



IFAD

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17 March 2004

Dr Andrew Southcott  
Chair, Joint Standing Committee on Treaties  
Parliament House  
CANBERRA ACT 2600

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BY: .....

Dear Dr Southcott

I am pleased to provide the Joint Standing Committee on Treaties with the attached submission by RESULTS Australia to the current inquiry into the Australian Government's proposed withdrawal from the Agreement Establishing the International Fund for Agricultural Development (IFAD).

RESULTS has supported over a number of years the role of IFAD in concentrating on the poorest people in rural areas, and urges the Committee to support Australia's continued membership of the organisation.

Please contact either Mark Rice on (07) 3405 6055 or [markhr@optusnet.com.au](mailto:markhr@optusnet.com.au) or me if the Committee would like to receive any further information from RESULTS on the issues covered in the submission.

Yours sincerely

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## **RESULTS Australia**

### **Submission to the Joint Standing Committee on Treaties (17.3.04)**

### **Proposed Withdrawal of Australia from the International Fund for Agricultural Development (IFAD)**

#### **Summary**

RESULTS Australia joins with other interested groups and individuals in supporting Australia's continued membership of IFAD for the following reasons:

- The small-scale assistance to the rural poor provided by IFAD is consistent with the overall objective of the Australian aid program of promoting sustainable development, and also with one of the priority areas of the aid program (promoting rural development);
- The External Review of IFAD conducted in 2002 found that IFAD does play a distinctive role among multilateral financial institutions by targeting its programs at the most disadvantaged people, and its projects had made demonstrable contributions to poverty reduction;
- It is not clear that the alternative use of the amount Australia contributes to IFAD, for aid to the Asia-Pacific region (as stated in the National Interest Assessment), would be as effective in reducing poverty as continuing to contribute to IFAD; and
- As a new independent review of IFAD is underway, it would be premature to make a decision on withdrawal from IFAD at this stage.

Therefore, RESULTS Australia suggests to the Joint Standing Committee on Treaties that it support Australia's continued membership of IFAD, and recommend that the Government not proceed with the proposed withdrawal from the Agreement Establishing the International Fund for Agricultural Development.

#### **Introduction**

As an advocacy organisation with the objective of generating the will to end poverty, RESULTS Australia, along with the RESULTS organisations in other countries<sup>1</sup> has supported measures which have a direct impact on improving the income opportunities and services for the poorest people. The model of development which IFAD promotes, of supporting projects which directly target the poor people in rural areas, is consistent with RESULTS' objectives for the development process.

In the late 1980s, RESULTS in Australia, the United States and Canada campaigned to have our respective governments continue to provide further funding to IFAD, when those governments were reconsidering future commitments. RESULTS supports the use of the Millennium Development Goals as a guide to the focus of assistance to developing countries, and sees the work of IFAD as potentially playing a key role in the achievement of these goals.

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<sup>1</sup> The other countries are the United States, Canada, the United Kingdom, Germany, Japan and Mexico.

## Overview of IFAD's Operations

IFAD provides funding for small-scale projects in rural areas in developing countries, predominantly in the form of concessional loans. Most of these loans are provided for long periods (repayable over 40 years) and with an annual service charge of 0.75%. In 2002, IFAD committed \$US 366 million (\$A 490 million) in loans for 25 projects and \$US 24 million (\$A 32 million) in grants (to 85 recipients). The number and value of loans approved in 2002 was similar to the average since 1995.<sup>2</sup>

As the loan projects are on highly concessional terms, IFAD has sought periodic commitments of grant funding from member countries to support its continued operations (known as replenishments). Since IFAD commenced operations in 1978, its members have negotiated six replenishments, and members are starting to make contributions under the Sixth Replenishment at the moment. Australia has contributed to the first five replenishments, although the then Minister for Foreign Affairs resisted for some time making a contribution to the Third Replenishment in the late 1980s.

The contributions by member countries under these replenishments constitute a small proportion of total official development assistance (ODA). As the National Interest Assessment by AusAID indicates, on average Australia's contributions have been on average 0.13% of the total Australian aid program.

While the contributions by members have been relatively small, the impact on the rural poor from IFAD's operations has been potentially significant, and several reviews of IFAD's operations have been held to determine its impact. At the commencement of negotiations on the Sixth Replenishment in 2002, an External Review of IFAD's operations was conducted, to assess the development impact of IFAD. The main conclusions of the Review were:

- IFAD has targeted its financial and policy dialogue interventions at the most disadvantaged people in rural areas;
- IFAD has made direct and indirect contributions towards achieving the Millennium Development Goals of reducing poverty and hunger, promoting gender equality and ensuring environmental sustainability;
- IFAD has successfully promoted participatory processes, which has increased ownership of projects and encouraged local networks to support increased productive capacity; and
- IFAD has promoted innovative approaches such as microfinance, soil and water conservation and formation of self-help groups, which have had an impact through the demonstration of different approaches, as well as their direct impact as part of IFAD projects.<sup>3</sup>

The External Review Team also identified some areas for improvement, such as in measuring the impact of its projects and ensuring sustainability of results after the conclusion of projects, although IFAD had made recent progress in developing tools for impact assessment.<sup>4</sup>

<sup>2</sup> IFAD Annual Report 2002, pages 64 and 65

<sup>3</sup> External Review of the Results and Impact of IFAD Operations, 2002, pages viii and ix.

<sup>4</sup> External Review of the Results and Impact of IFAD Operations, 2002, page x.

## **Australia's Record of Support for IFAD**

As the National Interest Assessment indicates, Australia is a founding member of IFAD, and has contributed \$50 million to IFAD since 1977-78. Australia has contributed to each of the five replenishments of IFAD since its inception.

While Australia has consistently contributed to IFAD financially, the continuation of funding has been in doubt several times over the last 25 years. In 1987, the then Government indicated it would not continue to fund IFAD beyond the Second Replenishment, although this decision was eventually reversed, following action by RESULTS and other groups supportive of Australia's continued contributions.

Under the current Government, Australia has contributed to both the Fourth Replenishment in 1997 and the Fifth Replenishment in 2001. Therefore, the concerns which have led to the current treaty action to withdraw from the Agreement Establishing IFAD appear to have only warranted action by Australia since the decision to contribute to the Fifth Replenishment.

In October 1998, AusAID published two articles to mark the 20<sup>th</sup> anniversary of IFAD in its *Focus* newsletter. These articles referred to the valuable lessons from IFAD's 20 years of experience (including that targeting the poorest people is essential, poor rural dwellers are creditworthy, and that participation is essential), and also reported on an IFAD project in Vietnam to improve rice growing conditions and yields.<sup>5</sup> This also indicates a positive view of the impact of IFAD's work by AusAID and the Government, even in recent years.

## **Addressing Arguments in the National Interest Assessment**

The National Interest Assessment of the proposed action to withdraw from IFAD, tabled on 2 March 2004, contains the following reasons to support withdrawal from IFAD:

- A lack of focus by IFAD on the Asia-Pacific region.
- A lack of comparative advantage and focus (ie, IFAD's role is no longer unique).
- Shortcomings in donor relations and communication.

The Assessment proposes that the money which would be allocated to IFAD in the coming years would be spent on higher priority aid activities in the Asia Pacific region. Each of these arguments is addressed below.

### ***Focus on the Asia-Pacific Region***

The concern about a lack of focus on the Asia-Pacific region by IFAD appears to be part of a new and additional condition of Australia's support for multilateral agencies. For example, the Government's recent decision to provide funding to the Global Fund to Fight AIDS, TB and Malaria only followed a commitment by the Global Fund to increase activities in the Asia-Pacific region.<sup>6</sup>

<sup>5</sup> A Webb, *International Fund for Agricultural Development – Twenty years of working for a world free from hunger*, Focus, October 1998, pages 22 and 23.

<sup>6</sup> Press Release by the Hon. Alexander Downer, *More Australian Funds to Fight AIDS, Tuberculosis and Malaria*, 18 February 2004

A condition that multilateral organisations supported by Australia must focus on the Asia-Pacific region appears to be inconsistent with the reasons given in the Government's aid policy *Better Aid for a Better Future* in 1997. This statement indicated multilaterals can complement Australia's bilateral aid, including through operating in areas where Australia does not have bilateral projects: "Support for multilaterals extends the reach and efficiency of Australia's aid program through the delivery of aid to areas where Australia would have difficulty implementing projects directly."<sup>7</sup>

Therefore, support for IFAD should depend on the consistency of its programs with Australia's sectoral priorities, as well as the regional priority of the bilateral program on the Asia-Pacific region. As one of the Government's sectoral priorities is for Agricultural Development, IFAD is the type of multilateral organisation Australia should support.

The National Interest Assessment understates the commitment IFAD has made to the Asia-Pacific region by focussing only on the proportion of IFAD's projects in South-East Asia and the Pacific. The broader Asia-Pacific region accounted for 32.3% of the value of IFAD's projects from 1978 to 2002<sup>8</sup>, suggesting IFAD has made a significant contribution in the region, although this share still falls short of the proportion of the world's rural poor people who live in the Asia-Pacific region. (About two thirds of the world's rural poor live in the Asia-Pacific region.)

IFAD has recognised recently that an increased focus on the Pacific would be valuable, and has committed \$3.5 million in grant funding to activities in the Pacific.

There is a case for some increase in IFAD's focus on the Asia-Pacific region, but Australia would be in a much better position to influence IFAD in this direction by maintaining its membership.

### *IFAD's Role and Focus*

The External Review of IFAD in 2002 found that, in the 1980s, IFAD played a unique role among multilateral development banks (MDBs) in focussing on rural poverty, as the other MDBs (such as the World Bank and Asian Development Bank) concentrated more on structural adjustment and policy reform. More recently, the other MDBs have shown renewed interest in rural development, but more at a sector and program level, rather than an individual project level.<sup>9</sup>

These findings suggest the assertion in the National Interest Assessment that IFAD is now duplicating the work of other MDBs is not valid. The National Interest Assessment also indicates that the small-scale participatory approach in IFAD's projects duplicates the work of NGOs, but does not quantify the extent of rural development activities supported by Australian NGOs, or indicate the impact of these activities.

One of the fields in which IFAD has played an innovative role is in support for microfinance (the provision of small loans to assist in increasing incomes, and savings facilities, to people who could not access the mainstream financial systems). At the end of 2003, 20% of IFAD's

<sup>7</sup> The Hon Alexander Downer MP, *Better Aid for a Better Future*, November 1997, p 12.

<sup>8</sup> IFAD Annual Report 2002, p 67

<sup>9</sup> External Review of the Results and Impact of IFAD Operations, 2002, p 1.

current investments were for microfinance.<sup>10</sup> By comparison, less than 1% of World Bank lending is for microfinance. This is another illustration of how IFAD's focus on the rural poor, and the type of projects it supports, set it apart from other international financial institutions.

As microfinance had been a receiving higher priority within the Australian aid program until recently, and AusAID has endorsed the Microcredit Summit Declaration (supporting the provision of credit and other financial services to 100 million of the world's poorest families by 2005), this focus on microfinance would also be consistent with the goals of the Australian aid program.

Another claim in the National Interest Assessment, that IFAD has extended its activities into areas beyond its original mandate such as peace-keeping, appears to be a misinterpretation of IFAD's activities in post-conflict situations. For example, in El Salvador, IFAD supported a series of rural reconstruction projects following the 1992 peace agreement, which also had the impact of contributing to conflict resolution.<sup>11</sup> Rural reconstruction and development projects following conflict situations should not be confused with peace-keeping actions.

### ***Shortcomings in Management and Donor Relations***

This section of the National Interest Assessment refers to shortcomings in maintaining dialogue with, and responding to concerns of, donors and a lack of communication between IFAD's central office and the field offices.

On the first point, IFAD appears to have been more responsive to concerns raised by Australia in the last two years than the National Interest Assessment recognises (for example, by providing for additional grant funding in the Pacific). In addition, donor countries generally seem to be satisfied with IFAD's performance, as pledges by members to the Sixth Replenishment increased by 15% from the Fifth Replenishment.<sup>12</sup>

On the second point, the External Review of IFAD in 2002 noted that supervision of projects could be improved and suggested IFAD's central office needed to have a closer relationship with field operations, but also acknowledged IFAD was changing processes in these areas.<sup>13</sup>

### **Further Action by IFAD and Australia**

In late 2003, a new Independent External Evaluation of IFAD commenced. This will be a more comprehensive evaluation than the 2002 evaluation quoted in this submission, and is due to be completed in February 2005. The IFAD Governing Council had sought this review to contribute to negotiations on IFAD's Seventh Replenishment.

The commencement of this review suggests that any decision by the Australian Government on its future membership of IFAD should wait at least until IFAD's members have received the recommendations early next year.

<sup>10</sup> IFAD, *Microfinance: Macro Benefits Fact Sheet*, 2004, p 4.

<sup>11</sup> External Review of the Results and Impact of IFAD Operations, 2002, p 7.

<sup>12</sup> IFAD Annual Report 2002, p 18.

<sup>13</sup> External Review of the Results and Impact of IFAD Operations, 2002, p x.

In relation to the suggestion in the National Interest Assessment that the money saved on future contributions to IFAD will be redirected to higher priority aid projects in the Asia-Pacific region, it is hard to be confident that this reallocation will have a greater impact on poverty. The National Interest Assessment does not specify what type of alternative projects will be funded, or how their impacts, especially on rural poverty, will be measured, so it would be difficult to demonstrate these projects have advantages over contributing to IFAD.

## **Conclusion**

The proposed withdrawal from IFAD by Australia is inconsistent with one of the stated goals of the Australian aid program, promoting agricultural development. The proposed action is also based on selective quoting of evidence to support concerns about IFAD's performance and approach to development. To the extent that other donor countries share these concerns, they have not been sufficient to stop these countries from maintaining or increasing their contributions to IFAD.

Finally, given a major independent review of IFAD is in progress, it would be premature for Australia to make a decision on its future membership at this time. If the findings of the current international review of IFAD are positive, Australia should maintain its membership, and make a belated contribution to IFAD's Sixth Replenishment.