wave of national extension programmes in the region in the National Agricultural Advisory Services Programme in Uganda. In 2003, it was a major partner of the multi-donor consortium with the Government of Tanzania that prepared the extension/technology component of the Tanzanian Agricultural Development Project. A key dimension was farmer organization and its interface with service suppliers. In further developing its own experience and knowledge in this area, IFAD completed a regional thematic review during 2003 on the generation and dissemination of technology. It also approved a new TAG for FAO, to adapt the farmer field-school model to the conditions of Eastern and Southern Africa and to scale up the early successes achieved there.

In the area of **land and resource management**, the Ethiopia Pastoral Community Development Project and the Kenya South Nyanza Community Development Project address the key issues of community control and awareness of sustainable-use concerns. A TAG is in preparation for strengthening regional capacity to support key projects in this area. The issue of land tenure and control is being more systematically addressed. A manual was prepared for operational staff and a land-tenure specialist was recruited with the support of supplementary funds. This allowed increased technical input into programme design and implementation, not least with regard to the major problems emerging in the context of the HIV/AIDS epidemic in Kenya and Rwanda.

Regarding its substantial portfolio of water-management and irrigation programmes in the region, IFAD is using resources provided through the Swiss Trust Fund to offer implementation support to these programmes and establish a knowledge network and support facility for project managers. In support of an important NEPAD-linked initiative for improved access of smallholders to irrigation and improved water management, IFAD is working with the African Development Bank (AfDB), FAO, the International Water Management Institute and the World Bank on a collaborative programme to identify new approaches to investment in the agricultural water-supply sector in sub-Saharan Africa. IFAD will be responsible for a study on agricultural water development for poverty reduction.

The **empowerment of rural poor people** is an objective of each programme, and is based on strengthening community and individual capacities to access and manage assets. This is addressed across a broad spectrum in the new projects in Ethiopia and Kenya, in which community-based governance is central. The empowerment of rural women, in particular, is central to IFAD's approach to HIV/AIDS mitigation and prevention. Significant experience is being gained through activities in Mozambique, Tanzania and Uganda, financed by German and Japanese supplementary funds.

Community empowerment and the strengthening of poor peoples' organizations are also emerging as key elements of conflict resolution and post-conflict development. Building on its experience in maintaining an operational programme throughout the conflicts in Burundi, IFAD completed a collaborative effort with the World Bank and national stakeholders on the causes of, and exit from, conflict in that country. This work underlined a fundamental truth for all IFAD operations, not only in conflict situations: poverty and conflict are generated not only by material deprivation but also by social relations. The social mechanisms through which assistance and change are organized are as crucial to development as material assistance.

Asia and the Pacific Division

31 countries: Afghanistan, Bangladesh, Bhutan, Cambodia, China, Cook Islands, D.P.R. Korea, Fiji, India, Indonesia, Iran, Kazakhstan, Kyrgyzstan, Laos, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Papua New Guinea, The Philippines, Republic of Korea, Samoa, Solomon Islands, Sri Lanka, Tajikistan, Thailand, Timor-Leste, Tonga and Viet Nam

OVERVIEW

During 2003, the region of Asia and the Pacific faced various challenges, including global market instability, conflict in Afghanistan and the Middle East, and various other political and economic issues, such as insurgencies in Nepal, The Philippines and Sri Lanka. During the first quarter of 2003, the severe acute respiratory syndrome (SARS) crisis also had a severe impact on IFAD's design, implementation and supervision activities.

STRATEGY AND APPROACH

Rural poor people are often vulnerable, excluded and powerless, which in turn are linked to weak local governance. Consequently, IFAD's strategic approach in the region is to support poor people by enabling them to make their voices heard, negotiate better terms of trade and hold institutions accountable. At the same time, it also recognizes the centrality of physical, technological and financial assets to broad-based growth. IFAD's assessment of rural poverty in the region reconfirmed that women, the landless and indigenous peoples are among the poorest in Asia. Therefore IFAD continues to give high priority to these groups and to the development of upland and mountainous areas, where most of them live.

If poverty is to be reduced in the region, it is fundamental to:

- change unequal gender relations in order to increase women's ownership and control of assets and their participation in community management
- enhance the productivity of staple foods in less favoured areas, primarily through sustainable agricultural technologies
- reform the property and tenure rights of marginalized minorities and indigenous peoples
- expand the capabilities of the poor and vulnerable through greater access to self-help, local accumulation of capital, new skills and technologies

Strengthening the capacity of the rural poor and their organizations remains a central objective, and all projects approved in 2003 emphasized the participation of rural poor people in decision-making. IFAD aims to enable poor people to build the individual and collective capability to gain access to economic opportunities, basic social services and infrastructure in order to address the unequal power relations that contribute to poverty.

In 2003, projects in Pakistan used participatory approaches to form grass-roots institutions and strengthen the position of women within the household and the community. They pioneered community-based development and participatory approaches in extremely remote and marginal areas. All projects in Viet Nam aimed at strengthening the capacity of local organizations, and the project portfolio was replicated by the Government and other donors. In India, IFAD was instrumental in influencing policy, encouraging the mainstreaming of self-help groups as the backbone of microfinance services. During the year, the Government acknowledged the success of these groups in providing credit to more than 2.5 million poor families through 150 000 groups.

IFAD-assisted initiatives in China, Indonesia and Sri Lanka provided examples of innovative institutional strengthening among poor people. In China, community institution-building was strengthened by the establishment of village implementation groups, which have advanced empowerment at the grass-roots level. In Indonesia, the directly supervised Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas was being implemented through a participatory empowerment approach. The formation of village organizations in Sri Lanka achieved significant success in institutional development, contributing to the building of social capital among the extremely poor.

Gender remains a cross-cutting issue in the region. During the year, a number of initiatives were undertaken to transform gender relations in project areas. These included: the adoption of gender-analysis methodologies to support gender mainstreaming in projects; assessments of gender impact in the projects; and support and supervision of indigenous women's centres in China and India.

IFAD's focus on **enhancing access to natural resources and technology**, particularly in marginal areas, remains a major objective of all activities in the region. Land tenure and environmental degradation continue to be critical issues. Deforestation and desertification and degradation of cultivated lands have a serious impact on the livelihoods of many rural poor people. In many areas, rural poor people rely heavily on common-property resources available through open-access

systems: irrigation water; forests; rangelands; fisheries; wildlife and flora. In 2003, IFAD continued to work to increase access by poor people to these resources and to improve their productivity. The Hills Leasehold Forestry and Forage Development Project pioneered the concept of leasehold forestry in Nepal with great success. There is broad agreement on the positive impact of the project, shared by the participating communities, project partners, the Government, donors and NGOs. All now consider leasehold forestry an effective tool for alleviating rural poverty. A follow-up project is being designed to build on this success. IFAD also supported access by tribal people to local resources in India and Indonesia.

Projects are also putting to use appropriate technologies to improve farming practices, productivity and the management of natural resources. IFAD's experience in Indonesia and Viet Nam has shown that sustainable natural resource management is a necessary precondition for any intervention in poverty eradication and development. IFAD initiated pasture-monitoring activities and recruited a national research institute to develop resource maps that will facilitate future decisions on natural resource management.

In Bhutan, India, Laos and Nepal, non-timber forest products (NTFPs) supplement the incomes of people living in and near forests. NTFPs include foods, medicines, fibres and resins. Access to NTFPs by poor people and improved production and management of these valuable products are important for sustainable natural resource management. During the year, IFAD collaborated with international centres such as the International Rice Research Institute, International Centre for Integrated Mountain Development, World Agroforestry Centre and International Center for Living Aquatic Resources Management in developing and disseminating technologies suitable for rural poor people. A workshop was also held to develop an agricultural research strategy for Asia and the Pacific. It involved representatives of IFAD, international agricultural research centres, and other international and non-governmental organizations.

Access to financial services is one of the main instruments used in IFAD projects to reduce rural poverty and empower rural poor people, particularly women. IFAD continues to focus on rural finance as an important means to improve the lives of the rural poor by providing them with sustainable access to a variety of financial services. A small loan used to set up a microenterprise, for example, can help make rural poor people less vulnerable to economic crises, natural or human-induced calamities, and sickness or a death in the family. IFAD is ensuring that rural poor people are getting greater access to microfinance services through interventions such as microfinance projects in India and The Philippines.

Policy dialogue with governments on various sectoral issues occurs through project development and implementation, as well as through higher-level contacts. In 2003, this dialogue led to remarkable success in replicating IFAD-funded initiatives in China, India, Pakistan and Viet Nam. IFAD assisted in the preparation of poverty reduction strategy papers (PRSPs) in Cambodia and Mongolia. With the World Bank, it jointly supported regional seminars in Mongolia to broaden the participation of local government and civil society in the development of the poverty reduction strategy. Assistance was also provided for a review of the agricultural and rural development sections. Consequently, the final PRSP contains

a much stronger strategy for agriculture and rural development. In Cambodia, IFAD collaborated with the World Food Programme (WFP) and other partners in undertaking poverty and vulnerability analysis mapping, which will contribute to better targeting of scarce resources to the poorest and most vulnerable people. Further, the Governments of Laos and Viet Nam affirmed that experiences with IFAD-assisted programmes helped in the formulation of their PRSPs.

SPECIAL INITIATIVES

During the year, IFAD held a number of regional meetings and workshops with governments, key partners and other stakeholders. A Subregional Partnership-Building Forum for the Central Asian Republics, bringing together development cooperation agencies and their national partners, was convened under the Strategic Partnership Agreement for Implementation of the United Nations Convention to Combat Desertification (UNCCD). A start-up workshop was held for the second phase of Electronic Networking for Rural Asia/Pacific (ENRAP). ENRAP's purpose is to increase communication of information and technology in remote areas. Through increased availability of product, research and market information, it will build the capacity for a more active role in markets by producers and their organizations. Finally, IFAD's *Managing for Impact in Rural Development – A Guide to Project M&E* (monitoring and evaluation) was introduced to IFAD projects in Bangladesh and Laos during the year.

Latin America and the Caribbean Division

32 countries: Antigua and Barbuda, Argentina, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Christopher and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay and Venezuela

OVERVIEW

Progress towards overcoming poverty has ground to a halt in Latin America and the Caribbean in the past five years, with poverty rates remaining practically constant since 1997. The only exception was 2000, when improved economic performance led to a drop in the number of poor people in the region. According to the Economic Commission for Latin America and the Caribbean, by 2002 the number of Latin Americans living in poverty had reached 221 million, of which 97 million were classified as living in extreme poverty. These figures for poverty and extreme poverty account respectively for 44.0 per cent and 19.4 per cent of the region's total population.

The situation is particularly acute in rural areas, with 62 per cent of the population living with an income below the poverty line. At the country level, trends for poverty indicators from 1999 to 2002 show little change. Exceptions include Argentina and, to a lesser degree, Uruguay, both of which suffered serious declines in living conditions.

STRATEGY AND APPROACH

IFAD's strategy in Latin America and the Caribbean is based on providing sustainable opportunities for reducing rural poverty, bearing in mind that rural poor populations are diverse and heterogeneous. This strategy includes the following elements: empowering rural poor people; taking advantage of market opportunities; promoting policy dialogue; developing partnerships; and promoting innovation and an active process of learning. Two cross-cutting issues are gender and sustainable management of natural resources.

Empowering rural poor people, with special attention to indigenous people, small and landless farmers, women and youth, is fundamental to IFAD's work in the region. The strategy gives particular attention to the promotion of demand-driven participatory approaches for project design, implementation and evaluation. The projects approved in 2003 are closely aligned to this strategy.

The Programme for the Economic Development of the Dry Region in Nicaragua gives particular attention to the development of rural financial services for rural poor people. The programme focuses on the dry tropics, where most rural poor people live, and in the long-term will help build a new local and national institutional framework to ensure the sustainability of rural development support services.

In April 2003, the Executive Board approved a COSOP for Guatemala. Small and landless farmers and rural women will be targeted, and priority given to the most vulnerable indigenous communities. The first programme to be implemented under the new strategy is the National Rural Development Programme – Phase I: The Western Region.

Taking advantage of market opportunities, at local, regional and international levels, to promote local products is one of the key components of IFAD's strategy in the region. A number of activities have been carried out in this area:

- In February 2003, IFAD organized jointly with the Overseas Development Institute, and the collaboration of the International Federation for Alternative Trade, a workshop on Promoting Market Access for Small Producers in Developing Countries: Lessons from Experience.
- Producers from Latin America and the Caribbean participated in the International Fair on Handicrafts, which was held in Milan, Italy from 29 November to 8 December 2003. This was part of the activities carried out by IFAD's Rural Microenterprise Support Programme in Latin America and the Caribbean (PROMER), with the aim of establishing links between rural microenterprises in Latin America and the Caribbean and Italy.
- From 21 April to 2 May 2003, the internet-based website of organizations and projects working with the rural poor in Latin America and the Caribbean (FIDAMERICA), PROMER and the University of Michigan organized an electronic conference on Participation of Rural Economic Organizations in the Supermarket Circuit in Latin America and the Caribbean.

- In May, jointly with the Regional Unit for Technical Assistance, the Tropical Agricultural Research and Higher Education Center and FAO, IFAD organized a regional workshop on Organic Agriculture as a Tool for Promoting Sustainable Rural Development and Poverty Reduction. This was part of IFAD's strategy to promote topics and methodologies that are particularly relevant to smallholders. In December, jointly with the German Agency for Technical Cooperation (GTZ), IFAD started a pilot project supporting farmers making the transition to organic agriculture.

Engaging direct stakeholders, governments and the donor community in continued policy dialogue was another strategic priority of IFAD in 2003. In April the Executive Board approved the Institutional and Policy Support Programme to Reduce Rural Poverty in the MERCOSUR Area, which will be implemented by the Southern Cone Common Market (MERCOSUR) over three years. IFAD's goal in this programme is to enable rural poor people and their organizations to influence institutions (including policies, laws and regulations) pertinent to rural poverty reduction.

Developing partnerships and coalitions is a strategic objective of IFAD in the region. IFAD remains active in the Inter-Agency Working Group on Rural Development in Latin America and the Caribbean. During 2003, the group met in Milan, Italy in March, as part of the annual meeting of the Inter-American Development Bank (IDB), and in Lima, Peru in September, during IFAD's Second Conference on Innovation and Knowledge to Reduce Rural Poverty. The group gives great importance to achieving better coordination and collaboration among international development organizations. This is consistent with growing international efforts to harmonize operational policies, procedures and practices among the donor community, as agreed in the Rome Declaration on Harmonization signed in February 2003.

In August 2003, IFAD reached an agreement with Trócaire, an NGO working in Central America, to study poverty reduction strategies in Honduras and Nicaragua. This is part of a broader effort by IFAD to develop a strategy to provide support to PRSP processes in Latin America and the Caribbean. Poverty reduction strategies are increasingly considered a key component of the overall development strategies of most countries in the region and an essential tool in achieving the Millennium Development Goals. There are four countries in which PRSPs are being carried out (Bolivia, Guyana, Honduras and Nicaragua), while a number of countries are showing an interest in implementing poverty reduction strategies – even without the incentive of debt relief.

Promoting innovation and an active process of learning within Latin America and the Caribbean countries and across regions was given prominence in a number of IFAD initiatives. In September, IFAD organized the Second Conference on Innovation and Knowledge to Reduce Rural Poverty in Lima, Peru. This was conducted with nine of its regional technical assistance programmes and the collaboration of the Development of the Puno-Cusco Corridor Project and the Management of Natural Resources in the Southern Highlands Project (MARENASS)

in Peru. It was the largest meeting ever organized by IFAD in the region. There were 218 participants from 26 projects and 11 IFAD regional programmes, and from 23 countries in the region. It aimed at sharing, analysing and drawing lessons from the main project innovations in technologies, methods and tools. The main themes of the workshop were rural financial services, markets for technical assistance services, access to dynamic markets of agricultural products, indigenous populations, decentralization and empowerment, gender, and the environment and rural development.

Gender issues. IFAD's pioneering work in mainstreaming gender issues is now being promoted through the Regional Programme to Consolidate Gender-Mainstreaming Strategies in IFAD-Financed Projects of Latin America and the Caribbean (PROGENDER). In July 2003, PROGENDER organized a course on gender mainstreaming within IFAD's projects in Argentina. Representatives of 25 projects from the region participated in the event, exchanging experiences on rural development at conceptual and practical levels. In November 2003, PROGENDER jointly with FIDAMERICA, *Servicios Técnicos para el Desarrollo Rural* and PROMER, organized a seminar on gender equity and natural resources management.

Sustainable management of natural resources. Ecological sustainability is a condition for long-term agricultural and rural development in the region, given the close link between poverty eradication and environmental protection. The Strengthening Project for the National Micro-Watershed Programme in Mexico will support ways to raise family income through livestock and agriculture, while at the same time increasing production and export opportunities. It will focus on micro-watersheds, and participatory natural resource conservation and management will be the starting point for local development.

The project's design builds on experiences within the country and elsewhere, for example IFAD projects in Chile and Venezuela. The project results from a close relationship established with the Global Environment Facility (GEF), which will cofinance the project, and the Global Mechanism, which will provide expertise in environmental services. The Sustainable Rural Development Project for the Semi-Arid Zones of Falcon and Lara States in Venezuela will incorporate natural resource rehabilitation, management and use in semi-arid zones as a foundation of environmentally sustainable economic development.

The Regional Programme in Support of Indigenous Peoples in the Amazon Basin (PRAIA) – Phase III financed by a TAG, will support indigenous peoples in the management of natural resources. The programme's overall objective is to support the sustainable development of indigenous populations, while promoting their cultural assets and traditions. It is expected that the new phase of the programme will consolidate the successful experiences and best practices of the previous phases, and validate them through workshops, competitions, internships, dissemination of knowledge and other means. Special attention is expected to be paid to enacting appropriate legal and regulatory reforms to facilitate the participation of indigenous enterprises in national and regional markets.

An International Conference on Desertification was organized in collaboration with the Government of Mexico and the Global Mechanism in October. In 2003, IFAD submitted a proposal to the GEF, which was subsequently approved, to finance the Sustainable Land Management Project in the Semi-Arid Sartao in Brazil to complement IFAD's activities in Brazil within the framework of the Sustainable Development Project for Agrarian Reform Settlements in the Semi-Arid North-East.

Remittances and rural development. Migration from Latin America and the Caribbean to countries in North America and Western Europe has increased dramatically over the past 20 years. As the levels of migration have increased, so has the flow of remittances to the Latin American and Caribbean region. Remittances are the funds that migrants earn abroad and send back to their country of origin. In 2002, remittances to the region amounted to USD 32.0 billion.

IFAD continues to work with governments and migrant associations to identify ways to ensure that remittances have a greater impact on rural economies. In March 2003, in collaboration with the IDB Multilateral Investment Fund and the North American Integration and Development Center, University of California, Los Angeles, IFAD hosted a one-day workshop on remittances and rural development in Latin America and the Caribbean.

A pilot experience in El Salvador has shown that collaboration between migrant associations, governments and NGOs is highly beneficial for both the migrants and their original communities. By working with individuals who send remittances, innovative and effective ways are being identified to better assist the rural families and communities they left behind. In September 2003, the first project cofinanced with remittance resources from two Salvadoran associations in the United States and an ongoing IFAD project, was inaugurated.

SPECIAL INITIATIVES

The region received five grants from IFAD's Non-Governmental Organization/Extended Cooperation Programme (IFAD/NGO ECP) in 2003. The General Organization of Ticuna Bilingual Teachers received USD 80 000 for its work in the Support Project for Ticuna Education – Training of Indigenous Teachers in Brazil. In Cuba, USD 100 000 went to the *Asociación Cubana de Técnicos Agrícolas y Forestales* to assist in the production and processing of medicinal plants and herbs. Another USD 100 000 was awarded to the Chilean Committee for the Defence of Flora and Fauna to support actions to fight desertification from a gender perspective in Regions IV and VI of Chile. The Livestock and Forestry Development Project in Quiché, Guatemala, also received USD 100 000, and USD 97 000 was granted to rural microbanks in Michoacán, Mexico.

These small projects are financed in support of a regional strategy that targets the poorest and most vulnerable sectors of rural society. For example, the Ticuna grant to train indigenous teachers complements IFAD's support for Indigenous Peoples of the Amazon Basin, which focuses on the sustainable development of these populations while preserving their culture and identity. The financing granted to Mexico for the strengthening of microbanks in the State of Michoacán runs parallel to government actions in this field and reinforces partnership building in rural microfinance.

Near East and North Africa Division

30 countries: Albania, Algeria, Armenia, Azerbaijan, Bosnia and Herzegovina, Croatia, Cyprus, Djibouti, Egypt, Georgia, Iraq, Jordan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Malta, Morocco, Oman, Qatar, Republic of Moldova, Romania, Saudi Arabia, Somalia, The Sudan, Syria, The Former Yugoslav Republic of Macedonia, Tunisia, Turkey, United Arab Emirates and Yemen

OVERVIEW

The Division covers countries in two distinct regions: the Near East and North Africa (NENA) region, and the Central and Eastern Europe and the Newly Independent States (CEN) region.

For the NENA region, overall economic growth slowed in 2003 in most countries. This is due to a combination of factors, including the war in Iraq, the Israeli-Palestinian conflict, and the generally tense geo-political environment throughout the region. Furthermore, the region continues to be vulnerable to frequent climatic shocks, especially droughts, which have a significant impact on the performance of the agricultural sector. Countries in the region have made progress in reforming their economies, but unemployment (especially among young people) remains a major economic and social problem in many countries.

In the CEN region, economic growth in most countries has been quite strong. But considerably more effort is required to reform these economies. Many countries still suffer from poor governance, weak institutions, undeveloped market linkages, lack of entrepreneurial skills and limited provision of public services. In many cases, the laws and regulations needed to promote private sector investment are either lacking or act as a barrier to entry by small market players who could stimulate the economy.

STRATEGY AND APPROACH

The strategy for the NENA region focuses on four main objectives:

- ensuring sustainable natural resource management
- empowering the rural poor and their organizations
- enhancing the livelihoods of the rural poor, with particular attention to rural poor women
- diversifying incomes of the rural poor

To support these objectives, IFAD-financed projects and programmes are investing in community development and institution building, the development and promotion of improved technologies for marginal and dryland areas, pro-poor rural financial institutions, long-term on-farm investment, rural infrastructure, and microenterprise development, especially for women and rural youth.

The agricultural sectors of transition economies in the CEN region have been affected by abrupt termination of central planning and state services, including a reduction in public-sector spending and the dissolution of production chains and marketing channels at the regional and local levels. Within this context, the strategy for the CEN region has four main objectives, to:

- support the transition process and the move to market-based economies
- facilitate market linkages in the agricultural sector

- promote gender equality
- ensure sustainable natural resource management

Ensuring sustainable natural resource management. IFAD-assisted projects, programmes and related activities in both regions explicitly focus on improving equitable access to productive natural resources and technologies. In The Sudan, the Gash Sustainable Livelihoods Regeneration Project will pursue at the policy level phased land reform as a prerequisite to sustainable use of rehabilitated irrigation infrastructure. Through this approach, the aim is to improve sustainable rural livelihoods and promote equitable access to land ownership. The project will also increase access to safe and reliable potable water and promote the increased access of women and landless households to social and productive assets.

In Turkey, the Sivas-Erzincan Development Project will help communities that have access to common grazing grounds to make better use of these resources, by helping them develop plans for sustainable participatory management of their rangelands. The project includes activities that will help rural poor people, including dairy producers, herders and beekeepers, get access to improved and appropriate technologies. It will launch an on-farm research and demonstration programme to assist small livestock owners to obtain higher productivity from their animals. The project will also enable communities to identify their productive resources and technical problems and then review promising technologies and husbandry improvements. Community members will decide on which technologies to test and adopt. In Somalia, through IFAD/NGO ECP, the Fund is implementing a project that will help rural communities get equal and better access to water resources.

Strengthening the capacity of the rural poor and their organizations. This is a key strategic part of the new projects approved in 2003. In Turkey, the Sivas-Erzincan Development Project will build and strengthen the capacity of rural poor people's organizations. These include development committees, water users' associations, grazing associations and women farmers' groups. In Morocco, the Livestock and Rangelands Development Project in the Eastern Region – Phase II will strengthen the ability of range users' associations to ensure that members can participate in decision-making on investments in and sustainable use of collectively owned rangelands. In Algeria, the Rural Development Project for the Mountain Zones in the North of the Wilaya of M'Sila will empower local communities by helping them develop the skills to design, implement and monitor local community development plans. The project will provide training in the participatory preparation of development plans. In Moldova, the Agricultural Revitalization Project will help communities develop medium-term revitalization plans, by providing support to local development committees and producers' associations.

Increasing access to financial services and markets. The new projects are also directed to meeting this important strategic objective. The new project in Algeria supports the efforts of rural people to increase, diversify and guarantee stable incomes by providing sustainable access to financial services. The Sudan project includes a component to ensure that financial and marketing services reach small tenants, small herders, landless households and women. The new project in Morocco supports access by poor people's groups to local financial services. The new project in Moldova will provide enhanced access to financial services to local communities, producers and rural poor people.

In 2003, a thematic study on the comparative advantage and marketing of agricultural commodities in the CEN region was financed through a TAG in order to identify the commodity sectors that offer the best potential in terms of profitability and marketing for small farmers in the region. Preliminary results from the first phase of the study were disseminated through workshops held in Albania and Moldova, and at IFAD headquarters in Rome, Italy. They show that horticultural and perennial crops offer the best potential in terms of generating income for small farmers.

Furthermore, in 2003, the Government of Italy financed the establishment of a facility for farmers' access to markets in the Balkan area. The objective of this facility is to contribute to poverty reduction in three Balkan countries – Albania, Bosnia and Herzegovina and The Former Yugoslav Republic of Macedonia – by linking agricultural producers to the market. This will be achieved through the introduction of appropriate technologies and equipment, financing of technical assistance and training, and twinning arrangements with business operators and public institutions in Western Europe.

Empowering women. The gender mainstreaming programme in the NENA region has three major components: gender mainstreaming; technical assistance for rural women's activities; and knowledge-building. The programme identifies, in collaboration with on-going IFAD-financed projects, key activities that strengthen project outreach to and impact on rural women. A series of joint initiatives are being carried out in Lebanon, Morocco, The Sudan, Tunisia and Yemen.

The gender mainstreaming programme in CEN countries is working towards improved understanding of the relationship between gender, rural poverty and development, and improved and equitable access of poor women and men to project benefits, resources and services. The programme became operational in 2003 with pilot initiatives in Albania, Azerbaijan, Bosnia and Herzegovina and the Republic of Moldova.

Promoting policy dialogue. IFAD has engaged several countries on policy issues of key importance to rural poverty reduction. For example, in Albania, IFAD is involved in operationalizing the growth and poverty reduction strategy, and in developing the mountain areas development strategy. The purpose of the mountain areas development strategy is to define the framework for development of the mountain areas, and encourage participation of government and community representatives in discussions to formulate development policies for these areas. IFAD is also using a TAG to assist Armenia, Egypt, Morocco and Tunisia in strengthening their legal and regulatory frameworks for improved participatory irrigation management through water users' associations. This involves piloting participatory irrigation management approaches to bring about policy changes based on experience. Other policy discussions involving IFAD include:

- decentralization and local governance in Tunisia and The Sudan
- legal and regulatory frameworks for rural financial institutions in Armenia, Azerbaijan, Djibouti, Georgia, Lebanon, The Former Yugoslav Republic of Macedonia, Republic of Moldova, Romania, The Sudan, Syria and Yemen
- land reform and privatization in Azerbaijan, Georgia and The Sudan
- grass-roots institution building and rangeland management in Jordan, Morocco, Syria and Tunisia

Gender issues have received particular attention in policy dialogue in both regions thanks to the ongoing gender-mainstreaming programmes.

SPECIAL INITIATIVES

Technical assistance grants

In 2003, in the NENA and CEN regions, there were 11 ongoing large TAGs and five ongoing small TAGs. In line with IFAD's strategic objectives, the TAGs focus on:

- development and dissemination of appropriate technologies for improved production of food, livestock and livestock feed
- understanding the policy and institutional environment needed for better local governance and the empowerment of rural poor people
- improving the management of natural resources, especially water
- improving rural poor people's access to markets

IFAD/NGO ECP grants

IFAD is providing a wide variety of NGO ECP grants as part of putting into practice its Strategic Framework and regional strategies. In many cases, these are complemented by cofinancing from participating NGOs, other donors, and by project participants themselves. In the region, IFAD has concentrated its NGO ECP grants on the provision of social services and training, and achieving gender balance. IFAD has also supported the promotion of market-oriented rural development, with a special focus on increasing women's participation in the economic life of their communities. In this respect, pilot initiatives for the creation of 'business incubators' in support of women's microenterprise development have been undertaken in Gaza and the West Bank, Jordan and Syria, with positive outcomes.

In the CEN region, market access, credit and agricultural inputs formerly provided by the state either no longer exist or are inadequate to meet the needs of newly privatized smallholder agriculture. In response, IFAD has focused its NGO ECP activities on creating grass-roots organizations and providing the necessary support services to promote market-oriented rural development. Examples include the formation of farmers' associations and marketing cooperatives, and the development of specific credit products of relevance to these grass-roots organizations.

Partnership building

IFAD continues to build and maintain lasting partnerships in the region. Traditional partners such as the World Bank, Organization of the Petroleum Exporting Countries Fund for International Development (OPEC Fund), Arab Fund for Economic and Social Development (AFESD), Islamic Development Bank (IsDB), Arab Authority for Agricultural Investment and Development (AAAID) have contributed their expertise and financial resources over many years to IFAD-supported projects. In addition, IFAD has been able to collaborate in the NENA and CEN regions with a range of other partners. For example, the Government of Italy has become a valuable partner in initiatives in the Balkan States, including Albania, Bosnia and Herzegovina and The Former Yugoslav Republic of Macedonia. The Government of Germany provided full financing to the gender mainstreaming programme in CEN countries through a purpose-specific trust fund. A close

partnership with the United Kingdom's Department for International Development (DFID) continues to benefit projects in Albania with technical assistance and grant cofinancing, while the Swedish International Development Cooperation Agency is cofinancing the IFAD portfolio of projects in the Former Yugoslav Republic of Macedonia.

Impact management

The management of impact continues to be a key concern. Initiatives within the past year to monitor and enhance the impact of projects include:

- international workshops for IFAD project staff from both the CEN and NENA regions
- use of consultants for impact management
- closer follow-up by IFAD field missions on issues related to impact-oriented project management
- promotion of increased awareness of and focus on impact by all stakeholders

Verifiable benefits for rural poor people have included: increased food self-sufficiency; microenterprise development; creation of functional rangelands and water users' associations; improved economic opportunities for rural poor women through support to income-generating activities, literacy and training; and creation of financially-viable, market-oriented small rural enterprises.

Training, and monitoring and evaluation

In 2003, the Division held workshops to enhance the capacity of its project staff in project design, implementation, monitoring and evaluation. Two sustainable livelihood workshops were held in Albania and Georgia to sensitize project staff from the CEN region to this participatory and people-based approach in designing and implementing projects. In addition, the Division held two international workshops dealing specifically with impact-oriented project management. The first one focused specifically on the Yemen country portfolio which includes five ongoing projects. The second, held in June 2003 in Bari, Italy was wider in scope and focused on on-going projects in both the CEN and NENA sub-regions.

Technical support

In 2003, IFAD's learning and knowledge-sharing activities were integrated more effectively with the quality assurance function performed by the Technical Advisory Division, which covers technological, institutional, economic and financial, gender and policy contexts and social equity concerns. This work corresponds to the role of technical support in increasing the potential impact of IFAD's development interventions, through: selectivity and effectiveness; technical robustness and financial viability; measuring results and impact; and targeting and gender mainstreaming.

Technical support in areas ranging from household food security, health and nutrition, to rural financial services and sustainable natural resource management, focused on both project design and implementation, with all specialist technical advisers participating in project development teams, as well as in rigorous quality control in technical review committees, and in operational policy support through operational strategy committee meetings.

Building on past pilot efforts, IFAD refined a short list of 'anchor' indicators of impact as part of the initiative to develop a results and impact measurement system (see Sixth Replenishment initiatives). The indicators measure the impact projects are having in poverty reduction linked to the Millennium Development Goals, particularly the first: to eradicate poverty and hunger. The indicators are derived from quantifiable data, to which qualitative information is added to complete the picture. They include: household asset ownership, nutrition status of children under five, literacy, environmental health (access to safe water and sanitation) and the prevalence of infectious diseases such as HIV/AIDS, malaria and tuberculosis. Practical tools to assist project personnel and collaborators, including survey guidelines and childhood malnutrition assessment techniques, are now available online at <http://www.ifad.org/hfs>.

Finally, technical support to environmental assessment aspects of project design has put progressively greater emphasis on potential GEF components and on greater interaction with the Global Mechanism.

Learning and knowledge-sharing

Innovation, learning and knowledge-sharing are crucial to the quality and impact of IFAD's operations. During 2003, a systematic process was developed to validate and incorporate lessons learned in the design of IFAD projects and programmes to increase their effectiveness. The process also provides a basis for policy dialogue and advocacy, and for enhancing the selectivity of IFAD's interventions.

In order to further support learning and knowledge-sharing, IFAD establishes thematic groups (see below) and project development teams, which are small multidisciplinary groups drawn from various divisions. They review and advise on the design of IFAD projects.

In addition, a series of **Technical Advisory Notes** drawing on the grants programme has been developed to introduce new technologies to a wider development community. The Notes disseminate good practices, matching them to specific social, economic and natural-resource settings and taking policy and institutional environments into account. They aid the design of projects by providing replicable solutions under similar conditions, validated through community participatory research.

THEMATIC GROUPS

The purpose of these multidisciplinary teams is to organize discussion and advance knowledge and policy on topics of concern to IFAD. There are currently three thematic groups on rural finance, gender and community-based natural resource management.

The rural finance group, building on IFAD's rural finance policy, developed an action-research agenda in rural finance and an agricultural finance partnership with the *Centre de coopération internationale en recherche agronomique pour le développement* (CIRAD) and the Consultative Group to Assist the Poorest. Action research is structured as learning-by-doing. As part of this agenda, IFAD cofinanced a conference on public banks in January 2003 that was organized by the GTZ.

The gender group's major activities included a baseline survey for the Gender Plan of Action 2003-2006, in order to establish benchmarks against which future targets can be set, and development of a monitoring system to ensure its institutionalization. IFAD reporting formats are being revised to better present data on gender. A paper on *Women as Agents of Change* was discussed at a round table during the Governing Council in February 2003. The round table was attended by a broad cross-section of country delegates, and representatives of multilateral and bilateral organizations and NGOs. They endorsed IFAD's approach to gender equality and women's empowerment, which involves:

- increasing women's access to and control over fundamental assets
- strengthening women's agency and decision-making in community affairs and representation in local institutions
- improving women's well-being and easing their workload

Together with FAO and the International Land Coalition (ILC), IFAD will explore the use of Article 14 of the Convention for the Elimination of All Forms of Discrimination against Women as an advocacy tool to advance women's rights to equal access to land and property, inheritance and legal capacity.

The community-based natural resource management group refocused its mandate to water governance linked to land and environmental issues, and a three-year work plan was developed in consultation with all Programme Management Divisions. The group identified policy advisory work and support to country programme managers in order to achieve greater impact on poverty as its long- and short-term goals, respectively.

The Global Initiative: Livestock Services and the Poor, supported by IFAD, the Danish International Development Assistance and the World Bank, provided further support to this thematic group. Phase I of the initiative was completed in 2003, and a state-of-the-art report was discussed at a workshop attended by most multilateral and bilateral organizations and representatives of selected developing countries. The report, which highlights the importance of the livestock sector for rural poor people, will be published in 2004.

The capacity to share the lessons learned in IFAD's support to poor livestock producers is being improved through the upgrading of the Livestock and Rangeland Knowledgebase.

EVALUATION KNOWLEDGE SYSTEM

The Evaluation Knowledge System (EKSYST), developed as an instrument for sharing knowledge within and outside IFAD, has been restructured and made more user-friendly. EKSYST is a web-based electronic research tool for the systematic storage, search and retrieval of evaluation-related information, including evaluation reports and their summaries, evaluation agreements at completion, profiles and insights. The system has been developed to support the dissemination of evaluation findings, results and recommendations on rural poverty alleviation with partners in development. By accessing the EKSYST page on the Internet (http://www.ifad.org/list_eval.asp) users are able to access the above documents both in HTML and in PDF formats. By the end of 2003, some 450 evaluation-related documents had been made available in EKSYST.

ALTERNATIVE VOICES SEMINARS

In 2003, IFAD launched a series of seminars called Alternative Voices to expose IFAD staff to views outside mainstream discussions on development and to enrich understanding of the approaches proposed by civil society and NGOs. The first of two seminars in 2003 featured Aminata Traoré speaking on the inhuman face of globalization and its link to hunger, humiliation and migration. Traoré challenged the reigning development models, which have created a schism between human needs and production, whereby the demands of the market take precedence over the needs of people. She underlined the importance of supporting the development of a strong civil society in Africa, to ensure that the needs, values and aspirations of African people are heard and addressed.

The second seminar featured Riccardo Petrella and Vandana Shiva, who spoke on global and regional policies governing the access of poor people to water. Both speakers reiterated that water was a human right and global common good. They criticized those who make water a commodity to be marketed for profit and condemned oligarchies that control water resources. Shiva called for water democracies in which members of the global community determine how their natural resources are owned, distributed and used. Petrella proposed a global partnership and equitable international rules for joint management of a common good.

Evaluation activities in 2003

The year 2003 was an important one for IFAD's Office of Evaluation. A new evaluation policy has been put in place and the Office of Evaluation is now independent of IFAD management, reporting directly to the Executive Board. (This will be detailed under Sixth Replenishment initiatives, pages 47-48).

In addition to preparing the evaluation policy and working on the independent external evaluation, the Office of Evaluation undertook:

- a corporate-level evaluation of the supervision modalities in IFAD-supported projects
- six country programme evaluations
- seven thematic evaluations
- fourteen project evaluations, five in Western and Central Africa, three each in Asia and the Pacific and Latin America and the Caribbean, two in Eastern and Southern Africa and one in Near East and North Africa

Moreover, the Office of Evaluation prepared the first Annual Report on the Results and Impact of IFAD Operations for discussion with both the Evaluation Committee and the Executive Board, and developed the new methodology for country programme evaluations. Work was also undertaken to introduce the monitoring and evaluation guide for ongoing IFAD-supported projects. The guide was developed by the Office of Evaluation in 2002. This included the training of project staff and other partners, the translation of the guide into various languages and other activities to customize the guide to the specific needs of various regions. Finally, the Office of Evaluation organized three regular and three special sessions of the Evaluation Committee, prepared various documents for the Executive Board and continued its work in enhancing the communication of evaluation results.

With the approval of the evaluation policy, the Office of Evaluation now produces an Annual Report on the Results and Impact of IFAD Operations for discussion with both the Evaluation Committee and the Executive Board.

The frequency and intensity of interaction with Governing Bodies is also reflected in the fact that three additional sessions with the Evaluation Committee were held in 2003, as well as two meetings devoted to evaluation issues, held with the convenors of the three lists of Executive Board Member States. Preparations for participating in two informal Executive Board seminars on the work programme and budget, one in September and another in November, are other examples of the Office of Evaluation's improved interaction with the Executive Board and Evaluation Committee during this year.

WORK PROGRAMME AND BUDGET FOR 2004

In 2003, the Office of Evaluation prepared its first independent work programme and budget, which was approved at the Eightieth Session of the Executive Board in December 2003. The three priority areas for 2004 are:

- evaluation work requested by the Executive Board and Evaluation Committee and/or included in the report on the Consultation of the Sixth Replenishment
- selected corporate-level, country programme, thematic and project evaluations
- further development of evaluation methodologies

MAJOR CORPORATE INITIATIVES IN 2003



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A number of initiatives
are underway to
improve IFAD's ability
to eradicate poverty

Sixth Replenishment initiatives

At its Twenty-Fifth Anniversary Session held in Rome in February 2003, IFAD's Governing Council adopted Resolution 130/XXVI on the Sixth Replenishment of IFAD's Resources. The resolution established a replenishment target of USD 560.0 million for the 2004-2006 period. Approximately 41 per cent of IFAD's Member States had announced their pledges to the Sixth Replenishment on 31 December 2003. On 17 December, when instruments of contributions had been received for 50 per cent of pledged amounts, the Sixth Replenishment was declared effective.

The Consultation on the Sixth Replenishment set out guidelines on major policy issues, including: the performance-based allocation system; field presence; results and impact measurement; a more independent evaluation function; and an external evaluation of IFAD. It also requested that IFAD develop a strategy on private sector development. Further it recommended a review of specific areas of IFAD's investment policy.

FIELD PRESENCE: ENHANCING IFAD'S PRESENCE IN THE COUNTRIES IT SERVES

IFAD, unlike many United Nations (UN) agencies and other bilateral and multilateral development organizations, has never had permanent representation in borrowing Member States.

The Consultation on the Sixth Replenishment identified the lack of field presence as a constraint on IFAD's ability to ensure impact and to play an effective catalytic role at country level. Consequently, as part of the effort to address this constraint, a number of case studies on IFAD's field presence were undertaken in 2003. They assessed IFAD's previous informal measures to provide country presence and support through various arrangements. These studies were reviewed in consultation with an ad-hoc working group on field presence, formed by the Executive Board. On the basis of recommendations made by the ad-hoc working group, the Executive Board concluded that IFAD should complement its ongoing activities, which are oriented mainly to project implementation, by strengthening its functions related to policy dialogue, partnership building and knowledge management.

The Executive Board authorized IFAD to implement a field presence pilot programme in 2004, to test different innovative approaches to field presence over three years. The pilot will involve 15 initiatives, based on the guidelines and criteria approved by the Executive Board for selecting participating countries and field-presence options.

Initiatives formulated during 2003 included, among others, country-level policy advisers and programme facilitators working in one or more countries supporting regional and national activities. In all cases, IFAD will work with national and regional experts and will emphasize strengthening of in-country capacities.

PERFORMANCE-BASED ALLOCATION SYSTEM

IFAD has developed a performance-based allocation system (PBAS) that will sharpen its ability to tailor resource allocations and policy dialogue to the extent and severity of poverty and to the performance of policies and institutions, in particular in the rural sector.

As in other international financial institutions, the IFAD PBAS will apply standard procedures impartially to assess conditions in beneficiary countries and success in establishing frameworks for sustainable poverty reduction. These assessments will be taken into account in the allocation of IFAD's resources to achieve maximum impact on rural poverty. Reflecting IFAD's core mandate, the PBAS will place particular emphasis on policy and institutional achievements bearing directly on the ability of rural poor people to improve their livelihoods in those areas identified as crucial in IFAD's strategic framework and regional strategies.

Following the mandate given by IFAD's Governing Council, the PBAS will be applied as from the formulation of IFAD's 2005 programme of work. The overall principles of the PBAS were approved by the Executive Board in December 2003. Operational procedures are being developed for the assessments and will be tested on a selective basis in the first quarter of 2004. Designed to operate on the basis of existing procedures, the PBAS will start within the framework of established regional resource allocations. A review of the PBAS will take place in 2005 for further development and application, relative to the programme of work for 2006.

MEASURING RESULTS AND IMPACT

A comprehensive system for measuring and reporting on the results and impact of IFAD-supported projects will be established, in response to a recommendation of the Consultation on the Sixth Replenishment. In a first important step towards putting such a system in place, a detailed framework of a results management system for both new and existing projects was approved by the Executive Board in December. The framework includes a set of results and impact indicators and categories for consolidation. Common indicators will be introduced as of 2004, following a phased approach and taking into account the different implementation stages of the ongoing projects.

INSTITUTIONAL INDEPENDENCE OF EVALUATION

The Consultation on the Sixth Replenishment recommended that IFAD strengthen the effectiveness of its evaluation function, and that the Office of Evaluation report directly to the Executive Board, independently of IFAD management.

IFAD's new evaluation policy

IFAD prepared a new Evaluation Policy that was approved by the Seventy-Eighth Session of the Executive Board in April 2003. As a consequence, the Office of Evaluation became independent of IFAD management, reporting directly to the Executive Board. In addition to enhancing the independence of the evaluation function, the policy establishes a broad spectrum of evaluation principles of fundamental importance to IFAD, such as accountability, partnership and learning.

Independent evaluation contributes to IFAD's operations by bringing an impartial perspective to the assessment of progress in relation to IFAD's mission and catalytic role, and by contributing feedback for learning. Its main purpose is to promote accountability and learning in order to improve the performance of IFAD's operations and policies. Accountability is a key step in a learning process that, if

followed through in partnership with those who are being evaluated, deepens IFAD's and its partners' understanding of the causes of and solutions to rural poverty. IFAD uses this knowledge to develop better instruments and policies to enable rural poor people to empower themselves and overcome poverty.

In accordance with the new policy, the evaluation function at IFAD will follow internationally accepted principles for the evaluation of development assistance. Foremost among these is that the evaluation process should be impartial and independent of both the policy-making process and the delivery and management of assistance. A separate budget for evaluation is another important dimension of independence.

The policy also specifies the operational procedures, organizational measures and other arrangements required to ensure the independence of the evaluation function and make it more effective. In April 2003, the President appointed the Director of the Office of Evaluation for a period of five years, following the endorsement by the Executive Board of the nomination he had made.

The following are among the main provisions of the policy:

- The Office of Evaluation now reports directly to the Executive Board of IFAD.
- The Office of Evaluation has been vested with full responsibility to prepare its annual work programme and budget and to submit it to the Executive Board jointly with IFAD's budget.
- The President has delegated authority to the Director of the Office of Evaluation to make all personnel and operational decisions concerning evaluation staff and consultants.
- Evaluation reports will be issued without the need for official clearance outside the Office of Evaluation.

In order to ensure the smooth implementation of the evaluation policy, during the year the Office of Evaluation held discussions with various IFAD organizational units and worked out a number of new internal arrangements and procedures. These new measures were summarized in a President's Bulletin issued in December 2003.

GRANT FINANCING POLICY

In December 2003, IFAD's Executive Board approved a revised policy for grant financing, with new strategic objectives, allocation modalities and implementation procedures. Under the new policy, objectives (derived from IFAD's strategic framework) and expected impacts will guide the allocation of grants. Grant proposals may be country-specific, regional or international, depending on the nature of the innovation and impact envisaged.

The grant programme has two strategic objectives, representing priority areas for IFAD's regular grant resources:

- promoting pro-poor research on innovative community-based approaches and technological options to enhance field-level impact
- building pro-poor capacities of partner institutions, including community-based organizations and NGOs

Agricultural research that benefits poor people will remain a significant component, building on the success of IFAD's past investments in this area. Greater devolution and decentralization of research will also be supported. This will enable poor communities to form partnerships with researchers from the formal science institutions, building on farmer innovation, local knowledge systems and informal science within participatory research programmes.

The grant programme will broaden the impact of IFAD's activities by promoting the replication and scaling up of successful approaches in rural poverty reduction. This will be achieved by:

- supporting participatory monitoring and evaluation of successful approaches to capture insights and lessons learned
- disseminating these to development practitioners
- improving partnership building to strengthen the participatory design, implementation and impact assessment of the results from IFAD's loan and grant programmes

IFAD's influence on poverty reduction will be increased through:

- strengthening partnerships with country-level institutions at the field-investment and policy levels, especially those providing direct assistance to rural poor people
- providing support to communication and learning among stakeholders, people working in rural development, and relevant networks
- supporting advocacy for rural poor people, both nationally and internationally

Two separate modalities are proposed for grants at global and regional levels and for country-specific grants. Regional and global activities will receive 50 per cent of grants, and country activities will receive 50 per cent. Activities eligible for country-specific grants will be directly aligned with country strategies, as articulated in COSOPs, and will support and complement IFAD's loan portfolio. Grant allocations will be made within the context of the new PBAS. There will be a focus on development of innovative approaches to addressing technical and institutional issues confronting rural poor people, particularly in areas such as rural finance, market linkages and development of pro-poor policy.

PRIVATE SECTOR

IFAD is exploring ways to encourage partnerships with the private sector. In response to a request of the Consultation on IFAD's Sixth Replenishment, IFAD is developing a strategy to involve the private sector more in IFAD programmes. IFAD has analysed its experience in public/private partnerships through:

- a survey of policies and good practices in over 20 UN agencies, international financial institutions and NGOs
- a review of IFAD's recent, direct operational experience with private sector partnerships

- a workshop to review thinking in IFAD on engagement with the private sector in development, attended by IFAD staff and private, bilateral and multilateral agencies
- a draft framework of principles for IFAD public/private partnerships, consistent with the strategic framework, UN guidelines and standard practice of international financial institutions
- identification of criteria to ensure selection of appropriate private-sector partners

REVIEW OF IFAD'S INVESTMENT POLICY

The Consultation on the Sixth Replenishment recommended a review of IFAD's investment policy in 2003, as it pertains in particular to the security of investments, asset liability management and reporting to the Executive Board, to bring it in line with the standards and principles used by other development lending institutions.

In order to ensure objectivity and the necessary competencies, the review tasks were divided into three areas:

- a review of the security of investments to evaluate the adequacy of the system of internal controls in the investment area, with the related operational risks of investments, including custodial arrangements
- a review of IFAD's asset/liability management framework, which manages exposure to financial risk through an appropriate combination of balance-sheet assets and liabilities in order to meet IFAD's financial objectives of preserving its capital and increasing investment returns, while lowering the volatility of returns and minimizing risk
- periodic reporting to the Executive Board on investments

Conducted by an external consulting firm, the review of the security of investments identified key opportunities for improving the general control environment and acknowledged IFAD's recent measures to improve internal controls and risk management.

The asset/liability management review concluded that the establishment of a separate asset/liability management group reporting to IFAD's Treasurer would improve the efficiency and effectiveness of management in this area.

In addition, the review showed that IFAD can remain within acceptable risk limits even with a lower liquidity level, and the technical analysis recommended that the definition of 'committable resources' be revised.

INDEPENDENT EXTERNAL EVALUATION

In February 2003, the Governing Council endorsed the recommendation of the Consultation on the Sixth Replenishment of IFAD's Resources that an external and independent evaluation of IFAD be conducted as an output for the Seventh Replenishment. In April 2003, the Executive Board gave the Office of Evaluation responsibility for supervising the independent external evaluation on behalf of, and accountable to, the Board. In 2003, the Office:

- developed terms of reference for the external evaluation, which were endorsed by the Independent External Evaluation Steering Committee
- developed a detailed budget proposal, which was approved by the Executive Board in September 2003
- organized a competitive international bidding process to select a service provider to undertake the external evaluation, and recruited the United Kingdom-based company Information, Training and Development Ltd (ITAD)
- established a senior, independent advisory group to provide guidance and counsel to the Office of Evaluation at critical stages of this important institutional evaluation
- submitted two progress reports to the Executive Board on the above-mentioned processes

ITAD signed an agreement with IFAD in December 2003 and began the inception phase. IFAD expects that the evaluation will be substantively completed by the end of 2004.

Strategic Change Programme

IFAD is carrying out a strategic change programme to streamline administrative processes and eliminate manual work where possible. This will be supported by an integrated commercial software package, PeopleSoft.

Implementation of the first phase began in June 2002 and progress was made in 2003 in a number of areas. Milestones have included:

- In April, PeopleSoft modules were implemented and corresponding processes for accounting and procurement became operational
- In July, the systems for managing travel and expenses and for managing contributions became operational

A number of lessons were learned from the April and July milestones, the main one being the need to extend the time needed for implementation of the programme to facilitate absorption of changes. Consequently, the time frame has been recalibrated with the intention of completing implementation of the first phase in 2004.

RESOURCE MOBILIZATION IN 2003





The Sixth Replenishment
of IFAD's Resources was
declared effective in
December 2003

When IFAD was established, it received an initial contribution from its Member States for lending on concessional terms to member countries. Every three years, Member States voluntarily replenish the resources of IFAD, based on consultation among their representatives and with IFAD management. IFAD receives additional income from investments, and loan repayments and interest. Further, some donor countries provide supplementary funds, as described later in this section.

In December 2003, the Sixth Replenishment of IFAD's Resources was declared effective when instruments of contributions had been received for 50 per cent of pledged amounts (see section on Sixth Replenishment initiatives).

Financing the Debt Initiative for Heavily Indebted Poor Countries

The Debt Initiative for Heavily Indebted Poor Countries (HIPC) aims to reduce the external debt of the world's poorest, most heavily indebted countries. When it was proposed by Member States and agreed to by governments around the world in 1996, it represented an important step forward in placing debt relief within an overall framework of poverty reduction. The Initiative is administered by the World Bank.

The principal objective of the Initiative is to bring a country's debt burden to sustainable levels, subject to satisfactory policy performance, so that adjustment and reform efforts are not put at risk by continued heavy debt and debt-service burdens.

To reduce the impact of IFAD's participation in the Initiative on its resources for funding new loans and grants, IFAD is mobilizing additional resources from donors that are specially earmarked for its Initiative costs. As shown in Table 2, external resources mobilized, pledged or under consideration by donors amount to approximately USD 66.6 million, or 14.1 per cent of IFAD's total Debt Initiative costs (without adjusting for inflation), which are USD 471.0 million.

TABLE 2
HIPC: donor contributions received, pledged or under consideration^a

Donor	Amounts in USD
Belgium	2 713 086
Finland	2 522 701
Germany	6 988 921
Iceland	250 000
Italy	4 692 224
Luxembourg	778 239
Netherlands	12 311 737
Norway	5 911 693
Sweden	17 000 000
Switzerland	3 000 000
European Commission	10 460 129
Total	66 628 730

^a These pledged resources are disbursed over time in instalments, and thus the USD value shown differs from the pledged amount because of fluctuations in exchange rates.

Supplementary funds

IFAD administers approximately USD 29.0 million in supplementary funds, which are managed within the framework of bilateral partnership agreements with donor countries. Supplementary funds are additional to those provided by Member States to replenish IFAD's regular resources for loans and grants. They are used to enhance and support activities under IFAD's programme of operations.

The four major categories of supplementary funds comprise:

- cofinancing of grants in support of projects and programmes supported by IFAD loans or grants
- funds for sectoral and thematic studies
- funds for technical assistance to programme and project design, implementation and evaluation
- funds for other activities, such as international workshops or regional conferences

IFAD also holds supplementary resources in trust for the Belgian Survival Fund Joint Programme (BSFJP) and the IFAD associate professional officer programme.

IFAD received more than USD 13.0 million in new supplementary resources in 2003 from Canada, Finland, Germany, Italy, Japan, Luxembourg, Netherlands, Portugal, Sweden, Switzerland and the United Kingdom.

Italy contributed EUR 2.5 million (USD 2.8 million) for grant financing, thematic activities and technical assistance, EUR 3.0 million (USD 3.6 million) for activities in the Balkans, and EUR 2.0 million (USD 2.5 million) for the IFAD/IDB multi-donor programme for the eradication of rural poverty in Latin America and the Caribbean. Canada provided CAD 250 000 (USD 172 176) as the second instalment for a consultancy to develop corporate processes and tools to better define IFAD's strategic priorities. Finland provided EUR 350 000 (USD 397 622) under a new partnership agreement for thematic activities. A portion was used to cofinance *Still, the children are here*, a documentary film on indigenous peoples in north-eastern India, produced by Mira Nair and directed by Dinaz Stafford. Part of the USD 373 151 contributed by Japan for development initiatives related to women was also used to cofinance the documentary. Portugal provided EUR 250 000 (USD 266 326) to finance activities primarily in Cape Verde, Guinea Bissau and Sao Tome and Principe, as well as a programme officer to manage activities related to the GEF. GEF helps developing countries fund projects and programmes that protect the global environment.

Sweden provided SEK 6.0 million (USD 712 166) to help finance IFAD's strategic change programme. The programme aims to streamline administrative processes in IFAD in order to make the organization more efficient in achieving its strategic objectives for the next three years.

Switzerland contributed CHF 450 000 (USD 337 838) to finance activities related to the Partnership on Development Effectiveness through Evaluation. The objectives of this partnership are to:

- exchange experiences and knowledge from selected evaluations to deepen both parties' understanding of topics of mutual interest
- contribute to the further development of an evaluation methodology that would serve both organizations to better assess the results and impact of their development efforts

The Netherlands contributed EUR 453 780 (USD 481 988) as a second instalment under the 2001 agreement for financing diverse consultancy services. The United Kingdom made an additional contribution of GBP 515 000 (USD 815 140) to support initiatives under the Sustainable Livelihoods, Learning and Diagnostic Supplementary Fund. The United Kingdom also contributed GBP 500 000 (USD 689 440) for the initiative for mainstreaming innovation.

Germany contributed EUR 800 000 (USD 1.0 million) as a second instalment for two programmes:

- Mitigating the Impact of HIV/AIDs on Rural Populations in Eastern and Southern Africa
- Gender Mainstreaming in Central and Eastern Europe: A Community Driven Approach

Luxembourg contributed EUR 467 500 (USD 577 502) for financing incremental credit to support the rural financial services component of the Oudomxai Community Initiatives Support Project in Laos. Luxembourg made another contribution of EUR 60 000 (USD 74 118).

For the independent external evaluation of IFAD, Belgium contributed USD 87 690, Norway contributed USD 50 000 and Denmark contributed USD 300 000.