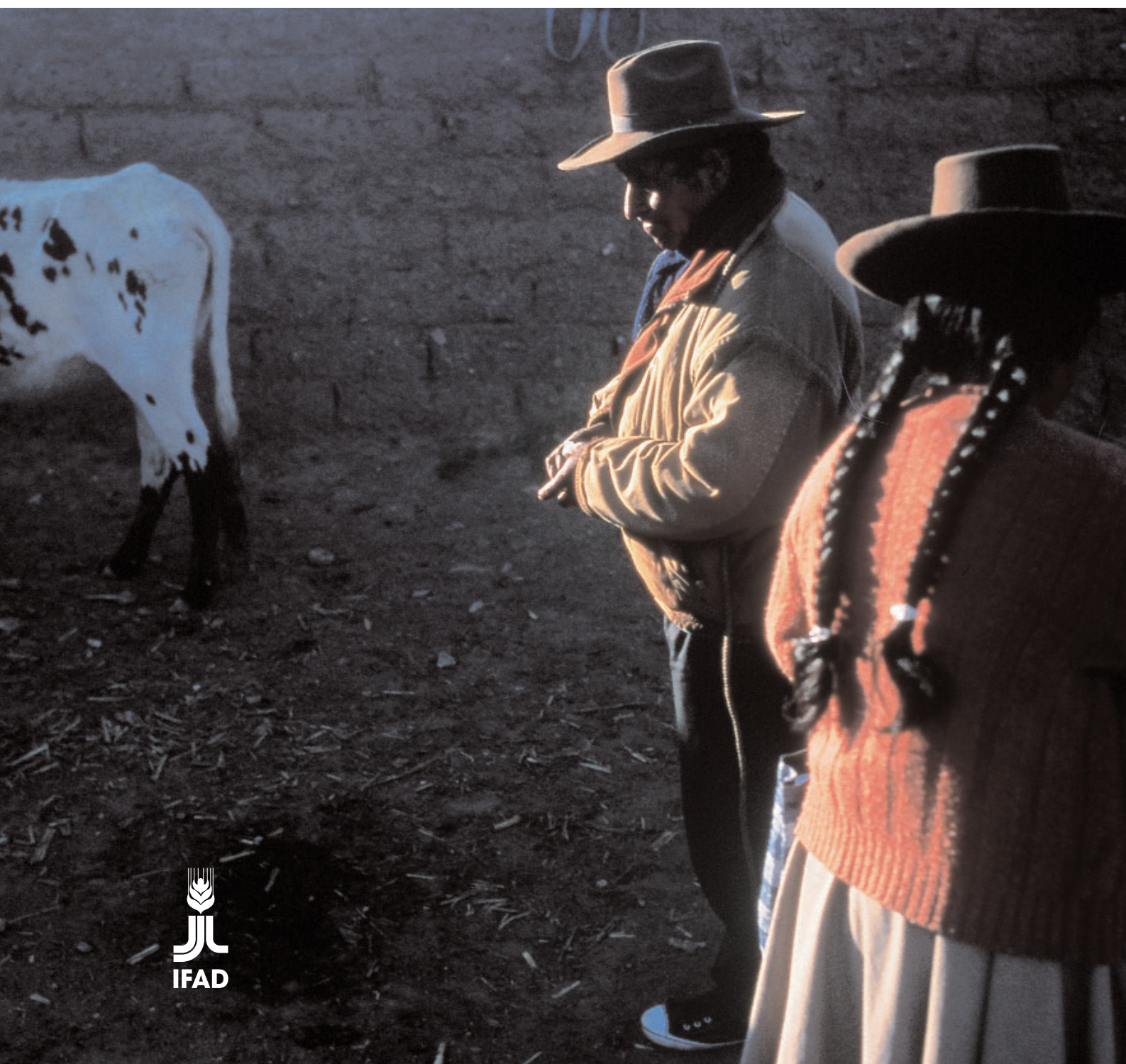


ANNUAL REPORT 2004

Enabling the rural poor to overcome poverty



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ABOUT IFAD

IFAD is a specialized agency of the United Nations dedicated to eradicating rural poverty in developing countries. Seventy-five per cent of the world's poorest people, 800 million women, children and men, live in rural areas and depend on agriculture and related activities for their livelihoods.

IFAD Strategic Framework for 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 to:

- strengthen the capacity of the rural poor and their organizations
- improve equitable access to productive natural resources and technologies
- increase access by the poor to financial services and markets

Underlying these strategic objectives is IFAD's belief that rural poor people must be empowered to lead their own development 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 2004, 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 extremely poor people by 2015.

Working in partnership to eradicate rural poverty

Through concessional and highly concessional loans and grants, IFAD works with governments to develop and finance programmes and projects that enable rural poor people to overcome poverty themselves.

There are 192 ongoing IFAD-supported rural poverty eradication projects and programmes, totalling USD 6.1 billion. IFAD has invested about USD 2.8 billion in these initiatives. At full development, these projects and programmes will help more than 100 million rural poor women and men to achieve better lives for themselves and their families. Since starting operations in 1978, IFAD has invested more than USD 8.5 billion in 676 projects and programmes that have reached more than 250 million rural poor people.

But this represents only part of the total investment in IFAD projects and programmes. In the past 26 years, a further USD 15.2 billion in cofinancing was contributed by partners: governments and other financing sources in recipient countries have contributed almost USD 8.4 billion while another USD 6.8 billion has been contributed by external cofinanciers, including bilateral and multilateral donors. This represents a total investment of about USD 23.7 billion, and means that for every dollar IFAD invested, it was able to mobilize almost two dollars in additional resources.

IFAD tackles poverty not only as a lender, but also as an advocate for rural poor people. Its multilateral base provides a natural global platform to discuss important policy issues that influence the lives of rural poor people, as well as to draw attention to the centrality of rural development to meeting the Millennium Development Goals.

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 the 163 Member States each 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 Mr Lennart Båge, who was re-elected for his second four-year term early in 2005.

IFAD at a glance, 1978-2004^a

TABLE 1

		1978-1993	1994	1995
Operational activities^{b, c}				
Loan approvals				
Number of projects and programmes		369	28	33
Amount of loans	USD million	4 116.6	349.3	391.7
Grant approvals				
Number		430	71	132
Amount ^d	USD million	191.2	16.8	23.6
Total IFAD loan and grant operations^b	USD million	4 307.8	366.1	415.3
Cofinancing	USD million	4 334.9	122.4	261.4
Multilateral		3 551.7	91.3	215.8
Bilateral		754.0	30.5	45.7
NGO		12.2	0.6	0.0
Other ^e		17.0	0.0	0.0
Domestic contributions	USD million	5 352.8	184.4	262.7
Total project and programme cost^f	USD million	13 830.2	656.0	915.9
Projects and programmes				
Number of effective projects and programmes under implementation		157	168	186
Number of projects and programmes completed		179	14	13
Number of projects and programmes in the pipeline		127	131	107
Number of approved projects and programmes initiated by IFAD		267	25	28
Number of recipient borrowers		101	104	107
Loan disbursements	USD million		163.0	164.9
Loan repayments	USD million		89.1	110.0
General reserve				
– at end of period	USD million		95.0	95.0
Membership and administration				
Member States – at end of period			157	158
Professional staff – at end of period ^g			107	111
Operating expenses ^h	USD million		47.7	49.7
– Provision for after-service medical benefits	USD million			

^a IFAD loans are denominated in special drawing rights (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 is due to rounding of figures.

^b Amounts as appearing in President's reports at the time of approval. Projects and programmes do not include component grants. Excludes fully cancelled projects and programmes. Excludes the Programme Development Financing Facility.

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

^d Includes all categories of grants.

^e Includes financing under basket or similar funding arrangements, financing from private-sector resources or financing that may not have been confirmed at Executive Board approval.

^f Includes project component grants, but not technical assistance grants that are not related to projects and programmes.

^g Approved positions (excluding those of the President and Vice-President). During 2004, 11 posts were reclassified from the General Service to the Professional category.

^h Operating expenses relate solely to the administrative budget.

ⁱ Due to a change in the method of actuarial allocation, IFAD's overall liability for after-service medical benefits decreased in 2004, and an accounting gain of USD 12.3 million was recorded. These resources have been transferred back to IFAD from the related trust fund and will be used for normal operational purposes.

1996	1997	1998	1999	2000	2001	2002	2003	2004	1978-2004
32	30	29	30	27	24	24	25	25	676
395.1	397.7	407.9	432.7	409.0	391.6	353.2	403.6	433.4	8 481.8
212	258	110	124	120	106	85	70	87	1 805
28.3	35.4	30.2	29.6	32.8	30.8	23.9	20.3	33.3	496.3
423.4	433.1	438.1	462.3	441.8	422.4	377.1	424.0	466.7	8 978.1
286.5	448.5	293.0	116.8	276.0	262.5	138.4	124.9	176.2	6 841.3
250.7	323.8	249.7	89.2	151.3	203.1	78.6	124.5	76.8	5 406.5
20.1	109.4	22.1	23.4	57.7	17.0	51.2	0.0	13.6	1 144.6
0.4	9.3	0.8	0.0	0.1	0.3	0.0	0.0	0.0	23.6
15.3	6.1	20.4	4.2	66.9	42.0	8.5	0.3	85.8	266.6
306.7	338.5	319.8	207.5	326.7	302.0	275.2	184.1	316.1	8 376.5
989.3	1 187.4	1 021.5	757.8	1 012.5	956.4	769.8	712.5	928.8	23 738.0
190	188	204	211	199	206	203	195	192	
27	29	19	23	32	24	29	28	27	444
98	94	89	68	60	54	56	54	47	
26	21	24	28	25	23	24	24	25	540
111	113	114	115	115	115	115	115	115	115
219.7	228.2	273.7	270.7	269.8	291.3	263.4	285.8	313.7	4 595.8
110.7	115.6	123.4	133.2	132.9	128.0	126.8	140.1	171.7	1 379.7
95.0	95.0	95.0	95.0	95.0	95.0	95.0	95.0	95.0	
158	160	161	161	161	162	162	163	163	
126	126	126	132	132	132	132	132	143	
50.7	50.5	52.2	52.9	47.1	49.9	40.3	49.1	57.0	
			2.6	4.3	4.3	7.9	4.3	12.3 ⁱ	

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AfDB	African Development Bank
AfDF	African Development Fund
AFESD	Arab Fund for Economic and Social Development
AsDB	Asian Development Bank
BCIE	Central American Bank for Economic Integration
BOAD	West African Development Bank
BSF	Belgian Survival Fund
CEN	Central and Eastern Europe and the Newly Independent States
CGIAR	Consultative Group on International Agricultural Research
COSOP	country strategic opportunities paper
ECOSOC	Economic and Social Council of the United Nations
ENRAP	Knowledge Networking for Rural Development in the Asia/Pacific Region
FAO	Food and Agriculture Organization of the United Nations
GEF	Global Environment Facility
GTZ	Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation)
HIPC	Debt Initiative for Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development (World Bank Group)
IDA	International Development Association (World Bank Group)
IDB	Inter-American Development Bank
IEE	Independent External Evaluation
IsDB	Islamic Development Bank
MDGs	Millennium Development Goals
NENA	Near East and North Africa
NEPAD	New Partnership for Africa's Development
OECD	Organisation for Economic Co-operation and Development
OPEC Fund	Organization of the Petroleum Exporting Countries Fund
PRSPs	poverty reduction strategy papers
UNCCD	United Nations Convention to Combat Desertification
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development
WFP	World Food Programme

ABBREVIATIONS AND ACRONYMS

FOREWORD

In 2004, together with its partners across the globe, IFAD continued to step up its commitment to meeting the Millennium Development Goals (MDGs).

As the United Nations agency dedicated solely to the eradication of rural poverty, IFAD has sought during the year to bring attention to the crucial importance of agriculture and rural development to achieving the MDGs. Three-quarters of the world's extremely poor people, about 800 million men, women and children, live in rural areas of developing countries, where they depend on agriculture and related activities for survival.

While some countries are making good progress towards achieving the MDGs, most of the poorest countries are not on track to meeting the targets by 2015. Rural people make up the largest proportion of the population in most of these countries. Simply put, the MDGs will not be met unless we put agriculture and rural development at the very top of our development agenda.

At IFAD, our experience shows that rural poor people have the drive and talent to improve their lives, but they often lack opportunities.

We work to ensure that rural poor people have the necessary assets to overcome poverty themselves. They need secure access to resources, especially land, water and technology.

Rural poor people also need efficient and equitable access to markets in order to move beyond subsistence farming. Financial services are increasingly important for poverty reduction; they not only give rural poor people the opportunity to save and borrow money but also contribute to their empowerment. And rural poor people must have strong organizations and real political representation to ensure that their needs and interests are met.

IFAD's annual programme of work is growing. In December 2003, the Executive Board approved the programme of work for 2004 at USD 462.5 million; at the end of the year, the actual programme of work achieved was USD 490.4 million. In December 2004, the Executive Board approved the programme of work for 2005 at USD 500 million.

Twenty-five new projects and programmes were approved in 2004, financed through IFAD loans worth USD 433.4 million. The total cost of these projects is estimated at over USD 928 million, of which USD 176.2 million will be provided by other external cofinanciers and USD 316.1 million by cofinanciers in the recipient countries – primarily the governments. When fully operational, these projects are expected to directly benefit more than 10 million people. IFAD grants worth USD 3.1 million contributed to these projects. Other grants worth USD 30.2 million were approved in 2004, to promote research on innovative approaches and technological options and to build the pro-poor capacities of partner institutions.

IFAD now has 192 ongoing projects and programmes, worth a total of USD 6.1 billion. IFAD has invested about USD 2.8 billion in these projects and programmes which, when fully operational, will directly benefit more than 100 million rural poor people.

IFAD is also looking beyond projects and programmes, with the broader objective of bringing about the policy changes necessary to create an environment conducive to rural development and the eradication of rural poverty.

An important part of rural development is the empowerment of rural communities, particularly women's groups, farmers' organizations and federations of these groups. Poor farmers need to have a say in the policies that directly affect their lives. IFAD is providing funding to support various farmers' organizations and we are seeing that, increasingly, these farmers are able to improve their position in the marketplace, negotiate better prices for fertilizer and other farm inputs, or better terms for a loan.

We continued our involvement in regional-policy forums during the year, for example, the New Partnership for Africa's Development (NEPAD) in Africa, and the Inter-Agency Working Group on Rural Development in Latin America. We participated throughout the year in inter-governmental processes, strengthening our collaboration with the African Union, the Organization of the Petroleum Exporting Countries Fund (OPEC Fund) and the Tokyo International Conference on African Development (TICAD), among others.

In 2004, IFAD prepared an approach paper on how to enhance its support to country-led poverty reduction strategies. Poverty reduction strategies are now one of the main policy instruments for achieving poverty reduction, and are increasingly seen as providing a framework to enable countries to meet the MDGs. Through our engagement with national poverty reduction processes we work to ensure that rural issues are given adequate attention, and that marginalized rural people and their organizations participate in the design and implementation of poverty reduction strategies. We bring to the discussion table the experience and knowledge gained through our country programmes.

During the year, we also participated in a United Nations initiative to develop a concrete action plan for meeting the MDGs. This was the Millennium Project, an independent advisory body commissioned by the United Nations Secretary-General. IFAD's main objective was to orient the work of the Millennium Project towards rural poverty and related issues. The Millennium Project presented its final report in January 2005.

Partnerships continue to form the foundation of our approach to rural poverty eradication. During 2004, we forged stronger partnerships with non-governmental and civil society organizations. With the International Land Coalition we continued to help rural people gain secure access to land and other natural resources. With the Global Mechanism we furthered efforts to implement the United Nations Convention to Combat Desertification. And we marked the 20th year of our longstanding partnership with the Belgian Survival Fund.

In 2004, IFAD moved ahead with its internal change agenda, working to become a 21st century organization that is adaptive, responsive, innovative and effective.

A very important milestone in 2004 was the successful completion of the preparatory phase of the Initiative for Mainstreaming Innovation. Through the initiative, IFAD is working to boost its ability to test and promote innovations that have a positive impact on rural poor people. The main phase of the initiative was approved in December.

We continued streamlining administrative processes to increase cost-effectiveness and efficiency under the Strategic Change Programme. And we continued to consolidate the institutional changes under way in monitoring and evaluation and human resources management.

Progress was made in all areas of the Sixth Replenishment agenda. Our field presence was beginning to take shape in the 15 countries identified under the Field Presence Pilot Programme. Better field presence in these countries will enable us to strengthen our implementation support, policy dialogue, partnerships and knowledge management.

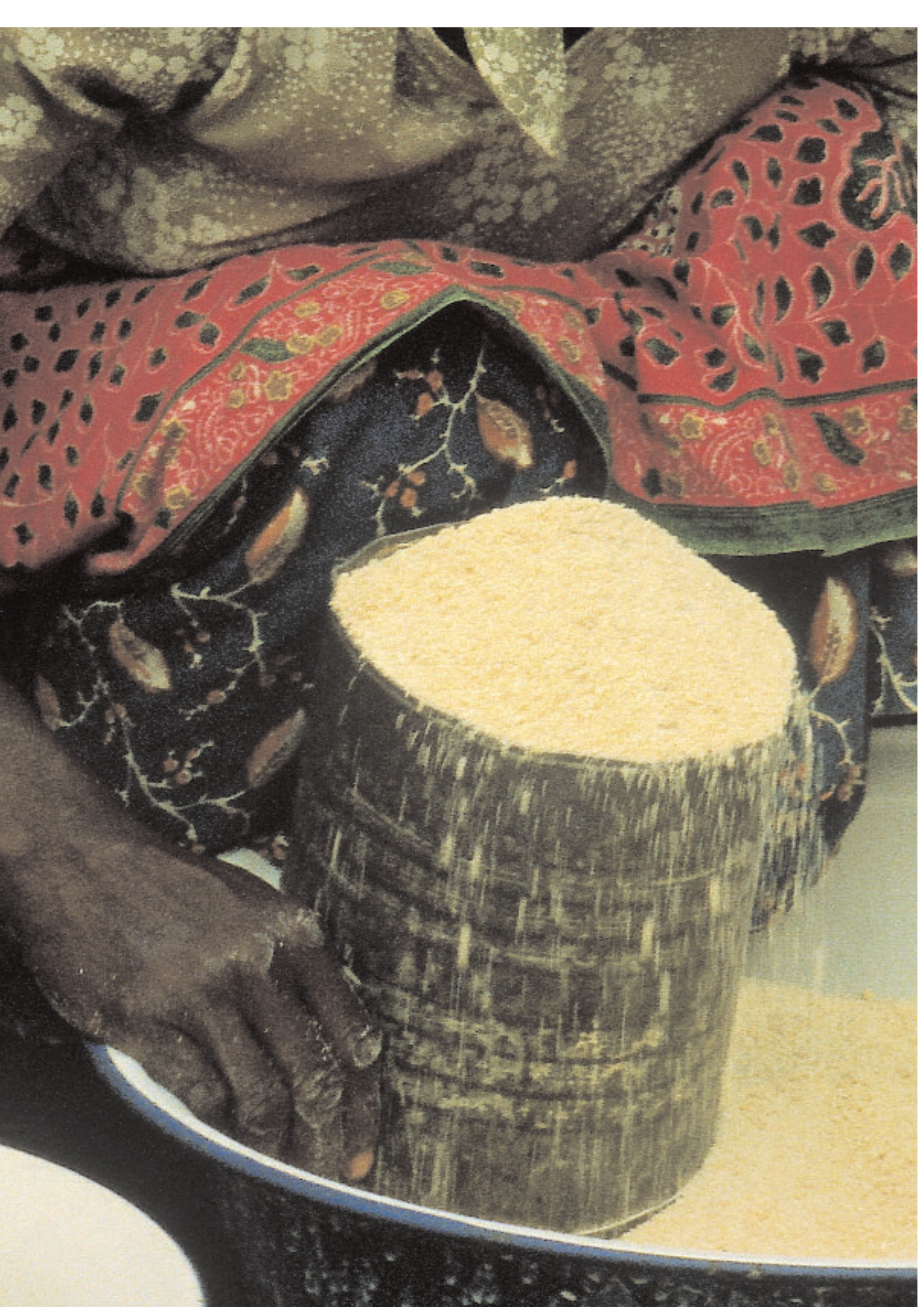
Throughout 2004, IFAD was engaged in the Independent External Evaluation (IEE), its most comprehensive evaluation ever. The IEE was probably the most ambitious evaluation of its kind for a UN agency, breaking new ground in addressing institutional performance in terms of impact. IFAD also set new directions by encouraging an open and transparent process that shared each draft report with Executive Board members and staff. We are pleased to have undergone such a fully independent and transparent study, and we agree with the main thrusts of its conclusions and recommendations. The evaluation confirms conclusions we have drawn and the wisdom of changes already under way. We have high expectations of the final report of the evaluation, which was submitted in April 2005, and we are committed to building on its findings by designing and implementing a comprehensive plan of action to make IFAD even more effective.

IFAD has made good progress. But we must reach more people and have greater impact. In February 2005, we will launch our Seventh Replenishment, focusing specifically on stepping up efforts to achieve the MDGs. The consultation process for the replenishment will coincide with the 2005 World Summit to review progress towards the MDGs, and will mobilize resources for the period 2007-2009. This is an opportunity to step up the funding being channelled to rural development and to ensure that the international development community understands and accepts the significance of rural poverty eradication.



LENNART BÅGE
President of IFAD

PROGRAMME OF WORK FOR 2004



In December 2003, the Executive Board approved the programme of work for 2004 at a level of USD 462.5 million.¹

The Executive Board also approved a Programme Development Financing Facility (PDFF)² of USD 29.7 million, including the Field Presence Pilot Programme, and recommended an administrative budget of USD 57.3 million, including one-time costs, which was approved by the Governing Council.

IFAD's actual programme of work for 2004 at year end, totalled USD 490.4 million.³

Western and Central Africa

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

Overview

The situation in the Western and Central Africa region continues to evolve rapidly on both the political and economic fronts, and these developments have a direct bearing on IFAD's programme in the region.

In 2004, important strides were made in arrears clearance and portfolio reactivation in the Congo, the Democratic Republic of the Congo, Gabon and Sierra Leone. Projects have already been approved for three of these four countries (the Congo, the Democratic Republic of the Congo and Sierra Leone) to assist in post-conflict rehabilitation.

The civil conflict that has plagued Côte d'Ivoire over the past two years has had a severe negative effect on subregional economies and poverty reduction efforts. Continued instability in several other countries, including the Central African Republic, Guinea-Bissau and Liberia has prevented portfolio reactivation for a number of years. IFAD continues to closely monitor the situation in these countries.

Strategy and activities in 2004

IFAD-supported programmes in Western and Central Africa focus on the three objectives of the Strategic Framework for IFAD 2002-2006, and on a fourth region-specific objective:

- strengthening the capacity of the rural poor and their organizations
- improving equitable access to productive natural resources and technologies
- increasing access by the poor to financial services and markets
- reducing vulnerability to major threats to rural livelihoods

During 2004, a country strategic opportunities paper (COSOP) was developed for Senegal.

1/ The IFAD programme of work is approved in special drawing rights (SDR) and a USD equivalent, according to the forecast exchange rate presented in the programme of work and budget document.

2/ The PDFF budget is used for: development of country strategic opportunity papers; inception, formulation and start-up activities for programmes and projects; environmental assessments; the grant programme; strategy development; country portfolio reviews; other implementation support and completion reports. The approved and the actual programmes of work include a PDFF component.

3/ Loans and large grants, which form part of the actual programme of work, are denominated in SDR and converted to USD at the exchange rate on the date of approval of each loan or grant by the Executive Board. Small grants and the PDFF component, which form the remainder of the programme of work, are approved directly in USD.

Strengthening capacity

Building capacity at the grass roots is a key feature of IFAD's activities in the region. It is especially prominent in the new Burkina Faso Sustainable Rural Development Programme, which will strengthen village organizations, prioritize investments in infrastructure and offer functional literacy programmes.

Raising agricultural and natural resource productivity

The Gambia's new Participatory Integrated-Watershed Management Project and the Burkina Faso programme focus much of their work on improved natural resource management, using a strong community-based participatory approach. In addition, emphasis on proactive development and follow-up of technical assistance grants for agricultural research addresses issues related to agricultural productivity. For example, the Programme for Improving Livelihoods in Rural West and Central Africa through Productive and Competitive Yam Systems, administered by the International Institute of Tropical Agriculture (IITA), promotes the development and dissemination of improved varieties and addresses soil productivity constraints.

In March 2004, IFAD supported a farmer-organized workshop in Ségou, Mali, on farmer innovation and participatory research and development. The workshop participants included representatives of farmers' organizations from five countries in the region, researchers from international and national centres, extension workers, NGOs and IFAD project staff. Farmers presented their views on innovative practices and technologies, and an action plan was developed for follow-up and continued collaboration. This effort is being closely coordinated with IFAD's regional Internet-based information network, FIDAFRIQUE.

Increasing access to financial services and markets

The new project in the Gambia will generate employment and boost incomes by strengthening rural financial services and maintaining a strong focus on market linkage development for lowland agricultural products.

Several other regional or cross-country initiatives started work in 2004 on issues related to raising rural incomes and increasing market access. At the 2004 IFAD Governing Council, a regional Rural Finance Strategy and Action Plan was validated. The action plan identifies a set of measures to strengthen microfinance institutions, promote best practices, deepen partnerships in the region, and pursue policy dialogue on issues that are important for creating an enabling environment for rural financial intermediation.

A number of pilot activities to strengthen cassava market linkages were identified in 2004 in Ghana and Nigeria. Efforts will be made to launch these activities in 2005 through public-private partnerships and to scale them up through existing roots-and-tuber projects in these countries.

Reducing vulnerability

Two activities approved this year, the Rural Development Project in the Plateaux, Cuvette and Western Cuvette Departments in the Congo and the Agricultural Revival Programme in Equateur Province in the Democratic Republic of the Congo, address critical post-conflict reconstruction issues. They will provide essential agricultural

inputs and fishing materials to poor farmers and fishers in order to facilitate the revival of production in areas affected by civil wars. In addition, key infrastructure and social services will be provided, and innovative conflict remediation activities will be introduced. Operations will start in early 2005.

Gender

Gender is a key cross-cutting concern of IFAD's strategic framework. In 2004, IFAD made significant progress in mainstreaming gender concerns in operations in Western and Central Africa. This was accomplished in three ways:

- by providing support on request to country programme managers in the review of formulation and appraisal documents, participating in project development teams, providing gender specialists and financing gender activities
- by integrating the IFAD Gender Plan of Action in all ongoing projects in Cape Verde, Ghana, Guinea and Senegal through gender-sensitization and training workshops
- by producing the first draft of the joint strategy for empowering rural women in Western Africa in partnership with the United Nations Development Fund for Women (UNIFEM)

Policy and partnerships

The Regional Policy Hub, a multidonor-funded unit based in Dakar, involving IFAD, France, the European Union and UNIFEM, started operations during the first half of 2004. The hub plays a strategic role in identifying priority policy issues that arise from loan and grant field experience and in initiating policy dialogue at the national and regional level. Its activities will be closely coordinated with FIDAFRIQUE.

In 2004, IFAD made significant progress in assisting farmers' federations to develop their advocacy capacity at the subregional level and throughout the African continent. Much of this work has been accomplished within the context of the New Partnership for Africa's Development (NEPAD) and input to subregional economic organizations such as the West African Monetary Union.

IFAD deepened collaboration with the Organisation for Economic Co-operation and Development (OECD) and France through a partnership programme that began in October 2004. Under this programme, with financing from France, IFAD is placing two policy analysts in the OECD to examine strategic policy issues for selected West African countries. The programme is still to be finalized, but it is anticipated that issues such as trade, globalization and marketing policies will receive attention.

A media-supported advocacy and communication for development programme, established in 2003, continued to boost IFAD's role in communicating the importance of agricultural and rural development for effective poverty reduction. This communication programme works in three areas: policy advocacy; awareness-raising about rural poverty and IFAD's role in reducing it; and information and communication for development.

To enhance policy and institutional dialogue, institutional analysis guidelines and training materials were developed in 2004 with funding from the Initiative for Mainstreaming Innovation (see page 48). These materials are relevant for both project development and policy analysis. A workshop was held in September in Rome to seek input from development practitioners and IFAD staff on these materials.

Field presence

In 2004, preparations for field presence initiatives under the Field Presence Pilot Programme (see page 49) were made in the Democratic Republic of the Congo, Nigeria and Senegal. These initiatives should become fully operational in 2005. They will emphasize knowledge management, policy dialogue and enhancing the impact and effectiveness of country programmes. The Dakar-based Regional Field Support Manager will support country programmes in both the Gambia and Senegal, as well as interacting with other Dakar-based regional initiatives, most notably FIDAFRIQUE and the Regional Policy Hub. It is anticipated that key areas for policy dialogue and knowledge management will include farmer and civil society empowerment, decentralization and rural financial services.

The Nigeria field representative will build on the solid partnerships that IFAD has already established with the federal government, a number of state governments and other donor organizations operating in the country. There will also be a strong emphasis on working with regional organizations based in Nigeria. Specifically, the representative will focus on:

- enhancing IFAD's role in policy dialogue in areas such as local development, delivery of rural services and development of rural financial systems
- operational approaches to implementation and supervision of IFAD projects for greater impact and knowledge-sharing
- support for the development and implementation of a comprehensive common agricultural policy by the Economic Community of West African States
- maximizing synergy between the different types of IFAD financing, in particular, closer and more explicit links between IFAD loans and grants and the International Institute of Tropical Agriculture (IITA)

The field representative for the Democratic Republic of the Congo will be based in Kinshasa and will work on programme reactivation in both the Democratic Republic of the Congo and neighbouring the Congo. The representative will play a critical role in the implementation of IFAD's post-conflict strategy in these two countries – as spelled out in their respective country strategic opportunities papers (COSOPs), which emphasize the importance of combining loan and grant resources in order to bridge the gap between humanitarian and development assistance.

Portfolio management highlights

IFAD's ongoing regional portfolio for the region consisted of 39 projects and programmes in 16 countries, with a total IFAD investment of USD 471.2 million.

In 2004, IFAD country programme managers continued to participate in at least half of the supervision missions to the region, during which annual work programmes and budgets are discussed and developed with the project partners.

Impact

The overall focus in 2004 was on heightening the impact of IFAD's activities in the region, through measures to improve project performance. IFAD continues to learn from its direct supervision of activities in three countries – Benin, the Gambia and Mali. To enhance institutional learning from implementation experience, a project design and implementation partnership has been established for the Mali Sahelian Areas Development Fund Programme in the regions of Ségou and Koulikoro.

Learning and sharing

This year, the regional Internet-based network FIDAFRIQUE went into its second phase. The network, which was started in 1999, now links 40 IFAD-funded projects and other partner organizations in the region. A FIDAFRIQUE II start-up workshop was held in Dakar in July to familiarize regional stakeholders with the network's objectives and activities, and to draft a first-year programme. The overall goal of FIDAFRIQUE is to improve the impact of IFAD-funded projects through the development and dissemination of information contributing to rural poverty reduction in the region. It targets regional stakeholder networks, representatives of the rural poor at the grass-roots level, farmers' organizations and IFAD project managers and staff.

FIDAFRIQUE works to develop information management capacity and products that will directly or indirectly contribute to poverty reduction in the region through agricultural and rural development. Specifically, FIDAFRIQUE II will:

- collect, generate and disseminate information on priority rural-development and poverty reduction themes in the region and on issues related to increasing the effectiveness of project management
- develop web-based systems, off-line products and project-level local area network systems
- organize training sessions related to information technology and information management and communication skills
- provide network management and maintenance support

Eastern and Southern Africa

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

Overview

Several positive trends continued in 2004 in Eastern and Southern Africa. The number of countries affected by civil conflict continued to decline; a growing number showed solid evidence of good governance and democratic processes; and only a few suffered from food deficits at the national level. However, most countries remain profoundly poor, and few are making any substantial progress towards achieving the Millennium Development Goals (MDGs).

In the region's rural areas, well over 100 million people live on less than USD 1 a day. HIV/AIDS is cutting an ever-wider swathe through these areas and is both a cause and a consequence of poverty and food insecurity. The pandemic is undermining communities, destroying their ability to cope with crisis and leaving millions of children orphaned.

More dynamic markets for agricultural inputs, produce and services are slowly emerging across the region. For some households, these present real opportunities, but for many others there are major obstacles to be overcome before they can participate in the new markets. Assisting them to do this remained a critical challenge for IFAD in 2004.

Strategy and activities in 2004

IFAD's overall objective in the region is to enable rural poor people to gain the skills, knowledge, organization and material means that they need to take advantage of economic opportunities in the private sector, to better engage with public-sector service providers, and to participate in local political processes. To achieve this, IFAD focused on four main areas in 2004:

- enhancing the access of rural poor people to land and water
- improving smallholders' access to agricultural input and produce markets
- strengthening rural financial systems
- developing new systems of rural technology diffusion and information exchange for smallholders

During 2004, IFAD's country operations continued to move away from discrete projects towards a more programmatic approach. Where conditions permitted, IFAD contributed to agricultural or rural sector-wide programmes. Elsewhere, the focus was on supporting a critical subsector and on assisting governments to develop an enabling policy, strategic and programmatic framework for that subsector. This approach has placed a premium on partnerships – with civil society, the private sector and other development partners. In pursuing this agenda, both in-country field presence and the availability of country-level grants have been of enormous importance.

During 2004, country strategic opportunities papers (COSOPs) were prepared for Mozambique, Uganda and Zambia. The first two were approved at the Executive Board in September, and the third was approved in April.

Enhancing access to land and water

The Sustainable Agriculture and Natural Resource Management Programme in Lesotho was approved in 2004, and in Eritrea, grant resources were used to support spate-irrigation farmers. A regional workshop on agricultural water management was held for programme staff in Mwanza, the United Republic of Tanzania. Following the workshop, a collaborative programme between IFAD and the Soil and Water Management Research Network (SWMnet) for Eastern and Southern Africa was developed, financed by a small regional grant. IFAD also continued to participate in the Collaborative Programme for Agricultural Water Management in sub-Saharan Africa – a joint research initiative in support of the New Partnership for Africa's Development (NEPAD).

IFAD stresses the importance of land-tenure security for rural poor people. During 2004, financing was obtained for the regional land tenure programme. This will ensure that land-tenure security issues are taken into account in programme design and implementation, and the operational experience gained will provide a basis for policy dialogue and partnership development. Related activities were developed and financed in Madagascar and, in partnership with the International Land Coalition, in Uganda.

Market linkage development

In 2004, the Agricultural Marketing Improvement Programme in Ethiopia was approved, with a particular focus on cereals and coffee. A regional workshop was held in Nairobi, Kenya, for programme staff to take stock of the experiences of the first 'wave' of IFAD-supported market linkage programmes. Scope for further support to implementation and knowledge-sharing was also explored, with a regional grant-financed programme under development.

Rural financial services

Development of rural financial services remains a cornerstone of IFAD's strategy in the region. The Rural Finance Programme for Zambia was approved in 2004, and in the Comoros a grant was used to support the Savings and Credit Union Network of the Union of the Comoros (MECK), a savings and credit cooperative. A grant-financed, regional rural finance knowledge management partnership was also set up, involving MicroSave, the French *Centre de coopération internationale en recherche agronomique pour le développement* (CIRAD) and IFAD.

Technology and information

The Agricultural Services Support Programme was approved within the United Republic of Tanzania's agricultural sector-wide programme. IFAD's past work with the Food and Agriculture Organization of the United Nations (FAO) in developing an East Africa-specific approach for farmer field schools informed this programme. It also provided the basis for the development of a small, grant-financed initiative that aims to build the capacity of farmer groups in Kenya, Uganda and the United Republic of Tanzania to access critical information and technologies and to use these to learn from each other.

Funding was also provided for an NGO-run project promoting the adoption and consumption of drought-resistant crops in Zimbabwe by food-insecure, female-headed households.

HIV/AIDS

In all IFAD-supported programmes in the region, HIV/AIDS prevention and mitigation is being mainstreamed. In addition, specific grant-financed projects in Angola and Kenya will work with communities and vulnerable groups to identify the causes and consequences of HIV/AIDS and to develop economic and socially-based responses to reduce risk, together with community-based coping mechanisms.

Post-conflict interventions

Post-conflict issues remained of critical importance in a limited number of countries. Rural areas are hardest hit by conflict, which destroys institutions and infrastructure. The challenge is to rebuild institutional capacity, particularly at the community level, in order to move on from emergency interventions to development. In 2004, IFAD approved a loan for the Transitional Programme of Post-Conflict Reconstruction in Burundi. In Angola, work focused on developing the basis for a country strategic opportunities paper (COSOP).

Policy and partnerships

Policy

Policy dialogue is today an integral element of most projects and programmes supported by IFAD in the region. This dialogue focuses both on the specific policies or laws constraining the ability of rural poor people to overcome poverty, and on the overall policy framework for the agricultural sector or its subsectors.

IFAD is participating in all the agricultural sector-wide programmes that have been established in the region (Mozambique, Uganda and the United Republic of Tanzania). In addition, during 2004 IFAD continued its engagement in the inter-related processes of poverty reduction strategy papers (PRSPs), rural development

sector policy and sector-wide approaches in the region, working to ensure that they focus adequately on rural poverty reduction and that they promote policies, strategies and activities to achieve that end. Engagement stressed three main areas: review and lesson learning; international advocacy and partnership development; and country-level activities. The latter, initiated in Madagascar, Mozambique, Rwanda and the United Republic of Tanzania, centred particularly on supporting the formulation and implementation of national policy frameworks, decentralization, and enabling organizations of rural poor people to participate in national policy processes.

In the field of international advocacy and partnership development, IFAD launched the Strategic Partnership for PRSPs and Programme-Based Approaches with the *Gesellschaft für Technische Zusammenarbeit* (German Agency for Technical Cooperation [GTZ]). It also hosted an international workshop entitled Poverty and social impact assessment, which provided a forum to discuss how this methodology may best be used as a tool to prioritize pro-poor national policy efforts.

Partnerships

Enhanced partnerships are a key element of the new development agenda in the region. IFAD's relations with governments are increasingly embedded within the broader sector-level development partnership existing in each country. And, as the importance of local ownership of development initiatives increases, governments are rightly taking greater responsibility for programme development. Within the donor community, there is a growing need for effective, mutually supportive partnerships in order to harmonize development efforts and achieve consistent sector-level engagement. In 2004, the evolving nature of these partnerships was demonstrated particularly (though by no means exclusively) in the case of the Agricultural Technology Extension and Research Programme in the United Republic of Tanzania, developed by the Government in close collaboration with its development partners, including IFAD.

Private-sector players have an increasingly important role to play in rural development, as a key source of investment and as service providers to the poor. Civil society and NGOs also have crucial tasks, piloting new approaches and technologies, strengthening farmer and community groups, and providing services for project implementation. IFAD forged partnerships with both groups in 2004, through regional workshops, country programmes and grants for NGO activities in Angola, the Comoros, Eritrea, Kenya, Mozambique, Rwanda, Uganda, the United Republic of Tanzania and Zimbabwe.

IFAD's increased field presence in Madagascar, Mozambique, Uganda and the United Republic of Tanzania in 2004 (under the Field Presence Pilot Programme and other arrangements) facilitated the development of all these partnerships, and strengthened IFAD's capacity to engage in country-level policy dialogue and to provide real-time implementation support to its programmes and projects.

Portfolio management highlights

At year-end, IFAD's ongoing regional portfolio consisted of 43 projects and programmes in 16 countries, directly targeting an estimated 6.2 million households, with a total IFAD investment of USD 650.8 million. Five new loans were approved for activities in Burundi, Ethiopia, Lesotho, the United Republic of Tanzania and Zambia.

Impact

Pending the new results and impact measurement system (RIMS) (see page 50) becoming fully operational, assessments of impact in 2004 were necessarily qualitative. The region's portfolio review for 2004 found that many IFAD-supported projects and programmes had a positive impact, in terms not only of better household food security and increased incomes but also of:

- policy and institutional reform
- community-defined beneficiary targeting
- sustainable and effective technological improvement and adaptation
- effective and innovative participatory practices
- farmer organization
- gender equality and empowerment of women
- effective rehabilitation of the environment in marginal areas
- innovation in design and implementation
- increased institutional capacity to serve the rural poor
- replicability

Learning and sharing

While learning and knowledge-sharing among the rural poor is promoted through the programme portfolio, in 2004 specific efforts were made to encourage these processes among programme coordinators and staff. The regional implementation workshop in Lesotho brought together representatives from projects and programmes in 14 countries, and allowed them and IFAD staff to network informally. The agenda focused on managing for impact, monitoring and evaluation, and networking as a basis for learning.

As a consequence of the thematic workshops conducted during the year in the region, grant-financed learning networks for programme managers were initiated or are under development on water management, rural finance, market linkage, and monitoring and evaluation.

Asia and the Pacific

31 countries: Afghanistan, Bangladesh, Bhutan, Cambodia, China, Cook Islands, the Democratic People's Republic of Korea, Fiji, India, Indonesia, Iran (Islamic Republic of), Kazakhstan, Kyrgyzstan, Lao People's Democratic Republic, Malaysia, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Papua New Guinea, the Philippines, the Republic of Korea, Samoa, Solomon Islands, Sri Lanka, Tajikistan, Thailand, Timor-Leste, Tonga and Viet Nam

Overview

In spite of high oil prices and the severe acute respiratory syndrome (SARS) epidemic, the developing economies of Asia and the Pacific showed strong economic growth (6.3 per cent per year) in 2003/4. However, there were significant differences in growth among subregions and between countries within subregions.

Intra-regional trade has become a major driver of economic growth in the region. However, agricultural and other primary goods account for less than 10 per cent of intra-regional trade. Consumer demand is growing in most countries of the region, but income inequality between rural and urban areas is marked. This has important implications for the poverty-reducing impact of economic growth.

Countries in the region face a number of challenges: endemic poverty in remote areas where ethnic minorities live; income inequality between rural and urban areas and between regions; unemployment; and the impact of World Trade Organization membership on small farmers.

Strategy and activities in 2004

The four objectives of IFAD's Regional Strategy for Asia and the Pacific are:

- developing less favoured areas
- enhancing women's capabilities in order to promote social transformation and agricultural development
- reducing poverty by enhancing the capabilities of indigenous peoples and other marginalized minorities
- building coalitions of the rural poor

Development of less favoured areas

Country strategic opportunities papers (COSOPs) and new projects designed since the regional strategy was developed focus on less-favoured areas (uplands, mountains, dryland areas) where 40 per cent of the region's rural poor live. Increased poverty in these areas has been accompanied by widespread degradation of natural resources.

- IFAD continues to experiment with approaches to improve the access of the rural poor to common-property resources and to boost their productivity. Under the Oxbow Lakes Small-Scale Fishermen Project in Bangladesh and the Hills Leasehold Forestry and Forage Development Project in Nepal, common-property resources (lakes and degraded forests) are leased to the poorest people in surrounding villages. Both cases demonstrate that such 'social fencing' can be effective in safeguarding the benefits of investments and that the sharing of income on the basis of labour contributions can preserve the principle of equity. A follow-up programme was approved for Nepal in December 2004: the Leasehold Forestry and Livestock Programme.
- The IFAD regional grant rewarding the upland poor for environmental services is testing institutional mechanisms for recognizing and rewarding IFAD target groups for the environmental services they provide.

Enhancing women's capabilities

Stark inequality in gender relations persists throughout the region. The extent to which IFAD and other organizations make an impact on poverty in Asia in the coming decades will depend upon the extent to which they are able to alter gender relations. IFAD-supported interventions focus on the enhancement of women's role as agents of change.

The Rural Poverty-Reduction Programme in Mongolia offers a micro-initiative fund and specific training for women starting economic activities. The fund and the training are managed by local women's federations, which also organize awareness campaigns for education, family planning and health.

In Viet Nam, IFAD activities foster women's participation in community decision-making processes by including:

- separate participatory rural appraisal activities for men and women for the identification of community development activities
- creation of institutional space for women in village bodies

- improvement of women's access to credit
- establishment of funds that can be used specifically to meet needs identified by women

In Pakistan, the first women's organization ever in South Waziristan was set up in June 2004 under the Southern Federally Administered Tribal Areas Development Project, which continued to work with local communities despite security operations in the area.

IFAD also has three ongoing gender-focused grants in the region.

Enhancing the capabilities of indigenous peoples and other marginalized minorities

Indigenous peoples remain the most socially and politically marginalized populations within the region. The eight-year Cordillera Highland Agricultural Resource Management Project (CHARM) in the Philippines was the first government operation to use the legislation of the Indigenous People's Rights Act to enable indigenous peoples to obtain legal title to their ancestral domains.

In Mongolia, herder committees are being set up based on traditional herder groups (*khot ails*). The committees comprise several *khot ails* and take on board important tasks such as the development and supervision of land use, and the maintenance and use of water points. The East Kalimantan Local Communities Empowerment Programme and the Rural Empowerment and Agricultural Development Programme in Central Sulawesi in Indonesia both target indigenous populations within the programme area.

Building coalitions of the rural poor

IFAD works to enable rural poor people to build their individual and collective capabilities in order to gain access to economic opportunities and basic social services and infrastructure and address the unequal power relations that contribute to poverty.

In Kyrgyzstan, a national-level apex body of sheep breeders, formed through federating cooperatives, was established under the recently closed Sheep Development Project.

Contributing to the development of grass-roots institutions is the cornerstone of IFAD's strategy in India. Group-based microfinance methodology was introduced in the state of Tamil Nadu and then scaled up under the Maharashtra Rural Credit Project. The self-help group methodology thus developed is proving effective and is being replicated in several contexts.

The North-Central Province Participatory Rural Development Project in Sri Lanka creates small groups of beneficiary families, which are joined together into active village organizations. These in turn are grouped into division federations, which then form the Anuradhapura District Participatory Development Foundation. All these structures are legally registered and plan and carry out a number of joint development efforts supported by the project. The social mobilization and participatory planning processes help build social capital and result in individual, as well as collective, empowerment of the community.

In June 2004, IFAD organized the portfolio review workshop for East and Southeast Asia. Project directors and senior government officials expressed a need for IFAD's assistance in training their staff in various issues. In the context of the new grant

policy, they also proposed strategic uses of grant resources by IFAD. Finally, they made important suggestions for policy dialogue with governments. These related to institutional sustainability measures for completed projects and microfinance.

Policy and partnerships

Policy

As IFAD activities in the region address access to assets and institutional and policy obstacles for sustained poverty reduction, the organization continues to forge effective links and partnerships at the policy level to achieve the greatest impact from its loan and grant projects.

In 2004, IFAD continued to work with several countries (Cambodia, Lao People's Democratic Republic, Mongolia and Nepal) on the preparation of PRSPs, mainly in incorporating agricultural and rural development issues or in enhancing the participation of the rural poor in the consultation process. In line with IFAD's established policy and the evolving programme-based and policy-oriented approach, the Asia and the Pacific Division manages its country programmes in the context of country-owned poverty reduction strategies and implements a policy-based approach in its project design. The division is engaged in the processes related to donor harmonization.

In 2004, the majority of IFAD's interventions in the region continued to influence pro-poor policy development:

- In Nepal, as a direct result of the Hills Leasehold Forestry and Forage Development Project, the Government introduced the national leasehold forestry policy, which has become an integral part of the PRSP.
- In Viet Nam, IFAD projects successfully decentralized a range of management functions down to the district level, based on district government structures; the newly approved programme scales up these initiatives into a policy-oriented approach.
- In Cambodia, the Agriculture Productivity Improvement Project has assisted the Government in the development and formulation of policies and legislation in several areas.
- In the Lao People's Democratic Republic, policy dialogue with the Government in the implementation of the National Growth and Poverty Eradication Strategy Programme is an important part of the country programme.
- In India, with IFAD assistance, the NGO sector has achieved significant capacity to engage in the development process both in implementation and in policy dialogue. Similarly, formal financial institutions have adapted their procedures to enhance poor people's access to microfinance services.
- In China, the Rural Finance Sector Programme approved in April 2004 will be implemented as a national programme allowing the China Banking Regulatory Commission and the rural credit cooperatives and cooperative unions to test good microfinance practices, with special emphasis on the facilitation of access for the rural poor.

Partnerships

The World Food Programme (WFP) continued to be a major partner and cofinancier in the region. In January 2004, IFAD signed a memorandum of understanding with WFP to facilitate further cooperation and strengthen their partnership.

In collaboration with regional and national partners, IFAD formulated rural poverty reduction strategies for two new subregions during 2004: the Pacific Islands, approved in December 2004, and Central Asia, to be approved in 2005.

During 2004, field offices were established in three countries – China, India and Viet Nam – under the Field Presence Pilot Programme (see page 49). The China office will have a subregional mandate covering also the Democratic People’s Republic of Korea and Mongolia. These offices will provide support in project implementation, policy dialogue, knowledge management and partnership building at the country level.

Portfolio management highlights

At year-end, IFAD’s ongoing regional portfolio consisted of 39 projects and programmes in 15 countries, with a total IFAD investment of USD 697.9 million. Six new loans were approved in 2004 for activities in Bangladesh, China, Indonesia, Nepal, Sri Lanka and Viet Nam.

Other portfolio management highlights from the region were:

- a stronger focus of country programme performance review to enhance the projects-at-risk under the performance-based allocation system (PBAS) (see page 49)
- approval for the creation of a Management for Development Results Facilitator position
- meeting with the United Nations Office for Project Services (UNOPS), the division’s main cooperating institution, to strengthen cooperation for more effective supervision and implementation support

Impact

IFAD seeks to play a catalytic role in the region by testing innovations for poverty reduction and replicating and scaling up successful and innovative approaches. Projects focus upon problems not adequately dealt with by existing systems. They can also tangibly influence policy and institutional change for accelerated rural poverty reduction. IFAD ensures that the development contribution of its projects is not geographically limited by implementing more externally integrated and innovative projects and striving for closer alignment with country frameworks.

Learning and sharing

The Knowledge Networking for Rural Development in Asia/Pacific Region (ENRAP) project continued work under its second phase in 2004. ENRAP’s main goal is to heighten the impact of IFAD-funded activities on the livelihoods of poor rural communities in Asia and the Pacific by strengthening networking and knowledge-sharing at all levels. ENRAP focuses particularly on uses of information and communication technologies for development and on new electronic media for poor rural communities. ENRAP II builds on the project’s first phase and covers eight countries (China, India, Lao People’s Democratic Republic, Nepal, Pakistan, the Philippines, Sri Lanka and Viet Nam).

Latin America and the Caribbean

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

Overview

After five years of stagnation, the economies of the Latin America and the Caribbean region posted positive growth in 2004. Gross domestic product expanded at around 4.5 per cent (3 per cent in per capita terms). There was also positive, but much lower, expansion in employment. Inflation remained low, at around 8.5 per cent. However the region still faces important challenges. The economic recovery is fragile, and the region as a whole – particularly in rural areas – is highly vulnerable to exogenous factors, such as the performance of the global economy and the devastating effects of natural disasters. Despite all the progress made, there are serious policy and institutional weaknesses in a number of countries in the region, especially in terms of providing rural poor people with access to the assets and services that they require to overcome poverty.

Progress towards reducing poverty in the region has ground to a halt in the past five years, with poverty and indigence rates remaining practically constant since 1997. The only exception was the year 2000, when improved economic performance decreased the number of poor in the region. According to the Economic Commission for Latin America and the Caribbean, the number of Latin Americans living in poverty had reached approximately 226 million by 2003, of which 100 million were classified as indigents – people living in extreme poverty. It is estimated that around 62 per cent of the region's rural population is poor.

Strategy and activities in 2004

The main objectives of IFAD's strategy in the region are:

- empowering the rural poor
- enabling the rural poor to take advantage of market opportunities at the local, regional and international level
- promoting policy dialogue, engaging direct stakeholders, governments and the donor community in continued dialogue and action
- developing partnerships and coalitions
- learning from experience, within the region and across regions, and harnessing knowledge and disseminating it

Two cross-cutting issues in IFAD's strategy in the region are gender and the sustainable management of natural resources.

During 2004, country strategic opportunities papers (COSOPs) were developed for Argentina, Costa Rica, Ecuador and Paraguay.

Empowering the rural poor

IFAD's loan portfolio gives priority to empowering the rural poor, with special attention to indigenous peoples, small and landless farmers, women and youth, and to the promotion of demand-driven participatory approaches. In 2004, IFAD approved the National Rural Development Programme: Central and Eastern Regions in Guatemala, supporting small producers and indigenous populations. In Brazil, the newly approved North-East Rural Family Enterprise Development Support Project will aim to reduce poverty and social inequality among the rural poor of the country's North-East region.

In November, the Regional Programme in Support of Indigenous Peoples in the Amazon Basin (PRAIA) held a workshop entitled Living experience, to share and learn from experience gained by IFAD and partner organizations working with indigenous populations. Of 16 initiatives presented at the workshop, the three most innovative were awarded a prize. PRAIA is preparing a publication with a summary of the presentations and the main conclusions of the workshop.

Taking advantage of market opportunities

Globalization has created both challenges and opportunities for rural poor people. IFAD works to strengthen links between its target populations and local, regional and international markets, paying particular attention to supporting the development of microenterprises. Activities in this area have been led by the Rural Microenterprise Support Programme in Latin America and the Caribbean (PROMER). During the year, the programme worked to facilitate contacts between small rural entrepreneurs and potential consumers in the Italian market, as part of Micro Italia, a commercial corridor bridge programme between Italy and Latin America and the Caribbean.

In 2004, IFAD approved the Patagonia Rural Development Project to be implemented in Argentina. The project will work to improve the economic and social conditions of rural poor people in the Patagonia region by broadening their access to business opportunities and to technical and financial resources, thus reversing a trend in which development activities in rural areas were based on transfers from the Government.

IFAD stepped up its support to rural financial services in the region in 2004 with the launch of SERFIRURAL, a regional programme that operates in Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama. The official launch took place in Nicaragua in June 2004. SERFIRURAL will make financial services more easily accessible to the rural poor by helping to improve the quality and coverage of the services already provided by financial institutions. SERFIRURAL is currently carrying out a survey-based study on the rural financial services components of IFAD-funded projects in Central America.

Gender mainstreaming

Eliminating gender inequalities in rural areas is a key concern for IFAD because rural women are particularly affected by poverty. During 2004, the Regional Programme to Consolidate Gender-Mainstreaming Strategies in IFAD-Financed Projects of Latin America and the Caribbean (PROGENDER) provided support to 16 IFAD projects and carried out training on gender issues. In collaboration with the Programme for Strengthening the Regional Capacity for Monitoring and Evaluation of Rural Poverty

Alleviation Projects in Latin America and the Caribbean (PREVAL), PROGENDER authored a publication on gender indicators and a results-oriented methodology for use in evaluating rural projects.

Sustainable management of natural resources

Countries in Latin America and the Caribbean have a rich natural resource base that IFAD works to protect and develop. Given the close link between eradication of poverty and environmental protection, ecological sustainability is an essential condition for long-term agricultural and rural development. During the year, IFAD approved the Development of the Central Corridor Project to be implemented in Ecuador. Its main objective is to improve the livelihoods of poor small-scale farmers, indigenous and peasant communities.

Policy and partnerships

Forging partnerships and coalitions is a strategic objective for IFAD in the region. In 2004, the organization continued to play a part in the Inter-Agency Working Group for Rural Development in Latin America and the Caribbean. The group, which was created in March 2000, is the main institutional cooperation framework for rural development in the region. Group members met in Lima, Peru, in March 2004 to exchange information and coordinate activities. Members include representatives of IFAD, the Inter-American Development Bank (IDB), the World Bank, FAO, the Inter-American Institute for Cooperation on Agriculture (IICA), the Economic Commission for Latin America and the Caribbean (ECLAC), the United States Agency for International Development (USAID) and GTZ. As in other meetings of the Working Group, a session was organized at which the host government presented its rural development strategy for discussion.

During the year, IFAD continued to support the Regional Unit for Technical Assistance (RUTA) in Latin America and the Caribbean in Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama. The RUTA programme works to help regional and national institutions strengthen policies that address the constraints facing farmers and herders. It also provides training and is a source of knowledge management, offering advice in the design, implementation, monitoring and evaluation of strategies and projects in rural areas.

In 2004, IFAD started to implement the multi-donor programme for the eradication of rural poverty in Latin America and the Caribbean. This is the result of a partnership between IDB and IFAD, with the support of Italian supplementary funds (see page 55). The programme is currently supporting Argentina, following the request of the Secretary of Agriculture, in defining a sustainable rural development strategy at the national and provincial level. During the year, the regional programme, FIDA-MERCOSUR continued to consolidate its role as a forum for policy dialogue in Argentina, Bolivia, Brazil, Chile, Paraguay and Uruguay. This programme is supporting IFAD-financed projects by developing trade and market opportunities for smallholders and the rural poor.

In 2004, IFAD also began to work in a partnership with Trócaire, an NGO active in Central America, to study poverty reduction strategies in Honduras and Nicaragua. This is part of a broader effort by IFAD to frame a strategy to support the design and implementation of 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 to achieve the Millennium Development Goals.

Portfolio management highlights

At year-end, IFAD's ongoing regional portfolio consisted of 33 projects and programmes in 19 countries distributed in four subregions – Mexico, Panama and Central America; the Andean region; the Southern cone; and the Caribbean – with a total IFAD investment of USD 485.7 million. The allocation of the lending programme reflects the current needs of the countries. An estimated 500 000 poor rural households are direct beneficiaries of these projects. An important trend of the regional loan portfolio in the past decade is the increasing number of countries receiving loans on ordinary terms. At year-end, 70 per cent of ongoing projects were on ordinary or intermediate terms, thus playing an important role in the financial reflows of the organization.

During 2004, the three ongoing projects in the region being supervised by IFAD under the Direct Supervision Pilot Programme yielded lessons on implementation, regarding:

- the design of mechanisms to improve the formulation of suitable programmes of work for individual project components
- the role of marketing, decentralization, gender and financial services, especially in marginal areas
- the importance of professional profiles, terms of reference and selection criteria to increasing the effectiveness of IFAD projects

Impact

During 2004, IFAD continued to give high priority to measuring and assessing the results of its interventions in the region. A key role in this area has been played by the Programme for Strengthening the Regional Capacity for Monitoring and Evaluation of Rural Poverty Alleviation Projects in Latin America and the Caribbean (PREVAL).

The draft Independent External Evaluation of IFAD (see page 44) highlighted the innovative character of IFAD operations in the region, particularly in Bolivia and Peru. This was also shown in the completion reports carried out in 2004, which indicated that IFAD projects had a positive impact, particularly on indigenous groups, small subsistence and landless farmers, and gender issues. IFAD projects played a positive role as well in rebuilding communities after conflicts and natural disasters (particularly in Central America, Colombia and Haiti).

Learning and sharing

IFAD continues to give high priority to learning and knowledge management processes, which are led in the region by FIDAMERICA. The Internet-based network is a pioneer in the exchange of information and dissemination of lessons learned working with the rural poor.

In April, the grant programme for Technical Services for Rural Development (SETEDER) held a workshop entitled Facilitating indigenous teacher-trainers in Honduras. The workshop covered two basic themes: training concepts and specific tools that teacher-trainers can use as part of their work. The results of the workshop were disseminated widely as participants held similar workshops with indigenous teachers in their own communities.

Near East and North Africa, Central and Eastern Europe and the Newly Independent States

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

Overview

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

In the NENA region in 2004, overall economic growth recovered somewhat after a prolonged slump. This was due to several factors, including higher prices of crude oil benefiting the oil-producing countries, a strong rebound of the agricultural sector after three years of drought, and the first signs of a recovery of demand in Western European economies. However, the region continues to be vulnerable to spillover effects from the war in Iraq, the Israeli-Palestinian conflict, the Darfur crisis in the Sudan and the generally tense geo-political environment. Unemployment, especially of young university graduates, remains a major challenge in many countries. An acceleration of trade and investment integration is generally seen as the best and most sustainable way to address these challenges.

In the CEN region, economic growth in most countries continues to be quite strong. Countries are slowly coming out from the shadows of the old communist system and are striving to catch up with Western European countries. But progress is still necessary in several areas, including improving overall governance and management of public resources and fostering institutions to support market-based economies and attract private-sector investment.

Strategy and activities in 2004

IFAD strategies for both the NENA and the CEN regions focus on four main objectives.

For NENA, these are:

- empowering the rural poor and their organizations
- promoting gender equality
- diversifying the incomes of the rural poor
- ensuring the sustainable management of natural resources

For the CEN region, they are:

- empowering the rural poor and their organizations
- promoting gender equality
- supporting the transition process and the move to market-based economies
- facilitating market linkages in the agricultural sector

During 2004, a country strategic opportunities paper (COSOP) was prepared for Georgia and approved by the Executive Board in December.

Empowering the rural poor

Almost all the loan projects approved in 2004 in the two regions will work to empower the rural poor and strengthen their organizations. The Al-Dhala Community Resource Management Project in Yemen, the Agricultural Resource Management Project-Phase II in Jordan and the Western Sudan Resources Management Programme in the Sudan will boost the capacities of rural communities to prioritize their development needs and to draw up community action plans. The Yemen project will also support community-based microfinance facilities.

Establishing or boosting the capacity of water users' associations, so that they can take over maintenance and operation of local irrigation schemes, is another key area. These associations have an important role to play in improving water delivery to poor agricultural producers and in enhancing the sustainability of irrigation systems. The North-East Development Project in Azerbaijan, approved in 2004, will provide support to six such associations in 48 villages.

Promoting gender equality

IFAD's activities in both regions target women, individually and through groups, to ensure that they are integrated in the participatory development process. Both the above-mentioned projects in Jordan and Yemen include specific activities aimed at women, such as literacy training, promotion of labour-saving technologies, on- and off-farm income-generating activities and access to credit.

The Gender Mainstreaming Programmes in the NENA and CEN regions continued their activities throughout 2004 with support from two ongoing grants. For the CEN region, a workshop entitled Gender analysis in rural development was organized in Chisinau, the Republic of Moldova, in May 2004. As a result of the workshop, all IFAD projects in the region have designed plans for mainstreaming gender, and technical assistance is being provided to put these plans into action.

Diversifying the incomes of the rural poor

All activities approved in 2004 in the NENA region support the development of microenterprises and non-farm rural employment as sources of income diversification for the rural poor. They also promote improved provision and outreach of financial services to IFAD's target group.

- In Algeria, the Rural Development Project in the Traras and Sebaa Chioukh Mountains of the Wilaya of Tlemcen will support the establishment of 30 local savings and loan associations at the community level.
- In Yemen, non-farm employment will be promoted through vocational training in a range of skills.
- In Jordan, microfinance cooperative institutions will be promoted at the village level.
- In the Sudan, the capacity of rural financial institutions to tailor services for the poor and to encourage agricultural marketing activities will be strengthened.

Ensuring the sustainable management of natural resources

In 2004, IFAD continued to support sustainable natural resource management and equitable access to natural resources in the NENA region. The programme for the Western Sudan will lay the foundation for a new governance structure for natural resource management, covering water, land and forest resources in the Kordofan states. Similarly, the project in Jordan will finance soil and water conservation activities,

infrastructure for water harvesting (such as cisterns and mini earth dams), and a research programme on safe and economically feasible treatments of household wastewater for irrigating tree crops. The project in Algeria will restock forage resources, improve the management of rangeland and silvopastoral resources, and rebuild livestock herds.

Supporting the transition to market-based economies

The Rural Areas Economic Development Programme approved for Armenia in 2004 and the aforementioned project in Azerbaijan will facilitate the move to market-based economies by supporting private small and medium-sized enterprises and providing financial and non-financial rural business intermediation services. Through the Rural Finance Facility to be set up for the first time in Armenia, IFAD-loan funds will be used as refinancing capital for eligible commercial banks and other private financial institutions. These will then provide loans to household-based on-farm and off-farm microenterprises, as well as rural small and medium-sized enterprises. The projects in Azerbaijan and Armenia support IFAD's new engagement in developing the local private sector.

Facilitating market linkages in the agricultural sector

Most new projects financed by IFAD in 2004 in the CEN region focus on the need to link producers to markets in order to reap the benefits of greater farm productivity and generate cash income for rural households. In Azerbaijan, IFAD will:

- support a programme of demonstrations and extension of modern agricultural technologies and practices
- help farmers organize and gain business skills and consolidate producer and marketing organizations
- broaden farmer and entrepreneur access to credit and agricultural inputs

In Armenia, the new project will finance marketing infrastructure such as agro-processing units, slaughterhouses and dairy enterprises.

Policy and partnerships

Throughout 2004, IFAD continued to work closely with its existing partners in the two regions, while it forged new partnerships. These partnerships include cofinancing arrangements, alliances for policy reform and dialogue, and consultations with different types of stakeholders, such as NGOs, local researchers and the private sector. The projects approved this year in the NENA and CEN regions have included cofinancing with the Organization of the Petroleum Exporting Countries Fund (OPEC Fund) and, for the first time in many years, USAID. USAID will provide grant resources to support technical assistance activities under the new IFAD-funded project in Armenia. The Jordan project has also raised a USD 6.45 million grant from the Global Environmental Facility (GEF) to support sustainable land management activities. Discussions have also been held with the European Bank for Reconstruction and Development on a potential future partnership to support small and medium-sized enterprises, rural financial institutions and private-sector development in the CEN region.

Collaboration with bilateral donors has continued. Supplementary funds (see page 55) are currently supporting several technical assistance grants, including a EUR 3 million (USD 3.99 million) facility funded by Italy in 2003 to improve farmers' access to markets in the Balkan area.

Areas of policy dialogue that IFAD has engaged in this year emanate from ongoing project activities that provide a platform for policy discussions with government officials and other stakeholders. These have covered issues related to decentralization and local governance, rural finance policy, private-sector development policy, and land and water policy. Finally, in conjunction with the Yemen project, a USD 100 000 grant will provide technical support and capacity-building for the Women's Economic Empowerment Association, a local NGO, in the area of microfinance and microenterprise development for women.

Under the Field Presence Pilot Programme (see page 49), following the approval for the Sudan and Yemen in December 2003, a proposal was approved for Egypt in December 2004. The field representations will complement ongoing implementation-support arrangements and strengthen IFAD's in-country capacity in the area of policy dialogue and partnership with governments, civil society, local NGOs and other development organizations.

Portfolio management highlights

At year-end, IFAD's ongoing regional portfolio consisted of 38 projects and programmes in 19 countries and Gaza and the West Bank, with a total IFAD investment of USD 516.9 million. Six new loans were approved for activities in Algeria, Armenia, Azerbaijan, Jordan, the Sudan and Yemen.

Impact

Interim and final evaluation reports for projects in the two regions in 2004 showed that significant results and impact had been achieved in the areas of:

- increased incomes and household food security
- improved land, labour and water productivity
- establishment of and support for socio-economic organizations, such as water users' associations, range users' associations and women's groups
- rehabilitation of natural resources, such as springs, forests and rangelands
- increased institutional capacity to service the rural poor, especially rural financial services in the CEN region

With the growing emphasis on measuring the results and impact of IFAD operations, the division is working to improve monitoring and evaluation systems in its ongoing projects and to make sure that all new projects are designed to include reporting on results and impact measurement system (RIMS) indicators (see page 50).

Learning and sharing

In 2004, IFAD approved innovative grants to support agricultural research, improved management of water resources, and other learning and sharing initiatives. For example, IFAD approved a USD 1 million grant to establish KARIANET, a knowledge-generation and sharing network in the NENA region. The initiative is cofinanced and implemented by the International Development Research Centre (IDRC). The grant agreement was signed in 2004 and work had started by the end of the year. The network will share information, experiences, best practices, lessons learned and success stories among IFAD projects in the region and with other stakeholders. IFAD also approved a USD 200 000 grant to develop a partnership between IFAD and the Somali diaspora to support rural poverty reduction in Somalia.

In 2004, IFAD sponsored or participated in conferences and workshops where the organization's experiences were shared. This included the Middle East/Africa Region Microcredit Summit Meeting of Councils held in Jordan in October.

Technical support

Quality assurance

The Technical Advisory Division of IFAD works to ensure that the design and implementation of the organization's development activities are of high quality and have maximum impact. This quality assurance function covers the technological, institutional and policy context, economic viability and responsiveness to gender and social equity concerns. In 2004, this role was realigned from a passive design-support function towards more proactive support to formulation and implementation backstopping, to help increase the impact of IFAD's development interventions: the focus is now on selectivity and effectiveness, measuring results and impact, and gender mainstreaming. The division also hosts the secretariat for the IFAD Grant Programme, administering and coordinating grants, and carrying full responsibility for grants that support research led by innovations and related capacity-building.

Project development teams continued to play an important part in the proactive involvement of Technical Advisory Division staff and subject-matter specialists in project design work. In 2004, the foundations were laid for the Project Development and Implementation Partnership, which will extend the project development team partnership approach to the field.

During the year, the contribution of the division to institutional learning and to policy dialogue and advocacy was integrated more effectively with the quality assurance function. Three complementary thematic clusters were set up for the purpose of knowledge management.

All projects and programmes entering the IFAD pipeline are subject to an environmental screening exercise and assigned an environmental category according to their likely impact on the environment. In 2004, IFAD gained further experience in the design of projects that blend global environmental concerns with national development objectives. Recent developments include the approval of seven projects by the GEF Secretariat in 2004.

Learning and knowledge-sharing

Information and communication

During 2004, IFAD consolidated the Communications Division, which was established in 2002, and developed a draft communication strategy to guide the institution's investment in six areas:

- internal communication
- member relations
- corporate communication
- regional communication
- information and knowledge management
- communication for development

In 2004, IFAD launched an internal communication programme to facilitate successful institutional change, build a knowledge culture and equip all staff and working partners with the information they need to do their jobs effectively. Successful initiatives include development of the daily log-on message, a revamped intranet and an IFAD newsletter prototype.

IFAD stepped up its media and targeted public-information outreach to increase global understanding of rural poverty and successful approaches to its eradication. With communication support, IFAD enhanced its presence on the global stage to influence policy and share knowledge at global and regional forums and events. These included the launches of the International Year of Microcredit 2005 in New York and Milan, and the Global Conference on Scaling Up Poverty Reduction, in Shanghai.

Event-based and direct media liaison expanded mass media coverage of rural poverty issues and lessons learned through IFAD's work in print, radio, television and Internet-based channels. IFAD productions were aired on BBC World, CNN, CNN Espanol, UN Television, AD Kronos and RAI, reaching more than 500 million households in more than 200 countries. A highlight of the year was the BBC-TVE-IFAD co-production "In the Wake of War," a documentary film about war, peace and poverty in Burundi, which highlighted IFAD's work in post-conflict reconstruction in the country.

A major focus during the year was the conceptualization, modelling and testing of the Rural Poverty Portal, conceived as the foundation of learning and knowledge-sharing at IFAD and a scaling up of innovation from the ground, specifically that of IFAD's regional networks.

Rural Poverty Portal

Over the past few years, IFAD has been working to improve learning and sharing both internally and externally and to broaden the boundaries of the organization by engaging more effectively with communities that are working to eliminate rural poverty. During 2004, as part of the Initiative for Mainstreaming Innovation (see page 48), IFAD began work to develop the Rural Poverty Portal.

The goal of the Rural Poverty Portal is to help eradicate rural poverty by enhancing the sharing of information and knowledge, and by making the fight to eradicate rural poverty a global priority. If and when developed, the portal will connect communities of people with the information and knowledge that they need to eradicate rural poverty, bringing together a wealth of rural poverty eradication knowledge, information and resources from many sources and providers.

IFAD will power the portal and take the lead role in ensuring that all actors in rural poverty eradication, particularly rural poor people themselves and their representatives, are heard. The portal will allow individuals to create, acquire, adapt, store, disseminate, manage and use information and knowledge.

If developed, the portal will help IFAD fulfil its catalytic role by enhancing the organization's ability to share its knowledge – a global public good – and become a source of knowledge and influencer of policies on rural poverty. It will do this by:

- providing access to distilled information
- creating a collaborative environment for sharing and learning
- linking farmers, fishermen and women, microentrepreneurs, NGOs, governments, decision-makers, field officers, headquarters staff, all rural development partners and all existing networks

- creating a platform for listening and learning from rural poor people and their organizations
- supporting the sharing of information about successes and failures
- connecting the field to policy-makers

During the year, a working model of the Rural Poverty Portal was presented at various regional workshops and to IFAD's Executive Board.

Regional networks workshop

IFAD has been working towards a global, integrated communication system for some time. Significant progress is evident in the existing web site, Rural Poverty Knowledgebase (www.ifad.org/rural/index.htm) and the regional networks: ENRAP (serving Asia and the Pacific), FIDAFRIQUE (serving Western and Central Africa), FIDAMERICA (serving Latin America and the Caribbean) and KARIANET (which will serve the Near East and North Africa and is due to be launched in January 2005).

In October 2004, as part of the ongoing efforts to enhance learning and sharing both internally and externally, the Programme Management Division and the Information and Communication Division organized a workshop bringing together IFAD's knowledge and regional information networks.

Executive Board directors' field visit to India

As part of IFAD's efforts to enhance field presence, interact with rural poor people directly and understand realities on the ground, in December 2004, five IFAD Executive Board directors took part in a field visit to the state of Gujarat in India. The visit was organized by the Self-Employed Women's Association (SEWA), based in the state capital Ahmedabad, as part of their Exposure and Dialogue Programme. The programme aims to sensitize participants about poverty and increase personal commitment to poverty reduction. SEWA is an organization for poor, self-employed women workers and has a membership of about 200 000.

The directors spent several days living with poor families in rural and urban areas, and in particular accompanying the women – all SEWA members – in their daily tasks. The visit provided first-hand experience of the constraints that poor women face. The directors also had discussions with officials from the state and national governments, the United Nations and NGOs that collaborate with IFAD in the area.

Learning notes

In 2004, *learning notes* were introduced as an innovation in IFAD's project design work to enhance the effectiveness of the organization's development interventions. The purpose was to systematically address recurrent project design issues emerging from technical reviews. Following an analysis of technical review memoranda and other sources of information, the Technical Advisory Division recommended minimum design requirements for projects. The division piloted the notes in early 2004 with country programme managers and consultants during the project formulation process. By the end of the year, this had become standard practice. The notes institutionalize the process of learning from operational experience, with lessons distilled, validated and systematically fed back into loan project formulation. Eighteen draft learning notes including examples of best practices from recent and ongoing project designs have

been prepared. The Independent External Evaluation (see page 44) endorsed the concept of the learning notes and recognized the Technical Advisory Division's initiative in identifying and responding to the need to improve design quality. The notes will be regularly updated, based on evolving experience, and notes on project implementation needs will accompany notes that focus on the project cycle from inception through formulation to appraisal.

Technical advisory notes

Technical advisory notes describe pro-poor technologies and their application in the context of recommended or best practices. They are written for project designers and development planners, and are therefore in a format that can be readily included in loan project design as validated technologies for location-specific verification and diffusion, where appropriate. During 2004, technical advisory notes from 13 programmes were finalized and 26 new ones were collected and reviewed.

Thematic groups/clusters

IFAD's Technical Advisory Division was restructured in 2004 to enable it to better accompany and shape change processes in the organization and to have greater impact on policies, programmes and projects. Three thematic clusters were formed, corresponding to the three objectives of IFAD's strategic framework.

- The Human and Social Assets Cluster includes technical advisers and subject-matter specialists covering: poverty analysis and the sustainable livelihoods approach, targeting, gender, nutrition and public health, impact assessment, community development, policy and institutions, participatory agricultural extension and research.
- The Financial Assets, Marketing and Enterprise Cluster includes expertise in thematic areas relating to rural finance, marketing, financial and economic analysis, as well as personnel responsible for grants coordination and budget administration.
- The Productive Assets and Technology Cluster includes expertise in the areas of crop and livestock production, the environment and natural resources management, and water and rural infrastructure.

In 2004, members of the Human and Social Assets Cluster were involved in knowledge-management initiatives to document and disseminate IFAD learning from the field, primarily through:

- web sites on gender: the electronic gender knowledge bank was created to record, collect and exchange relevant documents from the regional gender programmes and IFAD departments
- the nutrition and sustainable livelihoods approach: the Household Food Security and Nutrition web site was updated, a sustainable livelihoods approach forum was set up and further training was given on the approach
- new thematic work on community development funds, targeting and participation: in particular, a desk review of *IFAD's experience with development funds: some emerging lessons* was completed and a sourcebook on *Participatory processes for impact* was developed

In the area of knowledge management and learning, members of the Financial Assets Cluster carried out the following activities in 2004:

- development of the IFAD/MIX initiative under the Initiative for Mainstreaming Innovation umbrella (see page 48): the MIX Market is a web-based platform through which microfinance institutions share information on their institutional profile, as well as key indicators on client outreach and financial performance that reflect best practice in the microfinance industry
- finalization of a series of new normative tools in rural finance and rural enterprise
- organization of an international conference in November at the Milan Stock Exchange, on the Role of Banks in Microfinance, for the launch of the International Year of Microcredit
- review of recent practices in the area of rural enterprise promotion and access to markets
- finalization of the draft of a learning note entitled *Access to markets and commodity chains*, and preparation of a learning note entitled *Financial and economic analysis*

As part of its learning and dissemination agenda, in 2004 the Financial Assets Cluster finalized four technical papers on key issues related to rural finance, to be incorporated as annexes to the IFAD Rural Finance Decision Tools:

- a technical guide entitled *Governance in micro/rural finance institutions*
- a report entitled *Impact measurement in rural finance*
- a series of case studies on agriculture finance, finalized with the Consultative Group to Assist the Poor (CGAP) in the context of the IFAD/CGAP technical assistance grant
- a position paper on remittances

Members of the Productive Assets Cluster participated in the preparatory phase of the IFAD Initiative for Mainstreaming Innovation, carrying out two studies: *Scaling up innovative small stock management practices* and *Land and water governance*. They also worked to update the Livestock and Rangeland Knowledgebase and participated in a workshop held in Morocco to explore methods for communicating lessons learned from IFAD projects relating to livestock and rangeland management.

The Livestock and Rangeland Knowledgebase is an electronic platform for learning and sharing experiences gained from livestock and rangeland investment projects (www.ifad.org/lrkm/). Several case studies were updated during the year and new documents were added to the web site. In addition, case studies from FIDAMERICA and the International Centre for Integrated Mountain Development were included to increase connectivity and interactivity with IFAD networks and other international institutions.

A major initiative was the publication of *Livestock services and the poor: a global initiative – collecting, coordinating and sharing experiences*. The book was published by IFAD in 2004 as part of its Twenty-Fifth Anniversary activities. The publication reports on the work of the Global Initiative – Livestock Services and the Poor, a joint activity uniting IFAD, the Danish International Development Agency (DANIDA), the World Bank, the Danish Agricultural Advisory Service (DAAS), the University of Reading, United Kingdom, and national institutions in Bangladesh, Bolivia, Denmark, India and Kenya.

The study assesses the possibilities for poor livestock raisers to benefit from the fast-growing demand for livestock products in the developing world, which would open opportunities for poverty reduction led by economic growth. The information and analysis in the publication are based on a study of the available literature and case studies from Bangladesh, Bolivia, Denmark, the state of Orissa in India, and Kenya.

Members of the cluster were also involved in learning and knowledge-sharing activities related to the Global Environment Facility (GEF), including the preparation of a newsletter on the IFAD-GEF partnership. Members also took part in the GEF medium-sized project on Global Support to Facilitate the Early Development and Implementation of Land Degradation Programs and Projects. Cluster members and selected country programme managers provided inputs to the training handbook on sustainable land management and prepared case studies based on projects in India, Morocco and Nepal. Cluster members participated in four meetings of the GEF Inter-Agency Task Force on Land Degradation and in the Task Force's Working Group on Land Depletion Indicators.

The Technical Advisory Division plays a key role in developing operational policies in collaboration with the clusters. Through this, in 2004 the division also contributed to IFAD's Policy Forum (see page 60) and to the organization's policy dialogue and advocacy roles.

Policy seminars

Policy seminars on topical issues were held for IFAD staff during 2004. They included:

- Civil society and the changing face of multilateralism, given by John Clark, Project Director of the United Nations Secretary-General's Panel of Eminent Persons on UN-Civil Society Relations, and author of the book *Worlds apart: civil society and the battle for ethical globalization*. The seminar gave a preview of the principal proposals of the report, which advises the United Nations Secretary-General and IFAD Member States on why and how the United Nations should enhance its relations with civil society to reach the Millennium Development Goals.
- Cross-border externalities, international public goods and their implications for aid agencies, given by Ravi Kanbur, T.H. Lee Professor of World Affairs and Professor of Economics at Cornell University, United States of America. Kanbur also gave a seminar entitled Reforming the IDA's Aid Allocation Formula: a Modest Proposal.

IFAD evaluation activities in 2004

Overview of the second Annual Report on Results and Impact of IFAD Operations

In 2004, the Office of Evaluation prepared the second Annual Report on Results and Impact of IFAD Operations, based on operations evaluated in 2003. The report, which was presented to the Evaluation Committee and the Executive Board in September, includes the following overall findings:

- project performance was rated substantial in 80 per cent of the projects evaluated
- performance of partners was rated substantial in 70 per cent of the projects evaluated
- impact on rural poverty was rated substantial in 50 per cent of the projects evaluated

The report has a number of interesting conclusions, such as the performance of projects has been strong in social capital formation and people's empowerment, whereas impact has been mixed in providing financial services to the poor, and modest in policy issues. Sustainability continues to remain a challenge, as do well-functioning monitoring and evaluation systems. The report presents a number of implications for IFAD, including the need for the organization to be clearer about its poverty objectives in order to operate more actively beyond projects as a strategic partner at the national level, notably in policy dialogue and advocacy.

Office of Evaluation activities

In 2004, the Office of Evaluation implemented its first Work Programme and Budget within the framework of the new IFAD Evaluation Policy that was put in place in April 2003 by the Executive Board. The policy resulted in a change in the Office of Evaluation reporting structure: the Office now reports directly to the Executive Board.

Also in 2004, the Office of Evaluation was responsible for supervising the Independent External Evaluation of IFAD (see page 44). This included a desk review of 42 projects, fieldwork in ten randomly selected countries, and a review of IFAD's human resources, governance and institutional issues.

In addition to these tasks, in 2004 the Office of Evaluation worked on:

- evaluation at the corporate level of the Direct Supervision Pilot Programme, in which IFAD itself supervises 15 projects in order to learn first hand about project implementation
- four country programme evaluations – in Benin, Bolivia, Egypt and Indonesia
- three thematic evaluations – on organic agriculture in Asia; decentralization in Eastern and Southern Africa; and marketing and competitiveness in Western and Central Africa
- fifteen project evaluations – four in Asia and the Pacific; three each in the regions of Eastern and Southern Africa, Near East and North Africa, and Western and Central Africa; and two in Latin America and the Caribbean

The Office of Evaluation tested its new country programme evaluation methodology in all country programme evaluations undertaken during the year. It also refined the methodological framework for project evaluation by fine-tuning and simplifying key evaluation questions and better defining implementation of the methodology at the field level.

In 2004, as set down by the Evaluation Policy, the Office of Evaluation reviewed and prepared its comments on the first President's Report on the Status of Adoption and Implementation of Evaluation Recommendations. This report is given annually to the Executive Board by the President. The Office of Evaluation has to provide its independent comments, including a list of recommendations not found feasible by users, and so not implemented.

Office of Evaluation 2005 Work Programme and Budget

The 2005 Work Programme and Budget of the Office of Evaluation was prepared and discussed with the Evaluation Committee of the Executive Board in September and October and with the Executive Board in September and December. As requested by the Executive Board, the Office of Evaluation budget was discussed in the Audit Committee in November, together with the overall IFAD budget.

The four main priorities for 2005 are:

- continued supervision of the Independent External Evaluation of IFAD
- selected corporate-level, regional strategy, country programme, thematic and project evaluations
- specific evaluation work required by the Evaluation Policy for presentation to the Executive Board and the Evaluation Committee
- methodological development and evaluation outreach

Evaluation Committee activities in 2004

The Office of Evaluation organized five sessions of the Evaluation Committee during the year. The terms of reference and rules of procedure of the Evaluation Committee were reviewed and subsequently approved by the Executive Board in December. In March, members of the Committee and other Board members went on a field visit to Indonesia to participate in a national round-table workshop that marked the end of the Country Programme Evaluation. This also gave Committee members an opportunity to visit selected IFAD-supported projects.

Among other issues, during the year the Evaluation Committee discussed:

- the Office of Evaluation Work Programme and Budget proposal for 2005
- the second Annual Report on Results and Impact of IFAD Operations
- the first President's Report on the Status of Adoption and Implementation of Evaluation Recommendations, together with the comments of the Office of Evaluation
- the Indonesia Country Programme Evaluation
- the interim evaluation of the Eritrea Eastern Lowlands Wadi Development Project

The Committee's chairperson prepared and presented four written reports to the Executive Board, summarizing the Committee's deliberations, highlighting key issues and making recommendations for the Board's approval.

Independent External Evaluation of IFAD

One of the most important activities undertaken by the Office of Evaluation in 2004 was the supervision of the Independent External Evaluation (IEE). The IEE is an important process, which will provide direct inputs for activities related to the Seventh Replenishment of IFAD's Resources.

Most of the work of the IEE was conducted during 2004. The evaluation process, which will be finalized in 2005, is advancing in a timely manner according to the terms of reference endorsed by the IEE Steering Committee and the provisions contained in the IEE inception report. So far, the service provider, ITAD Ltd, has submitted all the planned deliverables on schedule. These include:

- the inception report
- the desk review report
- the synthesis report of their fieldwork in ten selected countries, together with country working papers on each of the ten countries visited
- separate reports on the review of IFAD human resources and on governance and institutional arrangements
- the first IEE draft report

The Office of Evaluation organized three meetings of the IEE Steering Committee in January, October and December 2004 to discuss the inception report, the synthesis report on fieldwork, the reports on the review of human resources and on governance and institutional arrangements, and the draft final report on findings.

According to the requirements outlined by the Board, the Office of Evaluation has provided a written status report on the progress of the IEE to each Board session since September 2003. The draft final report will be discussed with the Executive Board in April 2005.



MAJOR CORPORATE INITIATIVES IN 2004

Treasurer of *Los Nuevos Vecinos*
Community Savings and Loan
Association checks records book in
Camacaro, Bolivarian Republic
of Venezuela

Initiative for Mainstreaming Innovation

Reaching the MDGs requires new and more effective solutions to old challenges and new problems: there is no single blueprint for effective rural transformation and poverty reduction. As the only global institution dedicated exclusively to eradicating rural poverty, IFAD is a source of new approaches in this area. For this reason, IFAD is currently investing in a three-year initiative to expand its capacities for innovation, learning and influence – the Initiative for Mainstreaming Innovation (IMI).

Through the IMI, IFAD is working to enhance its ability to test and promote innovations that have a positive impact on the rural poor. The initiative was conceived as a two-phased undertaking with a preparatory and a main phase. The preparatory phase was financed in 2004 with the United Kingdom of Great Britain and Northern Ireland's complementary contribution (see page 54, footnote 4) to the Sixth Replenishment of IFAD's Resources.

This phase, which ran from November 2003 to September 2004, was successfully concluded with the completion of the IMI Operational Framework for the main phase and eight small projects. These had been selected from a pool of 19 projects according to the degree of innovation implicit in each proposal and the potential impact of the innovation.

The selected projects were:

- Innovative Approaches to Targeting in Demand-Driven Projects
- Scaling Up Innovative Small-Stock Management Practices
- Microfinance Information-Exchange Pilot Initiative
- Linking Land and Water Governance
- The Rural Poverty Portal
- Partnering for Market Access and Development
- Private-Sector Development and Partnerships
- Institutional Analysis Guidelines and Training Modules

The projects were implemented by IFAD staff. Within six months, all the projects had prepared synthesis reports and one or more of the following: case studies, pilot projects, inventories and design or implementation tools. Several of the project teams also participated in inter-agency workshops or international conferences.

The lessons learned by the preparatory phase projects included the need to:

- bridge the design/implementation gap
- build new partnerships
- assess the risks of innovation
- recognize the value of traditional knowledge and ideas as starting points for innovation
- acknowledge the importance of policy dialogue in creating an enabling environment for lasting change

These lessons were fed into the development of the operational framework for the main phase of the IMI.

The operational framework details how IFAD will use the available resources to enhance its capacity for innovation and paves the way for the start of the main phase. It was submitted to the December 2004 Executive Board and the commencement of the main phase was approved.

Field presence: enhancing IFAD's presence in the countries it serves

Unlike most other development agencies and international financial institutions, IFAD does not have formal representation in its borrowing countries. Links between these countries and headquarters are maintained through staff and consultants' missions, cooperating institutions and, in more recent years, through a variety of proxy field presence initiatives. In 2003, the Executive Board authorized IFAD to implement a Field Presence Pilot Programme over three years, with 15 initiatives and an approved budget of USD 3 million.

The Field Presence Pilot Programme was set up to help IFAD realize its vision and strategic framework objectives by strengthening and integrating four dimensions: project implementation, policy dialogue, partnership building and knowledge management. It is flexibly designed to allow a variety of arrangements.

Field presence initiatives were approved for the following countries or country group: the Congo, Nigeria, Senegal, Ethiopia, Malawi/the United Republic of Tanzania, Uganda, China/Mongolia/the Democratic People's Republic of Korea, India, Viet Nam, Bolivia, Haiti, Honduras/Nicaragua, Egypt, the Sudan and Yemen.

Performance-based allocation system

During 2004, IFAD continued work on its performance-based allocation system (PBAS), which is expected to become fully operational in 2005. The PBAS was developed in 2003 to sharpen IFAD's ability to tailor resource allocations and policy dialogue to the extent and severity of poverty in a given country and to the performance of policies and institutions, in particular in the rural sector.

As in other international financial institutions, IFAD's PBAS will impartially apply standard procedures to assess conditions in beneficiary countries and their success in establishing frameworks for sustainable poverty reduction.

Under the PBAS, annual resource allocations will be made in three-year cycles, with the first allocation exercise covering the period 2005-2007. Accordingly, during 2004, countries were assessed to determine allocations to be made over the following three years.

Over the course of the year, the following activities were carried out:

- A country-performance assessment methodology was developed, with guidelines and scoring forms, and staff were trained in the new methodology.
- IFAD country teams carried out the actual country performance assessments.
- The assessments were reviewed at various levels within the organization.
- Consultations were held with countries on the issues covered in the assessments.
- The final results of the 2004 cycle of assessments, together with the resulting country allocations, were presented to the December 2004 session of the Executive Board.

The resulting list of 137 eligible countries will be translated into a lending programme framework. Country allocations are not entitlements; conversion of allocations into actual commitments will continue to depend on the strategic value added of IFAD in each country and the availability of appropriate investment opportunities. Actual lending decisions will be consistent with IFAD's financial rules and regulations.

Results and impact measurement system

In December 2003, the Executive Board approved a detailed framework for the results and impact measurement system (RIMS). During 2004, IFAD introduced the system to country-level stakeholders and led the process for selecting indicators for projects that were already effective. Initial reporting on results will be limited to first-level (physical progress) results for projects that have not yet reached mid-term. The results reported will be drawn largely from existing monitoring and evaluation systems. The first information using data from RIMS indicators will be submitted to the Executive Board in April 2005 as part of the Portfolio Performance Report. It is expected that this will comprise consolidated information on the annual results achieved by major categories of projects or types of interventions. Subsequent annual reporting will include a larger range of projects, as well as reporting on functionality, change in behaviour and impact.

An interdepartmental implementation coordination team was set up early in 2004 and met regularly throughout the year. The team expects to learn valuable lessons during this first test to improve operational aspects of the system. In addition to preparing operational guidelines for staff, the team finalized a standard survey for the benchmark assessment of anchor indicators of impact, such as child malnutrition and a household asset index to measure changes in wealth/poverty. The survey was field-tested in 2004, and further pilots are planned for 2005.

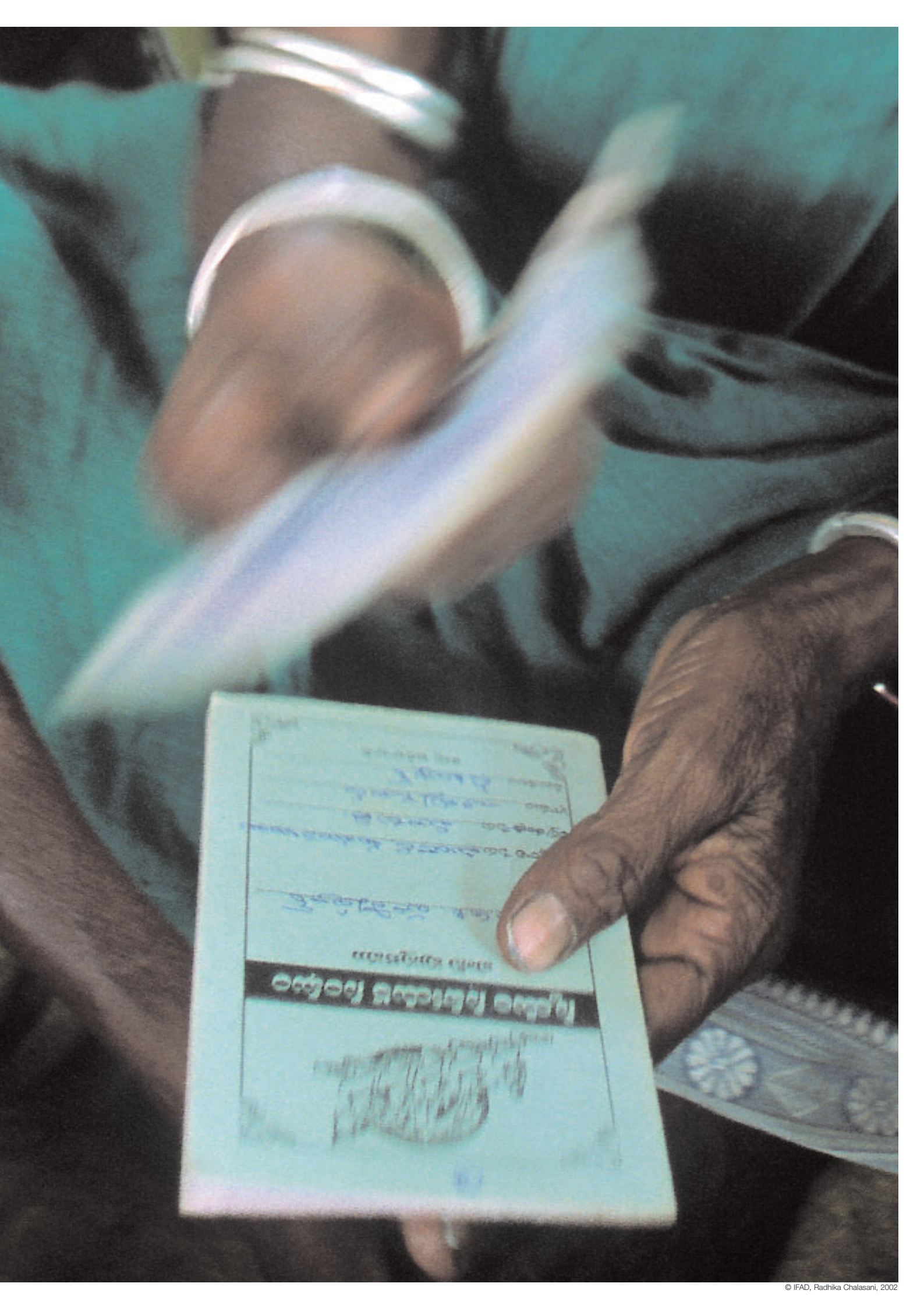
Strategic Change Programme

In 2004, IFAD continued work with its Strategic Change Programme to streamline administrative processes with the support of an integrated commercial software package. In particular:

- new systems for managing budgets, assets and cash flows were successfully implemented, and improvements were made to related business processes
- the new human resources and payroll systems were stabilized and two years of historical payroll data were built to support retroactivity and prepare for full operation in 2005
- commitment control procedures and system enhancements were implemented together with staff training so that all IFAD divisions would be able to record and approve commitments against their own budgets from January 2005

Completion of the current phase of the programme is planned for early 2005.

RESOURCE MOBILIZATION IN 2004



राज्या पंचायत



When IFAD was established, its Member States made initial contributions for lending on concessional terms to low-income member countries. Every three years, Member States voluntarily replenish IFAD's resources, based on consultation among their representatives and with IFAD management. Furthermore, some donor countries also provide supplementary funds, as described later in this section.

Contributions to IFAD's replenishments

On 1 January 2004, IFAD entered the three-year period of its Sixth Replenishment. By year-end, pledges equivalent to USD 505.7 million⁴ had been received, representing 90.3 per cent of the Sixth Replenishment pledge target of USD 560 million. By 31 December, a total of USD 440.4 million, equivalent to 87.1 per cent of pledges, had been received in instruments of contribution or payments. Details on contributions to IFAD's resources are provided in the consolidated financial statements in Appendices E and E1.⁵

In 2004, IFAD began preparations for its Seventh Replenishment. Consultations will start in 2005, after the Governing Council. The Seventh Replenishment period for which resources are being mobilized is 2007–2009. A new approach is being taken, focusing on stepping up efforts to achieve the Millennium Development Goals (MDGs), especially the target to halve the number of people living in extreme poverty by 2015. With most of the world's extremely poor people living in rural areas, IFAD's work is important to achieving all the MDGs.

During the year, IFAD strengthened its Policy and Resource Mobilization Divisions to better engage with countries on policy-related issues, and to organize an effective structure for a strategic approach to the Seventh Replenishment. The launch of the consultation process will coincide with the UN summit in September 2005 to review progress towards achieving the MDGs.

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, the initiative represented an important step forward in situating debt relief within an overall framework of poverty reduction. Administered by the World Bank, the initiative's principal objective is to bring identified countries' debt burdens to sustainable levels, so that adjustment and reform efforts are not placed at risk by continued heavy debt and debt-service burdens.

IFAD participates in the enhanced Debt Initiative for HIPCs and is delivering its debt relief promptly to all countries that have reached completion point – that is, have reached satisfactory policy performance – and to post-conflict countries with arrears (the Democratic Republic of the Congo, Guinea-Bissau and Sierra Leone).

4/ This total includes pledges of complementary contributions. These are contributions made to IFAD's regular resources within a specified replenishment period; they do not carry voting rights, but are included in the calculation of the overall replenishment level.

5/ In the current chapter, contributions to the Sixth Replenishment in currencies other than US dollars are converted at exchange rates fixed for the Sixth Replenishment. In the financial statements, Member State contributions received in other currencies are converted into US dollars at market rates of exchange on the date payments are received (see Note 2c to the financial statements).

The total net-present-value cost of IFAD's participation in the full Debt Initiative for HIPC countries is estimated at SDR 234.3 million (USD 344 million), which corresponds to an approximate nominal cost of SDR 352.5 million (USD 517.5 million).

IFAD is financing its participation in the debt initiative from its own resources and from external contributions. If debt relief is not compensated for by additional internal resources and external contributions, it will cut the resources available for new commitments under the lending programme.

The World Bank established the HIPC Trust Fund to help a number of development finance institutions fund their HIPC costs. While several IFAD donors have channelled their resources through the Trust Fund, the principle of giving IFAD access to the fund is not yet established. To date, only a portion of IFAD's total HIPC costs is financed through the Trust Fund, by means of specific donor-earmarked funds for IFAD.

Close to 40 per cent of IFAD's lending programme is committed to sub-Saharan Africa, where the majority of HIPC countries are located and, as a result, IFAD is heavily exposed to the cost implications of the Debt Initiative.

IFAD is pursuing two main avenues for mobilizing HIPC debt relief resources:

- raising additional resources either directly for IFAD's own HIPC Trust Fund (Italy, Luxemburg and the Netherlands have provided such resources) or through the World Bank HIPC Trust Fund (Belgium, the European Commission, Germany, Iceland, Norway, Sweden and Switzerland have contributed in this way)
- seeking donor support to gain access to the core resources of the World Bank's HIPC Trust Fund

IFAD received the following contributions for HIPC debt relief in 2004:

- | | |
|-----------------------|----------------|
| • European Commission | USD 10 512 498 |
| • Finland | USD 2 536 640 |
| • Iceland | USD 250 000 |
| • Netherlands | USD 1 443 662 |
| • Switzerland | USD 3 275 500 |
| • Sweden | USD 5 000 000 |

Supplementary funds

Supplementary funds are extra-budgetary resources provided by Member States for specific programmes or activities. They are managed within the framework of bilateral partnership agreements with donor countries. The supplementary funds referred to in this section were provided to finance programmatic initiatives, technical assistance and the Independent External Evaluation (see page 44). They do not include cofinancing resources, associate-professional-officer resources, supplementary funds for single-purpose projects or programmes, or funds administered by IFAD on behalf of other partner organizations hosted by IFAD, such as the Belgian Survival Fund, the Global Mechanism or the International Land Coalition.

In 2004, IFAD received approximately USD 6 million in new supplementary funds from Finland, France, Germany, Italy, the Netherlands, Portugal, Switzerland and the United Kingdom. The largest contributor was Italy with a contribution of EUR 2.5 million (USD 3.06 million), followed by the Netherlands with EUR 453 780 (USD 549 868).

Italy's supplementary funds were used to finance sectoral and thematic studies, IFAD-administered grants and technical assistance. The main areas of collaboration were:

- gender mainstreaming and awareness
- building the capacities of the rural poor and their organizations
- conflict prevention and post-conflict assistance
- microfinance and rural enterprise development
- environmental protection
- pro-poor policy dialogue, such as the New Partnership for Africa's Development (NEPAD) and poverty reduction strategy papers (PRSPs)

The Netherlands' contribution was used to develop a medium-term engagement plan in support of poverty reduction strategy processes and to finance activities related to impact assessment and evaluation, sector and sub-sector policy assessment studies, and support for gender mainstreaming in IFAD projects and programmes.

Germany contributed EUR 391 313 (USD 469 576) as the third tranche to the Gender Mainstreaming Programme in Central and Eastern Europe: A Community-Driven Approach.

Finland contributed EUR 350 000 (USD 422 450) under a partnership agreement that has been extended for two years. Funds were used to finance activities related to the development of an IFAD regional strategy for Asia and the Pacific, an IFAD approach for private-sector development, and partnership-building with the United Nations Permanent Forum on Indigenous Issues and its networks.

In June 2004, a memorandum of understanding was signed between the Department for International Development (United Kingdom) and Rwanda and IFAD for a grant of GBP 200 000 (USD 364 835) to cover technical assistance in support of Rwanda's National Agriculture Policy.

France contributed a first tranche of EUR 280 000 (USD 342 922) for an agricultural development project in the Sahel region of Africa, to be administered by IFAD. The project will focus on strengthening national policies on rural development, in particular, the preparation, implementation and monitoring of PRSPs, regional integration policies and NEPAD.

Portugal provided USD 75 750 as a first instalment to cover the remuneration costs of a Portuguese country programme manager in the Eastern and Southern Africa Division.

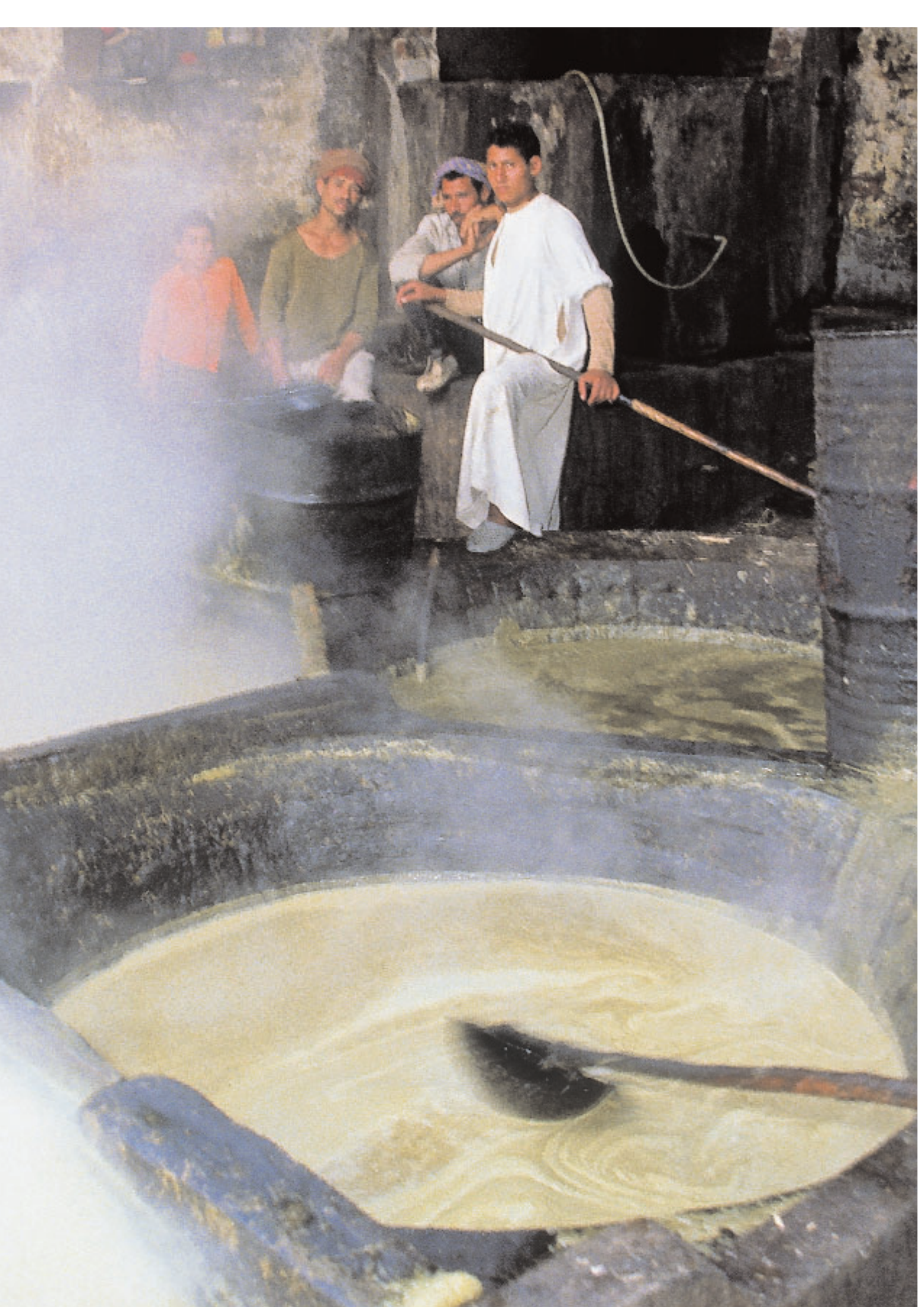
Switzerland provided CHF 1 000 000 (USD 847 386) as the first tranche under the new administration agreement between the Swiss Agency for Development and Cooperation and IFAD for the second phase of the Partnership on Development Effectiveness through Evaluation, and a final instalment of USD 2 500 due for the organization of the 2003 Global Knowledge Partnership Annual Meeting, hosted by IFAD in Rome.

Supplementary funds and contributions to the Independent External Evaluation (IEE) of IFAD (see page 44) in 2004 are summarized in Table 2.

TABLE 2
Supplementary funds and Independent External Evaluation
contributions received in 2004
(amounts in USD)

Country	Supplementary funds	IEE contributions
Canada		228 000
Germany	469 576	
Finland	422 450	
France	342 922	
Italy	3 060 125	
Netherlands	549 868	
Portugal	75 750	
Sweden		100 000
Switzerland	849 886	
United Kingdom	364 835	
TOTAL	6 135 412	328 000

POLICY DEVELOPMENT AND DIALOGUE



Policy development

Development of the policy function in IFAD

During 2004, IFAD's new Policy Division defined and shaped its role within the organization, building consensus on its functions and staffing, with the outcome that the division is comprised of a small core group focused on specific objectives.

The division's main functions are:

- facilitating the policy development process within IFAD
- building consensus on policy issues
- articulating the outcome of these processes in the form of IFAD policy products, through policy dialogue and at international events

The division also keeps IFAD in touch with global trends and debate on development issues, and coordinates the organization's response and input to such debate.

Policy Forum

One of the division's key initiatives in 2004 was the Policy Forum, aimed at bringing IFAD staff and management together in informal discussions on topical issues as they emerge and are debated by the international community. The forum functions as a central body where IFAD's policies on rural poverty are discussed, formulated and agreed on. It also contributes to the processes of knowledge management, institutional memory-building and staff development.

The Policy Forum is usually one step in a larger process, often serving as an initial brainstorming exercise on important initiatives or policy issues. In this case, a policy paper or brief may be prepared based on the outcome of the discussion. It can also represent the beginning of a new partnership or collaboration. This was the case with the forum on Partnership with Farmers' Organizations, held in October 2004 and attended by representatives of eight farmers' groups from around the world. As a result, a farmers' forum as a feature of the IFAD Governing Council is now under consideration. In addition, a seminar entitled Farmers' Organizations, Policies and Markets will be organized with a large number of farmers' groups as a side event to the Twenty-Eighth Governing Council.

Eight Policy Forum sessions were held during 2004 on the following topics:

- How the Policy Forum will operate
- Initiative for Mainstreaming Innovation
- 2005 Governing Council
- Policy issues of IFAD's Seventh Replenishment
- IFAD's engagement in policy dialogue: going beyond rhetoric
- Installing the performance-based allocation system: the way forward
- Towards new partnerships with farmers' organizations
- IFAD's field presence

Grant financing policy

In line with IFAD's revised Grant Financing Policy approved in December 2003, the approved grant programme in 2004 (including the transfer to the Programme Development Financing Facility [see page 16, footnote 2]) accounted for 10 per cent of IFAD's programme of work. As stipulated under the policy, grant resources were allocated on a 50/50 basis between two mutually exclusive windows: a country-specific window and a regional or global window.

Following the approval of the revised Grant Financing Policy, comprehensive guidelines and procedures for the implementation of the grant programme were drawn up in the first half of 2004 and put into effect in July. The programme procedures and structure drew on the revised policy and its new strategic objectives and allocation modalities. They included a more coherent and streamlined set of rules for internal administrative and financial management, and for internal review and approval mechanisms. The governance for all grants was based on a more rigorous screening, review and approval process, and the grants approved in 2004 were selected using an approach that was at once comprehensive, transparent and competitive. (For more information on grants approved in 2004, see pages 114-117.)

Paper on trade and rural development

IFAD drafted a paper on the organization and evolution of markets as a starting point for panel discussions at the 2004 session of the Governing Council. The paper made the case that virtually all rural poor people rely on markets to access goods essential for their human, social and material development. In most cases, reducing these people's poverty requires better linkages between small-scale poor producers and evolving markets, necessitating new sorts of relations with a variety of official and other local institutions, civil society, and market actors, including medium- and larger-scale private-sector entities.

The paper argued that, increasingly, the issue of markets and the poor must be seen in terms of the consequences of globalization rather than of changes in trade regulations alone. Poor rural producers, governments and donors need to come up with answers to some fundamental questions, such as:

- how to reduce small farmers' dependence on traditional exports to developed country markets
- how to diversify into higher-value products
- how to enter the value-added chain – ranging from improving processing and quality control to addressing tariff escalation issues
- how to forge mutually beneficial relations with the larger-scale private sector
- how much to focus on developed-country markets – as opposed to focusing on the regional, national and local markets of developing countries

The paper concluded that if these issues are addressed effectively, many rural poor people will be able to earn a more secure and sustainable livelihood by engaging in market processes, not just internally but increasingly in a rule-based open trading system.

Policy dialogue

Recent years have seen a gradual shift in the focus of IFAD's involvement in policy dialogue. Initially, the objective was to make IFAD projects and programmes work better; the broader objective now is to bring about the necessary policy changes to create an environment that is conducive to rural poverty reduction and rural development.

IFAD's strategic emphasis is on providing support at the local level, in particular to rural poor people's organizations so they can more consistently and effectively represent the interests of rural poor people. It is crucial to accompany this support and capacity-building with efforts to link these organizations to local and national institutional processes.

Renewed engagement in poverty reduction strategy processes

Increasingly, poverty reduction strategy processes are seen as having the potential to provide a mutual accountability framework at the country level for policy dialogue and for achieving the Millennium Development Goals. Poverty reduction strategies are also recognized as a means to promote greater harmonization of development initiatives.

In 2004, IFAD prepared an approach paper on how to enhance its support for country-led poverty reduction strategies. The paper outlined four major areas of engagement:

- progressive articulation and alignment of country strategic opportunities papers (COSOPs) and poverty reduction strategies at the country level
- capacity-building
- knowledge-networking to promote learning, dissemination, policy dialogue and strategic alliances
- mainstreaming in IFAD's corporate processes the implications of a more systematic engagement by the organization in poverty reduction strategy processes

Three learning events were hosted by IFAD during the year, co-sponsored by the World Bank and GTZ and attended by representatives of the Rome-based UN agencies and other multilateral and bilateral partners. They were:

- a familiarization seminar on poverty reduction strategy building blocks and process issues, tensions and trade-offs in implementation and impact assessment
- a progress review workshop on poverty and social impact analysis and agriculture policy in countries with poverty reduction strategies
- an informal seminar on the 2004 World Bank/International Monetary Fund review of progress in poverty reduction strategy implementation

Interaction with global and regional policy forums

IFAD's participation in intergovernmental processes provides an opportunity for the organization to advocate and lobby on behalf of rural poor people.

UN High-Level Committee on Programmes

In 2004, IFAD's President was re-appointed by the United Nations Secretary-General for a further two-year term as Chairman of the High-Level Committee on Programmes (HLCP), one of the major committees of the United Nations Chief Executive Board. As the main coordination body for policies with UN system-wide relevance, the HLCP focused in 2004 on the preparations for the 2005 review of the implementation of the Millennium Declaration, bridging the digital divide, and strengthening the coordination and coherence of the UN system at the country level.

Summit of the Heads of State of the African Union

IFAD strengthened its cooperation with the African Union at some milestone events in 2004. In July, IFAD participated in the Second African Union Ministerial Meeting and Summit Conference in Addis Ababa, Ethiopia. The summit was of great interest to IFAD because of several institutional developments and commitments by members of the African Union, in particular the adoption of the Declaration on Agriculture and Food Security in Africa at the African Union Summit in Maputo, Mozambique (2003). The July Summit Conference was an opportunity for IFAD to consolidate partnerships and receive feedback on its support to its African Member States.

IFAD was a full member of the preparatory committee for the African Union Extraordinary Summit of Heads of State and Government on Agriculture and Water, which was held in Syrte, Libya, in February 2004. The summit culminated in the adoption of the Declaration on the Challenges of Integrated Development and Sustainable Agriculture and Water Resources in Africa.

In September, IFAD contributed to the Extraordinary Summit on Employment and Poverty Alleviation held by African Union Heads of State in Ouagadougou, Burkina Faso. Here, African leaders committed themselves to putting employment for poverty reduction at the centre of their development visions and plans. On its part, IFAD undertook to give greater attention to youth unemployment in its programmes.

OPEC Fund for International Development

In 2004, the long-standing collaboration between IFAD and the OPEC Fund was strengthened with an exchange of visits at the highest level. The newly elected Director-General of the OPEC Fund visited IFAD in February and addressed the Governing Council; in April, the President of IFAD paid a visit to the OPEC Fund in Vienna. The visits were an opportunity to further enhance the strategic partnership between the two institutions, review ongoing programmes and discuss proposed cofinancing operations for the period 2005-2007. Sixteen new projects were identified and will be further considered by both organizations. IFAD and the OPEC Fund also discussed the possibility of establishing a joint operational cofinancing programme.

Over the past 25 years, IFAD has worked with the OPEC Fund on 52 projects in 32 countries, with the OPEC Fund providing cofinancing in excess of USD 220 million against IFAD's USD 575 million. OPEC Fund's contribution has risen sharply over the past five years, with more than a third of its cofinancing being contributed during that period. For its part, IFAD has funded 29 projects in OPEC Fund member states: 6 in Algeria, 12 in Indonesia, 7 in Nigeria and 4 in the Bolivarian Republic of Venezuela. These projects attracted substantial cofinancing and had a total investment cost of about USD 1.4 billion.

Fourth African Development Forum

In October 2004, IFAD took part in the Fourth African Development Forum (ADF IV) – entitled Governance for a Progressing Africa – an initiative led by the United Nations Economic Commission for Africa and organized jointly with the African Development Bank and the Commission of the African Union. The meeting examined ways of improving governance in Africa today and IFAD contributed to the discussions on fostering good governance and accountability. The transition of many states from

authoritarian regimes to pluralistic, democratic systems over the past decade has created demand among citizens for effective, participatory governance structures and services.

There is widespread consensus that building good governance is essential for transforming Africa's economy. ADF IV afforded an opportunity for participants to gain a deeper understanding of the dimensions of governance, address key challenges, coordinate initiatives and develop plans. The forum generated realistic strategies for good governance practices, mainly addressing the capacity-building challenges at the national, subregional and continental levels.

UN Economic and Social Council High-Level Segment

In June 2004, IFAD and its partners, in particular the International Land Coalition, took part in the UN Economic and Social Council (ECOSOC) High-Level Segment held in New York. The theme of the session was Resource Mobilization and Enabling Environment for Poverty Eradication in the Context of the Implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010.

IFAD, together with the other Rome-based UN agencies, WFP and FAO, made a joint contribution to the ECOSOC coordination segment on the coordinated and integrated UN system approach to promote rural development in developing countries. This built on the High-Level Segment in 2003. As one of the main outcomes of the 2004 segment, ECOSOC adopted a resolution outlining priorities for a coordinated and integrated UN approach to rural development. The resolution features a number of IFAD's policy messages, including the linkage between rural poverty eradication and achievement of the Millennium Development Goals (MDGs).

IFAD also gave an overview of its gender mainstreaming activities to a separate panel at the segment, together with an update on institutional commitment and measures to ensure that gender issues are mainstreamed.

Global Conference on Scaling Up Poverty Reduction

In May 2004, IFAD took part in the Global Conference on Scaling Up Poverty Reduction in Shanghai, China. The conference was jointly sponsored by the World Bank and the Government of China. Over 1 000 policy-makers, development practitioners, academics, public- and private-sector executives, members of the media and youth representatives participated, together with Heads of State or Government from Bangladesh, Brazil, Uganda and the United Republic of Tanzania.

The aim of the conference was to find out from developing countries what works and what doesn't in the process of economic development. Looking to identify solutions worked out in the developing world for the developing world, the Shanghai conference was the first of its kind. IFAD submitted four case studies from China, Nepal, Peru and Viet Nam, and the IFAD delegation participated in a number of sessions.

The Millennium Project

IFAD has been an active participant in the UN Millennium Project, an independent advisory body commissioned by the United Nations Secretary-General to develop a concrete action plan for meeting the MDGs. IFAD was represented in the Expert Group of the Millennium Project and in its Task Force 1 on Poverty and Economic

Development. IFAD's main objective was to orient the work of the Millennium Project towards rural poverty and related issues, including indigenous peoples, minorities and other marginalized groups. IFAD helped shape the Millennium Project's approach to assessing issues and proposing solutions to rural poverty, and highlighted the importance of empowerment and capacity-building in enabling poor rural producers to operate better in emerging markets.

Tokyo International Conference on African Development – Asia-Africa Trade and Investment Conference

The Tokyo International Conference on African Development (TICAD) Asia-Africa Trade and Investment Conference – co-organized by the Government of Japan, the United Nations, the Global Coalition for Africa, United Nations Development Programme (UNDP) and the World Bank – was held in Tokyo in November 2004. IFAD contributed experiences on trade and market access from its projects in Africa. The central theme of the conference was the promotion of trade and investment between Africa and Asia. The sharing of experiences and best practices served to enhance the two regions' ability to tap into the huge potential for increased trade and investment between them. The Asian side offers the benefits of economic performance with high and sustained growth, high and increasing share in world trade, dynamic international investors, new information technology, human resources and creation of a vast market. The African side offers improved governance, better economic performance due to economic reforms, a potential market of more than 600 million people, vast natural resources and a private sector ready to do business with Asia.

Inter-Parliamentary Union

In April 2004, IFAD attended the 110th Assembly of the Inter-Parliamentary Union (IPU) in Mexico City. The organization was invited by the IPU's Standing Committee II on Sustainable Development, Finance and Trade to present a background paper on trade and rural development; specifically the opportunities and challenges for the rural poor. The meeting enabled IFAD to intensify its partnership with the IPU. Parliamentarians are opinion leaders and representatives of the people and therefore play a crucial role in advocacy, raising awareness on social issues at the local, national and international level and shaping national policies and budgetary processes.

Nordic policy seminar

IFAD and the Norwegian Ministry of Foreign Affairs organized a joint Nordic policy seminar entitled Securing a Better Future for the Rural Poor. The seminar, held in Oslo in November 2004, discussed how the Nordic countries and IFAD could help strengthen the ability of developing countries, the rural poor and their organizations to eradicate poverty and reach the MDGs. The development cooperation policies of the Nordic countries highlight that rural and agricultural development and rural poverty reduction are essential to achieving the MDGs. Participants attended from each of the Nordic countries, from ministries and from bilateral agencies.

Other policy arenas

During the year, IFAD participated in several other intergovernmental policy gatherings that assessed progress towards achievement of the MDGs and identified additional actions needed to speed up progress. Examples include the biannual meetings of the Development Committee of the World Bank and International Monetary Fund (IMF) and the World Leaders Summit on Action Against Hunger and Poverty.

The role of the Development Committee, which is composed of Ministers of Finance representing countries or groups of countries on the governing bodies of the World Bank and IMF, is to advise those bodies on critical development issues. In 2004, these issues included improving development effectiveness, modalities of development finance, and the role of the private sector in development. IFAD sought to remind the committee that greater progress in overcoming poverty cannot be achieved without increasing attention to rural development.

The World Leaders Summit on Action Against Hunger and Poverty was convened by Brazil, Chile, France and Spain, and the United Nations Secretary-General, on the eve of the 2004 UN General Assembly. The event gathered leaders and high-ranking officials of 110 countries, including more than 50 Heads of State, to reaffirm both their commitment to act against hunger and poverty and the pivotal role of the UN in such efforts. IFAD's President emphasized the importance of creating opportunities for the rural poor to use their skills and knowledge to overcome poverty, for example, affording them fairer access to markets.