



**SUBMISSION TO THE JOINT STANDING COMMITTEE ON
TREATIES**

BY THE

**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
(IFAD)**

CONCERNING

**AUSAID'S PROPOSAL TO DENOUNCE THE TREATY-
AGREEMENT ESTABLISHING THE INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT**

Introduction

1. As the key concerned party to the Treaty under consideration by The Joint Standing Committee, IFAD would like the opportunity to submit the following information relating to AusAID's proposal to leave IFAD.

Summary

2. AusAID's recommendation to withdraw from IFAD is unfortunate from several perspectives:

- **It seems to undermine Australia's stated commitment to the first of the UN Millennium Development Goals (MDGs)** - to reduce rural poverty by 50% by 2015 (MDG1) - IFAD's mandate is the alleviation of rural poverty. It achieves this mainly through agricultural development
- **The recommendation would preclude IFAD's ability to access to Australian agricultural expertise** — IFAD currently makes extensive use of Australian agricultural expertise - this is a vital element in its fight against rural poverty in developing countries.
- **The timing of the decision is particularly unfortunate.** IFAD is now under new management and a change agenda is in process. This includes the introduction of a results based management system, an enhanced field presence, and establishing a performance based resource allocation system.

- **Australia is an important member of the OECD grouping in IFAD** and withdrawal, at this time may undermine support for the major reforms that the OECD group is leading in IFAD.
- **The proposal to withdraw immediately is rather precipitous**, given that IFAD's Governing Bodies have already commissioned a major **Independent External Evaluation** to back the reform process. AusAID formally requested such an evaluation but now does not appear to be waiting for its findings before deciding to withdraw.
- **AusAID is understandably concerned at IFAD's lack of focus on the Pacific region in recent years.** It should be understood that IFAD has mounted a major initiative to reengage with the Pacific. Funds have already been earmarked, consultations have been held with the representatives of the Pacific Island countries and a Pacific Strategy Mission will be fielded in March of this year.
- **IFAD understands that aid budgets are often under pressure and recognizes that governments must prioritise their resource allocations.** Contributions to IFAD are completely voluntary and Australia could retain its membership without making any financial contribution. In these terms, the approach proposed by the AusAID is unnecessary because the savings suggested are illusionary. Retaining membership would also be of great benefit to IFAD and to its operations throughout the developing world.
- **AusAID, in its submission, has indicated that it is in the process of reviewing its rural development strategy.** IFAD, as the only IFI that specializes in rural development, believes it could be an important partner for AusAID's as it renews its interest in rural development.

3. It is against this background that IFAD is seeking to strengthen its partnership with Australia and to this end it has requested Australia's input into the development of its Strategy for the Pacific. Improving dry-land agricultural production is at the heart of IFAD's initiatives to alleviate rural poverty. Australia is a recognized world leader in this field of agriculture and since its inception IFAD has relied heavily on the technical expertise of Australian to design and support of its agricultural development initiatives. It would be a serious loss to IFAD's poverty programs throughout the world, if Australia were to sever these important, longstanding ties at this stage.

BACKGROUND

Overall operations

4. The International Fund for Agricultural Development (IFAD) is a specialized agency of the United Nations established to help the rural poor throughout the world. This exclusive focus on the rural poor is unique among the international development agencies.

5. IFAD, through its 653 projects in 115 countries, has invested over USD 22 billion to help improve the lives of 250 million people.

6. IFAD's projects are done in partnership with the government of developing countries and they frequently involve co-financiers. The commitment of the recipient government to rural development is underscored by their willingness to utilize loan funds and their own domestic resources - in roughly equal amounts - to assist the rural poor. IFAD's approach to development is highly participatory and the needs of the rural poor are addressed directly through carefully designed, innovative, location specific projects. Many approaches to development, pioneered by IFAD, have now been adopted by other development agencies. This is particularly so in the area of micro-finance where IFAD was the first IFI to finance the Grameen Bank in Bangladesh, and to support credit programs targeted specifically at women in India. By targeting the very poorest, mainstreaming the role of women, and providing small-scale credit and agricultural expertise, IFAD empowers the rural poor. IFAD's success on the ground is recognized and greatly appreciated by recipient governments.

Donor commitment

7. Most donor countries consider IFAD to be a valuable partner. Testimony to this is the fact that during the recently completed Sixth Replenishment of IFAD's resources, almost all OECD countries significantly increased their contributions, (led by the USA with an increase of 50% in its contribution). In delivering these increased resources, most donors expressed considerable satisfaction in the management of the organization and in the direction in which IFAD was heading. The Institutions willingness to institute change was particularly appreciated.

Regional perspective

8. IFAD's support to Asia and the Pacific has averaged over 30% of its total funding, and currently 11.2% of its resources are allocated to South East Asia.

9. IFAD's new management is committed to reinvigorating its programs in the Pacific Region and the development of a Re-Engagement Strategy is now a corporate priority. In 2003 the President instructed staff to develop a comprehensive program for IFAD to effectively engage with the countries of the Pacific. A reconnaissance mission visited some the Pacific Island member countries in mid-2003 to commence the process. In December 2003 the Consultations on IFAD's Re-Engagement with the Pacific were held in IFAD's headquarters in Rome and representatives from 10 Asia Pacific states (including four Ministers) attended. Fieldwork on the Strategy will commence in March 2004, in September 2004, it will be presented to IFAD's Executive Board for final approval. IFAD has already announced an allocation of USD 3.5 million in grant funding for activities in the Pacific.

Commitment to change

10. In common with most international (and bilateral donor) organizations, IFAD is in the process of improving the overall management of its operations. IFAD's new management has shown great commitment to this process and has worked hard to implement important changes - including the changes requested by AusAID. IFAD has already introduced a new results management system and moved to performance based lending. A new assets and liability management system is in place and activity based budgeting is being implemented. The Office of Evaluation is now completely independent of management and reports directly to the Executive Board. The Executive Board has recently approved proposals to enhance IFAD's field presence and these are in the process of being implemented.

11. The Governing Council has commissioned an independent, transparent, institution-wide external evaluation of IFAD's entire operations. This was requested by Australia in previous submissions to IFAD. IFAD has responded vigorously to all AusAID's concerns - in particular those relating to the Pacific.

Australia's Relationship with IFAD

12. Australia was a founding member of IFAD and has participated in its operations since 1977. It is a member of the OECD grouping, and it holds a permanent seat on the Executive Board. From this position Australia has the ability to influence the direction in which the organization should move and the geographic allocation of IFAD's resources. IFAD values highly its partnership with Australia. It greatly respects Australia's expertise in agriculture and its knowledge of the Pacific Region and it seeks a strengthening of these long established ties.

13. Under the Agreement Establishing IF AD, contributions are entirely voluntary. There is no assessed contribution. To date, in slightly over 26 years, Australia has contributed USD 47 million. Its most recent pledge (2001-2003), amounted to an annual contribution of only USD 1.7 million. Australia did not contribute to the last replenishment (2004-2006) but has remained a full member.

14. In common with all International Financial Institutions, IFAD requires that suppliers of goods and services financed under its programmes must come from member countries. If Australia were to no longer retain its membership, Australian suppliers of farm equipment and consulting services would be disadvantaged. IFAD believes that loss of access to Australian goods and technical services in IFAD funded projects would disadvantage developing countries.

15. IF AD consists of three groups of member countries-developing countries, OPEC countries and OECD countries. Australia is a member of the OECD Group. On the question of its withdrawal from IF AD, its OECD partners expressed great surprise at Australia's decision.

16. Canada, as the convenor of the OECD Group of countries, and Indonesia, as a major development partner of Australia and IF AD, have written to ask Australia not to withdraw from IFAD.

17. IFAD finds it difficult to understand why, at a time when the United States of America and other of Australia's OECD partners, are showing their confidence in IFAD by significantly increasing funding, Australia is considering withdrawing.

18. Almost all of Australia's development partners in the Asia are members of IFAD (including Indonesia, The Philippines, Thailand, East Timor, Vietnam, Cambodia, Burma, Nepal, India, Sri Lanka, Bangladesh, and China). Pacific Member States currently include Fiji, Solomon Islands, Papua New Guinea, Samoa, Cook Islands and Tonga. During the recent consultations on Pacific Strategy, the Federated States of Micronesia and Marshall Islands also indicated their intention to join IF AD.

19. Clearly, there has been a misunderstanding between AusAID and IFAD related to AusAID's concerns. IF AD believed that the issues raised were addressed positively in the consultation process leading to the recent Sixth Replenishment in 2002. There is a need for further dialogue and IFAD regrets that dialogue did not occur before the current action was initiated. In fact, all the issues raised by Australia have been significantly addressed. IFAD's presence before this joint committee is to reinforce its commitment to the partnership and a continuation of the dialogue.

CONCLUSION

20. The Australian Government's decision to withdraw from IFAD seems extraordinary at this time. Australia's main concerns about IFAD are being actively addressed and a major, independent evaluation of IFAD is currently under way. This study is a response to the concerns of member countries, including Australia. Given that Australia has no significant cost associated with retaining its membership, IFAD would like to request the committee to consider delaying any denunciation of the Treaty until the evaluation has been completed.

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The International Fund for Agricultural Development (IFAD), a specialized agency of the United Nations, was established as an international financial institution in 1977 as one of the major outcomes of the 1974 World Food Conference. The Conference was organized in response to the food crises of the early 1970s that primarily affected the Sahelian countries of Africa. The Conference 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". One of the most important insights emerging from the Conference was that the causes of food insecurity and famine were not so much failures in food production, but structural problems relating to poverty and to the fact that the majority of the developing world's poor populations were concentrated in rural areas.

In this context, IFAD was created to mobilize resources on concessional terms for programmes that alleviate rural poverty and improve nutrition. Unlike other international financial institutions, which have a broad range of objectives, the Fund has a very specific mandate: to combat hunger and rural poverty in developing countries. Under the terms of the Strategic Framework for IFAD 2002-2006, the Fund will continue to work towards **enabling the rural poor to overcome poverty** - as perceived by the poor themselves - by fostering social development, gender equity, income generation, improved nutritional status, environmental sustainability and good governance. Concretely, this implies: developing and strengthening the organizations of the poor to confront the issues they define as critical; increasing access to knowledge so that poor people can grasp opportunities and overcome obstacles; expanding the influence that the poor exert over public policy and institutions; and enhancing their bargaining power in the marketplace. All IFAD's strategic choices (as reflected in regional, country and thematic strategies; loan and grant activities; involvement in poverty reduction strategy papers; policy dialogue; and choice of development partners) will be made with these principles in mind.

The Fund's target groups, therefore, are the poorest of the world's people: small farmers, the rural landless,

fromadic pastoralists, artisanal fisherfolk, indigenous people and rural poor women.

In line with the Fund's special focus on the alleviation of rural poverty in developing countries, the bulk of its resources are made available to low-income countries on highly concessional terms, repayable over 40 years, including a grace period of ten years and a 0.75% service charge per annum. Loans may also be provided on intermediate and ordinary terms, which are less concessional.

Since its establishment, IFAD has financed 653 projects in 115 countries and independent territories, to which it has committed USD 8.1 billion in project financing. Governments and other financing sources in the recipient countries - including project beneficiaries - have contributed USD 8.0 billion to these projects. External cofinanciers have provided USD 6.7 billion in cofinancing of which bilateral donors contributed USD 1.1 billion, multilateral USD 5.3 billion and various international and northern NGOs USD 30.2 million. These projects have aimed at assisting approximately 50 million rural poor households, equivalent to approximately 250 million people.

IFAD's Resources

IFAD's annual commitment level is approximately USD 450 million. Where do resources to finance IFAD loan and grant commitments come from? There are essentially three sources: contributions from members, loan reflows and investment income. Over the IFAD V period (2001-2003), donor contributions covered approximately 46% of IFAD's total resource needs, and the rest were met through reflows from past loans (49%) and investment income (5%). The Sixth Replenishment of IFAD, to finance operations during 2004-2006, is now effective.

Replenishment Contributions

	Initial Resources 1977	IFAD I 1981-83	IFAD II 1985-87	IFAD III 1989-91	IFAD IV J¥ 1997-99	IFAD V ¥ 2001-03	IFAD VI 2004-06
Contributions (USD Million)	899	998	473	551	460	473	495

Figures shown for the initial resources and IFAD I through to IFAD III are paid contributions (excluding amounts contributed in promissory notes against which provisions have been made for failure to encash at time of payment). The IFAD IV, IFAD V and IFAD VI figures are the value of total pledges, against which scheduled payments are still being received to date.

Non-Replenishment Contributions

Besides contributing to financing IFAD's loan and grant commitments, Member States may support IFAD's operations through other means. IFAD defines non-replenishment resources as "supplementary resources", distinguishing between two major categories: (i) supplementary resources mobilized for project and programme cofinancing; and (ii) supplementary funds (i.e., trust funds), which are resources held in trust by IFAD for studies, short-term technical assistance or for single or multi-

donor programs under which a number of projects will be developed, financed or cofinanced.

fFAD Membership

Membership in the Fund is open to any state that is a member of the United Nations or any of its specialized agencies, or of the International Atomic Energy Agency. The Fund's highest authority is its Governing Council, on which all 163 Member States are represented by a Governor and an Alternate Governor. Sessions of the Governing Council are held annually and special sessions may be called when necessary. The Executive Board, consisting of 18 Members and 18 Alternate Members, oversees the Fund's operations, particularly the approval of its programme of work. The President, elected by the Governing Council for a four-year term that is renewable for one further term, is the Fund's chief executive officer and chairperson of the Executive Board. Mr Lennart Bage, the current President, was elected in February 2001.

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