Examining the Legal Mandate of the International Fund for Agricultural Development (IFAD) in Financing Development: A Question of Legal Limitation or Performance?

Marieclaire Colaiacomo
Faith Kamau

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Examining the Legal Mandate of the International Fund for Agricultural Development (IFAD) in Financing Development: A Question of Legal Limitation or Performance?*

Faith Kamau and Marieclaire Colaiacomo¹

Abstract

In the wake of the global food crisis, IFAD’s relevance as a financier of agricultural development in developing countries has been in the limelight. Indeed there are concerns over what appears to be a problem of misalignment between IFAD’s legal mandate, its resources and the high expectations placed on the IFAD’s role in agricultural development. Given the trends in the global food situation, the urgency in coming up with adequate responses to food security concerns cannot be overemphasized. Hence, the question whether IFAD is capable of achieving its objectives needs to be reviewed in light of the challenge of aligning its resources with global food security needs.

This paper makes a critical assessment of whether IFAD’s funding constraints are actual legal impediments resulting from the limitations imposed by its constituent instruments (such as the Agreement Establishing IFAD) or whether they are as a result of default choices on the part of IFAD. The mandate of IFAD, to mobilize additional resources to be made available on concessional terms for agricultural development in developing member states, seems to us to have two dimensions, namely, resource mobilization and resource allocation. It appears from our analysis in this paper that the challenge that

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¹ Faith Kamau is a Legal Consultant at the African Development Bank (AfDB) and Marieclaire Colaiacomo is Counsel at the International Fund for Agricultural Development (IFAD). The views expressed in this paper are those of the authors and do not necessarily represent the views of AfDB or IFAD.
IFAD is facing is a resource-mobilization one. Finally, the paper examines the impact and relevance of IFAD in alleviating rural poverty and analyses its agricultural intervention strategies, including engagement with the private sector.
Table of Contents

Background ......................................................................................................................................................... 4
International Community’s Commitment to Food Security in Developing Countries ......................... 6
The 1974 World Food Conference – Where it all started .............................................................................. 8
An assessment of IFAD’s contribution to food security challenges ............................................................... 9
IFAD’s legal framework outlined .................................................................................................................. 11
IFAD Resource Mobilization – A Question of Legal Limitation? ............................................................... 13
Opportunities and Constraints: An overview of IFAD’s impact on food security in developing countries......................................................................................................................................................... 17

(a) The Rural Poverty Report .......................................................................................................................... 20
(b) An overview of IFAD’s Grant Policy ........................................................................................................ 22
(c) IFAD’s Strategy on “Deepening IFAD’s Engagement with the Private Sector” .................................. 24
Conclusion .......................................................................................................................................................... 25
I. Background

The role of agriculture as a key growth driver in developing countries, most of whose economies are agricultural-based, cannot be understated. Three of every four poor people in developing countries live in rural areas-2.1 billion living on less than $2 a day and 880 million on less than $1 a day-and most depend on agriculture for their livelihoods². Notably, the areas worst affected by poverty, hunger and malnourishment remain in the Global South, where approximately 70% of the population are small-scale farmers who depend on agriculture as their main source of livelihood. Agriculture supports 80% of livelihoods in Africa, provides employment for about 60% of the African population³, and provides nearly a quarter of Africa’s GDP. Despite Agriculture being one of the fundamental instruments for sustainable development and poverty reduction in Africa, Sub-Saharan Africa ranks lowest in the world in its use of technology for boosting agriculture productivity. As a result, Africa is the only region in the world where per capita food production has declined over the past 30 years, and its population remains highly vulnerable to food insecurity⁴.

Concerns over food security and the rapid decline in agricultural investment became an international emergency in what has been termed as the “shadow of a world food crisis” in the early 1970s, in the wake of extreme food shortages in the developing countries⁵. It is for this reason that the General Assembly of the United Nations decided to convene the 1974 World Food Conference to address the global food problems. By proclaiming that "every man, woman and child has the inalienable right to be free from hunger and malnutrition in order to develop their physical and mental faculties,” the international community set as its goal the eradication of hunger, food insecurity and malnutrition within a decade⁶. One of most notable achievements of this Conference was the

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² See World Food Report, 2008  
³ Agriculture Sector Strategy 2010-2014, African Development Bank  
⁴ African Development Bank Annual Development Effectiveness Review 2011  
⁵ See online: http://jac.aopsys.com/articles/world-food-security/world-food-security-page170.html  
establishment of IFAD as a specialized agency to exclusively finance agricultural development.

The establishment of IFAD therefore came with high expectations from States, Governments and international organizations on its ability to eliminate hunger and poverty in developing countries. Indeed, during the 1974 World Food Conference, which saw the establishment of IFAD, the then US Secretary of State Henry Kissinger, made a declaration that within 10 years no child would go to bed hungry. However, more than three decades after the establishment of the IFAD, global food prices are soaring, with an estimated 1 billion people facing hunger and poverty as of 2009. According to FAO 2008 statistics, the number of people suffering from hunger and poverty exceeded one billion\(^7\) and the global food prices index is reported to have increased by Eighty Five percent (85\%) between April 2007 and April 2008\(^8\). As of February 2011, the World Bank Food Price Watch reported that global food prices continued to rise, with sharp increases in wheat, maize, sugar and edible oils\(^9\).

The high expectations placed on IFAD have not been matched with the resources made available to it to enable it to meet its objectives. Moreover, such high expectations on IFAD’s abilities do not seem to reflect the realities of IFAD’s capabilities. It is against this background that this paper analyses whether IFAD’s funding constraints are actual legal impediments resulting from the limitations imposed by its constituent instruments (such as the Agreement Establishing IFAD) or whether they are as a result of default choices on the part of IFAD.

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\(^7\) The annual growth of cereal crops has declined from 3-6% in the 80s to 1-2% in 2008, UNCTAD figures; See Tackling the Global Food Crisis, UNCTAD Policy Briefs, No. 2 June 2008, Online: http://www.unctad.org/en/docs/presspb20081_en.pdf

\(^8\) Online: http://www.g8italia2009.it/static/G8_Allegato/LAquila_Joint_Statement_on_Global_Food_Security%5B1%5D.0.pdf

II. International Community’s Commitment to Food Security in Developing Countries

The question of global food security was brought to the limelight again in the wake of the 2008 food crisis, forcing world leaders and the international community to re-examine the fundamental issues of sustainable food production and equitable food distribution especially to the world’s poor in the least developed and developing nations. As a result of both the 2008 global financial and 2008 food crises, the interrelationship between poverty and food insecurity was brought into sharper focus. One of the major factors attributed to the food insecurity is the effect of longstanding underinvestment in agriculture and the resultant decline in agricultural productivity in developing countries over the last five decades.

The international community, in expressing their deep concerns about the global food security crisis and the surge in food prices, convened at L’Aquila, Italy in 2009 to deliberate on the need for an urgent response to increased hunger and poverty. One of the key outcomes from the L’Aquila summit was the adoption of the L’Aquila Food Security Initiative, through which the international community *inter alia* “agreed to act with the scale and urgency needed to achieve sustainable global food security... [and] partner with vulnerable countries and regions to help them develop and implement their own food security strategies, and together substantially increase sustained commitments of financial and technical assistance to invest in those strategies”\(^{10}\).”

The L’Aquila Summit is not the first time that the international community has met to deliberate on the issue of global food security. The concept of food security\(^ {11}\) was deliberated upon as an international concern in the mid-70s, as a result of a sharp increase in food prices. Other notable deliberations include the World Summit on Food Security in 2009 in Rome, where the World leaders unanimously adopted a declaration.

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\(^{10}\) See [http://www.g8italia2009.it/static/G8_Allegato/LAquila_Joint_Statement_on_Global_Food_Security%5B1%5D.0.pdf](http://www.g8italia2009.it/static/G8_Allegato/LAquila_Joint_Statement_on_Global_Food_Security%5B1%5D.0.pdf)

\(^{11}\) Food security has been defined as “when all people, at all times, have physical, social, and economic access to sufficient, safe, and nutritious food to meet their dietary needs and food preferences for an active and healthy life.” See World Food Report 2008
“pledging renewed commitment to eradicate hunger from the face of the earth sustainably and at the earliest date”\textsuperscript{12}. During this Summit, the FAO Director-General Jacques Diouf, called the over one billion hungry people in the world "our tragic achievement in these modern days". This Summit, like previous World Conventions\textsuperscript{13} on Food Security, noted that

\begin{quote}
\textit{“the gravity of the current food crisis is the result of 20 years of under-investment in agriculture and neglect of the sector.”}
\end{quote}

Once again, the international community renewed its commitment to “reverse the decline in domestic and international funding for agriculture and promote new investment in the sector; to improve governance of global food issues in partnership with relevant stakeholders from the public and private sector; and to proactively face the challenges of climate change to food security”\textsuperscript{14}.

Despite the “declarations” and “commitments” to address the global food security situation, the food security situation in Sub Saharan African has worsened into an emergency food crisis, with approximately 12.4 million people in Somalia, Kenya, Ethiopia and Djibouti, requiring emergency assistance, as of mid 2011. The current Horn of Africa food crisis has been classified as the most severe food security emergency in the World, with situations having escalated into famine in parts of Somalia.

The recurrent food insecurity challenges, especially in the Global South, raise fundamental concerns that call for a different approach to resolving the root causes of food insecurity. This approach has to go beyond declarations and pledges; it has to

\textsuperscript{12} http://www.fao.org/wsfs/world-summit/en
\textsuperscript{13} Other key Food Security Summits where major pledges were made include (i) The 1995 World Food Summit – FAO, (ii) The 2000 WFS – 5 years on by FAO; and (iii) the AU/CAADP pledge of 2003 by African countries to allocate 10% of their budgets to agriculture, but only a handful (about 10) of countries have achieved this.
\textsuperscript{14} http://www.fao.org/wsfs/world-summit/en
translate to sustainable long-term interventions. This may call for doing things differently.

III. The 1974 World Food Conference – Where it all started

One of the most notable achievements of the 1974 World Food Conference was the adoption of Resolution XIII, which recognized:

(i) the need for a substantial increase in investment in agriculture for increasing food and agricultural production in the developing countries;
(ii) that provision of an adequate supply and proper utilization of food are the common responsibility of all members of the international community; and
(iii) that the prospects of the world food situation call for urgent and coordinated measures by all countries; and resolved that an International Fund for Agricultural Development should be established immediately to finance agricultural development projects primarily for food production in the developing countries.

Although Resolution XIII stipulated that “an International Fund for Agricultural Development should be established immediately to finance agricultural development projects primarily for food production in the developing countries”, it was not until 1976, that the IFAD Governing Council, composed of its Member States, adopted, the Agreement Establishing IFAD (the “Agreement”).

There are arguments that the adoption of Resolution XIII\(^\text{15}\) seems to suggest that the mandates of international financial institutions existing at the time in the UN system, namely the Bretton Woods institutions, did not adequately cover the need for investments

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in agriculture and in particular, the need for increasing food and agricultural production in developing countries. Indeed, while the original system of the United Nations specialized agencies conceived a role for a food and agricultural organization; initially no thought was given to the creation of a specialized agency for the financing of agricultural development. It appears that the International Fund for Agricultural Development was established as a specialized agency purposely to address this gap.

IV. An assessment of IFAD’s contribution to food security challenges

The question of whether it was necessary to establish IFAD, given the existence of FAO, UNDP and the World Bank, all of which dealt with agricultural development in various capacities, was more of a political consideration than a functional one- with OPEC as the key players during the meeting of Interested Countries- preferring the establishment of an independent organization which they could control by exercising their swing vote. In fact, from a functional approach, there was consensus that there were already too many organizations dealing with agriculture and it was unnecessary to establish a new organization. For instance, the Agricultural Department of the World Bank was at that time advancing loans and credits amounting to US $1.8 billion a year- more than the entire IFAD stake.

16 Rutsel Silvestre J. Martha, Mandate Issues in the Activities of the International Fund for Agricultural Development (IFAD)
17 Article 8, Section 1 of the Agreement Establishing IFAD stipulates that IFAD shall enter into negotiations with the UN with a view to concluding an agreement to bring it into relationship with the former as a specialized agency. IFAD became a specialized agency in 1977 and started its operations in 1978, See Rutsel Silvestre J. Martha, Mandate Issues in the Activities of the International Fund for Agricultural Development (IFAD)
18 See Paul C. Szasz, page 34 “UNDP was distributing about a million dollars for various purposes, whereas the World Bank’s Agricultural Department was making loans and credits amounting to more than 1.8 billion a year- almost double the entire of IFAD stake.”
20 In order to avoid an overlap of functions with the existing organizations, IFAD was required to rely on existing institutions for the appraisal and supervision of its projects- in fact this was one of the requirements for DAC to agree to the establishment of IFAD. Moreover, the general structure of IFAD was similar to that of the World Bank- the only major difference being in the allotment of voting power, where in IFAD the total 1800 votes are distributed equally to the three categories (Category 1- DAC, Category II –OPEC and Category III-rest of G-77). See Paul C. Szasz pg.36,
Paul Szasz points out, that after hard negotiations, the negotiators decided to establish a self-standing international organization, which was characterized as a “specialized agency [of the UN]” to contrast IFAD from existing organizations such as the World Bank, FAO, UN or a joint UN organ, such as the then UN/FAO/WFP.

The establishment of IFAD was unique in that unlike other international organizations where establishment is preceded by a plan embodied in a strategic framework and subsequently the financial means to fund that plan are explored, IFAD’s case was the opposite- it started with a pot of money that was made conditionally available if a suitable distribution process could be agreed upon:

“the old moneyed states of DAC/OECD and the nouveau riche OPEC had challenged each other to put up matching amounts 500 SDRs each (approx. US$ 1.2 billion)...that could only be spent if an agreement was reached on establishing an appropriate institution for urgently needed agricultural development in poor countries. The challenge was accepted and the Conference as well as the UN General Council adopted resolutions and suggested that negotiations on the practical aspects should start forthwith.”

Unfortunately and in particular due to the saga surrounding the OPEC pledge, by the time of entry into force of the Agreement Establishing IFAD, the pot of pledged money...
had shrank from US$ 1.2 billion to US$750 million. Moreover, with the overthrow of the Shah in 1979\(^{26}\), the payment from Iran - the largest OPEC pledge - became problematic.

Since its establishment, IFAD has relied almost exclusively on the voluntary contributions of its member states to fund its operations - these contributions have not been particularly forthcoming. As discussed in detail later in this paper, IFAD, like other multilateral banks, mobilizes resources by receiving contributions from member states through the replenishment process. The legal basis for of the replenishment process is provided under Articles 4.3 of the Agreement Establishing IFAD, which stipulates that “in order to ensure continuity in the operations of IFAD, the Governing Council shall periodically, at such intervals as it deems appropriate, review the adequacy of the resources available to the IFAD…” Of legal concern however, is the extent to which the review of adequacy of resources is aligned with the potential global food demands. Indeed, with other multilateral banks, such as the World Bank retreating from investing in agriculture, it was expected that IFAD would fill in the financing gap as and to the extent necessary.

It is on the basis of the foregoing that the following sections of this paper examine the concept of resource mobilization within the context of IFAD’s mandate and analyse whether the funding constraints that IFAD faces, and which have impeded its impact in the fulfillment of its mandate, are a result of legal limitations imposed by its constitutive instruments

V. IFAD’s legal framework outlined

Article 2 of the Agreement stipulates that the objectives of IFAD shall be to “mobilize additional resources to be made available on concessional terms for agricultural development in developing member states. In fulfilling this objective the Fund shall provide financing primarily for projects and programmes specifically designed to

\(^{26}\) Only 13 months after the inaugural sessions of IFAD organs, See Paul C. Szasz
introduce, expand or improve food production systems”. In the fulfillment of the above objective, IFAD’s operations must take into consideration “…the need to increase food production in the poorest food deficit countries; the potential for increasing food production in other developing countries; and the importance of improving the nutritional level of the poorest population in developing countries and the conditions of their lives.”

Article 4 then proceeds to outline the resources of IFAD to include both contributions from Member States and special contributions from non-member States and other sources, as well as funds derived or to be derived from operations or otherwise accruing to IFAD.

Article 7 of the Agreement guides the use of IFAD’s resources. Beyond reiterating the mandate of IFAD, Article 7 goes further and establishes the framework within which IFAD financing can be provided. It thus sets the criteria with which IFAD provides it’s financing. The first requirement which relates to eligible recipients of IFAD financing, requires that financing may only be provided to developing States that are Members of IFAD, or to intergovernmental organizations in which such Members participate; secondly, the proceeds of any financing are to be used only for the purposes for which the financing is provided; and thirdly, in allocating its resources, IFAD shall be guided by two principles, namely: a) the need to increase food production and to improve the nutritional level of the poorest populations in the poorest food deficit countries, and b) the potential for increasing food production in other developing countries.

Additionally, financing by IFAD may take the form of a loan, a grant or a grant under the debt sustainability framework, having regard to the economic situation and the prospects of the Member as well as the nature and requirements of the activity proposed. The allocation of resources is based on a performance allocation framework and guided by IFAD’s Lending Policies and Criteria.

27 Article 2, Agreement Establishing IFAD.
The drafters of the Agreement included a certain degree of flexibility in Article 7, which provides, inter alia, that “IFAD may extend a line of credit to a national development agency to provide and administer sub-loans for the financing of projects and programmes within the terms of the loan agreement and the framework agreed to by IFAD.” Moreover, the drafters also put in place a ‘miscellaneous operations’ provision that permits IFAD to undertake “such ancillary activities and exercise such powers incidental to its operation as shall be necessary in furtherance of its objectives.” The latter provision seems to be broad enough to permit IFAD to engage in a variety of activities in order to reach its objectives within the mandate assigned to it.

It is also worth noting that Article 8 of the Agreement permits IFAD to cooperate closely with the Food and Agricultural Organization and other organizations of the United Nations System; other inter-governmental organizations, international financial institutions, non-governmental organizations and governmental agencies concerned with agricultural development. To this end, IFAD may enter into agreements or establish working arrangements with such bodies, as may be decided by its Executive Board.

The above IFAD statutory provisions provide guidance in examining whether IFAD’s resource constraints and consequently the limitation in making significant impact on food security, is attributed to statutory limitations in the Agreement.

VI. IFAD Resource Mobilization – A Question of Legal Limitation?

IFAD relies exclusively on contributions from its Member States to fund its operations, in what has been traditionally referred to as the replenishment process. Since the replenishment contributions are voluntary with no obligation on Member States to contribute or periodically replenish the resources of the Fund if and when necessary, it seems that the scope and extent to which IFAD can fulfill its mandate is entirely dependent upon the level of contributions it receives from its Member States.

28 Article 7.3 of the Agreement
As Dr. Martha, the General Counsel of IFAD observed, “except for IFAD, all of whose lending is to agriculture, there has been a substantial decline in total lending by the international financial institutions to agriculture during the 1990s, both in absolute terms and for individual lenders, as a proportion of loans. [However, this is not a problem of a mandate gap], because the system would function well if IFAD were able to match this retreat…the inability for IFAD to match up can be attributed to its resources constraints, and heavy reliance on its member’s voluntary contributions- these members have not been particularly forthcoming in that regard.

Hence, if IFAD is to expand and sustain its program of work so as to align it with the current global food security needs, IFAD must either require a higher level of commitments from its Members or explore alternative funding options outside the replenishment framework. This raises the fundamental question of whether the Agreement limits IFAD resource mobilization efforts to traditional replenishment. Generally, the concept of mobilization of resources encompasses more than the traditional replenishment, to include co-financing, borrowing, the establishment and administration of trust funds and possible partnerships with the private sector as pointed out above.

With regard to borrowing, which is not explicitly prohibited in the IFAD Agreement, it is worth making a few considerations: First, in order to determine whether IFAD has the capacity to borrow, it is fundamental to take note of IFAD’s legal personality. In this regard, IFAD was established as an independent international organization with separate legal personality. IFAD’s legal status therefore is pivotal in determining the scope of its powers.

30 See Rutsel Silvestre J. Martha, Mandate Issues in the Activities of the International Fund for Agricultural Development (IFAD).
31 Art. 10, Section 1 of the Agreement Establishing IFAD states: “IFAD shall possess international legal personality”
On separate occasions the ICJ has pointed out that the powers of international organizations should not be limited to what transpires from their constitution but that international organizations may perform those duties essential for them to fulfill their objective/mandate\(^{32}\). International organizations are also governed by the principle of speciality\(^{33}\). Hence such organizations are endowed with the powers invested in them by their Member States and as such they should promote the interest of those States who have entrusted them with the power to act. This power may be express or implied from their constituent instrument.

Secondly, although Article 4 of the Agreement outlines the resources of IFAD to include initial contributions, additional contributions, special contributions and funds to be derived from other sources, it should be noted that this list is not exhaustive. This reasoning finds support under Article 2 of the Agreement, which stipulates that the objective of IFAD is to mobilize additional resources to be made available on concessional terms for agricultural development in developing Member States. Borrowing is one of the several means to mobilize additional resources. Moreover, Article 7, Section 3\(^{34}\) of the Agreement provides that IFAD may undertake such ancillary activities and exercise such powers incidental to its operations as shall be necessary in the furtherance of its objectives. Accordingly, unless the constituent instrument of an international organization clearly prohibits any activity, such activity is permissible if it necessary to the organization for the performance of its duties and fulfillment of its objectives.

It should also be noted however that any borrowing by IFAD should be ancillary to the primary mandate\(^{35}\) of IFAD. Indeed the Ad Hoc Working Group on the Establishment of IFAD provided the following guidance in its Report of the First Meeting held in Rome on 30 June -4 July 1976:

\(^{32}\) Advisory Opinion of 23 July 1926, PCIJ, Series B, No.13  
\(^{33}\) Advisory Opinion of 8 July 1996, ICJ Reports 1996  
\(^{34}\) Article 7, Section 3 states: “In addition to the operations specified elsewhere in this Agreement, IFAD may undertake such ancillary activities and exercise such powers incidental to its operation as shall be necessary in the furtherance of its objective”.  
\(^{35}\) Article 2 of the Agreement
“While recognising the bulk of the resources of IFAD would have to be obtained on the basis of contributions from the Members, several delegates also favoured retaining the possibility of augmenting the resources of IFAD by borrowing from international financial institutions or from member countries. Several other delegates felt that insofar as the borrowing by IFAD would compete with international financing agencies, IFAD should not have any borrowing powers in the capital markets”.

The primary mandate of the IFAD as stipulated in Article 2 of the Agreement is to provide concessional financing to its developing member states. This implies that any borrowing by IFAD should be on such rates, terms and conditions that would make it possible for IFAD to on-lend to its developing member states on concessional terms.

Recently, IFAD applied Article 7 section 3 as the legal basis for the establishment the Spanish Food Security Co-financing Facility Trust Fund36 as a vehicle through which IFAD can borrow resources from its Member States for purposes of on-lending to its developing Member States on concessional terms. IFAD obtained a loan from the Kingdom of Spain amounting to EUR 285.5 million, with a maturity of 45 years, including a grace period of 5 years. Notably these resources are earmarked for food security issues. This was a commendable achievement as it allowed IFAD for the first time to borrow resources from its Member States37. In the past, IFAD had limited its resource mobilization efforts to co-financing agreements with institutions such as the European Commission, with which it has entered into cooperation agreements (i.e. for the “Food Facility”38), the GAFSP39, and the OPEC Fund for International Development.

According to IFAD, the loan from the Kingdom of Spain should “enhance IFAD’s ability to reduce rural poverty and create income opportunities for smallholders”40. In its preamble, the Instrument Establishing the Spanish Trust Fund provides a framework

36 EB 2020/100/R.29/Rev.2 available at www.ifad.org
37 EB 2020/100/R.29/Rev.2 available at www.ifad.org
38 http://ec.europa.eu/europeaid/how/finance/food-facility_en.htm
39 The Global Agriculture and Food Security Programme.
40 EB 2020/100/R.29/Rev.2 available at www.ifad.org
within which the Trust Fund resources will be used. It makes reference to the G8 Summit\textsuperscript{41} and the Joint Statement on Global Food Security. It further reiterates the objectives of IFAD within which the Trust is set up and finally stipulates that the administration of the Trust Fund resources shall be carried out by IFAD in its capacity as a trustee and consistent with the objectives and the functions of IFAD.

In light of the above analysis of the constitutive instruments of IFAD, we are of the view that given the nature of its mandate to mobilize resources for concessional lending to its member states, IFAD has an inherent power to borrow notwithstanding that there is no express authority to borrow in its constituent instruments. Looking forward, the next section of the paper focuses on possible tools and interventions that IFAD may put in place to support borrowing, including engaging with the private sector.

VII. Opportunities and Constraints: An overview of IFAD’s impact on food security in developing countries

This section of the paper seeks to analyze to what extent IFAD could provide solutions to food security in developing countries. For this purpose, it is useful to look at the impact IFAD operations have had over the past decade with particular attention to the period prior to the 2008 food crisis. This will help us determine whether IFAD has indeed made a difference and been a relevant player in sustainable agricultural development of its developing member states. Subsequently we will look at the possible options that IFAD may explore for a more effective strategy in order to meet its objectives.

In assessing IFAD’s impact we reviewed several independent evaluations, produced by the Independent Office of Evaluation of IFAD (IOE), such as Annual Reports of Results and Impact of IFAD Operations (ARRIs) which are available since 2002\textsuperscript{42}. The ARRI is based on a combination of main lessons learnt from previous ARRI reports and new

\textsuperscript{41} L’Aquila 8-10 July 2009
\textsuperscript{42} “The ARRI report consolidates and synthesizes the results and impact of IFAD-IFADed operations based on a cohort of project, country programme evaluations (CPEs) and corporate-level evaluations (CLEs) conducted in the previous year.” 2010 ARRI, IFAD Office of Evaluation, December 2010, Rome.
lessons learnt from country evaluations carried out during the previous years (i.e. 2009 for the 2010 ARRI). The latest 2010 ARRI outlines the criteria that IFAD uses in determining its overall impact. This criterion includes efficiency; effectiveness; relevance and project performance.

The first criterion, efficiency is described as a ‘measure of how economically resources and inputs (funds, expertise, time, etc.) are converted into results’\(^43\). The ARRI concludes that efficiency is the worst performing evaluation criterion of the four described above, and that there has been no improvement since 2002. According to the IOE, IFAD has shown no change in its strategy to address the lack of efficiency recorded in its programmes. The ARRI highlights the main reasons for reduced efficiency of IFAD projects and programmes:

(i) the wide geographical coverage;
(ii) the involvement of multiple states/provinces within countries;
(iii) too many project components and implementing agencies, creating coordination challenges;
(iv) Over-optimism about the capacity and poverty orientation of implementing agencies;
(v) Weak monitoring and implementation arrangements;
(vi) Rapid turnover of project staff; and
(vii) Limited flexibility in design to take corrective actions during execution.\(^44\)

Other factors highlighted as having contributed to reducing IFAD’s efficiency included administrative and managerial factors such as: delays between loan approval and effectiveness; extensions to the original project closing date; complex flow of funds mechanisms in borrowing countries; delays in the appointment of project directors; and high overall project management costs.

\(^{44}\) Ibid, p.21.
Finally, in consolidating its findings, the ARRI states that “efficiency has been, and remains, the weakest of the three criteria that make up project performance. No projects have been rated highly satisfactory since 2006. Most of the projects are either moderately satisfactory or moderately unsatisfactory, and only a few are satisfactory”.

The second criterion, effectiveness, is a measure of the actual or likely attainment of project objectives. Three-year averages reviewed (2007-2009) show that nearly half of all IFAD-funded projects are only moderately satisfactory, approximately 30 percent are satisfactory, but only 2 per cent are highly satisfactory. Effectiveness measured by project varied considerably depending on the country, the project components and the service providers.

The third criterion, relevance, is an attempt to measure the alignment of project objectives with the policies and priorities of the government, IFAD, poor rural people and the appropriateness of the design. This criterion has generally received higher ratings than the other criteria in impact assessment studies as projects have generally been aligned to the policies and priorities of the governments and IFAD. The only criticism that has been made has been the tendency of designs to be overambitious. Generally, it can be said that relevance was reduced in some of the projects analysed so far, by insufficient support to certain aspects of agriculture, which is the main source of livelihood for poor rural people.

Finally, the fourth criterion, project performance, is a composite of the three main evaluation criteria described above. No project has been rated highly satisfactory so far (for project performance) and overall performance is moderately satisfactory since 2002. This means that there are no highly satisfactory projects in terms of overall rural poverty impact since 2002.

IFAD faces several constraints, which have impeded its effectiveness as outlined above. It is with this hindsight that IFAD has laid out a charter of intentions in its Rural Poverty
Report, and supported this revised approach in its Grant Policy and its new Strategy on “Deepening IFAD’s Engagement with the Private Sector” (Private Sector Strategy).

In acknowledging its operational limitations, IFAD is cognizant that the private sector has become the engine of growth in rural economies and that greater reliance is being placed on market forces for productive activities. This is why IFAD has determined, in its Private Sector Strategy, that “to be more effective at “enabling poor rural people to improve their food security, raise their incomes and strengthen their resilience”, IFAD needs to adapt to the changing global and rural landscapes and deepen its engagement with the private sector.” In addressing this challenge IFAD is showing the willingness, through its existing instruments and possibly through the creation of newer instruments, to adopt a different approach in order to achieve its mandate.

Below we give a brief overview of the mentioned documents, which define IFAD’s inclusive approach of the private sector as a possible partner to fill the resource gap for agricultural development. Given the wide resource gap and food security challenges, IFAD also acknowledges that external players, including governments, will determine the impact IFAD may have in developing countries.

a) The Rural Poverty Report

On 6th December 2010, IFAD released the Rural Poverty Report (the ‘Report’), which according to Mr Kofi A. Annan “provides a clear assessment of the problems that poor rural people face in their struggle for a better life, and offers practical advice on setting priorities and policies for changing the overall economic environment in rural areas so that it supports investment, innovation and risk-taking.”

45 http://www.ifad.org/rpr2011/
47 Paper to be presented at the 104th Session of the Executive Board of IFAD. At the time of writing the paper is still not publicly available.
48 Paper to be presented at the 104th Session of the Executive Board of IFAD. At the time of writing the paper is still not publicly available.
49 Chairman of the Alliance for a Green Revolution in Africa (AGRA)
Mr Annan’s review is extremely interesting because it frames IFAD’s new focus in addressing the food constraints of its developing member states. This new focus contemplates **investment, innovation and risk taking**. These new elements have been introduced to improve IFAD’s overall impact\(^{51}\).

The Report assesses opportunities that can be explored for sustainable agricultural development in developing countries\(^{52}\), to include; first the need for a more systemic approach to growth for rural poverty reduction; and secondly the need for a new approach to agricultural intensification that is both market-oriented and sustainable. To achieve this objective the Report highlights the need to invest more and better into developing and facilitating agricultural markets to support smallholders in engaging profitably in those markets, to reorient agricultural policy so that is takes into account sustainability concerns and develop policies that will provide incentives for sustainable intensification.

It is striking to note this new direction-setting by IFAD and interesting to see how this will develop over time as well as which tools IFAD will develop to address the needs it has identified in the Report. Put differently, although the agenda identified in the Report may not sit comfortably with some individual ministries in developing Member States, or the traditional categories in to which development assistance is generally organized, IFAD identifies just how important other players are and how essential they may become in improving the overall impact of IFAD-funded projects as well as creating the enabling environment for ensuring food nutrition and food security are seriously addressed.

The new players we refer to are the private sector and civil society organizations. Specifically their tasks will include, *inter alia*, building pro-rural agricultural value chains, developing risk-management technologies and services, jointly solving problems and ensuring educational opportunities for the rural poor. This new dimension, which is getting more emphasis and advertisement in IFAD-funded projects, is one where the rural

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\(^{52}\) Ibid.
poor are becoming smallholder producers, able to set up small businesses and to engage with the private sector to become part of a large agro-food value chain.

It is noteworthy that none of the needs laid out above could materialize without good governance. However, IFAD’s power to influence a government’s commitment to good governance is extremely limited. In this area, IFAD must work together with other donors to influence policy making in its developing Member States. The drafters of the Agreement were clear on this point. IFAD cannot be overambitious to the detriment of its impact on the rural poor. It needs to collaborate with other UN agencies, intergovernmental agencies, NGOs and other players on the global scene\(^5\). It has, therefore very little control on ensuring good governance, but it can certainly add its grain to the larger donor community.

\[b\] An overview of IFAD’s Grant Policy

With the escalation of the food crisis, IFAD has acknowledged the need for engagement with the private sector in a systematic and sustainable way. In acknowledging that the need for an integration of sustainable and participatory poverty programs into the mainstream of sector development institutions\(^5\) cannot be overemphasized, it is important to underscore that private sector objectives are different from those of the government. Moreover, liberalization of markets and policy reforms have had little significance and impact on the rural regions in Africa\(^5\). Hence the need for wider consultation between governments, private sector players and the beneficiaries, in order to identify synergetic benefits to all parties, including the rural poor. Private sector engagement in rural development should therefore be evaluated from an economic efficiency point of view as well as its impact on the welfare of society.

\(^5\) Art. 8 AEI.
\(^5\) Poverty Reduction in Sub-Saharan Africa: Is there a role for the Private Sector?, A.M Yahie, See Marton, Katherin “ Recent Industrial Policies in Developing Countries and Economies in Transition: Trend and Impact, Global Forum in Industry, UNIDO.
The Agreement explicitly requires that IFAD cooperate closely with other organizations of the United Nations system, other inter-governmental organizations, international financial institutions, non-governmental organizations and governmental agencies concerned with agricultural development\textsuperscript{56}. To this end, IFAD is permitted to enter into agreements or establish working arrangements with such bodies, as may be decided by its Executive Board.

With regards to direct financing to the private sector, as we have seen in the previous section, the Agreement explicitly limits financing to developing states that are members of IFAD or intergovernmental organizations in which such Members participate. This limitation notwithstanding, IFAD has undertaken co-financing ventures, where the private sector is involved, for example in public-private sector partnerships, and relied on the provision of Article 7(3), the “miscellaneous operations” provision to justify funding the private sector directly.

It is indeed the case that IFAD has used the miscellaneous operations provision to justify part of its Revised Policy for Grant Financing\textsuperscript{57} (the Grant Policy), adopted by the Executive Board in 2009. The latter permits direct financing to the private sector. The Revised Policy for Grant Financing was later supplemented by IFAD’s new Procedures for Financing from the Grants Programme (the Procedures), presented to IFAD’s Executive Board at its May 2011 session\textsuperscript{58}. In the Procedures the window for financing, in the form of grants, was extended to “for-profit, private-sector entities, for specific agreed grant-financed activities aimed at enabling poor rural women and men to achieve higher incomes and improved food security”. With the extension of grant financing to the private sector, IFAD has created a tool for implementing its new strategy, and aims to meet its commitment of increased food production and security, identified in the Report as needing the full support of the private sector.

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\textsuperscript{56} Ibid.
\textsuperscript{57} EB 2009/98/R.1, available at www.ifad.org
\textsuperscript{58} EB 2011/102/R.28, available at www.ifad.org
The Grant Policy recognises that if activities are to be innovative they may carry with them a high level of risk and that not all will succeed. The most important lesson to learn, the policy continues, is to learn from mistakes and to reflect this knowledge in IFAD’s subsequent work. The Grant Policy further highlights the important role that collaboration with other IFIs, UN agencies, bilateral development agencies and NGOs plays. It is through a strengthening of these partnerships with other key players in rural development that IFAD has a chance of making a difference.

IFAD’s efforts have so far been merely moderately satisfactory, as we have seen from the extensive evaluations, referenced above. The challenge it faces is to complement any past efforts with supporting the emergence of a private sector that can create new opportunities for the rural poor. The latter is the rationale behind making available grant financing to the private sector; to offer an incentive to the private sector to engage with the rural poor, provide services to them which would otherwise not have been available and to create markets for IFAD’s target groups. In addition to direct financing to the private sector, the Grant Policy identifies a second type of private recipient: multi-donor trust funds. These allow IFAD to become a co-financier in funds that are mostly managed by private fund managers.

c) IFAD’s Strategy on “Deepening IFAD’s Engagement with the Private Sector

The challenge for IFAD is to effectively develop a mechanism for private sector engagement, which is consistent with its mandate. IFAD has formulated a new Strategy which conceptualises the overarching framework within which IFAD should deepen its engagement with the private sector. It defines IFAD’s interest in working with the private sector, its experiences to date and its principles of engagement but leaves out two very important features. The first being the desired level of engagement and the second the mechanism it will use to achieve the desired engagement. Strengthening its existing

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59 Paper to be presented at the 104th Session of the Executive Board of IFAD. At the time of writing the paper is still not publicly available
instruments and building the capacity of its staff are good intentions as highlighted in this Strategy, however the practical measures to be implemented are less visible. We look forward to the disclosure by IFAD of additional tools or mechanisms that it may develop in line with its new policy to engage the private sector more aggressively and enhance its impact in agricultural developing in its developing Member States.

VIII. Conclusion

IFAD has a unique mandate, which is to provide financing on concessional terms for agricultural development in developing countries. This financing is not limited to the poorest food deficit countries but has to be extended to middle income countries too that have serious food deficit problems and to those that have the potential to increase food production. The challenge that IFAD has faced so far is that unlike other IFIs, IFAD exclusively relies heavily on Member States’ contributions to fund all its operations in both low-income countries and middle-income countries. Our analysis of the constitutive instruments of IFAD conclude that the resource mobilization constraints that IFAD currently faces cannot be attributed to actual legal impediments. Indeed the IFAD Agreement permits IFAD to undertake such ancillary activities and exercise such powers incidental to its operations as shall be necessary in the furtherance of its objectives.

IFAD operates within a growing and changing scenario where food insecurity and poor nutritional levels have increased over the years in developing countries. In light of the soaring food insecurity situation especially in the Global South, IFAD has to adopt a different approach to enhance its impact and relevance as the only specialized UN agency and international financial institution that is specifically mandated with mobilizing additional resources for agricultural development in developing member states. Indeed if IFAD is to increase its impact in agricultural development and make significant contribution to the food security issues, it has to explore other means of resource mobilization outside the replenishment framework including co-financing and borrowing provided that such borrowing would enable IFAD to provide concessional financing to its developing member states.
The need for IFAD to innovatively engage and partner with the governments, donors and private sector cannot be understated. In its attempt to focus its efforts more strategically, IFAD has developed both a revised grant procedure and a strategy for engaging with the private sector. This approach demonstrates the need for continuous innovation and improvement in financing mechanisms to address the needs of the less developed countries. IFAD’s constituent documents do not show, in our view, that there are any legal limitations or restrictions for IFAD to further develop more adequate and targeted mechanisms to ensure that its impact and the effectiveness of its presence through country projects is enhanced, provided that it does not act ultra vires its mandate.